## Congress Budget 2023 Priorities

# Raising Wages, Reducing Living Costs

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Irish Congress of Trade Unions

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- Significantly increase investment in education at all levels to bring spending per pupil and per student closer to the average of other high-income European countries
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- Set out a path towards raising ODA to 0.7% of GNI* by 2025

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- Introduce a 0.6% net wealth tax on households with net assets worth more than €1 million
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- Make Ireland one of the 'first-movers' implementing the new global policy regime for the taxation of multinationals. Proactively ensure that Ireland cannot be used as a location for aggressive tax planning and that Ireland does not contribute to a global 'race to the bottom' on corporation tax.

# Foreword

**Our society and our economy have been beset by crisis since March 2020. The Covid-19 pandemic was the most severe global health crisis in living memory and we are now facing into the worst cost of living crisis in more than a generation. We are also faced with the challenge of a fast-moving climate and biodiversity crisis.**

Of course, some crises go back even further. The unresolved and worsening housing crisis has been with us in some form for almost two decades. Childhood education and care costs are amongst the highest in the world, our public transport network is non-existent in parts of the country, we have overcrowded classrooms, and our over-stretched health workforce toils in understaffed, underfunded services and overcrowded hospitals. Finally, we have a crisis of low pay that is unsustainable in a high-cost country.

This is the Irish Congress of Trade Union's third pre-budget submission since the onset of the pandemic. Our view is that there can be no going back to the previous low tax and low wage economic model. The indispensability of basic public services and of the welfare state was brought into sharp focus during the pandemic. Solidarity works. Congress advocates for a radical progressive vision of for Ireland's economy and society. We now need a 'new deal' and new economic model to ensure a safe and secure future for all.

These Budget 2023 recommendations set out our key priorities for the short and medium term. In the short-term we must protect workers and households from the cost of living crisis, while in the medium-term building out a new deal and new social wage for Ireland based on well-being, good quality jobs, and excellent universal public services.

There is an urgent need for proper collective bargaining and social dialogue to collectively address the many employment, economic and social challenges we face in an inclusive way that prioritises reducing inequality and precariousness. We all need to work together and we look forward to engaging with Government and other stakeholders to achieve these goals.

**Patricia King**

*General Secretary, Irish Congress of Trade Unions (ICTU)*

# 1. Economic Outlook and the Congress Position

## 1.1 No going back

**We are living through a turbulent era of economic change, disruption and uncertainty. Covid-19 created upheaval and loss in societies and economies across the globe and continues to do so in many countries. We are now facing into a very different crisis caused by the spiralling cost of living.**

Congress believes that the Covid-19 crisis showed up significant weaknesses in Ireland's pre-pandemic economic model. The relationship between workers, business and the state was fundamentally altered by the crisis, with enormous sacrifices made by workers. We believe that society and the economy have been fundamentally changed and that there can be no going back to the old model. Basic public services, good employment and the broader welfare state have shown themselves to be the indispensable bedrocks underpinning people's economic well-being.

Expansion of the welfare state and public services along with targeted measures to offset the cost of living crisis should be the focus of budgetary policy. Tax cuts will simply make it more difficult to deal with funding the ongoing crises in housing, childcare and other areas. Tax cuts will also make it more difficult to reverse the underfunding of education, pay for the cost of the 'net zero' climate transition, and of course meet the substantial fiscal challenges of the demographic transition.

Russia's invasion of Ukraine is a humanitarian catastrophe that has also unleashed a new set of economic challenges. The most immediate challenge for Ireland is our worst cost of living crisis in decades. The increase in energy and food prices is disproportionately affecting lower income households and could push many households into poverty and deprivation.

Protecting households from these types of shocks necessitates higher incomes and wages for families and for workers. We must therefore ditch our low-road model of precarious low paid work, for an economic model based on high productivity and high wages. But this is only part of the necessary response and is in any case a medium-term solution. There also needs to be an expansion of the social wage and a greater emphasis on universal public services as a means to reducing the overall cost of living for households.

In addition, we need to meaningfully deal with a series of home-grown cost of living challenges in areas like housing and childcare services. The ongoing crisis of housing availability and affordability now spans almost two decades in one form or another and requires a much stronger response than we have seen so far, including through massive direct state provision of housing. The market has consistently failed to deliver and it's time for the state to finally step up to its responsibility to its people. Ireland's early years costs are a major barrier to second earner labour force participation. This issue predominantly affects women. It should not be a choice between affordability and decent pay and the state needs to have a much larger role in this sector.

Looking out into the medium-term we have the enormous economic and social challenges of reaching net zero greenhouse gas (GHG) emissions. Achieving this goal will transform our economy as well as our individual behaviour. Yet this transformation will require significant state support if we are to reach our GHG targets in a manner consistent with a just transition. No one must be left behind by the net zero transition.

Other significant medium-term challenges include automation, digitalisation, and an ageing workforce. In particular, the ageing of the population has profound implications for fiscal policy and for the sustainability of our low tax model. Population ageing will by itself require us to bring our level of public spending into line with current EU norms, while the digitalisation of our economy will require us to increase spending on education and life-long learning if we are to ensure that people are not left behind.

Put simply, government spending will need to increase significantly as a portion of national income over the medium-term. We cannot afford tax cuts.

There can be no going back to the pre-pandemic economic model. We need a model that protects families and workers. We need a model that ensures good jobs and wages, that minimises poverty, and that protects the planet.

**The ongoing crisis of housing availability and affordability now spans almost two decades**

## 1.2 Context

Ireland's real GDP growth remained strongly positive throughout the pandemic due primarily to the robust export performances of the *Industry* and the *Information and Communication* sectors. The real GNI* indicator, which is a more meaningful indicator of activity in Ireland, declined by 4.6% in 2020 before sharply increasing 15.4% in 2021, an average increase of 5% per annum over the two years. However, output declined for a range of activities between 2019 and 2021 and four of ten economics sectors remained below their seasonally adjusted pre-pandemic levels in the first quarter of 2022 (see McDonnell, 2022).

Price inflation has become a very significant concern. Inflation is a European and North American phenomenon reflecting global supply chain issues and instability and disruption in energy, food and commodities markets. The bounce-back in energy costs from a low base was the main contributor to the pre-invasion phase of inflation. Recent months have seen a further jump in energy prices and the inflationary pressures extending to food and to wider core inflation.

Annual CPI inflation was 9.1% in July representing a 38-year high (Q2 1984), while HICP inflation was 9.6%. The CPI excluding energy was 5.9%. This suggests that 2nd round inflation had already begun to take hold with prices in restaurants and hotels as well as in food staples starting to rise significantly. Food price pressure will manifest more severely for cheaper products as margins are lower for these items. Consumer prices for CPI and HICP rose by 0.4% between June and July.

Analysis from the CSO estimates that annual inflation was highest for the lowest income households, with renters, lone parents, and rural dwellers also disproportionately affected by the price increases over the last year. Many of these groups also have less capacity to absorb the hit to their real income. The NERI advises that consumer price inflation should peak in the Summer or Autumn, will average close to 8% in 2022 and is unlikely to reach the ECB target of 2% until 2024 at the earliest. They note that the upside risks to inflation firmly outweigh the downside risks.

Residential property prices rose 14.1% in the year to June. Prices are now fully back to their boom values. Private rents increased by 12.9% in the year to June. Both figures continue to significantly outstrip wage growth as housing supply remains well short of demand. The pandemic-related work stoppages and rise in discretionary household savings have further added to property price pressures. The housing market has now been dysfunctional in one form or another for close to two decades.

Labour market scarring from the pandemic appears to be muted. The seasonally adjusted unemployment rate in July was 4.2%, or 113,000 people. This compares to 120,000 persons (4.8%) just prior to the pandemic in February 2020 and the Covid-adjusted rate of 18.3% in June 2021 (408,000 persons). The youth unemployment has increased for the each of the last five months but remains below its pre-pandemic level. The high job vacancy rate is suggestive of a tight labour market, with the economy-wide and private sector rates higher than both their pre-pandemic levels and historical norms in almost every sector.

Total employment passed 2.5 million for the first time in the fourth quarter of 2021 and was almost unchanged in the first quarter of 2022, albeit employment was up 12.3% year-on-year. Actual hours worked in the economy reached a record of 80.8 million hours per week. This compares to 68.7 million in the first quarter of 2021 and a low of 61 million in Q2 2020. Actual hours worked were at 77.5 million in the last pre-pandemic quarter of Q4 2019.

