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IRELAND'S TAX EXPENDITURE SYSTEM: INTERNATIONAL COMPARISONS AND A REFORM AGENDA

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THE POLICY INSTITUTE
AT TRINITY COLLEGE DUBLIN

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Studies in Public Policy

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Paper Outline

Tax Expenditures, also known as tax incentives or tax breaks, represent an infrequently explored and little understood area of Irish public policy. Despite this, they account for more than €11 billion per annum in exchequer revenue forgone – equivalent to over 5.5% of GDP and more than one-fifth of total tax revenue (2006 figures).

This paper examines the current tax expenditure regime in Ireland and highlights the role that tax expenditures should play in the Budgetary adjustment planned for late 2010 and in subsequent years. The paper first reviews the nature and scale of Ireland's tax expenditure system in a national and international context. It then considers their impact, advantages, limitations and consequences. Finally the paper outlines a series of reforms to tax expenditures; reforms which if implemented would yield the exchequer considerable savings and establish a more appropriate and better administered tax expenditure system.

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All errors and views expressed in this paper are the responsibility of the authors alone.

1

Introduction

Tax expenditures are a formal method for taxpayers, individuals or companies, to reduce their tax liability below that which would otherwise apply. The OECD (2007) defines them as:

> *"a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax, rather than by direct expenditure"*

while Anderson (2008) states that they represent:

> *"provisions of tax law, regulation or practices that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to a benchmark tax"*

Conversely, tax expenditures represent a method for government to reduce its current tax take, perhaps (and ideally) for specified reasons, below what it would otherwise collect. Therefore, a consequence of such policy initiatives is that a tax expenditure requires government to redistribute the burden of taxation across others not availing of that tax expenditure or to decrease the provision of tax-funded public services given the tax expenditure induced reduction in the overall tax take.[1]

This paper examines the current tax expenditure regime in Ireland and highlights the role that tax expenditures should play in the Budgetary adjustment planned for the years ahead. The paper first reviews the nature and scale of Ireland's tax expenditure system. It then considers their impact, advantages, limitations and consequences. Finally the paper outlines a series of reforms to tax expenditures; reforms which if implemented would yield the exchequer considerable savings and establish a more appropriate and better administered tax expenditure system.

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[1] See also OECD (1984 and 1996) and Bratić (2006)

2

Tax Expenditures: The Irish Context

In the Irish context, assessments of the costs and socio-economic implications of tax expenditures have, for the most part, represented a little-explored policy wilderness. One reason for this is that the exchequer costs of such measures have essentially been invisible - 'revenue forgone' – and as a consequence often perceived as costless. Furthermore, in the case of many, if not most, tax expenditures the Revenue Commissioners are not required to collect information on the use and cost of these expenditures while the Department of Finance, in its annual reports, monitor only a handful of high profile, and high cost, tax expenditures. As the 2009 Commission on Taxation report generously concludes: "official publications to date have not comprehensively set out all the tax expenditures in the Irish taxation system" (2009:238).

Overall, limited data and understanding of the nature and extent of the Irish tax expenditure system have impeded detailed examination of these policies by academics, government agencies such as the Comptroller and Auditor General or by various Oireachtas committees.[2] Essentially, discourse in the area has been dominated by demands for introductions, expansions and extensions but with very limited economic evaluation to base those decisions upon. Given this invisibility, the system would seem to have operated throughout the last two decades on the basis of beneficiary-induced demand.

The 2009 Commission on Taxation report represents a significant step forward in our understanding of tax expenditures. It established for the first time a comprehensive list of all the tax reducing measures in the Irish system. This list was then divided into those measures that may reasonably be regarded as part of the normal functioning of the taxation system (the benchmark taxation system) and those

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[2] An exception is the tax break on pension contributions which has been examined by NESC (2003) and the ESRI (Callan et al, 2005 and 2009). However, such analysis is principally based on data from national income surveys rather than administrative data associated with the expenditure.

measures that are tax expenditures. The latter comprise a total of 131 tax expenditures which we classify into nine groups in Table 1.[3]

Table 1 – Distribution of Ireland's Tax Expenditures

	Number of tax expenditures
Children	8
Housing	6
Health	10
Philanthropy	16
Enterprise	28
Employment	28
Savings and investment	8
Age-related and other	7
Property investment	20
Total	**131**

Given the data deficits, a comprehensive assessment of the cost of these expenditures is impossible. However, the Commission on Taxation report does provide estimates for the revenue foregone cost of as many of the individual tax expenditures as it was possible to find. While most of the data is from 2006, some costings are from other years earlier and later in that decade. These figures derive from a number of sources including published data from the Revenue Commissioners, Department of Finance reports and estimates presented to the Oireachtas to accompany the announcement of these schemes, or their extension, in various Finance Bills. In the case of the latter, it is not possible to distinguish between costs derived from detailed empirical analysis and those assembled in a less robust fashion. Table 2 summarises this data while Appendix 1 presents the complete list of tax expenditures and Appendix 2 lists the 130 reliefs classified by the Commission on Taxation as part of the benchmark taxation system.

[3] See part 8 of the Commission on Taxation Report 2009 for a description and analysis of each of these tax expenditures.

Table 2 – An Estimate of the Annual Cost of Ireland's Tax Expenditures

	Number of of tax expenditures	*Number with available costs**	*Estimated Cost €m***
Children	8	8	723
Housing	6	6	3,256
Health	10	7	579
Philanthropy	16	7	89
Enterprise	28	12	457
Employment	28	18	2,816
Savings and investment	8	6	2,995
Age-related and other	7	5	144
Property investment	20	20	435[#]
Total	**131**	**89**	**11,494**[++]

Notes: * Data is generally from the 2009 Commission on Taxation Report and part 8 of that report provides more details on the costs for each tax expenditure category. The figures from the Commission's report have been used even though the estimates are based on different years (mainly 2006). Data on property investment is for 2007 from Dáil Question Ref 32811/09

** The category costs are the sum of the costs for those tax expenditures where some costing estimate is available.

Although these schemes have been discontinued, they incur ongoing annual costs as the capital allowances associated with them can be set against taxable income for a defined number of years. Under current arrangements, costs will continue to arise, though at a reducing rate, for much of this decade.

++ It is important to remember that no cost estimate is available for many tax expenditures and that the quality of the estimation process varies widely.

Unsurprisingly, the largest individual tax expenditures account for most of the exchequer cost. Table 3 profiles the top 10 tax expenditures in the Irish system and reports their individual costs. It also compares these costs versus national income and the total tax take in 2006 (the year of origin for most of the estimates). Overall, the top 10 tax expenditures imply an annual revenue forgone cost of more than €10b, equivalent to 5.6% of GDP and 17.5% of the total tax-take. Putting the figures in the context of government expenditure in 2006, in that year the current account social welfare

budget totalled €12.5b, the current health budget totalled €12.5b and the current education budget totalled €7.2b (Budget 2006).

Table 3 – Annual Cost of the Top 10 Tax Expenditures in Ireland

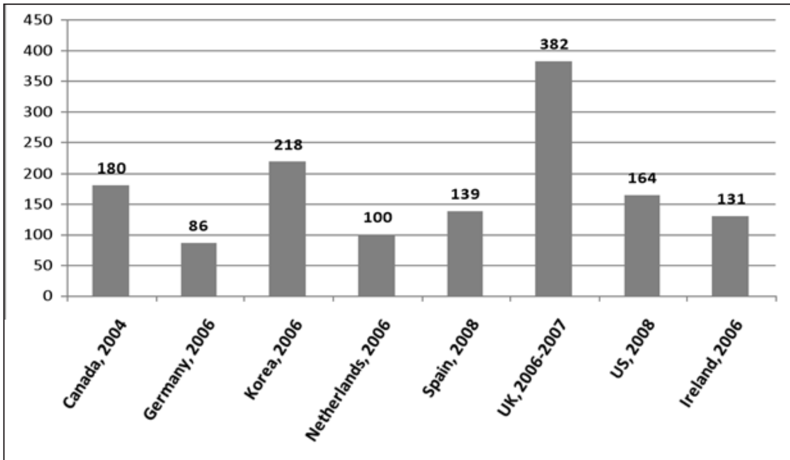
		*€m**	*% GDP*	*% Total Tax Take*
1	Pension tax reliefs	2,900	1.64	5.09
2	Employee tax credit	2,522	1.42	4.43
3	CGT exemption on principal private residence	2,440	1.38	4.29
4	Mortgage interest relief	705	0.40	1.24
5	Property tax incentives	435	0.25	0.76
6	Child benefit tax exemption	427	0.24	0.75
7	Medical insurance relief	321	0.18	0.56
8	Agricultural relief for CAT	100	0.06	0.18
9	Tax exemption on patent royalties	84	0.05	0.15
10	Stamp duty relief for young trained farmers	71	0.04	0.12
	Total	**10,005**	**5.64**	**17.58**

Notes: National Income data from CSO (2010) and total tax take data from Eurostat (2009). Both are for the year 2006.
* Data is generally from the 2009 Commission on Taxation Report and part 8 of that report provides more details on the costs for each tax expenditure category. The figures from the Commission's report have been used even though the estimates are based on different years (mainly 2006). Data on property investment is for 2007 from Dáil Question Ref 32811/09

A recent OECD publication, *Tax Expenditures in OECD Countries* (2010), offers the possibility of comparing the aforementioned Irish tax expenditure system with that which they detail in a selected number of other OECD member countries.[4] Chart 1 compares the overall number of tax expenditures in seven of the countries featured in that report against the data for Ireland in table 1. Overall, the number of Irish tax expenditures sits midway between the higher levels in the UK, Korea, Canada and the US and lower numbers in continental European countries. Subsequently, chart 2 compares the cost of these tax expenditures versus the total tax take in these countries – the Irish data is calculated using the €11.49 billion estimate in table 2.

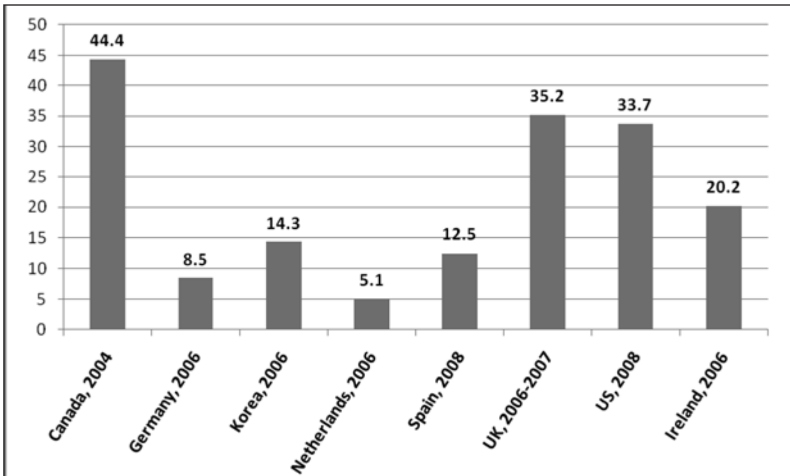
[4] The study did not examine Ireland.

Chart 1 – Number of Tax expenditures



Note: Calculated using OECD (2010: 233) and data from table 2 above.

Chart 2 – All tax expenditures at % total tax revenue



Note: Calculated using OECD (2010: 236) and data from table 2 above.

