

Submission to the Commission on Taxation
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Sustainability
14 St Stephen's Green, Dublin 2
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In response to the terms of reference for the Commission as outlined Feasta offers the following observations and recommendations. Please bear in mind that this submission is limited by resources to a simple introduction of new ideas and concepts. We hope to secure funding to prepare and submit fully referenced and evidenced submissions working with other sustainability NGOs over the lifetime of the Commission.

Consider how best the tax system can support economic activity..

The effects of the tax system should be realistically evaluated in its entirety. The investigation should including its incentivising / disincentivising effects, not just the efficiency of collection and the equity of the systems under scrutiny. In this context Feasta recommends a shift from taxing desirable activities which might be discouraged or evaded such as work and transactions to taxing the use of natural resources so that they are conserved or utilised in a more efficient way.

This means a fundamental re-framing of the taxation system from a revenue-raising and redistributive measure i.e. taxing the income and profits of the rich to help the poor through direct or indirect provision of services to a mechanism that ensures that the natural (Earth) inheritance of citizens is not squandered, its use by individuals and corporations is fully paid for and that the receipts are properly apportioned to their rightful beneficiaries i.e. shared or 'predistributed' to all equally according to the natural boundaries of the resource.

Ditto for the use of other 'virtual' commons such as the knowledge, social and cultural commons. Unlike the natural commons, the virtual commons is limitless but can be damaged by restrictions to use or access. Damaging privatization of the virtual commons through patents, copyrights etc. that make excessive claims for private reward versus

commons contribution should be actively discouraged.

The receipts from taxing or charging for natural and virtual resource use and should eventually provide a basic income to citizens 'as of right' not predicated on 'need'. This basic income should however adjust to cover unavoidable needs such as provision for childhood dependency, old age and disability.

Conventional taxation according to ability to pay (PAYE and PRSI) should be maintained primarily as a social insurance system providing for unpredictable mishaps, i.e. illness, jobs loss etc.

This rebalancing of the taxation system, undertaken sensitively and prudently, would remove poverty traps, preserve and build social capital, increase creativity and innovation in business while also conserving increasingly valuable natural resources, essential eco systems and stimulate knowledge and creativity and scientific advances in the virtual commons.

Such a taxation system would be very difficult to evade as consumption particularly of natural commons resources is usually very conspicuous. Special tax reliefs introduced to mitigate the disincentivising effects of taxes on labour, capital and risk of conventional taxes that invariably disproportionately benefit the wealthier classes would be unnecessary under such a reformed system.

The outcome, although not overtly redistributive, would nevertheless address inequality more effectively than explicitly targeted measures. Poverty will be less intractable where human rights are matched by the recognition of property rights to an equal share of the natural and virtual commons in national and global legal and fiscal systems.

Recommendation:

- Announce a planned and phased shift from taxes on work, investment and transactions actions which are broadly desirable, to taxes/rents and charges for the use of the natural and virtual commons which desperately need to be conserved and protected.
- Announce a gradual and phased shift from a redistribution system based on subjective assessments of ability to pay and needs, to a system based on equal property rights bounded by objective natural limits.

..and promote increased employment and prosperity ...

Employment should not be the final objective of the taxation system but should be seen as one of the ways that sustainable livelihoods can be provided by the economic system. There are other ways to make satisfying sustainable livelihoods other than being employed; artists, the religious and farmers are not employed for instance. It is a reasonable goal of the taxation system to increase the numbers of these categories of socially useful actors –a citizens income could enable that goal.

There are many instances where full employment is not optimum; parents caring for young children, the old and disabled; children and youth need to be educated without undue pressure to be gainfully employed. Everybody at some stage of life could benefit from employment sabbaticals for retraining or to achieve personal goals. Economic and social life benefits hugely from the energy and commitment of thousands of unpaid volunteers working in charities, NGOs and sporting and professional associations. In addition to the citizens income, the taxation system could further promote volunteerism and the building of social capital by issuing vouchers for public services (public transport, recreational amenities, etc) in recognition of this contribution.