The CSO has started producing monthly estimates of payroll employees using administrative data. The seasonally adjusted employee index increased in the month to April but declined in both May and June. Even so, there was growth in the index in the year to June of 8% The recent decline may reflect the phase-out of pandemic support schemes and/or reduced demand from the decline in real incomes caused by high inflation. Overall, the employee index for June was 7.9% higher than the level in 2019 but had fallen marginally compared to three months earlier.

Employment growth over the last five years has in relative terms been strongest in *Information and Communication* and in *Public Administration* and strongest in absolute terms in *Education* (53,600), *Health* (49,500) and *Information and Communication* (49,200). Employment declined over the period in *agriculture, forestry and fishing* and in *'other activities'* a category that includes arts and entertainment. Employment growth has generally been stronger in higher value added and therefore higher wage sectors.

The tightening labour market should generate significant nominal wage increases over the next year. However, Q1 data shows only modest annual increases of 2.3% in average weekly and 1.9% in average hourly earnings. This reflects compositional shifts in employment and specifically the restoration of employments in certain low value-added sectors.

Average weekly earnings have increased by 10% since Q1 2020 while average hourly earnings have increased by 10.4%. All bar two sectors experienced average weekly earnings growth of 15% or higher in the five years between Q1 2017 and Q1 2022. The two exceptions are *Transportation* at 5% and *Public administration & defence* at 9%. Five-year wage growth has been fastest in *ICT* (37.4%), *Arts & Entertainment* (29.2%) and *Administration & Support Services* (29.2%). There are significant wage disparities between sectors with average hourly earnings in *ICT* (€40.84) and *Finance & Real Estate* (€39.61) more than two and a half times that of *Accommodation & Food Services* (€15.45).

There was a reduction in the enforced deprivation rate in 2021, from 14.3% to 13.8%, and a decline in consistent poverty from 4.7% to 4.0%. These improvements were a consequence of pandemic-related supports to households. However, living standards are likely to fall for many households in 2022 as income supports and nominal wages struggle to keep pace with inflation. Deprivation rates will rise in the absence of targeted supports for low income households.

## 1.3 Outlook

The economy has been recovering strongly and the NERI projects that the economy is on track to grow in 2022 due to strong export growth from multinational enterprises (pharmaceuticals, ICT services), from lingering pent-up demand, and from base effect related to the lockdowns.

However, the invasion of Ukraine will reduce supply for many commodities, add to inflationary pressure and uncertainty and push down growth. The supply shock will reduce global output and trade and if persistent will impair Irish and European productive capacity and potentially induce a recession. Ireland's status as a small open economy makes it particularly vulnerable to a decline in growth in its major trading partners.

The eventual trajectory of inflation will depend on a range of domestic and international factors including changing price expectations, the extent of opportunistic price gouging, input cost pressures, global supply chain bottlenecks and developments in relation to the Ukraine war including future sanctions policy. Short-term inflationary pressures in Europe, the UK and the US will cause central banks to continue to tighten their monetary policies including through higher interest rates. The ongoing monetary tightening will dampen and potentially reverse economic growth. A further risk to the outlook is the small but lingering possibility of a trade war over the Brexit induced Northern Ireland protocol.

Declining real disposable household incomes arising from the surge in energy and food prices will force households to curtail discretionary spending with falling consumer and business confidence also denting demand. In particular, low income households with limited savings will reduce their spending on non-essential goods and services. The consumer confidence index was just 53.7 in July indicating broadly negative perceptions of future economic activity and concerns over the cost of living and the possibility of stagnation or recession. This suggests that the savings rate is likely to remain elevated throughout 2022.

## 1.4 Public Finances

The public finances are in reasonably strong position. Tax receipts have been buoyant in recent months with a modest projected surplus of up to 1% of GNI* in 2022 followed by another similarly modest surplus in 2023. The underlying tax numbers are suggestive of strong growth in the domestic economy. VAT and income tax are well up on the first half of 2021 reflecting the re-opening of the economy and the rebound in the labour market. The re-opening has also coincided with a reduction in social protection spending which has offset rises in spending in other areas.

Our view is that a €6.7 billion package for Budget 2023 is broadly appropriate, albeit plans to cut taxes should be abandoned. Most of Ireland's debt is locked in at very low interest rates over the short-to-medium term. However, Ireland's high per capita debt level, and the medium-term fiscal impact of an ageing population suggest the need for prudence in terms of the fiscal stance. Policy should focus on targeted supports in Budget 2023.

International changes in the taxation of multinationals may have medium-term consequences for Ireland's public finances. While very welcome from a tax justice perspective, the international tax reforms would necessitate Ireland developing a more rounded industrial strategy and broadening its tax base to compensate in other areas. The Irish Fiscal Advisory Council cautions that Ireland should treat much of the growth in corporation tax in recent years as a windfall gain and questions its sustainability in the longer term. The concentration of corporation tax receipts is a further worry as this means that the health of the public finances depends on the performance of a small subset of firms. Ireland should ring-fence a proportion of corporation tax receipts for a rainy day fund that can only be tapped during a recession.

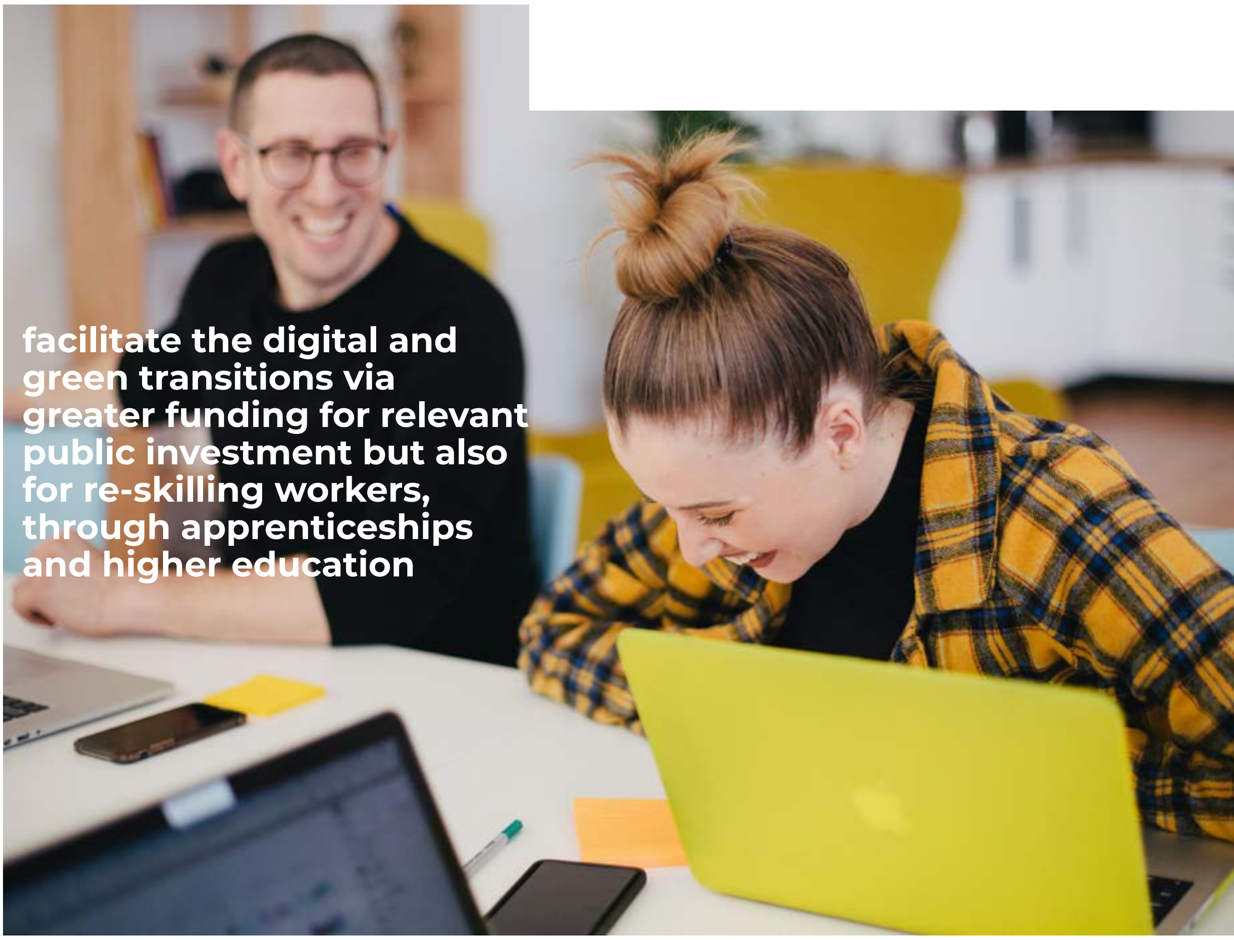
It is crucial that budgetary policy remain supportive as the economy and society endures the cost of living crisis. Ireland has very low levels of per capita public spending relative to Western European norms as well as low levels of spending relative to national income. This has ongoing consequences in terms of Ireland's ability to address the crises in housing, in healthcare, in early childhood care and education, in the provision of public transport, and in a range of other areas. It also has implications for addressing future challenges related to the net zero and digital transitions and to the ageing of the population.