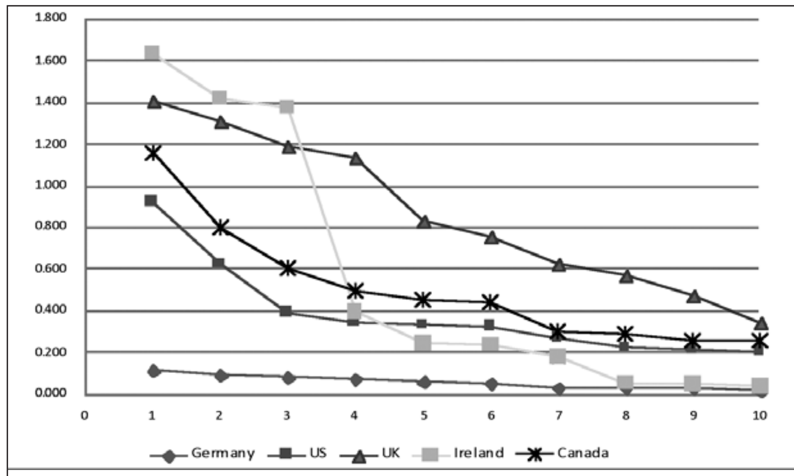
While the number and proportional cost of Ireland's tax expenditures are high, they do not represent an outlier given the data in charts 1 and 2. However, this is not the case when we compare the relative size of the top 10 tax expenditures in Ireland versus that in the six

other OECD member countries where disaggregated data is available (OECD, 2010: 237). Table 4 and chart 3 compare the scale of these high revenue forgone tax expenditures and show that in an international context, the cost of Ireland's top three tax expenditures stand out.

Table 4 – Cost of Top 10 Tax Expenditures as % GDP

	Germany	*Netherlands*	*Korea*	*US*	*Canada*	*Ireland*	*UK*
1	0.113	0.248	0.244	0.922	1.160	1.635	1.405
2	0.092	0.207	0.163	0.622	0.805	1.422	1.313
3	0.080	0.123	0.139	0.393	0.600	1.376	1.193
4	0.073	0.119	0.132	0.346	0.497	0.398	1.132
5	0.057	0.101	0.123	0.331	0.448	0.245	0.830
6	0.056	0.073	0.112	0.324	0.438	0.241	0.755
7	0.032	0.067	0.106	0.269	0.306	0.181	0.627
8	0.031	0.054	0.095	0.222	0.290	0.056	0.574
9	0.030	0.046	0.091	0.212	0.259	0.047	0.476
10	0.017	0.044	0.080	0.205	0.258	0.040	0.347
Total	**0.582**	**1.081**	**1.284**	**3.844**	**5.060**	**5.642**	**8.651**

Chart 3 – Cost of ten largest tax expenditures as % GDP



3

The Impact of Tax Expenditures

The transition in nomenclature over the 25 years between the two most recent Commissions on Taxation from "tax incentives" to "tax expenditures" reflects a closer attention to the real impact of these measures. However, this is not to imply that tax expenditures should never be used. Few would argue about the effectiveness of export sales relief or the 10% corporation tax rate (due finally to expire on 31 December 2010) in attracting foreign direct investment and in transitioning the Irish economy from agricultural to industrial.

In an ideal and fully integrated world, the role of tax expenditure is to correct market failure and to remunerate merit goods. In the real (and somewhat less integrated) world, tax expenditure is also used extensively to attract mobile investment, necessarily from places where it might otherwise locate. Research and development tax credits are an example here. The EU State Aid rules have curtailed the extent to which Member States may use tax expenditures to encourage investment in a particular Member State. Because of this, there is evidence in Ireland of "benchmark adjustment" – if we cannot introduce a tax expenditure, we will change the benchmark tax system so that all taxpayers are eligible for what would otherwise be a tax expenditure. Recent examples include the transition from 10% corporation tax on some activities to 12.5% tax on all activities and the introduction of a participation exemption for capital gains tax available to indigenous and foreign-owned companies.

Comparative advantages of tax expenditure

By comparison with the alternative of direct expenditure, tax expenditure has three advantages:

- It is generally easy to administer and the cost of administration is low. In most cases, the taxpayer claims the appropriate expenditure and obtains tax relief either in a tax assessment (for those making tax returns) or via a refund or a PAYE adjustment. For example, the now-

repealed tax expenditure which gave a standard rate credit to taxpayers paying refuse or water charges could be claimed by sending a text message to the Revenue Commissioners. This was undoubtedly easier to administer than a system that required a duplicate reporting system, checked whether a payer of refuse charges was in the tax net and then generated a direct payment. Efficient though the tax expenditure process was, it is hard to see a convincing reason for spending public funds on those payers of refuse charges who happen to be payers of income tax.

- There is a reduced risk of fraud. This is particularly the case for tax expenditure involving parties other than the taxpayer, since fraud then requires collusion. For example, the Irish "tax relief at source" tax expenditures, medical insurance relief and mortgage interest relief, rely on data from insurance providers and mortgage lenders and thereby provide a third party check on taxpayer claims.
- Tax expenditure facilitates a greater range of taxpayer choices. This is evident for tax expenditures such as pension provision or health expenses, where a broad range of expenses qualify for tax relief and it is left to the taxpayer to determine which type best suits individual circumstances.

Limitations of tax expenditures

Tax expenditures are at best imperfect policy instruments. They suffer from inherent disabilities but more importantly, if they are not appropriately controlled and measured, they lead to systemic degradation of the tax system. Inherent disabilities include:

- Tax expenditures involve a departure from the equity principle and improve the financial position of the beneficiaries of the tax expenditure. Where the tax system is progressive, this involves greater benefits for those with higher incomes.
- Both the efficiency and effectiveness of tax expenditures are difficult to evaluate, in absolute terms and by comparison to an alternative of direct expenditure. This is inherent in having separate measurement and evaluation

systems for direct expenditure and tax expenditure. We can argue about the effectiveness of reviews of spending programmes at departmental, C&AG or Public Accounts Committee level but all are likely to be superior to an *ex-post* review of tax expenditure with poor data, little clarity on objectives and no clear measure of outputs. The inherent difficulty in making a robust measurement of the costs and benefits of tax expenditure has been well summarised as the challenge of counting "might have beans" rather than the normal beans.

- The equivalent of a "demand led" direct expenditure programme is uncapped, non-time-limited tax expenditure. The direct expenditure budgeting process is such that demand-led expenditure can be curtailed with a sunset date. However, most tax expenditures outlive their utility. Whatever policy attractions there were in introducing Urban Renewal Relief in five cities in 1986, it is manifestly clear that property tax incentives cost too much, expanded too widely and lasted too long.
- Tax expenditures and related regulations to control their use range from complex to incomprehensible. The OECD's description is particularly good (2010:29):

> *"Aspects of tax expenditures can cause the resulting complexity of the whole to exceed the sum of the complexity of the parts, in public perception as well as reality. As legal provisions, regulations, instructions and forms are piled upon one another, the body of tax wisdom needed to navigate the system can grow beyond the capacity of many non-experts. The marginal added provisions, even if they do not apply to a particular taxpayer, obscure that taxpayer's field of vision of what he or she needs to know. From a simple systems perspective, the potential interactions among additional tax expenditures could grow geometrically as more are added."*

A prime, though far from unique, example in the current Irish system is the Seed Capital Scheme, designed to refund prior tax paid by unemployed taxpayers to enable them to set up as self-employed, which requires navigation skills to chart 52 pages of complex legislation.

- Other taxes must be increased to finance tax expenditures and thus general tax rates are higher. This may increase the burden of a particular tax (if the compensation is within a particular tax head) or may shift the relative burden of taxes on income, consumption and capital in an inappropriate way. In Ireland, tax expenditures and the interaction between them have been used opportunistically by taxpayers and their advisers, thereby increasing the cost to the exchequer. Property construction, particularly in the hotel sector, has involved the creation of pools of "investors" with substantial income taxable at high rates, whose only function in the investment process was to strip out tax allowances at maximum tax benefit. The return to these participants was largely by way of the tax reduction and the "real" investor, whose tax capacity was smaller, could re-acquire the property at a lower price. This "productisation" of tax expenditures, which is endemic in Ireland, means that the cost of tax expenditure is always maximised.

4

Systemic Consequences of Tax Expenditures

The impact of escalating tax expenditures on the tax system itself is particularly pernicious. After a half-century of being a poster child for tax expenditure, Ireland is a superb object lesson here. Tax expenditures are concentrated in the income tax system and the systemic impact on the taxation of income is very evident.

4.1 Invention of parallel tax systems to raise revenue

Tax expenditures are so closely interwoven into the income tax system that its effectiveness as a revenue raiser has been significantly impeded. Thus when additional tax revenue is required, the solution is not to raise income tax rates but rather to introduce a series of parallel tax systems with different structures. In Ireland we have not one but four systems to tax income – income tax, PRSI, Health Contributions and Income Levy. Each system comes with its own tax preferences and tax expenditures, but most tax expenditures are in the income tax system. Even the unit of taxation is not common, as income tax is charged on a married couple while the other systems are fully individualised.

As the recession deepened, these parallel tax systems assumed greater importance both as respects their impact on individual taxpayers and also on the relative and absolute quantum of revenue raised. Table 5 shows the aggregate amounts collected for 2007 to 2009 by each system while chart 4 illustrates in relative terms the increasing importance of the parallel tax system. Because of the increase in income levy rates in 2010, it is likely that parallel tax will outstrip income tax in 2010.

For individual taxpayers, the significance of the parallel tax system (comprising PRSI, Health Contributions and Income Levy) can be clearly seen from Table 6, which shows tax rates for increasing levels of self-employed income earned by an unmarried taxpayer. Chart 5 illustrates the same data for incomes up to €200,000. In most cases, the rates are marginal tax rates. However because the parallel tax system operates by exempting income up to a threshold and

charging in full thereafter, actual marginal rates display discontinuities from the figures quoted in a range of incomes close to the exemption thresholds (€3,174 for PRSI, €15,029 for income levy and €26,000 for health contributions).