Finally, Feasta contends that it is a perfectly legitimate and sustainable objective of the taxation system to enable people to live off the rents, dividends, royalties and profits of wise and productive investments as, under the reforms outlined above, all dues and takings from natural and virtual commons would be fully paid and properly accounted for.

Recommendation:

- Replace the objectives of employment and prosperity with the creation of **sustainable livelihoods** and **wellbeing** as the goals of economic and fiscal reform.

...while providing the resources necessary to meet the cost of public services and other Government outlays in the medium and longer term;

With the reform of the taxation system as described, inequalities between classes and sectors are likely to decrease. This might enable an expansion of some services that are best provided on a collective and universal basis such as access and transport systems balanced perhaps, by a replacement of some direct public services that could be better provided by empowering the consumer to choose amongst a number of service provider sectors and agents.

The direct provision of social housing for the poor has had a number of unintended and largely negative side effects such as ghettoisation, intensification of difference and erosion of social connectedness of local authority tenants. Until such time as a full citizens income replaces all social supports, consideration should be given to providing housing support more discretely and directly through a single housing benefit voucher -

The housing voucher should be capable of being used to buy or rent in the public, private or not-for-profit sectors alike, anywhere in Ireland. Local authority and housing association residential units should be charged at the open market rate, in competition with the private sector. An annual land value tax would ensure that the value of the voucher is not captured by the rents. Planning conditions for a proportion of land to be held by Community Land Trusts would ensure that some housing would be always affordable in every neighbourhood for even the poorest in society.

This reform would allow for the full accounting and evaluation of social supports for housing - impossible under the current silos of separate local authority, not-for-profit, rental support, affordable purchase and private tax and duties relief systems. In addition, this reform would give the middle class family the choice to buy or rent a well designed and constructed local authority or housing association dwelling as opposed to the often poorly designed and constructed offerings of the private developers to which they are currently limited.

A similar case could be made in the health sector to move from direct supports to service providers to patient-based provision. Predict and provide has not proved successful in the public health sector. A universal health insurance system would give the patient direct control of their own treatment through choice of health services from the public, not-for-profit or private health sectors as suits their circumstances best.

Recommendation:

- A thorough assessment should be made of current public services to determine whether they might be better provided by direct support to the citizen by way of permit or voucher / cash / insurance. Consumers are denied the benefits of genuine competition between service providers within the public, private and not-for-profit sectors because of contrived boundaries and siloed support programmes.
- The current housing support system should be reviewed as a matter of urgency given the current crisis in social housing

provision due to the economic downturn.

consider how best the tax system can encourage long term savings to meet the needs of retirement;

A comfortable retirement will not be possible for anyone if accelerated climate change brings floods, heatwaves, storms and droughts. Not only would this endanger life, it would also do severe damage to the economy and reduce its ability to pay retirement incomes. Sufficient water, adequate energy and intact environmental services are essential to maintain civilization much less the lifestyles to which we have become accustomed. This must be our priority.

The introduction of a citizens' income would not discourage saving as the amount paid to each person would not be increased to compensate for an individual's lack of savings - unlike means-tested pension provision. The tax burden on income would be reduced as the shift to taxing resource use will leave more discretionary income to save and invest. Conventional saving in bonds and stocks in itself will not provide adequately for retirement as the potential from growth in the economy will be curtailed by peaking fossil fuels. Investment in building resilience and social cohesion in the local community will be the wisest option.

Citizens should be encouraged to invest in renewable energy, waste/nutrient recycling and other projects that will work for them and provide much needed replacements for fossil fuels for society at large. In the short term, before full adoption of reforms as we have outlined above, capital allowances against income taxes, similar to those for property, should be considered urgently to spur the widespread ownership of distributed energy assets. The total amount of capital allowances available to each person should be capped so as not to disproportionately benefit the rich whose appetite and capacity to utilise tax reliefs has been underestimated in the past.

The basic question for the Commission to consider, however, is whether using tax reliefs to encourage people save *as individuals* during their working lives is the best way of using money that could otherwise be spent on providing everyone with a retirement income.

