



***Team Actimel***  
***“To Help Strengthen our Economy’s Finances”***

## **Fantasy Budget 2008**



*University of Limerick*

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## Introduction of a Competitive Online Gaming Tax

The U.S.A's outlaw of internet gambling and the U.K's announcement of a 15% rate<sup>1</sup> for remote gaming tax is a window of opportunity for Ireland to capitalise on this growth sector. Most gaming firms are established in offshore locations like Gibraltar, the Isle of Man, Malta, Antigua and the Channel Islands, due to attractive gaming tax rates (if any) and low corporation tax. These firms have however indicated that they are willing to pay somewhat higher taxes given the advantages of relocating to a stable on-shore base, which Ireland could provide by means of a secure fiscal and regulatory environment. Ireland is an ideal base for such firms given our legal, economic and I.T. infrastructure and our skilled labour force.

The number of online gaming websites has risen from 250 in 1998 to 2,500 in 2008<sup>2</sup>; if Ireland succeeded in attracting even 5% of this global sector, this would translate into a local sector worth €2.2billion per annum<sup>3</sup>. With predicted growth rates of 10-15% p.a.<sup>4</sup> this industry could become a major employer and source of Exchequer revenue.

To attract gaming firms to our shores, Ireland must offer a competitive tax regime. This group proposes the introduction of a remote gaming tax of 0.1% of GGR (gross gaming revenues), equivalent to the lowest rate operating in the Isle of Man. On this basis the gaming tax intake would be 2.2million; license fees for registering operations here and corporation tax would be added to the Exchequer receipts.

The Gaming & Leisure association of Ireland predict the creation of 5000 jobs<sup>5</sup> (10,000 by 2020) in the IT, financial and support services sectors, such as accountancy, taxation,

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<sup>1</sup> Gambling Compliance Ltd (2007) 'Gambling Compliance', Overview [online], available: <http://www.gamblingcompliance.com/node/7382> [accessed 13 Oct 2008].

<sup>2</sup> Cullen, P. (2008) 'Key Players line up for the big pot', *The Irish Times*, 22 Oct, available: <http://www.irishtimes.com/newspaper/features/2008/1022/1224450891.html> [accessed 14 Oct 2008].

<sup>3</sup> DKM (2008) *An Economic Assessment of a Regulated Casino Gaming Sector: Ireland – 2008 – 2010*, Dublin: Gaming & Leisure Association of Ireland.

<sup>4</sup> Casino Committee (2008) *Regulating Gaming in Ireland*, Dublin: Department of Justice, Equality and Law Reform.

<sup>5</sup> DKM (2008) *An Economic Assessment of a Regulated Casino Gaming Sector: Ireland – 2008 – 2010*, Dublin: Gaming & Leisure Association of Ireland.

advertising and legal. This would add €60million<sup>6</sup> p.a. in payroll taxes to the Exchequer. See table below<sup>7</sup> for forecasts of the economic benefits attainable by the introduction of regulation and a competitive tax regime for the online gaming industry in Ireland.

**Table 1**

	<b>Present Day</b>	<b>2015</b>	<b>2020</b>
Value of Global Sector (GGR €mill)	44,000	100,000	150,000
Ireland's Share	5%	5%	5%
Employment	5,000	7,000	10,000
Payroll (€mill)	240	360	480
<b>Exchequer Revenues (€millions)</b>	<b>€million</b>	<b>€million</b>	<b>€million</b>
Payroll Taxes	60	90	120
Remote Gaming Tax	2	5	8
License Fees	2	5	8
Corporation Tax	28	63	94
<b>Total Exchequer Revenues</b>	<b>92</b>	<b>163</b>	<b>229</b>



<sup>6</sup> DKM (2008) *An Economic Assessment of a Regulated Casino Gaming Sector: Ireland – 2008 – 2010*, Dublin: Gaming & Leisure Association of Ireland.

<sup>7</sup> DKM (2008) *An Economic Assessment of a Regulated Casino Gaming Sector: Ireland – 2008 – 2010*, Dublin: Gaming & Leisure Association of Ireland.