Table 5 – Parallel tax and income tax collections 2007-2009

	2009 *€m*	*2008* *€m*	*2007* *€m*
National training fund levy	372	413	408
PRSI	7,171	7,983	7,721
Health contribution	1,756	1,327	1,298
Income levy	1,138	-	-
Parallel tax total	**10,437**	**9,723**	**9,427**
Income tax	**10,701**	**13,195**	**13,582**
TOTAL	**21,138**	**22,918**	**23,009**

Source: Revised Estimates Volumes and Revenue Commissioners' Annual Reports

Chart 4 – Relative contributions of income tax and parallel tax to total receipts for taxes on income

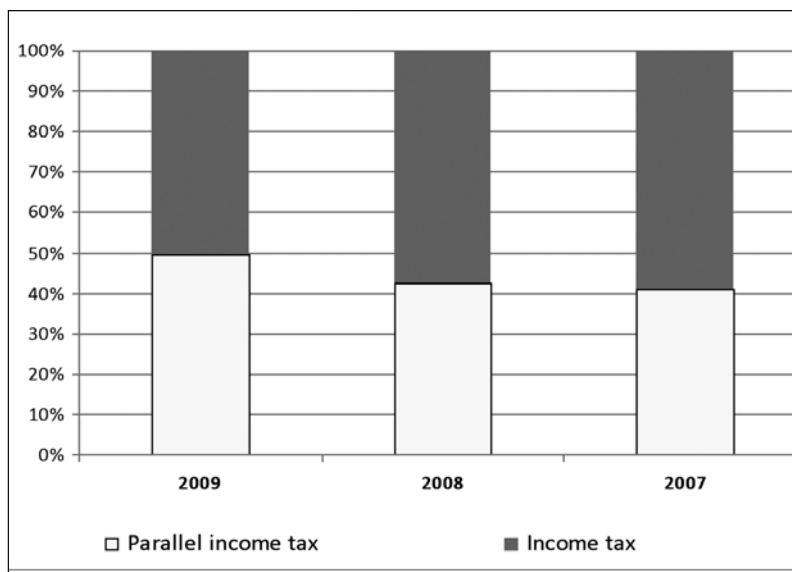
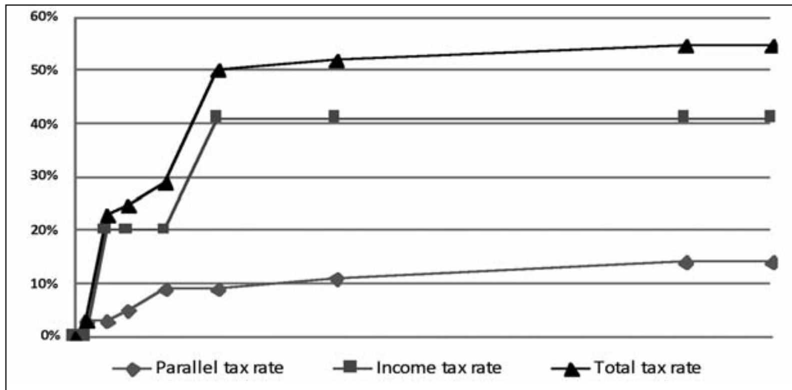


Table 6 – Tax and parallel tax rates at different income levels for a single self-employed taxpayer in 2010

Annual income level (€)	*Parallel tax rate**	*Income tax rate*	*Overall tax rate*
Up to 3,134	0%	0%	0%
3,134 to 9,150	3%	0%	3%
9,150 to 15,000	3%	20%	23%
15,000 to 26,000	5%	20%	25%
26,000 to 41,000	9%	20%	29%
41,000 to 75,036	9%	41%	50%
75,036 to 174,980	11%	41%	52%
Over 174,980	14%	41%	55%

Note: * The parallel tax rate captures tax charged by means of PRSI, Health Contributions and the Income Levy.

Chart 5 – Total tax rates by income level



The equivalent data for an employed taxpayer would show a different pattern because of the impact of the Employee Tax Credit on the incidence of income tax. The equivalent data for a married taxpayer would also show a different pattern because of the different unit of taxation for income tax (family) and parallel tax (individual) and the different tax credits and standard rate band.

4.2 Complex measures to control the use of tax expenditures by high-income individuals

It might be thought that the obvious way of controlling tax expenditure is to repeal the legislation that provides for the expenditure. Not so in Ireland. Instead, our legislators introduced the principle of (retrospective) moderation in (some but not all) tax expenditures: the Irish version of Alternative Minimum Tax. Not only does this involve complex legislative provisions but, for individual taxpayers, it makes the calculation of the after-tax consequences of investment or enterprise decisions very difficult. A very concentrated summary of the 2010 version of these restrictions might read:

- The relief limits the use of some, but not all, tax expenditures where income before tax expenditures is more than €125,000.
- There is no restriction if eligible tax expenditures do not exceed €80,000
- Full restriction (to impose an effective tax rate of 30%) applies for incomes in excess of €400,000 and partial restrictions apply for incomes between €125,000 and €400,000.
- Restricted reliefs are carried forward and can offset income tax in future years
- Unlike most elements of the income tax system, the control is individualised and applies separately to husband and wife.

These limits distinguish between high-income individuals and others (companies, low- and middle-income individuals) using tax expenditures to reduce tax liability. For high-income individuals, the controls are applied to a broad range of tax expenditures but there are a number of expenditures that are ignored in applying the restriction. These include tax expenditure on pensions (pension contributions and lump sum payments from a pension scheme on retirement), on termination payments (both statutory and ex gratia), on tax-favoured employer share schemes and on foreign source income qualifying for the remittance basis of taxation where the taxpayer is non-domiciled (individuals resident in Ireland but subject to a special tax regime because they were not born here).

The main impact of these restrictions is to increase the equity of the tax system by increasing effective tax rates of high income taxpayers impacted by the provisions. A 2009 Revenue Commissioners report showed that additional tax of €39m was collected from the 423 individuals impacted by the restrictions in 2008. Table 7 summarises the outcomes of the restrictions for 2008.

Table 7 – Impact of high income restrictions for 2008

Additional tax collected	€39m
Number of taxpayers	423
Effective tax rate (income €500,000 or more)	20%
Effective tax rate (income less than €500,000)	14%
Comparative tax rate without shelters (income €500,000)	39%

Table 8 indicates the remaining benefit of tax shelters for these 423 taxpayers for 2008 after application of the high income restrictions.

Table 8 – Reduction in taxable income of high income taxpayers in 2008 after application of the high income restrictions

Property	€171m
Tax exempt income (artists, patents, stallions)	€72m
Interest expense for equity investment	€29m
Philanthropy	€8m
Business Expansion Scheme	€2m
Expenditure carried forward from 2007	€29m
Total	**€311m**
Maximum tax value (at 41%)	**€127m**

It is clear from the published data that further increasing the tax rate payable under these restrictions would have a marginal impact on exchequer finances, not least because the tax expenditures with the highest cost are claimed by taxpayers that are not impacted by the high income restrictions. However, it would enhance the fairness of the overall taxation system. It is not easy to understand why the list of tax expenditures impacted by the restrictions is less than comprehensive and the fairness of the taxation system would be further enhanced by expanding the scope of the restrictions to cover

all tax expenditures, particularly tax expenditure on pensions (pension contributions and lump sum payments from a pension scheme on retirement), on termination payments (both statutory and ex gratia), on tax-favoured employer share schemes and on foreign source income qualifying for the remittance basis of taxation where the taxpayer is non-domiciled.

4.3 The impact on tax expenditures when tax rates are increased

Although public expenditure cuts will play a part in restoring fiscal balance in Ireland, it has always been an unavoidable certainty that tax will have to be increased as well. New taxes may play a part in this, but increasing existing taxes is also an option, and may have more predictable consequences in terms of tax yield.

Increasing tax rates has the inevitable consequence that the cost of any tax expenditure in the system that is based on exempting income or allowing expenditure against income automatically increases. Apart from the equity aspect of this effect, it may also make tax increases even less palatable to the general body of taxpayers that are ineligible for tax expenditures. Thus any programme to increase the overall tax burden must consider limiting tax expenditures as well as introducing new taxes and increasing existing taxes.

5

Reforming Tax Expenditures

Given that there are 131 tax expenditures in the Irish system, it would be impossible in a short paper to suggest reforms for each of them.[5] Instead, in this section we focus on some general ways in which the tax expenditure system can be reformed.

5.1 Abolishing tax expenditures

The most basic approach to reform of tax expenditures is to repeal the legislation giving rise to the tax expenditure. It is often stated that existing tax expenditures must run their course. This is rather like saying that tax rates cannot increase. While investment may have been made by reference to the tax rules in a particular year, it would be disingenuous to think that the fiscal situation in which we now find ourselves cannot be addressed because the Oireachtas is in some moral or legal sense barred from changing legislation on tax rates and tax expenditures. Holding or changing tax rates and tax expenditure amounts remains an annual policy choice.

5.2 Reducing tax credit rates

Of the ten largest tax expenditures, three (employee tax credit, mortgage interest relief and medical insurance relief) are given by way of tax credits. These are, in effect, fixed payments to eligible taxpayers and, in the case of mortgage interest relief and medical insurance relief, are available whether the individual with the medical insurance premium or mortgage interest liability is taxpaying or not. While no reduction in tax expenditure is painless to the taxpayer involved, a gradual reduction in the quantum of the credit over time would be an effective way of reducing the cost of tax expenditures that are granted by way of an income tax credit.

Each of these tax expenditures has already successfully transitioned from an allowance at marginal tax rate to a credit at standard tax rate, thereby halving its benefit to higher rate taxpayers. Further progress has been made with mortgage interest relief by

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[5] Part 8 of the 2009 The Commission on Taxation presents a summary of the Commission's considerations of all these schemes and its recommendations for each of them (2009: 228-323).

reducing the credit rate from the standard rate of 20% to 15% for non-first time buyers.

5.3 Limiting or deferring tax expenditure

Another possibility is to limit tax expenditure or defer it to a future year. For some tax expenditures, as described above, the introduction of the high income restriction in 2007 had the effect of limiting the total tax expenditure benefits to affected individuals. Expenditure not allowed because of these restrictions is carried forward to subsequent years, subject to the re-application of the restriction in these years.

5.4 Recapturing tax expenditures at higher income levels

The high income restrictions are probably sufficient controls for the tax expenditures that are within their ambit. However a range of other tax expenditures are claimed by a large number of taxpayers with widely varying income levels. Examples would include the employee tax credit, the tax exemption on child benefit payments and relief for health expenses.

An approach that has been followed in other countries is to provide for recapture of tax expenditures at higher income levels. This has the advantage of collecting more tax from those most able to pay while not affecting the marginal tax rate of most taxpayers.

Using the employee tax credit as an example, we can see that abolishing the credit would cause a large number of lower-income taxpayers hitherto not subject to income tax to come within the tax net and would also increase substantially the tax burden on lower to middle income taxpayers. As an alternative to increasing the top rate of tax, we could contemplate recapturing the credit by correspondingly increasing the tax liability of those earning more than, for example, €75,000 until the benefit of the credit has been withdrawn. Although this produces a spike in the marginal tax rate for those earning marginally above the limit, it has the advantage of retaining the existing marginal tax rates for other affected taxpayers, while increasing their average tax burden. While spikes in the marginal rate at particular levels are not attractive, a spike at €75,000 (or whatever level is chosen) might not be inappropriate until financial circumstances enable a more thorough reform of the tax system to be implemented.

5.5 Structural reform of the tax expenditure system

While this paper has concentrated on an exploration and reform of the current system of tax expenditures, there is also merit in highlighting the need for a reform in the way Irish policy making approaches the introduction and supervision of tax expenditures. The first five recommendations from the 2009 Commission on Taxation's review of tax expenditures highlight the approach and components of such a structural reform. These are reproduced in Box 1 below and we recommend that they underpin all future approaches to tax expenditures in Ireland.

Box 1: First five recommendations on Tax Expenditures from the 2009 Commission on Taxation Report (Part 8)

1	The OECD definition of a tax expenditure - as a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax, rather than by direct expenditure – should be adopted.
2	Measures that are part of the benchmark tax system should not be considered as tax expenditures.
3	In general, direct Exchequer expenditure should be used instead of tax expenditures.
4	There are three instances where it would be appropriate to examine the possibility of introducing a tax expenditure. These are: • To correct market failure • To attract mobile investment • To offset shortcomings in other areas of public policy Where a tax expenditure is proposed, or an existing expenditure's timescale extended, the following questions should be asked, in sequence: • does the expenditure fall within one or more of the three instances outlined above? • If so, does the proposal adhere to each the following principles: – Efficiency; – Stability; and – Simplicity

	• If so, can a departure from the equity principle, which the tax expenditure invariably necessitates, be justified? A tax expenditure should only be introduced, or extended, if it answers affirmatively to each of these questions.
5	For all future tax expenditures and reforms of tax expenditures, there should be: • *An ex ante evaluation process* in advance of decisions to implement or extend any tax expenditure, including an assessment of the costs and benefits of proposals and consideration of the alternative of a direct expenditure approach. • *Better measurement and data collection on the costs and benefits* associated with the introduction or extension of the tax expenditure and the review of its impact. • *Publication of an annual tax expenditures report by the Department of Finance* as part of the annual budget process and subject to Oireachtas scrutiny. Spending through the tax system should be controlled by, for example, the imposition of thresholds and ceilings and reductions in the rate at which tax relief is given or in the quantum of a base figure to which tax relief might apply.