Budget 2023 should be about building our collective economic and social infrastructure through greater funding of the 'social wage', provided through universal subsidised public services. This should be done via higher levels of spending on collective early years services, education and public R&D, healthcare, public transport, water, and on public housing services. All social protection payments in Budget 2023 should at least match inflation in order to protect and increase real incomes and to ensure no one is left behind by the cost of living crisis.

Budget 2023 should also facilitate the digital and green transitions via greater funding for relevant public investment but also for re-skilling workers, through apprenticeships and higher education. Our priorities for public spending are outlined in subsequent sections.

It will therefore be necessary to address the chronically low levels of government revenue in Ireland compared to peer high-income countries in the European Union. Ireland's government revenue ratio needs to increase significantly as a percentage of its economic output. We discuss the options for increasing revenue in Section 5. Congress's view is that by far the greatest scope to increase government revenue (in the sense of exploiting areas of relative under taxation) is via increases in PRSI (employer and self-employed), increases in capital taxation (reforms to CGT, CAT and to the taxation of capital stocks), as well as root and branch reforms to the system of tax expenditures (e.g. abolition of SARP) including to the system of green taxes. These reforms should happen on a phased basis over the medium-term.

Congress is of the view that there is no scope for net cuts to taxes in Budget 2023 and that such a policy would be short-sighted and unwise.



**facilitate the digital and green transitions via greater funding for relevant public investment but also for re-skilling workers, through apprenticeships and higher education**

# 2. Raising wages and reducing the cost of living

**The one-fifth of households with the lowest disposable incomes spend 26% of their disposable incomes on food and 10% on energy, compared to a spend of 16% on food and 6% on energy by the one-fifth with the highest (Lydon, 2022). Compared with the June CPI inflation of 9.1%, households with the lowest incomes experienced higher inflation of up to 10.3% in some cases, while those with the highest incomes experienced inflation of 8.2% (CSO, 27 July, 2022).**

**Congress has put forward a set of measures to raise wages and incomes particularly for low-paid workers and for households on fixed incomes. These include:**

## 2.1 Make the Living Wage the Minimum Wage

The national minimum wage (NMW) amounted to approximately 45% of the gross median earnings of full-time workers in 2019, the last year for which EU-wide data is available. This was the third lowest of the 21 EU countries with statutory minimum wages (Council of the European Union, March 2022). The NMW has risen by just 70 cents since 2019 and currently stands at €10.50 - €2.40 below the recommended living wage of €12.90 an hour.

The directive on adequate minimum wages, agreed in June 2022, considers a statutory minimum wage to be adequate if it is fair in relation to the national wage distribution and provides a decent standard of living for a worker working full-time. A number of countries are already raising their minimum wages towards more adequate levels - Germany for example is increasing its minimum wage from €9.60 in December 2021 to €12 by October 2022 (25%).

Congress's 2022 submission to the Low Pay Commission on the hourly rate of the minimum wage recommended that the Living Wage become the NMW. Congress reiterates this recommendation.

Recommendation: Make the Living Wage the Minimum Wage

## 2.2 Enhance the Social Wage

Congress has recommended that a number of targeted measures be taken before and in Budget 2023 to address the dramatic rise in the cost of living over recent months, particularly for workers on low pay and households on fixed incomes.

These include:

### a. Early childhood care and education costs

- Bring forward the extended coverage of the universal subsidy to all children under 15 years to assist working parents with childcare costs over the summer school holidays.
- Increase the value of the National Childcare Scheme universal subsidy rate currently at 50c per hour up to a maximum €22.50 per week.
- Increase the reckonable income thresholds for the income assessed subsidy for working couples to end the financial penalty on two-earner couples.
- Cap total out-of-pocket fees for families with multiple children using childcare services.

The absence of early years services disproportionally affects the female population (Wilson, 2020). For example, the nursing and midwifery professions are 91% female and a large portion of those working in the HSE are in the age groups associated with childrearing and parental responsibility. Appropriate childcare services continue to be a significant challenge for many working in these professions as shift work, long hours and the 24/7 nature of the work fall outside the traditional childcare model. The pandemic exposed the lack of a sustainable model of childcare for frontline and essential workers. An INMO survey revealed that almost 60% of respondents were co-parenting with an essential worker or healthcare worker, resulting in neither parent being available to provide childcare during the pandemic. 60% of lone parents stated that they accrued additional childcare costs. The case of childcare provision for essential health care workers became a matter of debate within four different departments but was decided on by none. Eventually, when the proposal was announced, it was unworkable.

As recommended by the Citizen's Assembly in 2021, it is now more important than ever to ensure an appropriate childcare and early years' service is publicly funded, accessible and regulated. This service must also seek to improve the working conditions for those predominantly female workers working in that sector. Provision for childcare and early years workers to access a sponsorship programme should they wish to further their career in nursing or midwifery should also be considered.

The childcare model must also consider the workers, including nurses and midwives who work to provide 24/7 essential services. A global and national shortage of nurses and midwives exists. The Government must provide a sustainable workforce in the health service to meet the needs of the population. Appropriate recruitment and retention strategies are an essential component of those strategies and ensuring childcare for nurses and midwives must be incorporated into the broader strategies. Childcare costs should not further exaggerate the gender pay gap and only allowing part-time working options as a flexible option will not help reduce the motherhood pay gap. Instead, healthcare employers must provide appropriate childcare solutions, reflecting the needs of workers delivering 24/7 services. Health care employers must also, where appropriate, consider the provision of onsite childcare.[1]

### b. Education costs

Increase medical cards eligibility in order to assist more families with high education costs.

Increase Capitation Grants for primary and post-primary by 20% to reverse cuts made during austerity and help schools to cope with rising inflation costs.

Introduce specific measures to target costs, including a Book Rental Scheme at primary and secondary level, 'crest only' uniforms and lower cost/generic options for clothing, elimination of costs for materials such as photocopying and supplies, and ensure there is no compulsion in respect of 'voluntary contributions';

In relation to third level costs, ensure better access to and transparency on the grant system and significantly reduce the annual student charge over time, as part of the shift to a higher education model that is fully publicly-funded.

### c. Housing costs

Reinstate emergency measures for the rental sector implemented when the pandemic began, including a ban on evictions and a rent freeze. A rent freeze for a defined period (e.g. two years) would provide certainty to 300,000 households in this sector and help to stabilise the sector in terms of affordability. This time should be utilised to design a new system of rent control/regulation that would tie rents to incomes.

Reintroduce the moratorium for those in mortgage difficulty set up during the pandemic.

### d. Health costs

Prioritise implementation of Sláintecare and comply with governance and implementation methods recommended by the All-party Oireachtas committee.

Speed up progress towards free GP care for all children; as the extension of such services has led to an increase in attendance at acute hospitals, it is necessary to fully implement the Strategy for the Future of Children's Nursing in Ireland 2021-2031 and the recommendation of the Expert Review Group on Nursing and Midwifery regarding the review of undergraduate education to address access and capacity.

Abolish hospital inpatient and outpatient charges and remove private care in public hospitals. The Independent Review Group chaired by Dr Donal de Buitléir must be fully implemented in line with Sláintecare recommendations.

Lower the threshold for the Drugs Payment Scheme.

Raise and simplify the earned income threshold for assessing medical card and GP visiting card eligibility, revise the staffing implication for same, specifically public health, community general and practice nurses, and therapy grades in the community setting.

Full implementation of the Expert Review Group on Nursing and Midwifery. Full reversal the outsourcing of long-term elder care to private for-profit organisations (82% of all long-term care is now outsourced by the HSE).[2]

Commit to a timetable for introducing measures that enforce medicine prices transparency

Enforce competition law in private health insurance and make price comparisons easier.

### e. Transport costs

Ring-fence additional fuel-related tax revenues to fund the move to a new and expanded low cost or wholly free model of public transport. Increased investment in the system will be required to address capacity and accessibility issues.