The first point that needs to be made is that a retirement income is unavoidably an inter-generational transfer. Retired people need food, clothing, light and heat, transport, entertainment, house repairs and medical care, all of which will have to be provided for it by their children's and grandchildren's generation. Consequently, the present, much-derided method of providing for pensions, pay-as-you-go, which

involves each generation looking after the one before it by paying through its taxes for its old people's care, makes perfect sense. At least it is direct and efficient, avoiding all the expensive middlemen involved in the financial services sector..

If tax reliefs are given to encourage people to invest in pension funds and the funds invest in shares and commercial property, the money to provide the pensions can only be found if either the property rents and dividends paid by the companies in which the fund has invested are used that way, or if the shares and buildings are sold and the capital paid out. In either case, the younger generation is providing the resources for the old to spend. In the first case they do so by working and making the rents and profits that are paid out in dividends, and in the second, they, or their pensions funds, buy the shares and properties which the older generation's pension funds are selling off.

There is another problem saving this way even if the global economy does well. Share and property prices are reckoned to be historically high in Britain, the US and some other countries because the big post-war baby-boom generation has been saving as much as it can before it retires. The generations coming along after the boomers are smaller, and so there will be fewer people wanting to take over these shares and properties when the baby-boomers want to sell them off, and the prices will fall.

In theory, there are only three ways that money invested now can ease the burden placed on the working population in providing for the retired one. One is via economic growth. If the economy expands, the proportion of national income required to provide pensions with the same purchasing power as they have today will fall. But, quite rightly, the Irish government has ruled out this solution. This is because it accepts that people drawing their pensions in thirty or forty years' time shouldn't be asked to managed on today's level of provision if everyone else's incomes have gone up.

Paying today's pensions tomorrow would consign pensioners to relative poverty as their spending would no longer be able to match that of the rest of the population. Their lives would become cramped and mean. They would feel less good about themselves, become sicker more often and die earlier. Pensions therefore have to keep up with whatever everyone else is earning at the time. Moreover, even if the principle that pensions should keep up with working people's incomes was abandoned, the restrictions on energy use as a result of oil peak and the threat of climate change prospects of continued global growth are pretty dubious these days and it would be most unwise to rely on it to solve the problem.

The second way is by investing overseas. In theory, the earnings from these investments will be available to be spent on imports, thus relieving the next generation of the need to make things to export to pay for a proportion of the goods they bring in. In other words, rather than caring for our old people ourselves, we will become rentiers and get foreigners to make the goods our retirees require. This plan might work if, internationally, things stayed much the same as they are today. However, we are looking 30-50 years ahead and something as minor as an appreciation in the euro could wipe out much of the value on this income source.

The third way is that today's working generation should invest its savings *in Ireland* in such a way that, when it reaches retiring age, the following generation finds it easier to support it. For example, if this generation builds better buildings that need less heat and maintenance, there will be less for the following generation to do towards their upkeep and they will be able to afford to spend more time looking after retired people.

Similarly, if the current working generation uses its savings to build a decent public transport system so that the next generation can manage without running a second car, or even a first one, that will lessen the burden it places on its successors when it retires, too.

Another, frequently overlooked way of investing would be to improve the fertility of the nation's soils, possibly by sequestering charcoal in them so that they hold nutrients better and less fertilisation is required. Increasing the growing stock of trees is another possibility.

Perhaps the most important step of all, however, would be to ensure that this country's renewable energy resources are developed not only to meet all the country's energy needs but also to realise their export potential. Unless this is done, future generations can expect to have to pay an increasing proportion of their overseas earnings for energy imports.

Recommendation:

- Tax reliefs for private savings should be restricted to investments *in Ireland* which involve
 - cutting the amount of energy required for living, service delivery or production
 - producing energy from renewable sources
 - improving soil fertility on a permanent basis and
 - increases in the stock of forestry assets

- People should be able to get relief for investing in their own properties or in funds dedicated to the development of renewable

energy, land fertility and forestry but reliefs for standard pension-fund investments in commercial property and a wide range of equities should be withdrawn.