## Charge on Non-Principal Private Residences

There were 266,000 vacant dwellings in Ireland in 2006, representing 15% of the total housing stock; 174,000 were houses, 42,000 were flats and 50,000 were classified as holiday homes<sup>8</sup>. We propose introducing an annual charge on all non-principal private residences. Our method of calculation is both equitable and it will have an additional positive impact on the environment.

Instead of charging a flat rate on all dwellings, we propose introducing a yearly property tax based on the square metre size of each property; we suggest a levy of €3.00 per squared metre. Charging a levy based on the square metre size of the dwelling affects the owners of non-principal private residences fairly and addresses Adam Smiths Equality Canon of Taxation.

The average size of an Irish dwelling in 2007 stood at 87.7 metres squared<sup>9</sup>. A charge of €3.00 p.m.sq equates to an annual average charge of €263.10. Multiplying the average levy of €263.10 by the 266,000 non-principal private residences would raise €69,984,600 in revenues for the Exchequer. This estimate is based on an average sized dwelling meaning that actual collected revenues may vary.

This property tax was once established in Ireland; however it was abolished in 1984 to encourage 2<sup>nd</sup> home ownership and help boost the Irish construction sector. Most of our EU compatriots operate such a tax and it constitutes a significant proportion of their total Exchequer receipts. A further benefit is that it will entice builders to construct smaller non-principal private residences and will therefore reduce energy requirements and carbon emissions, which are essential goals of this government.

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<sup>8</sup> Central Statistics office (2006) *Census Publication on Housing Volume 6 – Housing*, Dublin: Central Statistics Office.

<sup>9</sup> Hennigan, M. (2006) 'State of Chassis: Artificial restriction on land supply puts Ireland and UK at bottom of property league in developed world; Irish urbanisation at 4% is among Europe's lowest', *Finfacts Ireland*, 24 Mar, available: [http://www.finfacts.com/irelandbusinessnews/publish/article\\_10005314.shtml](http://www.finfacts.com/irelandbusinessnews/publish/article_10005314.shtml) [accessed 15 Oct 2008].

## Incentives for the Micro-Generation of Electricity Using Small-Scale Wind Turbines

The micro-generation of electricity using wind power is a virtually untapped potential for Ireland to unlock huge economic and environmental benefits. This involves using a small-scale wind turbine to harness energy which is either stored in a battery bank or outputted to the mains electricity supply, providing power to the property. Excess energy produced can be exported onto the national grid (for a price negotiated between the micro-energy producer and the electricity supplier), while electricity can be drawn from the grid when the turbine is not producing sufficient energy for your needs.

The cost of implementing a wind power system is a substantial investment for any individual, farmer or small business (see fig. 1 below)<sup>10</sup>; therefore, for micro-generation to take a foothold in Ireland the following incentives must be offered:

- 1) A grant of 30% of the eligible expenditure on the installation of a wind system for domestic, agricultural or small-business purposes (including delivery and installation costs, the wind turbine, turbine towers and battery bank.)
- 2) To encourage electricity suppliers (e.g. ESB) to enter into purchasing agreements with micro-energy producers for the excess energy supplied to the grid, a renewable energy feed-in tariff (REFIT)<sup>11</sup>, similar to that operating in relation to new electricity generation plants, should be introduced.
- 3) Allow double capital allowances tax relief for farmers and businesses (25% over four years), up to a maximum investment of €60,000 (net of grant).<sup>12</sup>
- 4) Persons would be taxable on income from the excess energy sold to the grid; therefore insurance costs and maintenance costs (estimated to be 2%-4% of the total cost of the wind system annually<sup>13</sup>), should be allowed as a deductible expense.

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<sup>10</sup> Sustainable Energy Ireland (2008) *Microgeneration: Introduction to Wind Power for Domestic & Small Business Applications*, Dublin: SEI.

<sup>11</sup> Department of Communications, Energy & Natural Resources (2006) 'Biofuels Obligation Scheme' [online], available: <http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division/Sustainable+and+Renewable+Energy+Division.htm> [accessed 12 Oct 2008].