Introduce a €10 monthly travel ticket for all those who do not already avail of free travel, to apply for at least the duration of the cost of living crisis.

Recommendation: Cut the cost of living for low-paid workers and households on fixed incomes with a set of targeted measures to reduce early years, health, transport and education costs.

## 2.3 Increase welfare rates by more than inflation with higher supports for most at risk

Congress's long-standing position is that welfare rates should be increased by an amount greater than inflation and that there should be additional increases for people most at risk of income inadequacy.

Given the increases in inflation over recent months, Congress reiterates its recommendation that rates be increased by greater than inflation and by at least €20 per week, with additional increases for those at greatest risk of income inadequacy.

Furthermore, in order to ensure income adequacy, social protection rates should be benchmarked against median earnings. In practice, this means indexing payments to nominal wage increases with a transition period as payments converge on the agreed benchmark.

The cost of living with a disability ranges from approximately €9,500 to €11,700 annually (Indecon, 2021). Budget 2023 should introduce a non-means tested cost of disability allowance, to provide an additional weekly payment of €10-€40 for persons living with a disability.

Recommendation: Raise social welfare rates by an amount greater than inflation and by at least €20 a week, benchmark social protection rates against median earnings.

## 2.4 Cap electricity prices for low-income households

The *National Energy Security Framework* (DECC, April 2022) warned that 'the main impacts of increased retail electricity and gas prices are likely to be seen in household bills in the second half of 2022', estimating that a household with an electricity bill of €1,100-€1,200 in 2021 could see this rise to €1,600-1,900 for a full year for the second half of 2022. It is clear that the measures introduced so far will only partly mitigate these increases and that the greatest burden will fall on low-income households.

The 2019 electricity directive provides for the temporary regulation of domestic electricity prices, particularly for 'energy poor and vulnerable household users', in certain circumstances and in certain conditions. In March, the European Commission stated that 'intervention in retail price setting may be necessary for Member States to meet their policy objectives and ensure affordable transparent energy prices and costs for consumers,' and issued guidance to support the design of such measures (European Commission March 2022). At least seven member states (plus the UK) have so far introduced retail electricity price caps (Bruegel, 2022). While the *National Energy Security Framework* does acknowledge that the EU has outlined measures to mitigate the impact of high retail prices, it does not consider introducing retail electricity caps for domestic users. This option should now be introduced.

Recommendation: Cap electricity prices for low-income households

## 2.5 Raise the Small Benefit Exemption limit from €500 to €1,000

The Small Benefits Exemption provides that in general where an employer provides an employee (and directors) with a non-cash benefit of up to €500, PAYE, USC and PRSI need not be applied to that benefit. Only one such benefit will qualify annually and the benefit cannot be redeemed for cash. 70,000 benefited under this exemption in 2020, at a total cost of €5 million (Department of Finance, October 2021). Congress has proposed that the limit be increased to €1,000 for employees in receipt of weekly gross wages up to €1,462, with an option to spread the value over a number of months.

Recommendation: Raise the Small Benefit Exemption limit from €500 to €1,000

## 2.6 Retain the existing Flat Rate Expenses regime

The 2021 TSG paper suggested a number of options if the review of this regime 'results in changes that increase the burden of taxation on workers in a way that is not considered desirable', but concluded that, 'in the current unprecedented social and economic circumstances the issues that arise from seeking to adjust or withdraw what may be seen as a modest tax benefit, especially from those on lower incomes, need to be carefully weighed' (Department of Finance, September 2021).

Government asked Revenue in late 2021 to defer implementation of any changes 'for a further period...[to]...provide Revenue with an opportunity to update the review during 2022'.[3] In early 2022, Revenue announced that it would defer implementation until January 2023, pending decisions by Government 'on the policy options put forward by the TSG on various matters relating to employment expenses and the enactment of legislative changes in that area, if appropriate."

The 2022 TSG paper on income tax (July 2022) points out that the number of claimants aged 25 and under increased by 50 per cent over 2018-2019, compared to an increase of 6.2% by those aged 55-59, and acknowledged that inflationary pressures are resulting in cost of living challenges for many individuals.

It is likely that the number of younger claimants and claimants on low incomes for what the TSG describes as a 'relatively modest tax benefit' has increased since 2019. Congress consequently reiterates its belief that the current regime remain.

Recommendation: Retain the existing Flat Rate Expenses Regime

# 3. Raising employment rates and improving job quality

## 3.1 Greater ambition on employment rates

In 2019, Ireland's employment rate (20-64 year olds) was 75%. This was above the EU-27 average of 72.7%, but it was the 11th lowest of the EU-27, and six percentage points below the country with the highest rate - Sweden at 81.5%.

In May 2021, the Porto Summit of EU leaders agreed three social targets for 2030:

- Raise the EU employment rate (20-64) to at least 78%
- Ensure that at least 60% of adults take part in training annually
- Reduce the numbers at risk of poverty or social exclusion by at least 15 million, including at least 5 million children.

Member states were to negotiate national targets to achieve the overall EU targets. For the employment rate, Congress had proposed that Ireland aim for at least 80% - the rate achieved by four other member states in 2019. However, the Government has negotiated a target of 78.2% (Government of Ireland, 2022:60).

Ireland's employment rate did fall to 72.1% in 2020 but rebounded to 74.9% in 2021, rising to 78% in Q4 2021 (European Commission, 2022:47). In effect, Ireland had achieved by the end of 2021 its 2030 target. Congress therefore reiterates its belief that Ireland should aim for a higher target over the coming years. Furthermore, Government should also set sub-targets for particular cohorts, including women (Ireland's gender employment gap was the highest of comparator peer European countries); low- and medium- skilled workers (rates of 51% and 70% respectively in 2021); lone parents (Ireland's rate was the lowest in the EU in 2020); and people with disabilities (Ireland's disability employment gap was the largest in the EU). These would help achieve Ireland's commitments under the SDGs, particularly SDGs 8.5 and 10.2.

Recommendation: Target employment supports and remove barriers to employment for lone parents, low- and medium-skilled, people with disabilities and women.

## 3.2 Focus training, upskilling and reskilling on the green and digital transitions

With regard to the 2030 training target, Ireland has now agreed a national target of 64.2% (Government of Ireland, 2022). Public policy in this area should focus in particular on the digital and green transitions. For example, 53% of the

Irish population reported having 'at least basic digital skills' (being able to perform activities such as using email, editing tools, installing new devices, etc) in 2019, up from 44% in 2015 but well below the Netherlands at 79% and Finland at 76% (European Commission, July 2021). The Adult Literacy for Life Strategy (2021) now aims to increase this to 80% by 2030.

In order to promote upskilling at work, Congress has previously called for the introduction of a statutory right to paid training leave. The OECD has pointed out that such a right is common in most European countries with comparatively high training participation (OECD, 2020).

Recommendation: Focus training, upskilling and reskilling on the green and digitial transitions and introduce a statutory entititlement to paid training leave

## 3.3 Introduce a real short-time work scheme to minimise the impact of economic shocks

Pathways to Work 2021-2025 commits to consider the introduction of a new short-time work scheme, building on the EWSS/TWSS and drawing on existing international models (Government of Ireland, July 2021).

Congress has previously made the point that the 'systematic short-time work' arrangement in place for a number of years can not be compared to the short-time work schemes in place in other European countries. The fact that this arrangement was not fit for purpose is evidenced by its low-take up during the pandemic,[4] and by the need to introduce the TWSS in early 2020.

One of the main weakness of the existing arrangement is that while an employee's hours can be reduced, unilaterally, by their employer, to automatically qualify for support the employee must have enough paid or credited PRSI contributions (they can apply for means-tested support if they don't).

While the Government has indicated its intention to introduce a new scheme, it appears to be considering this only as part of a new pay-related benefit scheme. Limiting participation by employees through their PRSI contributions could undermine the roll-out of elements of the most effective schemes in other European countries, such as training whilst on short-time work. In addition, the most effective international models are effective *because* they based on social dialogue and collective bargaining:

*'Requiring an agreement with a trade union or worker representative can also help to alleviate deadweight effects, while at the same time ensuring a sound process. Since participation is costly for workers, a firm-level agreement can help to prevent firms from claiming support when there are no jobs at risk. The*

*need for a firm-level agreement is quite common in countries with STW schemes but never present in countries with [Wage Subsidy] schemes'*
OECD, 2021, p.106.