Examine the balance achieved between taxes collected on income, capital and spending;

In general, taxes on transactions per se inhibit the proper functioning of the market which requires freedom to buy and sell to establish price and should be reduced. In particular, stamp duty on property sales should be abolished and replaced by annual land use taxes that are spread on a wider cohort of payers. Annual land taxes help prevent asset price bubbles that have proved so damaging to investment in more productive areas; to investment in infrastructure and to Irish competitiveness generally as higher housing costs fed into wage demands. Stamp duty on transactions is also unfair as it falls largely on the young at a time when there are other high demands on their incomes from growing families. They are inefficient as they prevent families trading up and/or down to get a better fit with life cycle changes.

Other spending taxes such as VAT are burdensome to collect for small businesses and predispose to not recording all transactions i.e. the grey or black economy. Cash businesses have an unfair if illegal advantage in times of austerity as they find it easier to avoid VAT – Special pleading by sectoral groups to gain VAT advantages such as the farmers are not conducive to building social harmony.

The foregoing does not rule out higher prices for natural goods by limiting them by restrictions combined with a simple taxes collection mechanisms such as excise duties i.e. a Cap and Share system, or limited carbon taxes as described later.

Income taxes should be reduced and simplified with fewer exceptions and reliefs (the exception being renewable energy and nutrient recycling /fertility building capital allowances). Capital taxes are already comparatively low and should be kept so to incentivise investment in desperately needed sustainable productive activities.

To prevent distortions income and capital taxes should be broadly similar. This would be possible if the use of natural resources especially the locational benefit of land were properly charged by the community and the receipts used to make sustainable infrastructure investments, reduce income and capital taxes, and contribute to a citizens income.

Recommendation:

- Taxes on income should be gradually reduced and simplified as annual land taxes and other taxes and traded permit systems for natural and virtual resource use are introduced.
- Income taxes levels should converge with capital and company taxes levels to discourage accounting distortions and evasion.
- Transaction taxes such as stamp duties, VAT and sales taxes inhibit proper market functioning; are an inducement to the grey economy and should be phased out and replaced with annual land taxes and other commons use charges etc.

Consider options for the future financing of local government, and,

An annual land value tax based on an up to date appraisal of land values should form the foundation for local government. This LVT should ideally fall on every land parcel at the same rate we suggest about 2% of the current capital value of the land. This should be augmented by a further annual tax on green field development land – an annual development land tax. The LVT should rise in tandem with land values so that all increase is gradually transferred to the community.

In some cases where substantial infrastructure is required, the local land and property owners could be canvassed to see if they would agree to a further charge based on the land value created by the investment in order to finance it i.e. civic bonds. All Impact Assessments for transport should consider land value impacts and should not proceed if the land value upswing does not justify it.

Windfall taxes on development land gains at the point of sale or development have never succeeded in the many instances where they were introduced as they can be evaded by avoiding the transaction. The ‘Use it or Lose it’ proposal is a very unwieldy and probably discriminatory mechanism to claw back planning gain windfalls unless ALL zoned development land in both urban and rural areas comes under the proposal. Targeting some landowners over others is invidious and constitutionally suspect. The purchase cost of the land even for agricultural plus 25% value would absorb a huge allocation of scarce fiscal resources. The proposal will do little except make work for the legal profession and prevent the examination of better options such as an annual development land tax on zoned land. Such a tax should replace Section 48 and 49 levies and would provide a more flexible, predictable and fairer mechanism than ‘Use it or Lose it’. It could immediately raise

desperately needed revenue for local authorities to provide energy, waste, educational and transport infrastructure for local communities. It would also reduce pressure on elected representatives to over zone or rezone prematurely for development.

The water resources of a river basin district should be propertised and a trust River Basin Trust set up based on existing advisory boards formed under the 'Water Framework Directive to manage the resource for the benefit of their beneficiaries - the current and future residents of the water catchment area. The Trust should charge local authorities for water extraction subject to sustainable limits. Local authorities in turn will charge consumers for the water use subject to a free quota reflecting their ownership of the resource.

