



**University of Limerick**

**OLLSCOIL LIMNUIGH**

## **Fantasy Budget 2009**

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## **Introduction**

As a nation we are experiencing unprecedented economic turmoil. Some very hard measures will have to be implemented in the hopes of regaining financial and economic stability. In this report we will outline five effective and innovative policies which we believe will stimulate the economy.



## **Reduction of Vehicle Registration Tax Rate Bands by 50%**

The performance of the Motor Industry in Ireland has a large impact on both tax receipts and exchequer expenditure. New car sales have fallen from 186,000 in 2007 to an estimated 60,000 in 2009 effectively reducing VRT receipts from 1.4billion in 2007 to an expected 400million in 2009. Furthermore there have been 10,000 job losses in this sector since 2007<sup>1</sup> which directly effects exchequer expenditure in the form of social welfare payments. It is predicted that without a stimulus package the market will remain at 2009 levels in the coming years.

In France, the food industry is vital in an economic sense. In recent years restaurants and cafes have been forced to close due to the global downturn. This caused a dramatic increase in unemployment and a large decrease in tax receipts. Their Government intervened and reduced the tax on restaurant bills from 19% to 5.6%. The net result was an increase in trade within the industry and consequentially reduced unemployment and increased tax receipts.

We believe this approach could be implemented in the motor industry. The Commission on Taxation has recommended '*the gradual phasing out of VRT over a ten-year period and its replacement with taxes on motor usage*<sup>2</sup>.' This is echoed by Peter Bacon in his report where he recommended the abolition of VRT '*on a phased basis following detailed consultation on the abolition method used within the industry*<sup>3</sup>.'

Taking these proposals into considerations, we recommend that the respective rates of VRT are reduced by 50% effective 1 January 2010. Taking the example of a mid-range family car:

The Toyota Corolla retails for approx €24,000 and falls within band D for the purpose of calculating VRT (emissions of 158g/km<sup>4</sup>). The VRT being charged on this car is approximately €4,600. Ceteris paribus the proposed reduction of this band to 12% would have the effect of reducing the sale price to a figure of €21,700.

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<sup>1</sup> The Last Word, Today FM 14/10/09

<sup>2</sup> Commission on Taxation Report 2009, P13

<sup>3</sup> Peter Bacon Report (2009) available;

[http://www.blackwatermotors.ie/UserFiles/File/Peter\\_Bacon\\_Report\\_SIMI.pdf](http://www.blackwatermotors.ie/UserFiles/File/Peter_Bacon_Report_SIMI.pdf)

<sup>4</sup> Toyota Ireland Website, available;

<http://www.toyota.ie/models/specifications/?model=9C0E70A9-72EA-481C-AEE7-1735E21F4C4D>

Band	Current Rate % Value of Vehicle	Proposed 2010 Rate % Value of Vehicle	Co2 emissions/km
A	14%	7%	<120g
B	16%	8%	120-140g
C	20%	10%	140-155g
D	24%	12%	155-170g
E	28%	14%	170-190g
F	32%	16%	190-225g
G	36%	18%	225g+

This proposal would have a double benefit for the exchequer:

- The tax rate reduction would act as a stimulus to encourage consumers to purchase vehicles at a reduced cost with the impact of restoring jobs which in turn would reduce social welfare expenditure.
- Increased sales would boost the VRT tax take which has suffered a €1bn fall since '07.



***IT'S TIME TO HIT VRT***

## Introduction of a flat rate property tax & the abolition of stamp duty on property

Ireland's main tax revenue from property is in the form of stamp duty and transactions taxes;<sup>5</sup> however revenue has dropped from a peak of €1.3bn in 2006 to an estimated €200m in 2009. The economy cannot function efficiently with such an unsteady income stream and it's vital that we stabilise revenues from the property sector. An annual property tax will achieve this.<sup>6</sup> We propose to introduce a flat rate property tax **on all property in the state** effective 1 January 2010.

The principle reasons why property is a suitable base for taxation are<sup>7</sup>:

- Property is immobile,
- Property taxes are difficult to avoid,
- Revenue can be used to reduce the income tax burden,
- Property is a major component of wealth.

Furthermore most of our EU compatriots have some form of property tax and it constitutes a significant proportion of their total Exchequer receipts.

The Commission on Taxation also recommended the introduction of a property tax which proposes a fixed tax of 0.25% on the market value of the property. A theoretical example of how such a tax could work is calculated in their Report. Properties in the €150,000 to €300,000 value range (most common in the State) would face an average annual charge per property of €93, raising €492 million for the exchequer. We believe this is the most efficient and cost effective manner of implementing the property tax.