Recommendation: Introduce a real short-time work scheme based on social dialogue and collective bargaining

## 3.4 Focus the Brexit Adjustment Reserve on safeguarding and creating decent jobs

The disproportionate impact of Brexit on Ireland is acknowledged by the fact that Ireland is receiving approximately 20% of the total allocation of €5.4 billion allocation to the Brexit Adjustment Reserve (BAR) over 2020-2025.

EU rules provide that funding can be used to 'support job creation and protection, including green jobs, short-time work schemes, re-skilling and training in sectors most adversely affected' and state that where governments support measures to maintain and create jobs, 'they should aim at quality employment,' and shall take account of the partnership principle and encourage dialogue with social partners and civil society when designing supports.

Government has announced initial funding of €54 million, including €33m for fisheries and horticulture and €14.5 million for the *Skillnet Digital Skills Programme* and *Erasmus after Brexit* initiatives. The National Reform Programme 2022 (April 2022) also states that the BAR allocation is being used in part to fund measures recommended by *the Report of the Seafood Task Force – Navigating Change* (October 2021). However, quality employment is not addressed in the Seafood Task Force report - which identified 'labour increasing costs as a 'threat' - was prepared without any involvement by workers and unions.

Given the contining uncertainty regarding the UK's intentions around the Protocol, Congress reiterates its recommendation that Ireland's allocation under this funding focus on protecting and promoting decent employment in the sectors most at risk, and in accordance with the aims and principles set out in the BAR regulation.

Recommendation: Focus Brexit mitigation measures on protecting and promoting decent jobs

## 3.5 Promote a decent work agenda

Raising the employment rate in the years ahead, particularly among women, low and medium-skilled workers, lone parents and people with disabilities, requires a deeper commitment to the promotion of decent work than has been the case so far. At a time of a higher vacancy rates than before the pandemic, it is little surprise that the sectors that are most vocal about shortages are also those with very high rates of low pay and precarious work.[5]

The ESRI and IHREC have pointed out that, 'Earnings as a whole are largely unaddressed within national [employment] strategies [and stated that] Future iterations of these strategies should consider issues relating to decent work as a whole, such as pay, rather than focusing solely on labour market activation' (McGinnity, 2021). Furthermore, the 2021/2022 National Risk Assessment acknowledges to a greater extent than any previous such assessment the risks arising from precarious work in Ireland (Department of the Taoiseach, 2021).

Congress acknowledges that work is underway to give effect to the Programme for Government commitments to improve conditions for workers. This work should be deepended in Budget 2023, including by ensuring that state supports and procurement ensures participation in the state's industrial relations mechanisms and implementation of Ireland's commitments under the UN SDGs, particularly 8.8 and 10.2, and the European Pillar of Social Rights.

Recommendation: Promote a decent work agenda, including by ensuring that state supports and public procurement give effect to Ireland's international commitments to decent work

## 3.6 Tackle bogus self-employment by raising Class S PRSI rate.

Congress has previously recommended that Government address the problem of bogus self-employment by raising contributions for Class S PRSI.

The Commission on Pensions report (October 2021) has now recommended that 'Class S PRSI for all self-employed income [be] gradually increased from 4 per cent to 10 per cent' and, in the medium term, that the 'Class S PRSI rate should be set at the higher rate of Class A employer PRSI (currently 11.05 per cent).'

Congress's submission to the Commission on Taxation and Welfare (January 2022) recommended that that Commission 'consider increasing the level of the self-employed contribution to that of the combined total of an employee and employer (15.05%).'

TSG paper 20/4 (August 2020) had suggested that contributions for Class S PRSI be adjusted to the standard rate of employer PRSI (i.e. 11.05%) incrementally over four budgets.

Taking a similar approach, Congress recommends that moving to a combined rate of 15.05% be done over a number of budgets, starting in Budget 2023 (see section 5 below).

Recommendation: Tackle bogus self-employment by raising the Class S PRSI rate

## 3.7 Re-instate tax relief for trade union subscriptions

Congress has been calling for a number of years for the re-instatement of tax relief for trade union subscriptions in place between 2001 and 2010. The OECD has previously highlighted the effectiveness of such measures to support trade union membership in countries such as Finland, Norway, and Sweden, which it judged to be among those with the most effective collective bargaining systems in terms of labour market peformance (OECD, 2019).

The new directive on adequate minimum wages commits to raising the coverage of collective agreements. The European Commission has also indicated its intention to come forward with an initiative to promote social dialogue and collective bargaining at European and at national level in autumn 2022, and that this initiative will complement the recently agreed directive.

Re-instating the tax relief for trade union subscriptions would contribute to achieving these aims. (Alternatively it could also be done by abolishing the schemes in place for employers organsations, which are not available to trade unionists, including self-employed members).

*Recommendation: Reinstate tax relief for trade union subscriptions*

# 4. Structural and investment priorities

## 4.1 Housing

Despite increases over recent years housing supply is still falling short of demand. After increasing by almost 40% annually from 2017 to 2019, completions stagnated in 2020 and 2021 (due to the lockdowns) at approximately 20,000 each year. The restart of activity in mid-2021 has achieved an increase in commencements, up 20% on 2019 levels over 2021, but still below the Government's estimate that at least 33,000 are needed annually over this decade.

The ESRI has also recently highlighted the drop in home ownership in the 35-44 age bracket over recent years (Slaymaker et al, 2022). Lower rates mean a higher proportion of households in the rental sector and the continuation of rental payments into retirement. Around two-thirds of this age group, and just over half of 25-34 year olds, are likely to become homeowners by retirement. This compares to homeownership levels of 90% for current over 65s.

The 2020 Covid-19 Nursing Homes Expert Panel noted that many highly dependent people can live safely in their homes provided the necessary homecare supports are in place. Ireland's aging population requires an all-government plan in relation to building appropriate self-care, supervised care modified units, with access to services and communities for elderly people who currently are forced to remain in family homes, inappropriately modified for their needs due to lack of real suitable alternatives.

Housing and rental prices are continuing to increase due to long-standing and peristant short-falls in affordable supply. Congress's long-standing position is for a much more ambitious housing strategy for the construction of A-rated public housing on public land to be rented on cost rental principles and held in public ownership.

In order to minimise the risk that labour shortages in this sector prevent the attainment of more ambitious social housing targets, Congress also recommends more investment for construction apprenticeships in Budget 2023.

Recommendation: Meaningfully increase short and medium-term investment on the construction of A-rated public housing on public land, to be rented on cost-rental principles and retained in public ownership; increase funding for construction apprenticeships.

## 4.2 Early childhood education and care

*'...the market-driven nature of the sector and the low level of public funding have resulted in low wages, poor working conditions for staff and high fees for parents.'*
European Commission,
May 2022, p.49

Parents in Ireland continue to face some of the highest cost levels for early childhood education and care in the EU-27. At the same time, participation by children less than three years of age is limited, with just 12% attending for more than 30 hours a week (EU average is 20%). This has implications for the participation of parents, and women in the main, in the labour force.

Congress has previously recommended that the Government retain the emergency ECEC model put in pace during the pandemic, alongside decent pay and terms and conditions paid for by the state, with parents' paying non-labour costs and fees strictly regulated by Government. Congress reiterates this recommendation.

Recommendation: Implement the ECEC model in place during the lockdowns, alongside decent terms and conditions for staff, parents paying non-labour costs, and regulated fees

## 4.3 Education

Ireland  continues to perform relatively well as regards the (low) percentage of school pupils who leave school early (3.3% v. EU average of 9.7%) and in the proportion of 25-34 year olds with a third-level qualification (62% v. EU average of 41%). Furthermore, Ireland's rate of young people (15-29) neither in employment nor education and training fell to less than 10% in 2021 - an historic low.

While government expenditure on education at 5.5% of GNI* was above the EU average of 4.7% of GDP, public spending *per pupil* and *per student* remains well below the average of other high-income European countries, as the Nevin Economic Research Insitute has pointed out. The OECD *Education at a Glance 2021* (OECD, September 2021) indicates that expenditure per primary school pupil was 89% and expenditure per secondary school student was 93% of the EU average.[6] Furthermore, between 2011 and 2019, government expenditure on third level was reduced by 14% in real terms, while students' fees remain high.

The pandemic has highlighted the importance of quality education. Evidence suggests that Covid-19 has had a disproportionate impact on disadvantaged households. It is essential that Budget 2023 commits to a significant increase in investment in education at all levels.

The Government must commit to addressing remaining salary issues for post-2010 entrant teachers if it is serious about recruiting and retaining teachers, as a significant number of teachers have been subjected to pay discrimination for a decade or longer.