Source: Commission on Taxation Report (2009:230).

6

Applying these Principles to the Top Ten

In this section, we consider which of the reform methods described would be appropriate for each of the top ten tax expenditures. We have provided these recommendations on the basis of what reforms are both necessary and feasible immediately, in Budget 2011, and gradually over the Budgets to 2014.

1 Pension contributions

The tax expenditure with the highest cost, tax reliefs on pensions, is made up of a number of separate provisions and cost data is not available for all elements of the aggregate. The €2,900m cost used in this paper is taken from the Commission on Taxation report (2009: 309), which uses the estimate provided in the Green Paper on Pensions (Department of Social and Family Affairs, 2007) and relates to occupational pension schemes and corresponding arrangements for self-employed individuals. The breakdown of this cost and the basis of the tax expenditure estimate is reproduced from the Green Paper in Appendix 3.

Box 2 summarises the quantified and unquantified elements of the material elements of the pension tax reliefs.

Box 2 – Quantified and unquantified elements of pension tax reliefs

Quantified Elements	***2006 Cost €m***	***Comments***
Tax relief on employee contributions to occupational pension schemes, additional voluntary contributions (AVCs) and personal retirement savings accounts (PRSAs)	660	In 2010, there is a ceiling on qualifying earnings of €150,000 and a maximum contribution level (ranging from 15% for employees up to age 30 to 40% for age 60 and over). The

		maximum fund size is €5.418m. per employee.
Exemption from BIK on employer contributions to pension schemes	510	Employer contributions are not limited, except by reference to the actuarially-computed liability and the maximum fund size of €5.418m. per employee.
Exemption from PRSI and health contributions on employee contributions and exemption from employer PRSI on employee contributions	220	Employees are not liable to PRSI or health contributions on amounts contributed to occupational pension schemes, AVCs and PRSAs. Employer PRSI liability is reduced by reference to amounts contributed by employees.
Tax relief on pension contributions by self-employed persons	380	In 2010, there is a ceiling on qualifying earnings of €150,000 and a maximum contribution level (ranging from 15% for employees up to age 30 to 40% for age 60 and over. The maximum fund size is €5.418m. per employee

Tax exemption on tax-free lump sum	130	Up to 1.5 times salary (for occupational pensions) or 25% of the accumulated pension fund on retirement (for PRSAs and RACs) is tax exempt.
Tax exemption on investment income of pension funds	1,200	
TOTAL	**3,100**	
Unquantified Elements		***Comments***
Employee tax relief on public sector pension levy		For 2010, the levy applies at the following rates: First €15,000 of earnings exempt Between €15,000 and €20,000 – 5% Between €20,000 and €60,000 – 10% Above €60,000 – 10.5% Tax relief applies without upper limit to pension levy deductions.
Exemption from BIK on the annual accrual cost of unfunded pension schemes (predominantly in the public sector)		The maximum fund size is €5.418m per employee.
Exemption from PRSI and health contributions on public sector pension levy deductions from employees and on		Employees are not liable to PRSI or health contributions on amounts contributed to as pension levy, AVCs

employee contributions to pensions and AVCs; exemption from employer PRSI on public sector pension levy and on employee contributions		and PRSAs. Employer PRSI liability is reduced by reference to amounts contributed by employees.

The tax expenditure on pension contributions and pension funds takes four forms:

- Tax exemption on the income and capital gains of the pension fund. We believe that no change should be made to this tax expenditure on the basis that it is preferable to tax the income generated by the fund when it is paid out as a pension in due course. This avoids the complexity of providing refunds to take account of pension fund losses that will inevitably arise because of market volatility, of introducing appropriate adjustments to reflect the impact of inflation on pension contributions and of dealing fairly with unfunded pension schemes, which do not invest contributions but which provide equivalent pension benefits.
- Tax exemption on the lump sum, which can be up to 1.5 times final earnings. The 2009 Commission on Taxation recommended that this exemption be limited to €200,000 and that sums in excess of this amount should be taxable at the standard rate of income tax (2009:410). We believe that all pension lump sum payments subject to exemption or favourable tax treatment should, as described above, be included in the high income restrictions for income tax purposes.
- Employer PRSI relief on employee pension contributions. This gives relief at up to 10.75% from employer PRSI where the employee makes pension contributions. We suggest that this relief is abolished.

- Exemption from Benefit in Kind (BIK) for employees where employers make contributions to pension schemes. We make no suggestion for immediate reform of this tax expenditure because of the inequity in taxing private sector employees, whose employers make contributions to defined contribution pension schemes, while ignoring employees in defined benefit schemes, where contributions are not generally attributable to a particular employee, and public sector schemes, which are generally unfunded.
- Income tax, PRSI and health contribution deductions for employee pension contributions. In order to reduce the level of the tax expenditure on pension contributions, we suggest that the rate at which pension tax relief is granted is moved to a single rate and that PRSI and health contributions are payable by employees on income before pension contributions. Such a reform would not only remove a glaring inequity in the taxation system but would simultaneously save the exchequer a considerable sum as the rate would be below the current higher income tax rate. In the context of the current Budgetary difficulties, we believe that this single rate of deduction should be confined to the standard rate of income tax, currently 20%.

Clearly, there are other, long overdue, reforms needed in the system of pension provision. These would deserve a paper of their own and have been the subject of extensive examination and consultation. Reform proposals have been published in the National Pensions Framework which can be implemented in due course. However, the reform to a single rate of tax relief can, and should, proceed immediately.

Two objections are normally raised in the context of reform of tax expenditure on pension contributions:

- Restricting tax relief on employee pension contributions has no impact for unfunded pension schemes (predominantly in the public sector). While this is true, the introduction of the public sector pension levy means that public servants are now making significant pension contributions, which could be restricted for tax relief in the manner described above.

- It is often stated that the pension tax expenditure is merely a deferral of taxable income, since pensions payable are fully taxable. This is not correct. From the perspective of an individual taxpayer, the tax benefits relating to pension contributions are threefold. Tax, PRSI and health contribution relief (subject to Revenue limits) arises at the marginal rate on pension contributions and a tax free lump sum is payable on retirement while the pension in payment is subject to income tax and health contributions. Pension tax relief is more than deferral, even ignoring the investment income of the pension fund. By way of example, a single self-employed person with a PRSA may take 25% of the fund value as a tax free lump sum on retirement and may purchase an annuity or invest in an Approved Retirement Fund (ARF) with the 75% fund balance. The annuity which is purchased (or the amount withdrawn from the ARF) is subject to income tax at a rate that recognises personal tax credits and lower rate bands, producing an effective tax rate that will generally be much lower than the marginal rate granted on pension contributions. Ignoring the impact of the tax free lump sum, the age tax credit and the PRSI and health contribution exemptions for the over 70s, Table 9 shows the effective total tax rate for a single pensioner at various levels of pension income and demonstrates that effective total tax rates are significantly below marginal income tax rates for all but the very highest pension levels. The breakdown of income tax, health contributions and income levy is shown in Appendix 4.

In Appendix 5, we illustrate the impact of the tax free lump sum on a single individual in an occupational pension scheme. Using an annuity rate, the tax free lump sum is converted into an annual income equivalent for the anticipated life of the employee. Adding this annual income equivalent (which is not taxable) to the individual's pension, we can compute an effective tax rate, summarised at Table 10, on the aggregate of the pension and the annual instalment of the lump sum.

*Table 9 - Effective tax, health contribution and income levy rate for a single pensioner for 2010**

*Pension***	*Effective total tax rate on pension*
€15,000	0%
€20,000	4%
€25,000	7%
€35,000	16%
€50,000	24%
€75,000	32%
€100,000	36%
€150,000	41%
€250,000	45%

Notes: * These calculations ignore the impact of the tax free lump sum, the age tax reliefs for the over 65s and the health contribution exemption for the over 70s. Were these included the effective rates would be lower than reported.
** Pensioners (depending on PRSI class and contribution record) may be eligible for a State Pension (Contributory) which will increase total income by a maximum of nearly €12,000 and is liable for income tax but not PRSI, health contribution or income levy.

*Table 10 – Notional effective total tax rate for a single pensioner for 2010 taking account of the impact of the maximum tax free lump sum from an occupational pension scheme**

*Pension ***	*Effective total tax rate on the aggregate of pension and notional annual income from the lump sum*
€15,000	0%
€20,000	3%
€25,000	6%
€35,000	13%
€50,000	21%
€75,000	27%
€100,000	31%
€150,000	35%
€250,000	38%

Note * These calculations ignore the impact of the age tax reliefs for the over 65s and the health contribution exemption for the over 70s. Were these included the effective total tax rates would be lower than reported.
** Pensioners (depending on PRSI class and contribution record) may be eligible for a State Pension (Contributory) which will increase total income by a maximum of almost €12,000 and is liable for income tax but not PRSI, health contribution or income levy.

We can therefore conclude that, in the circumstances described, a 20% tax relief rate for pension contributions would equal or exceed the rate at which the pension is taxable for pensions up to €50,000 per annum (or €38,000 if a full State Pension (Contributory) is available), while a 33% rate (as proposed in the National Pensions Framework) would equal or exceed the rate at which the pension is taxable for pensions up to €125,000 (or €113,000 if a full State Pension (Contributory) is available).

In addition to the tax expenditures related to contributions to pension schemes described above, pensions in payment and pensioners also receive favourable tax treatment in a number of other respects, the cost of which has not been quantified. Occupational pensions are not liable for PRSI. Social welfare pensions are not liable for PRSI, health contributions or income levy. Persons aged over 70 are exempt from health contributions on all income. Each of these reliefs apply regardless of income level.

Given the above calculations, we have recommended that the rate at which pension tax relief is granted is moved to a 20% rate for all employee contributions. The reform does not prevent individuals for saving for an annual income in retirement beyond €50,000 per annum (or €38,000 if a full State Pension (Contributory) is available). Rather it signals that this is the point at which income tax relief for pension savings will cease. At that point, the state has adequately supported an individual to provide a substantial income for their retirement, equivalent to more than 150% of average industrial earnings. Beyond this retirement income level, individuals are free to independently provide for additional income in their retirement.

2 Employee tax credit

The employee tax credit has a value of €1,830 in 2010 and may be claimed by taxpayers that are employees (other than proprietary directors and employed family members). We believe that there should be a gradual reduction in the value of the employee tax credit over a series of Budgets to reduce its value. This would impact all employed taxpayers and pensioners, and would have greatest impact on families where both spouses are in receipt of PAYE income.

3 Capital gains tax exemption on principal private residence

We believe that introduction of an annual property tax is a more stable option for the taxation of residential property than abolition of the capital gains tax exemption particularly given the absence of any recognition for inflation/deflation in the capital gains tax system. The 2009 Commission on Taxation proposed a banded annual property tax by reference to eight bands of market value and illustrated the potential yield from the tax by reference to rates of 0.25% and 0.3% of the property value.