Recommendation:

- A cadastre of real property should be immediately developed as required by the UN CSD 16 and the EU INSPIRE Directive. All property should be registered according to fixed GIS locations; all transactions notified to a central resource; inputted into real time land value map to assist market functioning, prevent fraud, planning corruption and establish the basis for annual land value taxes.
- An annual development land tax of about 5% of the upswing in value due to designation should be immediately introduced on zoned green field development land in replacement of section 48 levies, discounted by Section V and other planning contributions.
- An annual land value tax representing circa 2% of capital value of the land element of property should be phased in as follows; to replace commercial rates, on second homes, on rental property, on charity and public land, on all residential land, and finally on agricultural land on a voluntary basis as alternative to income taxes on farming activities. It should be allowable against income tax for those who have bought homes in the last three years of the property bubble until their next property transaction. It should be capable of being rolled up on homes of senior citizens to be paid after death.
- A single housing benefit that can be used to rent or buy in any city or county should replace all other housing supports including mortgage relief. Local authorities and not for profit housing providers should design and construct homes for a mix of tenure and income groups.

- As the annual land tax grows to remove inflation in land values, the surplus over that required for local infrastructure and services should be distributed to all local authority residents on an equal per capita basis to makeup with PAPS (see next), water and other resource royalties or rents, a citizens income

Investigate fiscal measures to protect and enhance the environment including the introduction of a carbon tax.

A carbon tax, however structured, cannot guarantee that any particular level of emissions will be achieved at any given date in the future whereas a quota system such as Cap and Share can. A carbon tax rate which would bring about the required emissions reduction in a booming economy would have a depressing effect on a depressed one. As a result, for it to work well, the rate of carbon tax needs to be adjusted regularly to conform with the stages of the business cycle, thus making setting the rate a perennial source of conflict between the government, the consumer and business interests. The market, however, adjusts the price paid for the quota automatically and leaves no scope for debate.

Another problem with a carbon tax is that it would probably have to rise to an extraordinarily high level to reduce emissions by the 3% a year target set in the Programme for Government, which is almost exactly the 20% reduction on 2005 levels required from Ireland by the European Commission by 2020. It has been estimated that the tax might have to rise gradually, year by year, to the equivalent of €400 per tonne of CO₂. This would mean that existing taxes, such as VAT, would need to be progressively and massively reduced and that social welfare payments would need to go up. Even so, the changes are likely to run into fierce opposition and, because of the uncertainty, may not signal sufficiently clearly the extent to which energy prices could rise and that people should take steps to re-organise their activities to minimise the effect of the increases in the years ahead. Furthermore, the tax reductions could have a distorting effect on the economy if they were chosen in response to pressure from powerful lobby groups.

Under Cap and Share, Irish emissions other than those controlled by the EU Emissions Trading System would be capped at their current level and then brought down year by year at whatever rate the government had set. The tonnage of emissions set for each year would be shared equally amongst the entire adult population. Each person would receive a “fossil fuel pollution authorisation permit” (PAP) conveying the right to his or her individual share of that year's emissions and making them responsible for it.

The important thing to note about these permits is that they would not ration each person's energy use. Instead, they would permit fossil fuel importation or production. They would be valid for a year, during which people would sell them to financial intermediaries such as banks and post offices, who, in turn, would sell them on to any firm bringing oil, coal and gas into Ireland other than for sale to companies covered by the EU ETS. These importers (and any Irish producers of fossil fuels including peat) would need to acquire enough permits to cover the carbon dioxide emissions from every tonne of fuel they sold and Customs would check to ensure they did.

The profound cuts in fossil fuel use required to deal with climate change cannot be accomplished without profound social, political and economic turbulence unless individuals are able to fulfill their own designs and purposes effectively while participating in actions that promote the public good. The payments under Cap and Share would give people the resources to adapt to lower-energy ways of living in a manner of their own choosing. The recycled revenue from a carbon tax might not do that.

Recommendation

- A carbon tax should be introduced as part of the general move away from taxes on labour to taxes on the use of resources. It should not be regarded a suitable tool for achieving any given level of carbon emissions.
- A quota system such as Cap and Share is required for ensure cuts are achieved; to protect the poor and to provide an income stream to leverage for energy efficiencies and renewable energy investments

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