The pandemic has also put the spotlight on school buildings. It is obvious that many schools operate on a shoestring budget, with most having to fundraise to meet day-to-day costs. A recent survey of school principals found that in addition to smaller classes to reduce classroom overcrowding, principals believe their schools need adequate work-spaces for teachers, improved ventilation systems, upgraded toilet/sanitary facilities for staff, adequate canteen facilities for students, better heating systems, and more/larger communal spaces (ASTI, 2020).

Guidance counselling services are also over-stretched. The pandemic has highlighted the need to ensure student wellbeing is supported including by adequate access to one-to-one counselling services. The provision of mental health support teams with an initial focus on early-intervention at school level would be a key post-pandemic support for the high number of children and young people experiencing mental health challenges. Provision must be made for more guidance counsellors to support students make informed decisions and choices about their future learning and working lives in a rapidly changing global labour market.

Latest data from the Department of Education indicates that despite recent reductions, class sizes in primary schools remain the highest in the EU. Further progress on reducing primary school class sizes to the EU average of 20 pupils must be made in Budget 2023.

Recent research has found that the majority of Junior Cycle class sizes were above EU and OECD averages (ASTI, 2020). This means many students do not get the attention they deserve. Differentiated teaching, which is the foundation of an inclusive education, is problematic in such classes, which also impede the use of diverse teaching methodologies which are very much required for the Framework for Junior Cycle.

Additional teachers were deployed during the pandemic to cope with absences, support students at increased risk of learning loss, and to implement mitigation measures. The fact is that these teachers were always needed in under-resourced schools. A positive first step in re-building school communities would be to ensure these teachers form part of the permanent annual allocation to schools, allowing them to work towards reducing class sizes.

In higher education the student-staff ratio (23.4 to 1) is among the worst in the OECD, and a further 20% increase in student numbers is projected by 2030. Adequate state funding is required to reduce overcrowding and reverse the ever-increasing reliance on low pay, precarious employment of teaching staff and related difficulties experienced by researchers.

The proportion of 16-19-year olds with basic or above basic digital skills has been increasing since

2015 but remain slightly below the EU average (77% v. 82%). Students' unequal access to broadband and appropriate digital devices was repeatedly highlighted during the pandemic. The Digital Learning Strategy needs to be supplemented by other policy measures to address the digital divide, for example, enabling families with school going children to access appropriate digital learning devices and broadband. Each school should also have a dedicated leadership post to oversee the implementation of the school's digital learning strategy. In that regard the restoration of assistant principals' posts that have remained vacant since the moratorium on promotions was introduced in 2009 must be addressed.

Recommendation: Significantly increase investment in education at all levels to bring spending per pupil and per student closer to the average of other high-income European countries

## 4.4 Decarbonisation through a Just Transition

While Ireland is less exposed to Russian oil and gas than many other European countries, the consequences of Russia's invasion of Ukraine requires Ireland to increase its efforts to meet the national target of achieving a 51% reduction in total greenhouse gas emissions between 2018 and 2030 and the EU Climate Law target of reducing emissions by at least 55% compared to 1990 levels by 2030. Ireland has so far made insufficient progress in achieving these targets.

Meeting these targets will give rise to very significant re-structuring costs in many sectors, with potentially negative consequences for workers and local communities if not addequately addressed, particularly by supporting training, upskilling and reskilling towards green jobs. This once again underlines the importance of establishing a Just Transition Commission, as called for by the Just Transition Alliance of unions and civil society organisations. Given the very steep increase in energy prices over recent months, Budget 2023 should also provide additional resources for pursuing deep energy savings in buildings, which should be provided to low-income households, at zero or very low cost.

Recommendation: Establish a Just Transition Commission and increase funding for training, upskilling and reskilling towards green jobs and for deep retrofits

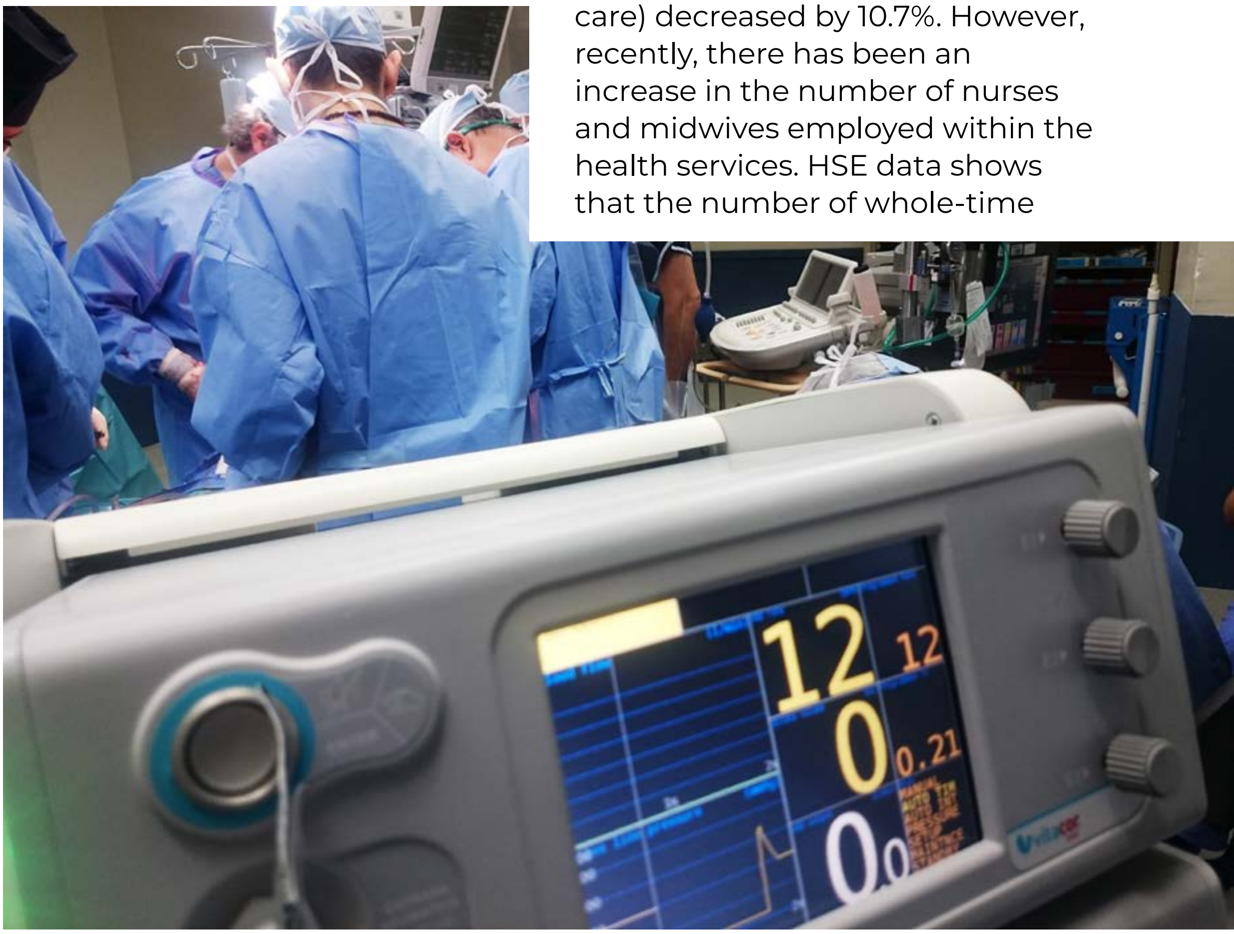
## 4.5 Healthcare

*'Ireland remains the only country in western Europe without universal coverage for a core set of health services, such as primary care. Most of the population is not covered by a medical card and must pay the full cost of doctor visits and outpatient prescriptions up to a certain threshold.'*

*'A fully-fledged implementation of the Sláintecare reforms could create a system based on universal entitlement to all health services regardless of people's ability to pay. In turn, this may help address health problems earlier and more efficiently, thereby decreasing the demand for more complex and costly care services.'* European Commission, May 2022, pages 4 & 13

In 2019, 2% of the population reported an unmet need for medical care, including 2.4% of women, and 2.8% in the lowest income quintile (compared to 0.6% in the highest). This was above the EU average of 1.7% and was the second highest rate among peer European countries.