4 Mortgage interest relief

The maximum relief for a married first time buyer is €5,000 per annum and for a married non-first time buyer is €900 per annum for loans taken out before 2012. Mortgage interest relief is scheduled under existing provisions to be abolished by the end of the tax year 2018 and loans taken out after 1 January 2013 will not qualify for tax relief. These measures already in place should provide for an orderly cessation of mortgage interest relief and we suggest that they be allowed run their course.

5 Tax incentives for property investment

These schemes are mainly closed to new entrants but, because the benefit of the tax reliefs accrues over a number of years, will, if not reformed, involve substantial annual exchequer cost for many years to come. Based on the latest published data for 2007, tax expenditures in respect of property incentives arise primarily for investment in hotels (€118m), urban renewal areas (€109m), rural renewal areas (€48m), student accommodation (€42m), town renewal (€35m) and private hospitals and nursing homes (€30m). We suggest a four year "tax expenditure holiday" for the property tax incentives, whereby the state would postpone all tax expenditure on property until 2015. Affected taxpayers would continue to be entitled to the annual deductions in respect of their prior investment in tax incentive property. However, the deductions would not be eligible to reduce liability on income arising from 2011 to 2014. Tax expenditures deferred could be carried forward and could be deducted on the emergence in the medium term of a more balanced budget.

6 Child benefit tax exemption

We propose the immediate removal of the child benefit tax exemption such that that income becomes taxable. Given the lack of

any adequate integration of the taxation and social welfare system and the regrettable removal of the obligation for PAYE taxpayers to file an annual tax return, such a policy initiative would need to be administered on a self assessed basis for PAYE taxpayers. Child benefit would be paid as normal to parents/guardians, and PAYE recipients with taxable income (or their jointly assessed spouses) would submit a payment to cover their tax liability. An electronic system to administer this process, along the lines of the NPPR (second homes tax) could be established and the usual random checking associated with the self-assessment system for non-PAYE taxpayers could be introduced. Taxpayers that are directly assessed (those with self-employed income) could account for tax on child benefit through the normal tax payment and return process. To take account of the impact of this proposal on families whose income is just above tax thresholds, we suggest that the child benefit payment be simultaneously increased.

7 Medical insurance relief

We believe that medical insurance relief should be gradually eliminated over four years. Although available at the standard rate, medical insurance relief is of most benefit to those with the highest medical insurance premiums and it is hard to see why the state should provide maximum subsidies to those with the most comprehensive insurance plans. Assuming the current 20% relief is abolished gradually over four years, this would imply an additional 5% annual inflation in medical insurance costs.

8 and 10 Tax expenditures for agriculture

The two largest tax expenditures for farming, agricultural relief for CAT and stamp duty relief for young trained farmers have failed to secure a transfer of land to a younger generation. They are particularly generous given the fall in land values that has occurred in recent years. We therefore propose that they be abolished over a four year period by gradually increasing the taxable amount. Thus the current disregard of 90% of the value of farm land and other agricultural assets for gift and inheritance tax could be phased out over four years by reducing the disregard by 22.5% each year. Similarly the complete stamp duty exemption for land acquired by young trained farmers could be phased out over four years by increasing the taxable consideration by 25% each year.

9 Patent royalty exemption

Patent royalty exemption provides for an exemption from income tax, PRSI and health contributions on royalty income from qualifying patents and on dividends from companies in receipt of exempt patent royalties, subject to an annual limit on exempt income of €5,000,000. In most cases, the exempt income does not derive from the licensing of the patent to an unconnected third party in exchange for a royalty based on usage. Instead, expenditure giving rise to a patented product or process is carved out into a separate company, that company takes out the patent and licenses it to the connected company that undertakes the manufacturing or production function. Typically a number of the company's employees take shares in the patent company (for nominal consideration) and are paid tax-free dividends out of the reserves generated by the patent royalties.

We propose the immediate removal of the tax exemption on patent royalties. The exchequer, through grants and research and development tax credits, already adequately incentivises the development of new products and technologies; indeed this relief has been enhanced significantly in recent Budgets. We think it likely that the patent income exemption has given rise to innovation among tax advisers and patent agents rather than among scientists and inventors. Where patent income arises it should be subject to taxation in the same way as income from any other source.

Table 11a summarises the above reforms and table 11b attempts to quantify the exchequer savings associated with the implementation of these reforms in Budget 2011 and over four Budgets to 2014.

Table 11a – Reforming the Top 10 Tax Expenditures in Ireland

	Tax Expenditure	*Proposed Reform*
1	Pension tax reliefs	immediately move to a single rate
2	Employee tax credit	gradual reduction in credit value over four budgets (2011-2014)
3	CGT exemption on principal private residence	introduce annual property tax on residential property
4	Mortgage interest relief	already scheduled for elimination by 2018 (for existing loans) and 2013 (for new loans)
5	Property tax incentives	limit or defer
6	Child benefit tax exemption	immediately remove
7	Medical insurance relief	gradual reduction in value over four budgets (2011-2014) so that it is eliminated
8	Agricultural relief for CAT	gradual reduction in value over four budgets (2011-2014) so that it is eliminated
9	Tax exemption on patent royalties	immediately remove
10	Stamp duty relief for young trained farmers	gradual reduction in value over four budgets (2011-2014) so that it is eliminated

Table 11b – Approximate exchequer savings associated with reforming the Top 10 Tax Expenditures in Ireland

	Tax Expenditure	*Year 1*	*Years 1-4*
1	Pension tax reliefs[a]	€676m	€2.7b
2	Employee tax credit[b]	€250m	€2.5b
3	CGT exemption on principal private residence[c]	(€700m - €1b)	(€2.8b - €4b)
4	Mortgage interest relief	*No change to current policy*	
5	Property tax incentives[d]	€400m	€1.6b
6	Child benefit tax exemption[e]	€200m	€800m
7	Medical insurance relief[f]	€80m	€800m
8	Agricultural relief for CAT[g]	€20m	€200m
9	Tax exemption on patent royalties	€84m	€336m
10	Stamp duty relief for young trained farmers[g]	€15m	€100m
	TOTAL	**€2,425m**	**€11,836m**

Notes:
a. Calculated as €406m savings from employee/self-employed pension contributions; €50m savings from lump-sum exemption; and €220m employer PRSI relief on employee contributions.
b. Assuming a 10% reduction in the year 1 cost of the credit for each of the four years. Year 1 saving = €250m; year 2 = €500m; year 3 = €750m; year 4 = €1b.
c. Estimate of revenue from an annual property tax structured as proposed by the 2009 Commission on Taxation. Revenue varies with the rate chosen for annual tax (0.25% or 0.3% per annum).
d. Savings via a four year tax expenditure holiday.
e. Calculations assume an increase in the value of child benefit and its taxation.
f. Assuming a phasing out of the tax expenditure over four years via a 25% reduction per annum. Year 1 saving = €80m; year 2 = €160m; year 3 = €240m; year 4 = €320m.
g. Reliefs abolished over a four year period by gradually increasing the taxable amount

7

Conclusion

Ireland possesses a large and expensive system of tax expenditures. A total of 131 individual expenditures account for in excess of €11 billion per annum of revenue forgone to the exchequer (see table 2). Despite its size, the tax expenditure system has been subject to limited detailed examination over much of the past two decades; indeed the majority of attention given to the system has been focus on extensions and expansions to existing tax relief schemes, and introductions of new ones, rather than on evaluations of the appropriateness of this forgone exchequer income vis-à-vis its benefits.

This paper provides an overview of the current Irish system and highlights the consequences, intended and unintended, and limitations of the system as it has developed over recent years. We make clear, given the scale of this area of public policy, that things must change. Apart from a structural reform of the way in which tax expenditures are considered and administered, the paper has also shown that reforms of the current system offer the possibility to make very significant contributions to the adjustment process currently facing the exchequer.

Appendix 1

List of Ireland's Tax Expenditures

This appendix provides the details associated with the tax expenditures summarised in tables 1 and 2. Readers should interpret the information below having regard to the notes accompanying table 2.

Tax Expenditures relating to Children
Number of Tax Expenditures = 8
Number with available costs = 8
Estimated cost for those where estimate is available = €723m

	Tax Expenditure	*Statutory Reference*	*Estimated Cost €m*	*Numbers Benefiting*	*Year of Estimate*
1	Exemption of child benefit from income tax	S194 TCA	427	384,500	2009
2	Exemption of foster care payments from income tax	S192B TCA	30	3,326	2007
3	One-parent family tax credit	S462 TCA	186	123,100	2006
4	Home carer tax credit	S466A TCA	62	85,000	2006
5	Widowed parent tax credit	S463 TCA	5	2,300	2006
6	Capital allowances for childcare facilities	S843A TCA	6	304	2006
7	Income tax exemption for childcare service providers	S216C TCA	<1	230	2006
8	Exemption of employer-provided childcare from BIK charge	S120A TCA	6	N/A	2000

Tax Expenditures relating to Housing
Number of Tax Expenditures = 6
Number with available costs = 6
Estimated cost for those where estimate is available = €3,256m

	Tax Expenditure	*Statutory Reference*	*Estimated Cost €m*	*Numbers Benefiting*	*Year of Estimate*
1	Mortgage interest relief	S244 TCA	705	750,000	2008
2	Income tax relief for rent paid	S473 TCA	48	144,500	2005
3	Capital gains tax exemption on principal private residence	S604 TCA	2,440	47,340	2006
4	Income tax relief for service charge	S477 TCA	21	363,900	2006
5	Rent-a-room relief	S216A TCA	4	3,560	2006
6	Capital gains tax and stamp duty relief for disposal of a site to a child	S603A TCA; S83A SDCA	38	5,450	2007/08

Tax Expenditures relating to Health
Number of Tax Expenditures = 10
Number with available costs = 7
Estimated cost for those where estimate is available = €579m

	Tax Expenditure	*Statutory Reference*	*Estimated Cost €m*	*Numbers Benefiting*	*Year of Estimate*
1	Relief for medical insurance	S470 TCA	321	1,017,400	2008
2	Relief for health expenses	S469 TCA	167	348,800	2006
3	Relief for contributions paid to permanent health benefit schemes	S471 TCA	3	23,000	2006
4	Long-term care policies	S470A TCA	–	–	–
5	Incapacitated child tax credit	S465 TCA	16	11,000	2006
6	Allowance for employing a carer for an incapacitated individual	S467 TCA	3	820	2006
7	Dependent relative tax credit, mortgage interest relief and principal private residence relief	S466, 244 and 604 (10) TCA	1 N/A N/A	15,500 N/A N/A	2006
8	Blind person's tax credit	S468 TCA	>1	880	2006
9	Palliative care units	S268(2BA) TCA	N/A	N/A	-
10	Tax concessions for disabled drivers/passengers	S92 FA'89	68	12,500	2008

Tax Expenditures relating to Philanthropy
Number of Tax Expenditures = 16
Number with available costs = 7
Estimated cost for those where estimate is available = €89m