<sup>12</sup> Mac Connell, S. (2008) 'IFA seeks tax breaks for farm windmill installations', *The Irish Times*, 9 Oct, available: <http://www.irishtimes.com/newspaper/2008/1009/1223445617977.html> [accessed 16 Oct 2008].

The average annual household spending on energy in 2006 was €1,767<sup>14</sup>; a figure which will increase further in line with fossil fuel prices. Figure 1 below<sup>15</sup> illustrates the savings that could be made if wind energy were utilised.

**Fig. 1**



<b>Rated Turbine Output</b>	<b>Grid-connect cost</b>	<b>Annual energy Output (kWh)</b>	<b>Value Of Electricity Produced</b>
600 W (0.6 kW)	€10,000	900-1500	€130-€220
2500 W (2.5kW)	€17,000	2,500-5,000	€360-€720
6000 W (6 kW)	€29,000	6,000-12,000	€850-€1,700
15000 W (15 kW)	€62,000	15,000-30,000	€2,200-€4,400

Directive 2001/77/EC obliges us to increase renewable energy sourced electricity to 13.2% by 2010<sup>16</sup>. Eddie O'Connor of Mainstream Renewable Power predicts that if Ireland was to install 6000MW of wind energy we would forego the emission of 10.8million tonnes of CO<sub>2</sub>, thereby avoiding fines of up to €324million p.a. We would also avoid importing 6million tonnes of fossil fuels, equivalent to a cost of €671million and Ireland would become largely energy independent<sup>17</sup>. Green technology ventures are leading the way in a new “industrial revolution” and will help overcome the economic downturn; also with unemployment rates soaring, implementing this technology could lead to the creation of approximately 18,000 jobs<sup>18</sup>.

<sup>13</sup> Sustainable Energy Ireland (2008) *Microgeneration: Introduction to Wind Power for Domestic & Small Business Applications*, Dublin: SEI.

<sup>14</sup> M. McCarthy, personal communication, 28 October 2008

<sup>15</sup> Energy Ireland (2008) *Microgeneration: Introduction to Wind Power for Domestic & Small Business Applications*, Dublin: SEI.

<sup>16</sup> Council Directive (EC) 2001/77/EC of 27 September 2001 on the promotion of electricity produced from renewable energy sources in the internal electricity market.

<sup>17</sup> Environmental Data Interactive Exchange (2008) ‘Ireland could lead green industrial revolution’, [online], available: [http://www.edie.net/news/news\\_story.asp?id=15498](http://www.edie.net/news/news_story.asp?id=15498) [accessed 16 Oct 2008].

<sup>18</sup> Environmental Data Interactive Exchange (2008) ‘Ireland could lead green industrial revolution’, [online], available: [http://www.edie.net/news/news\\_story.asp?id=15498](http://www.edie.net/news/news_story.asp?id=15498) [accessed 16 Oct 2008].

## **Reduction of Employer PRSI from 10.75% to 8.75%**

This reduction of 2% seems counter-intuitive given the large budget deficit facing the Government. However we feel that, although short-term cash-flow problems as regards the Exchequer finances are important, we must not sabotage long-term prospects for Irish competitiveness, employment and potential FDI or, cumulatively, Ireland's recovery.

The arguments behind this tax rate cut are as follows; Ireland has to remain competitive, not only from a cost perspective but from a tax perspective. "Tax competition is alive and well",<sup>19</sup> however we are not competing as heretofore, despite having a low corporation tax rate. We must continue to be attractive to prospective foreign investors by reducing the PRSI rate and thereby labour costs. Minimising the employer's tax burden on their employees' salaries and BIKs enhances our attractiveness and drives employment in this recessionary time. McLoughlin further informs that "tax can be an engine for growth and recovery"<sup>20</sup> not just a budget stopgap.

Brian Keenan highlights the harsh implications of unemployment; an extra 10,000 in the live register costs the tax payer €100million p.a. in lost tax receipts and welfare payments<sup>21</sup>. These figures render any argument against reducing tax rates as myopic. Furthermore there is a precedent in Irish Budgets that tax cuts, "regardless of the tax head, can increase overall tax yield",<sup>22</sup> a prime example being Charlie McCreevy's 50% cut on Capital Gains tax in 1997.