In 2019, the number of doctors was 3.3 per 1,000 population, the sixth lowest in the EU. According to the Report of the Expert Review Body on Nursing and Midwifery (2022), the number of nurses and midwives working in the public health system grew by just 3.6% between 2010 and 2019, and has remained relatively stagnant since. This is against the background of increasing demand for public health services during the same period, including an increase in inpatient and days case activity of 22.4% (Department of Health, 2020). The Expert Review Body also noted, "that between 2008 and 2014, during the recessionary years, staff nurse numbers (the grade providing most direct patient care) decreased by 10.7%. However, recently, there has been an increase in the number of nurses and midwives employed within the health services. HSE data shows that the number of whole-time



equivalent nurses and midwives employed in the public sector in Ireland increased from 37,345 in August 2018 to 41,136 in August 2021, an increase of 10.15%." (p. 23).

The Expert Review Body has acknowledged the difficult clinical environment required for nurses and midwives to provide safe, high quality care and noted Ireland's position as having the highest bed occupancy rates of all the OECD countries (94.9% compared to the OECD-28 average of 75.2%), while also having one of the lowest numbers of hospital beds (3 per thousand compared to an OECD average of 4.7 per thousand).

Sláintecare has set out several recommendations to drive the future of Ireland's nursing and midwifery workforce. A key recommendation is to increase advanced practice roles for nurses and midwives, a vital component for delivering expanded services in the primary and community settings and sustainable care in the acute setting. A key deliverable of the Sláintecare Implementation Strategy (2019) is to: *"Fully implement the first and second phases of the work of the Taskforce on Safe Nurse Staffing and Skill Mix. Commence work on the development of this model to determine the appropriate community nursing workforce"*. This must become a reality to build a sustainable nursing and midwifery workforce into the future.

There have been considerable investments to recruit additional healthcare staff over the course of the pandemic. However, both the HSE and Department of Health have publicly stated their forecasted recruitment figure for 2022 of 5,500 will not meet the 10,000 additional healthcare staff provided for within their budget for 2022. Further efforts will be needed in Budget 2023 to ensure all services are fit for purpose and safe staffing levels are secured for every level of service provision. The OECD has pointed out that the shortage of doctors and nurses in Ireland contributes to long waiting times for publicly funded services and increased demand for private providers. We note the challenge of recruitment and retention within the health service is widely realised across many grades, medical, professional, and support, and must be tackled if Sláintecare is to be realised.

The Framework for Safe Nurse Staffing and Skills Mix and the Birthrate Plus methodology are internationally recognised evidence based processes to establish safe staffing levels, and these must be placed on a legislative footing, with an assocaited competent statutory authority to ensure their implementation.

Despite the all-party commitment, progess in implementing the Sláintecare strategy has been slow. While the Government's National Recovery and Resilience Plan 2021 aims to support the implementation of key parts of the Sláintecare reform, such as consultant contracts in the public health care system, it does not address universal coverage for primary care.

The share of 'potential dependants' – understood as a severe 'self-perceived longstanding limitation in activities because of health problems for at least the last 6 months - in the population is projected to rise from 5% in 2019 to 5.6% by 2030. In 2020, the share of inactive population due to caring responsibilities stood at 33%, well above the EU average of 19%. This suggests a high level of unmet needs, especially in home care, which are likely to result in even more expensive institutionalised care. Budget 2023 should provide additional resources for the provision of high-quality public home care services.

Furthermore, recent ESRI research on the impact of the pandemic on young people has found that 55% of women and 41% of men were classified as depressed, much higher than two years previously when 31% of women and 22% of men were classified as depressed (Smyth and Nolan, 2022). Budget 2023 should provide for the extension of free prescriptions and medicines for mental health issues for young people beyond the age of 16.

Further investment is needed to keep workers in the health service safe, including by establishing a division in the Health and Safety Authority to deal with health services and to investigate high incidences of assaults, burnout and mental health issues arising for this workforce. The HSE, hospital and nursing home owners must assess the quality of air flow within healthcare buildings as workplaces, with a view to providing ongoing monitoring and improvement methods, to ensure safe areas of work.

Recommendation: Increase funding to ensure that health services are fit for purpose and that safe staffing levels are secured for every level of service provision

## 4.6 ODA

Congress reiterates its aim of reaching the UN 2030 Overseas Development Aid (ODA) target of 0.7% of national income by 2025. Ireland allocated approximately €780 million on ODA in 2020. This equates to 0.37% of GNI*, or approximately half of target.

Congress calls on Government to set out a clear path in Budget 2023 towards reaching this target, and one that ensures that at least 0.15% of GNI goes to the Least Developed Countries (LDCs), in line with SDG 10.b, and to prioritise the attainment of SDG 8, and to support debt cancellation and debt restructuring for poorer countries.

Recommendation: Set out a path towards raising ODA to 0.7% of GNI* by 2025

# 5. Paying for it: A Sustainable Revenue Base

## 5.1 Comparing revenue bases

There is no immediate cause for concern about the sustainability of the public finances. However, making the necessary social and economic investments identified in the previous sections will require a broader and more resilient base for Ireland's government revenue. Crucially, there is no scope for cutting taxes. Income tax cuts will add to inflation. Instead, government revenue will need to rise as a proportion of national income.

An important question to carefully consider is whether combined taxes and social contributions in Ireland are high or low relative to other Western European countries. If taxes are already high, then this may suggest limited scope for generating additional revenue. On the other hand, if revenue is relatively lower than in peer countries, we can infer that there may be significant scope to increase revenue without generating negative economic effects.

Table 5.1 shows that Ireland's tax revenue yield was relatively low

**Table 5.1: Tax revenue (including SSCs), % of GDP (GNI* for Ireland), 2019**

| Country | Labour | Consumption | Capital | Total |
|---|---|---|---|---|
| EU27 | 20.7 | 11.1 | 8.2 | **40.1** |
| Germany | 23.2 | 10.2 | 6.9 | **40.3** |
| Denmark | 22.8 | 13.4 | 9.8 | **46.1** |
| France | 21.2 | 11.7 | 11.0 | **45.5** |
| Netherlands | 19.6 | 11.8 | 7.9 | **39.3** |
| Belgium | 21.9 | 10.8 | 10.6 | **43.6** |
| United Kingdom | 13.0 | 11.1 | 9.7 | 33.8 |
| Italy | 21.2 | 11.3 | 9.8 | **42.3** |
| Sweden | 25.0 | 12.1 | 5.9 | **43.0** |
| Ireland (Rep.) | | | | |
| Eurostat *(Tax Trends)* | 16.0 | 11.3 | 9.5 | 36.9 |
| CSO *(Government Finance)* | | | | 37.7 |
| Tax Gap to EU27 (€ billions) | | | | 5.1 |

**Sources**: Eurostat (2021) Taxation Trends in the European Union, CSO (2021) National Accounts, CSO (2021) Government Finance Statistics, McDonnell (2021)

**Notes**: SSCs are Social Security Contributions.

in comparison to the EU average prior to the pandemic. McDonnell (2021) estimates a GNI* ratio of 37.7* in 2019 which was 2.4 percentage points of GNI*, or €5.1 billion below the EU average. In general, the high-income Western European economies tend to have higher tax ratios than their Eastern European counterparts. Many of these high tax countries have higher employment rates and competitiveness rankings than Ireland suggesting a weak (or no) relationship between economy-wide taxation and labour market outcomes.

McDonnell notes that Ireland's revenue yield from *consumption* taxes (mainly VAT and Excises) is marginally above the EU27 average (see Table 5.1 and Table 5.3). Consumption taxes are generally regressive when considered in isolation unless they are targeted at luxury goods and services. An important policy implication is that there may be limited scope to introduce net increases on consumption taxes in a manner consistent with progressivity and with poverty reduction. There are also potential implications for our ability to manage a 'just' net zero transition through increases in pollution-based taxes such as carbon taxes and through the removal of fossil fuel subsidies.

Even so, the net impact of consumption taxes can be to contribute to an overall reduction in income inequality and poverty to the extent that such revenues contribute to funding social transfers and an enhanced social wage (i.e. provision of subsidised public services). For example, the Nordic economies of Denmark, Sweden, Finland, Iceland and Norway all have high taxes on consumption but generally low levels of income inequality and high levels of well-being. Congress strongly favours hypothecating (i.e. earmarking) future increases in green taxes to a just transition fund for managing the net zero transition in a manner consistent with protecting low income households.

Ireland's level of tax on income from self-employment, and Ireland's level of tax on stocks of capital are both lower than the EU average (Table 5.2). However, Ireland's low overall revenue yield relative to the EU average is mainly an outcome of the 'under-taxation' of *labour* income (i.e. income tax and social security contributions). The under-taxation of labour as a percentage of economic output amounts to €10 billion. Table 5.2 decomposes labour taxation into its various bases. Tax revenue from employees exceeds the EU average, whereas employers are 'under-taxed', as a percentage of output, by €8.3 billion. Ireland's low level of employer PRSI is the 'elephant in the room' that explains why Ireland's revenue base is out of step with Western European averages.