	Tax Expenditure	*Statutory Reference*	*Estimated Cost €m*	*Numbers Benefiting*	*Year of Estimate*
1	Payment of tax by means of donation of heritage items	S1003 TCA	5	5	2008
2	Payment of tax by means of donation of heritage property to the Irish heritage trust	S1003A TCA	4	4	2008
3	Capital gains tax exemption on works of art loaned for public display	S606 TCA	N/A	N/A	–
4	Income tax relief for expenditure on heritage buildings and gardens	S482 TCA	6	180	2006
5	BIK exemption for employer-provided art objects in a heritage building or garden	S236 TCA	–	–	–
6	CAT exemption for heritage property and heritage property of companies	S77 CATCA S78 CATCA	1 –	2 –	2003 2008
7	Tax relief for donations to charities and approved bodies	S848A TCA	50	107,100	2006
8	Tax relief for donations to sports bodies	S847A TCA	>1	580	2006
9	Tax relief for gifts made to the Minister for Finance	S483 TCA	N/A	N/A	–
10	Income tax exemption for sports bodies	S235 TCA	N/A	2,015	2009
11	Capital gains tax exemption for sports bodies	S610 TCA	N/A	N/A	–
12	Stamp duty exemption for sports bodies	S82B SDCA	3.0	94	2008
13	CAT exemption for gifts/ inheritances taken by charities	S76 CATCA	N/A	N/A	–
14	Income tax exemption for charities and similar bodies	SS207-211 and S213 TCA	–	–	–
15	CGT exemption for charities and similar bodies	S609 TCA	N/A	N/A	–
16	Stamp duty exemption for charities and similar bodies.	S82, 82A and 102 SDCA	20	720	2008

Tax Expenditures relating to Enterprise (including Farming)
Number of Tax Expenditures = 28
Number with available costs = 12
Estimated cost for those where estimate is available = €457m

	Tax Expenditure	*Statutory Reference*	*Estimated Cost €m*	*Numbers Benefiting*	*Year of Estimate*
1	Restriction of balancing charges on a building to the relevant holding period for that building	S274 TCA	N/A	N/A	–
2	Tax treatment of grants	S223–S226 and S317 TCA	N/A	N/A	–
3	Research and development tax credit	S766 and 766A TCA	54	162	2006
4	Tax exemption for patent royalties	S234 and 141 TCA	84	1,100	2006
5	Deduction for capital expenditure on scientific research	S765 TCA	N/A	N/A	
6	Relief for investment in films	S481 TCA	31	–	2007
7	Business Expansion Scheme and Seed Capital Scheme	S488-508A TCA	18	–	2007
8	Stock relief for farmers	S666-667B TCA	2	N/A	2007
9	Tax relief for income from leasing farm land	S664 TCA	27	6,000	2005
10	Accelerated capital allowances for farm buildings for the control of pollution	S659 TCA	N/A	N/A	–
11	Capital allowances on purchase of milk quota	S669B TCA	N/A	N/A	–
12	Restructuring aid for sugar beet growers	S657B TCA	10	N/A	2008
13	Payments made to National Co-operative Farm Relief Services Ltd. and payments made to its members	S221 TCA	N/A	N/A	–
14	Accelerated capital allowances for energy efficient equipment	S285A TCA	N/A	N/A	–
15	Relief for investment in renewable energy generation21	S486B TCA	N/A	N/A	–

	Tax Expenditure	*Statutory Reference*	*Estimated Cost €m*	*Numbers Benefiting*	*Year of Estimate*
16	Mid-Shannon Corridor Tourism Infrastructure Investment Scheme22	S372AW-372AZ TCA	N/A	N/A	N/A
17	Investment allowance in respect of mining exploration expenditure and plant and machinery	S677 and 678 TCA	N/A	N/A	–
18	Decommissioning of fishing vessels	S288(6) TCA	N/A	N/A	–
19	Tax exemption for start-up companies	S486C TCA	25	N/A	–
20	Tax treatment of venture capital fund managers	S541C TCA	N/A	N/A	–
21	Tonnage Tax	Part 24A Sch 16B TCA	N/A	N/A	–
22	Capital gains tax relief for disposal of a business or farm on retirement	S598 TCA	N/A	N/A	–
23	Capital gains tax relief for disposal within the family of a business or farm	S599 TCA	N/A	N/A	–
24	Business relief for CAT	S92 CATCA	30	201	2008
25	Agricultural relief for CAT	S89 CATCA	100	1,594	2008
26	Stamp duty relief for young trained farmers	S81A SDCA	71	1,604	2008
27	Stamp duty exemption for single farm payment entitlements	S101A SDCA	N/A	N/A	–
28	Forestry tax incentives	S232 and 564 TCA 5	N/A	N/A	2006

Tax Expenditures relating to Employment
Number of Tax Expenditures = 28
Number with available costs = 18
Estimated cost for those where estimate is available = €2,816m

	Tax Expenditure	*Statutory Reference*	*Estimated Cost €m*	*Numbers Benefiting*	*Year of Estimate*
1	Employee tax credit	S472 TCA	2,522	1,626,700	2006
2	Income tax relief for trade union subscriptions	S472C TCA	19	294,300	2006
3	Benefit-in-kind exemption for employer-provided personal security assets and services	S118A TCA	N/A	N/A	–
4	Benefit-in-kind and PRSI exemption for employer-provided public transport travel passes	S118(5) TCA	N/A	41,338	–
5	Benefit-in-kind exemption on employer-provided bicycles	S118(5G) TCA	2	N/A	–
6	Income tax exemption for scholarships	S193 TCA	1	4,028	2006
7	Income tax relief for fees paid for third-level education	S473A TCA	16	30,800	2006
8	Income tax relief for fees paid for training courses	S476 TCA	N/A	N/A	–
9	Income tax exemption for statutory redundancy payments	S203 TCA	78	22,100	2006
10	Income tax relief for termination payments in excess of the statutory redundancy amount	S201(3) TCA and Sch 3	20	2,050	2006
11	Income tax exemption for termination payments related to death, injury or disability	S201(2) TCA	N/A	N/A	–
12	Tax relief for termination payments where employment involves foreign service	S201(4) TCA	N/A	N/A	–

	Tax Expenditure	*Statutory Reference*	*Estimated Cost €m*	*Numbers Benefiting*	*Year of Estimate*
13	Benefit-in-kind exemption for retraining provided as part of a redundancy package	S201(1A) TCA	N/A	N/A	–
14	Systematic short-time relief	S126 (3)(c) TCA	2	1,800	2008
15	Income tax relief for the long-term unemployed and double payroll deductions for employers	S472A and S88A TCA	<1	360	2006
16	Income tax relief for reorganisation payments	S480 TCA	N/A	N/A	–
17	PRSI exemption for share options	S985A (1A) TCA	18	3,900	2006
18	Approved profit-sharing schemes	S509-518 TCA	57	59,300	2006
19	Employee share-ownership trusts	S519 TCA	6	16,300	2006
20	Approved share-option schemes	S519D TCA	3	1,400	2006
21	Approved savings-related share option schemes	S519A TCA	2	3,000	2006
22	Relief for new shares purchased on issue by employees	S479 TCA	<1	184	2006
23	Artist's exemption	S195 TCA	66	2,890	2006
24	Sportsperson's relief	S480A	<1	32	2006
25	Seafarer's allowance	S472B TCA	<1	170	2006
26	Allowances for expenses of members of Oireachtas	S836 TCA	–	–	–
27	Payments under Scéim na bhFoghlaimeóirí Gaeilge	S216B TCA	N/A	N/A	–
28	Remittance basis of taxation	S18(2)(f), 29(4) and S825B TCA	N/A	N/A	–

Tax Expenditures relating to Savings and Investment
Number of Tax Expenditures = 8
Number with available costs = 6
Estimated cost for those where estimate is available = €2,995m

	Tax Expenditure	*Statutory Reference*	*Estimated Cost €m*	*Numbers Benefiting*	*Year of Estimate*
1	Tax preferences for approved pension schemes	S774 and 776 TCA	663	–	2006
2	Exception to charge to tax under Section 777	S778 TCA	510	–	2006
3	Tax exemption for income of superannuation funds	S 608(2) TCA	1,200	N/A	2006
4	Tax relief for retirement annuity premiums	S784 TCA	436	125,900	2006
5	Tax relief for personal retirement savings accounts	S787C TCA	56	45,200	2006
6	Tax exemptions for pension lump sum payments	S201 TCA	130	N/A	2006
7	Tax exemption on income of credit unions	S219A TCA	N/A	N/A	–
8	Taxation of interest and dividends on special term accounts	S261A and S267C TCA	N/A	N/A	–

Tax Expenditures relating to Age and Other
Number of Tax Expenditures = 7
Number with available costs = 5
Estimated cost for those where estimate is available = €144m

	Tax Expenditure	*Statutory Reference*	*Estimated Cost €m*	*Numbers Benefiting*	*Year of Estimate*
1	Age tax credit	S464 TCA	28	76,700	2006
2	Age exemption and associated marginal relief	S188 TCA	62	50,100	2006
3	Income under dispositions for short periods (deeds of covenant)	S792 TCA	–	–	–
4	Veterans of War of Independence	S205 TCA	<1	770	2006
5	Military and other pensions, gratuities and allowances	S204 TCA	<2	N/A	2009
6	Profits from lotteries	S216 TCA	N/A	N/A	–
7	Consanguinity relief (stamp duty)	Sch. 1 SDCA	51	7,450	2008

Tax Expenditures relating to Property Investment
Number of Tax Expenditures = 20
Number with available costs = 20
Estimated cost for those where estimate is available = €435m

	Tax Expenditure	*Statutory Reference*	*Estimated Cost €m*	*Numbers Benefiting*	*Year of Estimate*
1	Urban Renewal		109.3		2007
2	Town Renewal		34.6		2007
3	Seaside Resorts		8.0		2007
4	Rural Renewal		48.5		2007
5	Multi-storey car parks		9.6		2007
6	Living over the shop		3.0		2007
7	Enterprise Areas		2.8		2007
8	Park and Ride		1.4		2007
9	Holiday Cottages		12.4		2007
10	Hotels		118.0		2007
11	Nursing Homes		18.3		2007
12	Housing for the Elderly/Infirm		2.6		2007
13	Hostels		0.72		2007
14	Guest houses		0.02		2007
15	Convalescent Homes		0.5		2007
16	Qualifying (Private) Hospitals		12.0		2007
17	Qualifying sports injury clinics		1.8		2007
18	Buildings used for Childcare Purposes		9.8		2007
19	Psychiatric Hospitals		0.1		2007
20	Student Accommodation		42.0		2007

Appendix 2

Benchmark Taxation System

The Commission on Taxation (2009: 245, 316-323) outlined the components of the benchmark taxation system as detailed below. The Commission noted that "we consider that the status of items which are currently designated as part of the benchmark tax is not immutable and that Government properly retains the right to alter that status. The system should responsive to the needs of the community and the economy and reviewed on a regular basis" (2009:245).

Category 1 – Measures which are inherent in the design of the tax system including avoidance of double taxation and complying with international fiscal obligations together with minor reliefs and measures to facilitate tax administration.

	Statutory Reference	*Description*
1	S128D and 128E TCA	Where employees receive shares that are subject to restriction on sale, the value for income tax purposes of a restricted share is reduced by reference to a formula depending on the length of the restriction period; where employees receive shares that are subject to forfeiture, when a share is forfeited, tax previously charged is repaid.
2	S153 TCA	Non-residents are exempt from income tax on dividends from Irish companies.
3	S172C TCA	There is an exemption from dividend withholding tax where the dividend is paid to a pension fund, company, charity etc.
4	S198 TCA	Income tax exemptions apply for non-residents on Irish source interest income.
5	S200 TCA	Foreign social security pensions are exempt from income tax if residents of the paying country are tax exempt there. The pensions must correspond to Irish social welfare pensions and US pensions are ineligible for exemption.
6	S267 TCA	DIRT may be repayable where deposit interest is receivable by persons aged 65 or over or permanently incapacitated.