Obviously it is necessary to account for people who purchased property at the height of the boom and were subjected to very high stamp duty costs.<sup>8</sup> We suggest that a tax credit should be introduced on any stamp duty paid in the last 10 years which can be off set against any property tax due for a maximum of 7 years.

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<sup>5</sup> Finfacts Team (2009) Irish "Budget Perspectives" 2010 Conference, Finfacts Ireland Business and Finance Portal, available; [http://www.finfacts.ie/irishfinancenews/article\\_1018197.shtml](http://www.finfacts.ie/irishfinancenews/article_1018197.shtml)

<sup>6</sup> Commission on Taxation Report (2009), <http://209.85.229.132/search?q=cache:ErvTbU3WiNYJ:www.commissionontaxation.ie/downloads/Par%25206.pdf+commission+on+taxation+property+tax&cd=6&hl=en&ct=clnk>

<sup>7</sup> Callan, T (2009) Budget 2010 Perspective, ERSI Website, available; <http://www.esri.ie/UserFiles/publications/20091009122045/RS012.pdf>

<sup>8</sup> [http://www.charteredaccountants.ie/General/News-and-Events/News1/2009/September/Property-Tax-/  
/](http://www.charteredaccountants.ie/General/News-and-Events/News1/2009/September/Property-Tax-/)

The Commission recommends that stamp-duty be zero-rated. However we propose to fully abolish stamp duty on property if this tax is introduced. Stamp duties put barriers in the way of mobility, and often distort decisions about whether to move or refurbish/extend an existing home. Furthermore, fully abolishing this duty may help to cushion the blow of this new tax and give a well-needed boost to our ailing property market.

Tax Revenues from Stamp Duty 2001 - 2009									
	2001	2002	2003	2004	2005	2006	2007	2008	2009
€m's	282	265	349	528	752	1,311	1,018	445	200*

\*Estimated Figure



“It’s not fair Mum, I can’t even afford to live in a flip-flop.”

## Increase Excise Duty on Cigarettes by €2.00

The most recent National Health and Lifestyle survey stated that the number of smokers in the country has increased by 2% to 29% from 2002 to 2007; this means we have 1.23 million smokers in Ireland. According to an Irish Times report, the estimated annual cost of treating smoking-related illness is currently €1.5 billion a year.<sup>9</sup> We propose to increase the tax on cigarettes to aid the Exchequer in funding this strain on the health sector.

Research carried out by The Irish Cancer Society states that the tobacco duty level for cigarettes in Ireland is 61.03%.<sup>10</sup> Therefore for every pack of 20 cigarettes which costs on average €8.50, €1.19 goes to the State in duty and VAT. The Exchequer receives €1.37bn annually from tobacco sales. If the price of a packet of cigarettes was increased by €2 (i.e. to €10.50 per packet), this would mean €6.41 would go to the State in duty and VAT. Such an increase would generate €57 million in revenue to the State.

Obviously such a substantial increase in price would result in some smokers refraining from purchasing cigarettes. A report carried out by S.Gallus entitled 'Price and Cigarette Consumption in Europe' found that a 10% increase in the real price of cigarettes resulted in a 5-7% decrease in the number of smokers.<sup>11</sup> Therefore the estimated €57m cannot be fully relied upon however the long term hope would be to reduce the number of cigarette smokers in the country to relieve the burden on the Health Sector, which would compensate for any lack in revenues a decrease in smokers would cause.



<sup>9</sup> Irish Times Tuesday, April 7, 2009, available,

<http://www.irishtimes.com/newspaper/breaking/2009/0407/breaking53.html>

<sup>10</sup> Irish Cancer Society Submission to Budget 2009, available;

<http://www.cancer.ie/pdfs/press/Tobacco-Control-Pre-Budget-2009-Submi.pdf>

<sup>11</sup> Chaloupka FJ, et al.; The taxation of tobacco products; available;

<http://www.vcharite.univ-mrs.fr/pp/bloch/teaching/554tobaccotaxation.pdf>

## Reduction in Child Benefit Allowance by 17%

We believe serious reform is needed in the area of public spending. Given that our current tax revenue is at 2003 levels and there's a shortfall of €23bn, our current levels of public spending are simply untenable. We feel that reducing the current Child Benefit Allowance is one measure which can be introduced to help bridge this deficit. This view is echoed by An Bord Snip Nua, the body devised to advise the Government on public spending reform who summarized the current expenditure in the Social and Family Affairs department as follows:

### **Social & Family Affairs expenditure allocations**

	<b>2008 provisional out-turn</b>	<b>2009 Revised Estimates</b>	<b>Year-on- Year % change</b>	<b>Proposed Full-Year Savings</b>	<b>% Savings Estimated</b>
<b>Gross Current</b>	€17,609m	21258m	20.7%	€1,847.6m	8.7%
<b>Gross Capital</b>	€1.0m	€3.8m	25.5%		
<b>Gross Total</b>	€17,620m	€21,271m	20.7%	1,847.6m	-8.7%
<b>Staff Numbers</b>	4,495	4,875	8.5%	0	0

As is evident welfare bills have soared from €17.62bn last year to a projected €21.27bn in 2009 due to the steepness of the economic slump.<sup>12</sup> Such a drain on the public finances is not sustainable and this fact has already been recognized by the government. They have signalled a strong intent to reduce the levels of child benefits. The Minister for Social and Family Affairs, Mary Hanafin recently acknowledged "there will undoubtedly be changes in child-benefit. There will be cuts in social welfare rates and changes in child benefit in the next budget."

<sup>12</sup>Connolly, S, Irish Examiner, 12<sup>th</sup> August 2009, available;  
<http://www.irishexaminer.com/ireland/child-benefit-lead-target-of-euro1bn-cuts-in-welfare-budget-98542.html>

An Bord Snip Nua outlined potential savings of €513m could be achieved by effecting a 20% reduction in the Child Benefit payments, for example by introducing a standard rate of €136 a month for all children. This recommendation has also been endorsed by the ESRI in their Autumn Quarterly Economic Commentary.<sup>13</sup>

We believe that reducing expenditure needs to be balanced with a sense of fairness and as such feel that a 20% cut is over-excessive. As such we propose a reduction of 17% which we estimate would generate savings of €436m in 2010. We appreciate its harshness and undoubtedly any attempts to reduce the allowance will be met by opposition, however as we have highlighted current levels of public spending are simply too high and reductions of this nature will have to be implemented to aid our economic recovery.

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<sup>13</sup>Report of the Special Group on Public Service Numbers and Expenditure Programmes, available; <http://www.finance.gov.ie/documents/pressreleases/2009/b1100vol1.pdf>

## **Widen the scope of tax relief available on Intellectual Property (IP)**

The Finance Act 2009 introduced a relief which allows companies to claim tax depreciation in respect of capital expenditure on the acquisition of certain "intangible assets" as a core element of Government policy to support and expand the 'smart economy.'<sup>14</sup> Now the acquiring company may deduct from its taxable income a percentage of the expenditure in acquiring or licensing certain IP. This legislative development is a positive step on the road towards attracting further investment into Ireland and, ultimately, towards the creation of new jobs. However, there are a number of drawbacks to the regime which make it less competitive than that of our European counterparts which we believe should be altered, summarised as follows.

- 1) Firstly, the definition of 'intangible fixed assets' is too narrow. The deductions are ring-fenced, in that the company may only set-off its IP expenditure against that part of its income which is derived from exploiting the IP. The company cannot utilise the tax depreciation against any income earned from any other activities, nor may it include goodwill in claiming the capital allowance (CA). This often proves troublesome as the cost of the IP right acquired will generally include substantial amounts of goodwill. Goodwill is included in the UK provision and thus makes our system less attractive against one of our largest competitors for FDI.
- 2) Secondly, there is an 80% cap on the CA allowed against 'trade income.' Further, although interest relief is available here, this must also be included in calculation of the CA which means that many companies end up losing out on a sizeable part of the CA available. It can be carried forward but often the same situation re-occurs and the CA will never be fully utilised due to the cap.

Thus, we believe the following measures should be introduced to make the Irish provisions for tax relief on IP more competitive, boost our ailing economy and make it more desirable for large multinationals to set up here

- 1) Introduce a wider definition of 'intangible fixed assets'
- 2) Remove the 80% cap

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<sup>14</sup> Heffernan, J. September 2009, *Finance Act 2009 – Tax Relief for Investment in Intellectual Property*, Irish Tax Review.

## Conclusion

We intend the above proposals to contribute towards reducing the budget deficit facing the Exchequer in the coming years. The objective is clear; we must bridge the increasing gap between revenues and expenditure and we believe our proposals contribute effectively to a sound budget that is capable of improving the country's financial position.

*'The nation should have a tax system that looks like someone designed it on purpose'*

-William Simon



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