Additionally this policy should ease the burden of the current pay deal; once the pay freeze in the private sector ends in 3 months time, will Irish Employers be in a position to furnish their employees with a 3.5% wage hike?<sup>23</sup> A recent survey of Irish SME's (who employ 1.5million) stated that one in five is expecting to make redundancies in the next

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<sup>19</sup> McLoughlin, K. (2008) 'Lenihan should look to the past to build for the future', *Sunday Business Post*, October 12<sup>th</sup>, p.8.

<sup>20</sup> McLoughlin, K. (2008) 'Lenihan should look to the past to build for the future', *Sunday Business Post*, October 12<sup>th</sup>, p.8.

<sup>21</sup> Keenan, B. (2008) 'The Day of Reckoning is upon us.....but who is going to foot the Bill?', *Irish Independent*, July 31st, p.11.

<sup>22</sup> Ryan, J. (2008) 'Lenihan should not tinker with Tax Rates', *Sunday Business Post*, October 12<sup>th</sup>, p.4.

<sup>23</sup> Curran, R. (2008) 'National Pay Agreement Should it be Shelved', *Sunday Business Post*, October 12<sup>th</sup>, p.5.

year<sup>24</sup>. We believe the above tax cut is a much needed counter-cyclical initiative that won't run Irish employers to the wall, bringing their employees and the economy at large with them.

## **Budget Review**

Our budget was characterized by a need to bridge a current budget deficit but with a keen eye to a sustainable economic future. As regards a sustainable future this objective has not been achieved by Mr. Lenihan's budget. The income levy is a case in point which has essentially pulled €1.18bn out of a stagnating economy.

We express concern over the increase in the VAT rate; this could make Ireland less competitive in the retail market. Consumer confidence is at an all-time low and retail sales have fallen sharply, making the expected revenue yield from the increased VAT rate rather illusory. A stabilised economy relies heavily on consumer confidence but this budget does nothing for confidence and nothing to stimulate activity or fresh economic growth. Apart from the enhanced research & development credit and the three year tax exemption for start-up businesses, the Minister has done little to promote new industry opportunities or the continuing support of foreign direct investment.

We welcome the Governments introduction of a €200 levy per dwelling on all non-principle private residences. However, we must query why a middle-income earning property owner should have to pay the same €200 levy on say a small beach house, as a multi-millionaire with a mansion holiday home. Basing the tax liability on the square metre size of each dwelling, although it is a greater administrative headache, would be a far more equitable system.

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<sup>24</sup> Small Business Forum (2006) *Small Business is Big Business*, Dublin: Small Business Forum.

This group, while supporting the increased betting tax, must offer regret that the government has failed to regulate for, and capitalise on the online gaming market. Ireland may have missed this window of opportunity and given other countries a competitive advantage in this new, growth industry. The Exchequer revenues which could have been collected by the introduction of our policy may have avoided some of the controversial measures that have been imposed, for instance the increased VAT rate, cuts in child benefit and early childcare payments, the increased A&E charges and college registration fees, the 41 quango cuts and rationalisation of state agencies and the €10 departure levy.

Those green initiatives offered, are to be commended: the introduction of a €200 levy for employee parking, new funding for home energy efficiency, increases in both petrol prices and motor tax rates; but we must question the feasibility of a cycle to work scheme in Ireland. Unsuitable weather conditions and lengthy commuter distances greatly erode the value of this proposal. These piecemeal measures are however an inadequate challenge to the mounting problem of climate change. The long-fingering of a carbon tax and the failure to implement incentives for the introduction of renewable energy micro generation in Ireland is regrettable.

Perhaps the 2009 budget should have directed its focus towards commercial and economic stabilisation initiatives as oppose to placing the burden of the deficit on taxation. It is our opinion that the Minister has failed to recognise new emerging markets in the green sector and the remote gaming industry, and has instead attempted to tax his way out of the financial crisis. .The Minister should consider Winston Churchill's stance that:

*"...for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."*

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