Category 1 (contd.)

	Statutory Reference	*Description*
7	S 381-409E and 243-243B TCA	Tax relief is available for trading losses and charges on income for income tax or corporation tax.
8	S410-429 TCA	Trading losses may be surrendered between members of a corporate group.
9	S573 TCA	The transfer of assets on death is not regarded as a disposal and death is therefore not an occasion of charge to capital gains tax. The assets held by a deceased person are deemed to be acquired on his or her death by the personal representatives or legatees at their market value at the date of death.
10	S601 TCA	Gains up to €1,270 per individual per year are exempt from capital gains tax.
11	S602 TCA	Any item of tangible movable property that is sold for €2,540 or less is exempt from capital gains tax.
12	S603 TCA	Tangible movable property with an expected useful life of not more than 50 years asset is exempt from capital gains tax.
13	S613 TCA	There is an exemption from capital gains tax on National Instalment Savings, Prize Bonds, personal injury compensation and pension fund rights.
14	S626B and 626C TCA	Participation exemption for holding companies on capital gains.
15	S822 TCA	Immigrants are liable to income tax from the date of their arrival in Ireland and emigrants are liable to income tax up to the date of their departure from Ireland.
16	S825A TCA	The tax liability of cross-border workers paying tax in the country where they work is proportionally reduced by excluding the foreign income (and related tax) in computing Irish tax.
17	S826-835 TCA	Double taxation relief is provided for foreign tax, usually by the credit method.
18	S69 CATCA	Capital acquisitions tax is not payable on gifts not exceeding €3,000 per year per donor.
19	S72 and 73 CATCA	The proceeds of insurance policies that insure CAT liabilities are themselves exempt from CAT (and exit tax on approved retirement funds) to the extent that they are used to meet the tax liability.
20	S74 and 75 CATCA	Non-residents are not liable to CAT on Irish insurance policies or units in collective investment undertakings or common contractual funds where both the donor and beneficiary are foreign-domiciled and foreign-resident.

Category 1 (contd.)

	Statutory Reference	*Description*
21	S81 CATCA	Irish government securities may be exempt from CAT. No Irish CAT is payable where both the donor and beneficiary are foreign-domiciled and foreign-resident; otherwise the securities must be held for 15 years before the date of the disposition.
22	S82 CATCA	There are exemptions from CAT for normal and reasonable payments within the family, payments to incapacitated individuals, normal and reasonable payments from trusts towards the support, maintenance or education of minor orphaned children, compensation and damages and winnings from betting and lotteries.
23	S83 CATCA	Gifts to oneself are exempt from CAT. The exemption also applies to gifts to (or by) companies owned by the donor.
24	S87 CATCA	Gifts and inheritances that are made free of CAT include the tax paid by the donor as part of the gift or inheritance, but there is no further grossing-up of the benefit.
25	S103 CATCA	A multiple CAT charge is eliminated where the same property is taxable more than once in the same event.
26	S104 CATCA	Capital gains tax may be credited against CAT where both taxes arise on the same property in a single event.
27	S105 CATCA	A multiple CAT charge is eliminated where the same property is taxable more than once in the same event.
28	S75 and 75A SDCA	There is a stamp duty exemption for intermediaries and clearing houses.
29	S84 SDCA	Stamp duty is repayable when a member of an approved profit-sharing scheme transfers (sells) shares under the scheme.
30	S85 SDCA	There are stamp duty exemptions for transfers of loan capital.
31	S87 SDCA	Stamp duty is not chargeable on transactions related to stock lending and borrowing.
32	S87A SDCA	Stamp duty is not chargeable on repo transactions (sale and repurchase of stock).
33	S88 SDCA	There are stamp duty exemptions for transfers of units in regulated collective investment undertakings and also for transfers of shares in companies incorporated outside Ireland.
34	S89 SDCA	There is an exemption from stamp duty on transfers of securities issued by a foreign government.

Category 1 (contd.)

	Statutory Reference	*Description*
35	S90 SDCA	There are stamp duty exemptions on transfers of instruments used primarily in the financial services industry.
36	S93, 93A and 103 SDCA	There are stamp duty exemptions for social housing-houses acquired from industrial and provident societies and voluntary bodies are exempt. Shared ownership leases are also exempt.
37	S95 SDCA	There is a stamp duty exemption to the extent that the value of transferred land is represented by growing timber.
38	S98 SDCA	There is a stamp duty exemption on transfers of foreign immovable property.
39	S101 SDCA	There is a stamp duty exemption on transfers of intellectual property.
40	S109 SDCA	There is a stamp duty exemption on documents such as cover notes which are made in anticipation of the issue of a formal policy of non-life insurance.
41	S110 and 110A SDCA	Health, permanent health and critical illness insurance policies are exempt from stamp duty.
42	S113 SDCA	Stamp duty is not payable on transfer of ships and aircraft, on wills, and on instruments made by, to or with the Commissioners for Public Works.
43	Schedule 1 SDCA	Where the lease of a dwelling-house is for a period not exceeding 35 years or for an indefinite term and the rent does not exceed €30,000 per annum, the lease is exempt from stamp duty
44	S138C FA 1992	VRT is reduced for hybrid vehicles, flexible fuel vehicles, electric vehicles and electric motorcycles.
45	S96, 100 and FA 1999	Full relief from, or a reduced rate of, mineral oil tax applies to marked diesel used for certain purposes.

Category 2 – Measures related to the unit of taxation and measures which are tax neutral

	Statutory Reference	*Description*
46	S129 TCA	Resident companies are tax exempt on dividends from other resident companies.
47	S461 TCA	Personal tax credits for single and married persons for income tax.
48	S461A TCA	An additional personal tax credit for income tax is available to widowed persons.
49	S536 TCA	No capital gains tax is payable where insurance proceeds or compensation receipts are used to restore or replace an asset.
50	S584-587 TCA	Capital gains tax is deferred on amalgamation or reorganisation of a company.
51	S616-626 TCA	Capital gains tax is deferred on transfers of assets within a corporate group.
52	S630-638 TCA	These provisions implement the EC Mergers Directive into Irish law and provide corporation tax and capital gains tax reliefs for mergers and reorganisations.
53	S657 TCA	Farm stock may be transferred at book value for income tax purposes by a retiring farmer to his or her successor.
54	S747F TCA	Tax is deferred in an offshore fund reorganisation.
55	S751A TCA	Income tax or corporation tax is deferred where shares held as trading stock are exchanged in a corporate reorganisation.
56	S 593 TCA	Life policies are taxed only at the life company level.
57	S600 TCA	Capital gains tax is deferred when a business is transferred by an individual to a company.
58	S615 TCA	Capital gains tax is deferred on reorganisation or amalgamation of a company.
59	S751B TCA	Income tax or corporation tax is deferred on an exchange of Irish Government bonds.
60	S1025 TCA	Maintenance payments by separated spouses are deductible to the payer and taxable on the recipient for income tax purposes.
61	S1026 TCA	Separated and divorced persons may elect to be taxed jointly.
62	S1027 TCA	Payments pursuant to orders under the Family Law Acts may be made without deduction of tax
63	S1028 TCA	Capital gains tax is deferred where assets are transferred between married persons.

Category 2 (contd.)

	Statutory Reference	*Description*
64	S1030 and 1031 TCA	There is a capital gains tax exemption for transfers of assets as part of a separation or divorce agreement.
65	S70 and S71 CATCA	CAT is not payable on gifts and inheritance from one spouse to the other.
66	S79 CATCA	There is an exemption from CAT where a parent inherits from a deceased child an amount previously received as a gift or inheritance by the child from either parent.
67	S86 CATCA	There is a CAT exemption on dwelling houses transferred to other occupants of the house.
68	S88 CATCA	Transfers of property between former spouses on dissolution of a marriage are exempt from CAT.
69	S79 SDCA	There is a stamp duty exemption for transfers within a corporate group.
70	S80, 88A, 88B, 88C SDCA	Stamp duty is not payable on reconstruction or amalgamation of a company, a collective investment undertaking, a fund or a common contractual fund.
71	S80A SDCA	Stamp duty is not payable on demutualisation of assurance companies.
72	S81C SDCA	No stamp duty is payable where land is exchanged to consolidate land in a farm.
73	S96 SDCA	Stamp duty is not payable on transfers between spouses.
74	S97 SDCA	There is a stamp duty exemption for transfers of assets as part of a divorce agreement.

Category 3 – Deductions for expenses incurred in earning income

	Statutory Reference	*Description*
75	S83 TCA	Management expenses are tax deductible by an investment company.
76	S84 TCA	An income tax or corporation tax deduction is available for the cost of establishing or altering an employee superannuation scheme.
77	S86 TCA	An income tax or corporation tax deduction is available for the cost of registration of a trade mark.
78	S97 (2)(e) TCA	Interest expense incurred in acquiring rented property is tax deductible for income tax or corporation tax. 42
79	S101 TCA	An income tax or corporation tax deduction is available where rent receivable is irrecoverable.
80	S102 TCA	Premiums on leases are deductible against income by a trading tenant over the life of the lease.
81	S103 TCA	Premiums on leases are deductible against rental income by a landlord over the life of the lease.
82	S115 TCA	Standard expense allowances are prescribed by the Minister for Finance for specific public service occupations and may be paid free of income tax; employees may alternatively deduct actual expenses incurred.
83	S118 TCA	No benefit-in-kind charge is imposed where an employer pays the cost of mobile phone, internet connection, computer equipment or professional subscription used for business purposes by an employee.
84	S195A TCA	Travel and subsistence expenses at public sector rates may be paid free of income tax to non-executive members of public and private sector non-commercial bodies where the members earn less than €14,000 pa (€24,000 for a chairman)
85	S196 TCA	Standard expense allowances paid to members of the judiciary in respect of the expenses they incur in the performance of their duties are not subject to income tax.
86	S196A and 196B TCA	Foreign service allowances of civil servants, gárdaí, defence force members and employees of State enterprise agencies are not subject to income tax. The allowances compensate for additional costs of living outside Ireland.
87	S247 TCA	Interest expense is tax deductible by a company where the loan is used to acquire a trading company.
88	S248, 250 and 253 TCA	Interest expense is deductible for income tax where the loan is used by an individual to acquire a trading company or an interest in a partnership.

Category 3 (contd.)

	Statutory Reference	*Description*
89	S268-282 TCA	There is a tax depreciation allowance for industrial buildings for income tax or corporation tax.
90	S283-301 TCA	There is a tax depreciation allowance for machinery and plant for income tax or corporation tax.
91	S301 and 302 TCA	There is a tax depreciation allowance for expenditure on dredging for income tax or corporation tax.
92	S658 TCA	There is a tax depreciation allowance for farm buildings for income tax or corporation tax.
93	S669G-669K TCA	There is a four-year write-off period for stallions.
94	S673 and S674 TCA	Mine development and exploration expenditure is tax deductible for income and corporation tax.
95	S680 TCA	There is a tax depreciation allowance for mineral depletion for income tax or corporation tax where a mine is purchased.
96	S693 TCA	Petroleum exploration expenditure is deductible for income tax or corporation tax.
97	S699 TCA	An industrial and provident society may deduct rebates, discounts and dividends to members for corporation tax.
98	S837 TCA	Business expenses incurred may be deducted against the income of a clergyman or a minister of religion for income tax.

Category 4 – Measures relating to the Government, public sector bodies and holders of Government securities.

	Statutory Reference	*Description*
99	S36-50 TCA	Tax exemptions are available for income from Government and other public securities.
100	S197 TCA	Bonus and interest paid in respect of National Instalment Savings are exempt from income tax.
101	S206 TCA	Income derived by the Minister for Finance from investment of the social insurance fund is exempt from tax.
102	S214 TCA	Local authorities, the Health Service Executive, vocational education committees and committees of agriculture are exempt from corporation tax.
103	S218 TCA	The Housing Finance Agency plc is exempt from corporation tax on business and investment income.
104	S219 TCA	The Irish Takeover Panel is exempt from corporation tax.
105	S219B TCA	The Investor Compensation Company Ltd is exempt from corporation tax.
106	S220 TCA	The National Lottery, The Dublin Docklands Development Authority and any of its wholly owned subsidiaries, The Pensions Board, Horse Racing Ireland, Irish Thoroughbred Marketing Limited, Tote Ireland Limited and The Commission for Electricity Regulation are exempt from corporation tax.
107	S227 TCA	Non-commercial semi-state bodies are exempt from corporation tax on investment income.
108	S228 TCA	Bodies designated under the Securitisation (Proceeds of Certain Mortgages) Act, 1995 are exempt from income tax and corporation tax.
109	S230 TCA	The National Treasury Management Agency is exempt from corporation tax.
110	S230A TCA	The National Pensions Reserve Fund Commission is exempt from corporation tax.
111	S230AB TCA	The National Development Finance Agency is exempt from corporation tax.
112	S607 TCA	Various Government and other public securities are exempt from capital gains tax.
113	S610 TCA and Sch 15 TCA	The public bodies listed in the Schedule are exempt from capital gains tax.
114	S86 SDCA	Loan stock of state bodies is exempt from stamp duty.
115	S99 SDCA	The Dublin Docklands Development Authority and its subsidiaries are exempt from stamp duty on acquisition of land.

Category 4 (contd.)

	Statutory Reference	*Description*
116	S99A SDCA	The Courts Service is exempt from stamp duty on acquisition of land.
117	S100 SDCA	Temple Bar Properties Limited is exempt from stamp duty on acquisition or leasing of property.
118	S105 SDCA	Securities issued by the special purpose vehicle established under the Securitisation (Proceeds of Certain Mortgages) Act, 1995 are exempt from stamp duty.
119	S106 SDCA	Instruments which secure money advanced by the Housing Finance Agency are exempt from stamp duty.
120	S106A SDCA	The National Building Agency Limited is exempt from stamp duty.
121	S106B SDCA	Housing authorities and affordable homes partnerships are exempt from stamp duty.
122	S108 SDCA	A range of documents which are executed by the National Treasury Management Agency in the course of the management of the national debt is exempt from stamp duty.
123	S111 SDCA	Instruments payable out of Oireachtas funds are exempt from stamp duty.
124	S112 SDCA	Certificates of indebtedness (of the State) are exempt from stamp duty.

Category 5 – Court orders, court awards and compensation payments

	Statutory Reference	*Description*
125	S189 TCA	Income and gains derived from the investment of funds received in compensation of personal injury are tax exempt where the income represents more than 50% or more of total income.
126	S189A TCA	Funds in trust for permanently incapacitated persons that were raised by public subscription are exempt from tax.
127	S190 TCA	Payments made by the Haemophilia HIV Trust are exempt from income tax
128	S191 TCA	Payments made by the Hepatitis C Tribunal and HIV compensation payments are exempt from income tax.
129	S192 TCA	Compensation payments in respect of thalidomide children are exempt from income tax and income and capital gains arising on investment of the compensation are also tax exempt.
130	S192A TCA	Payments in compensation for breach of an employee's rights (e.g. discrimination, harassment etc) are exempt from income tax.

Appendix 3

Tax expenditure on pensions

Source: Green Paper on Pensions, Department of Social and Family Affairs, 2007:106.

Estimate of the cost of tax and PRSI reliefs for private pension provision 2006

	Estimated costs € million
Employees' Contributions to approved Superannuation Schemes	540 [a]
Employers' Contributions to approved Superannuation Schemes	120 [b]
Estimated cost of exemption of employers' contributions from employee BIK	510 [c]
Exemption of investment income and gains of approved Superannuation Funds	1,200 [d]
Retirement Annuity Contracts (RACs)	380 [e]
Personal Retirement Savings Accounts (PRSAs)	120 [f]
Estimated cost of tax relief on "tax-free" lump sum payments	130 [g]
Estimated cost of PRSI and Health Levy relief on employee and employer contributions	220 [h]
Gross cost of tax relief	**3,220**
Estimated tax yield from payment of pension benefits	320 [j]
Net cost of tax relief	**2,900**

Notes: a Employee contributions to occupational pension schemes are deductible for income tax purposes at the employees' marginal income tax rates. The 2006 cost estimate for this relief is based on figures of €1.426 billion for employee contributions to pension schemes in 2006 - per P35 returns for that year and an assumed average marginal tax rate of 38%. An average marginal tax rate of 38% is used on the basis that

contributors to pension schemes are tax liable at higher marginal rates.

b Employer contributions on behalf of employees to occupational pension schemes are deductible in computing profits for tax purposes. Employer contributions of €1.338 billion to pension schemes in 2006 – per P35 returns relieved for tax liable companies paying tax at 12.5% and 10%.

c Employer contributions to occupational pension schemes on behalf of employees are specifically exempt from being charged as remuneration of the employees concerned in the form of benefits-in-kind (BIK). The estimated cost of the BIK exemption represents employer contributions of €1.338 billion at an average marginal tax rate of 38%.

d The investment income and gains on pension fund assets are exempt from income tax and capital gains tax. The estimated average value of pension fund assets under management in Ireland in 2006 is estimated at €80 billion. The estimated long-run rate of return for the purpose of the tax cost is assumed to be 7.5% at an assumed tax rate of 20%.

e 2006 cost estimate based on actual figures for 2005 received from Revenue.

f Individual contributions to PRSAs in 2006 amounted to over €300m - per reports to the Pensions Board- while contributions by employers to PRSAs in the same year amounted to about €30m. Cost of tax relief = €300m*38% + €30m* 12.5% = €118 m, rounded up to €120m.

g This figure is derived from an amalgam of sources. An estimated figure of €300m is used to represent the value of lump sum payments made from public sector schemes. The tax foregone on this amount at 30% is €90m (a lower marginal tax rate of 30% is used compared to 38% used for the other costings on the basis that an individual's tax liability on retirement benefits would be lower than on the same individual's pre-retirement income). Revenue's methodology is used for estimating the value of lump sums paid from private sector schemes (total estimated private sector contributions €2.240 billion x 47% - being the estimated % paid out in pension benefits x 13% - being the % of benefits paid out as lump sums x 30% average marginal tax rate) which gives an estimated figure of tax foregone amounting to about €40m. Total tax foregone figure is thus about €130m.

h Figures from the Department of Social and Family Affairs representing the estimated cost of employer and employee PRSI and Health Levy relief on pensions contributions.

j According to the Revenue Commissioners, income tax statistics do not distinguish between the amounts of tax that arise from pension income and from other sources of income. Revenue can, however, separately identify taxpayers in receipt of Social Welfare pensions and other sources of income. The total estimated income tax from this source for 2005 based on the combined income of taxpayers from Social Welfare pensions and other sources is estimated at €300m. (This estimate has been increased to €320m for 2006) The income from "other sources" of these taxpayers would not be confined to other pension income and cannot be separately identified so that the estimate would be over-stated on that account. On the other hand, the private pension income

of taxpayers with no Social Welfare pension or an entitlement thereto is not separately identifiable and the tax on this income, if included, would also impact on the estimate. The €320m figure is therefore a tentative one. In the case of Social Welfare pensions, if there is no other income in addition to the SW pension income the existing exemption limits or tax credits can be expected to ensure that there is no tax to be paid on the Social Welfare income itself.

Appendix 4

Data for Table 9

The breakdown of deductions between income tax, health contributions and income levy for 2010 for a single person for occupational pension levels between €15,000 and €250,000 is shown below. It is assumed that the individual has no other income and does not qualify for age tax credits.

Income	*Income tax*	*PRSI*	*Health contributions*	*Income levy*	*Total deductions*	*Net income*	*Effective total tax rate*
€	€	€	€	€	€	€	
15,000	0	0	0	0	0	15,000	0%
20,000	340	0	0	400	740	19,260	4%
25,000	1,340	0	0	500	1,840	23,160	7%
35,000	3,340	0	1,400	700	5,440	29,560	16%
50,000	9,196	0	2,000	1,000	12,196	37,804	24%
75,000	19,446	0	3,000	1,500	23,946	51,054	32%
100,000	29,696	0	4,250	2,499	36,445	63,555	36%
150,000	50,196	0	6,750	4,499	61,445	88,555	41%
250,000	91,196	0	11,750	10,000	112,945	137,055	45%

Appendix 5

Illustrating the impact of a tax free lump sum on effective tax rates on pension income

In this illustration, we consider a single employee who is a member of an occupational pension scheme retiring on 1 January 2010. It is assumed that the individual has no other income and does not qualify for age tax credits.

We consider the impact of occupational pension payments ranging from €15,000 to €250,000 and equivalent to 50% of final pensionable salary in employment. We assume that the individual also receives a tax free lump sum of 1.5 times final pensionable salary.

In order to compute the annual income equivalent of the tax free lump sum, we assume an annuity rate of 6% (net of tax on the income generated by investing the lump sum) - in other words that the lump sum is notionally invested at current market rates to produce and is encashed at a level to produce equal payments over the anticipated life of the individual. This gives a notional annual income level equivalent to the annual after-tax benefit of the tax free lump sum.

Adding this notional annual income to the pension enables us to compute an effective total tax rate on income including this notional amount. This gives an effective tax rate comparison which enables the tax rate on the pension and the annual benefit of the lump sum to be compared with the tax rate that applied on pension contributions by the employee.

Using the deduction levels shown at Appendix 1 on equivalent pension amounts, this produces the following notional effective tax rates.

Pension	*Pre-retirement income*	*Tax-free lump sum*	*Annuity rate on lump sum at 6%*	*Pension*	*National total income*	*Total deductions*	*Effective tax rate on notional total income*
€	€	€	€	€	€	€	
15,000	30,000	45,000	2,700	15,000	17,700	0	0%
20,000	40,000	60,000	3,600	20,000	23,600	740	3%
25,000	50,000	75,000	4,500	25,000	29,500	1,840	6%
35,000	70,000	105,000	6,300	35,000	41,300	5,440	13%
50,000	100,000	150,000	9,000	50,000	59,000	12,196	21%
75,000	150,000	225,000	13,500	75,000	88,500	23,946	27%
100,000	200,000	300,000	18,000	100,000	118,000	36,445	31%
150,000	300,000	450,000	27,000	150,000	177,000	61,445	35%
250,000	500,000	750,000	45,000	250,000	295,000	112,945	38%

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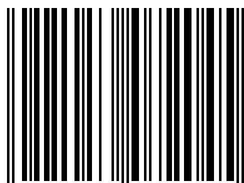

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