The implicit tax rate (ITR) is the tax yield divided by the tax base. We can think of it as an economy-wide average effective tax rate on a particular type of economic activity (i.e. consumption, income from labour, or income from capital). Ireland has a relatively high ITR on consumption of 19.4% (see Table 5.3).

### Table 5.2: Tax revenue from labour, selected countries, % of GDP (GNI* for Ireland), 2019

| Country | Employee | Employer | Non-employed | Total |
|---|---|---|---|---|
| EU27 | 10.2 | 8.2 | 2.3 | **20.7** |
| Germany | 13.5 | 6.9 | 2.9 | **23.2** |
| Denmark | 17.2 | 0.7 | 5.0 | **22.8** |
| France | 8.8 | 12.4 | 1.7 | **22.9** |
| Netherlands | 10.1 | 5.5 | 4.0 | **19.6** |
| Belgium | 12.0 | 7.9 | 2.0 | **21.9** |
| United Kingdom | 8.8 | 3.9 | 0.2 | **13.0** |
| Italy | 8.4 | 9.8 | 3.0 | 21.2 |
| Sweden | 10.3 | 11.9 | 2.7 | **25.0** |
| Ireland (Rep.) | | | | |
| Eurostat *(Tax Trends)* | 11.5 | 4.3 | 0.2 | **16.0** |

**Sources**: See McDonnell (2021)

### Table 5.3: Implicit Tax Rates (ITRs) in selected countries, 2019

| Country | Labour | Consumption | Capital |
|---|---|---|---|
| EU27 | 38.1 | 17.4 | - |
| Germany | 38.1 | 15.8 | 31.2 |
| Denmark | 34.6 | 24.0 | 41.9 |
| France | 39.9 | 18.3 | 54.2 |
| Netherlands | 32.5 | 19.7 | 15.9 |
| Belgium | 40.4 | 17.7 | 35.1 |
| Poland | 33.7 | 18.6 | 23.4 |
| United Kingdom | 25.7 | 15.2 | 31.5 |
| Italy | 43.8 | 16.2 | 30.4 |
| Sweden | 39.0 | 21.6 | 27.0 |
| Ireland (Rep.) | 33.5 | 19.4 | 14.1 |

**Sources**: European Commission (2021) Taxation and Customs Union, Data on Taxation; See McDonnell (2021)

The EU average is 17.4% with a low of 13.8% in Spain and a high of 24% in Denmark. Ireland's ITR on capital income of 14.1% is 8th lowest of 25 EU countries.

Finally, Ireland's ITR on labour income, at 33.5%, is below the EU average of 38.1%. However, Table 5.4 shows that the ITR paid by employees in Ireland, at 24.3%, actually exceeds the EU average of 21.1%. Instead, we can see that Ireland's low overall ITR on labour arises because employers in Ireland have an ITR off just 9.2% compared to 17% for the EU as a whole. In other words, employers in Ireland have an overall average effective tax rate on employment that is just 54% of the EU average.

## 5.2 Capital taxes

Ireland generates relatively large amounts of revenue from **capital taxes**. However, Ireland's current level of revenue is being distorted upwards due to the extremely high receipts that are currently being yielded from corporation taxes. Table 5.1 suggests that receipts from taxes on capital are high. As it happens, this is a function of the relatively large proportion of capital income in Ireland relative to Irish GDP, and the commensurately elevated receipts from corporation tax. Table 5.3 shows that Ireland has a low effective tax rate on capital. Taxes on wealth and property (capital stocks) are comparatively low relative to the EU average.

### Table 5.4: Decomposition of the ITR on labour in selected countries, 2019

| Country | Employee PIT | Employee SSC | Employee Total | Employer SSC & PT | Total |
|---|---|---|---|---|---|
| EU27 | *12.6* | *8.6* | 21.1 | 17.0 | 38.1 |
| Germany | *13.3* | *11.9* | 25.2 | 12.9 | 38.1 |
| Denmark | 33.2 | 0.1 | 33.3 | 1.3 | 34.6 |
| France | *9.7* | *6.8* | 16.5 | 23.4 | 39.9 |
| Netherlands | *10.7* | *10.4* | 21.1 | 11.4 | 32.5 |
| Belgium | 16.0 | *8.3* | 24.3 | 16.1 | 40.4 |
| United Kingdom | *12.6* | *5.2* | 17.8 | 8.0 | 25.7 |
| Italy | *14.4* | *5.9* | 20.3 | 23.5 | 43.8 |
| Sweden | *18.1* | *0.0* | 18.1 | 20.9 | 39.0 |
| Ireland (Rep.) | *19.7* | *4.6* | 24.3 | 9.2 | 33.5 |

**Sources**: See McDonnell (2021)

**Notes**: PIT is Personal Income Tax. SSC is Social Security contribution. PT is Payroll Tax.

In terms of economic growth, OECD research[7] makes clear that the most growth-friendly taxes are taxes on capital stocks (wealth) and property and in particular taxes on immovable property. In addition, these taxes are generally progressive if properly designed. Household wealth tends to be much more unequally distributed than household income. The NERI[8] has made a series of proposals for reforming the taxation of capital stocks. For example, the NERI proposes that government should introduce a tax on net household wealth in excess of €1 million and phase out various reliefs associated with Capital Acquisition Tax and the Local Property Tax.

Taxes on the stock of wealth and on wealth transfers offer the most promising 'low hanging fruit' for increasing government revenue in the short term. Ireland's under-taxation in this area should be eliminated as soon as possible (i.e. starting in Budget 2023) with further revenue gains both desirable and achievable over the short-to-medium-term.

## 5.3 Labour taxes and social contributions

As shown in the four previous tables, Ireland's combined taxes and social security contributions (SSCs) from labour income are very low by EU standards. We can also see that the low level of social security contributions (PRSI) from employers accounts for the entirety of the nominal gap between Ireland and the EU average. On the other hand, while implicit taxes on labour income are low, the combination of effective taxes and SSCs paid by employees is *not* low when considered in aggregate across the economy.

Thus, by far the greatest scope to increase government revenue (in the sense of exploiting areas of relative under taxation) is via increases in employer PRSI and to a lesser extent self-employed PRSI. Congress believes that significantly increasing employer PRSI must form an essential component of the necessary long-term reforms to the revenue base that will enable us to meet the long term challenges in areas like population ageing and managing the just transition. In addition, social insurance helps protect workers in the event of loss of income related to inability to work or to find employment. Our view is that the scale and sufficiency of Ireland's PRSI system should be brought fully into line with that of Western European norms over the medium-term.

The process of gradually increasing employer PRSI should begin in earnest in Budget 2023 with an increase in employer PRSI for the proportion of wages in excess of €100,000. Such a measure would have almost no impact on the generally lower paid economic sectors that have been most affected by the pandemic, but would nevertheless generate significant revenue.

## 5.4 Congress revenue proposals

Over the medium term there will need to be significant reforms on the revenue-side in order for us to address the chronic underfunding of public services and in order to implement the transition to a zero-carbon economy in a manner consistent with climate justice. The direction of travel for policy will need to be net revenue raising, as opposed to net revenue reducing. Plans to implement tax cuts are short-sighted and should be abandoned.

There should be a comprehensive item-by-item review of the system of tax expenditures (tax reliefs). Tax expenditures are a form of hidden public spending that tends to deliver larger benefits to higher income households. The Combat Poverty Agency pointed out that the impact of these types of relief is to undermine the principle that people should pay tax in proportion to their ability to pay.[9] Tax expenditures also cause economic distortions and are non-transparent.

In addition, because tax expenditures narrow the tax base, it is necessary to either set tax rates higher or to reduce the provision of public services and social transfers. Tax expenditures often have significant deadweight costs and can distort economic activity – as evidenced by their role in the pre-2008 asset boom. All tax expenditures should undergo regular, rigorous and transparent cost benefit analyses that consider environmental and equity impacts and all tax expenditures should also have a built-in sunset clause of no longer than three years.

Overall, Congress is proposing a number of measures on the revenue side:

- Reforms to **capital taxation** should begin in 2023. Specifically, Congress propose the following set of reforms to increase revenue:
  - **A 0.6% net wealth tax on households with net assets worth more than €1 million**. Ability to pay relates to income and wealth, not just income. There is no justification either in equity or economic efficiency for the absence of a modest tax on wealth.
  - **Significantly greater tax contributions from inherited wealth,** including fundamental reforms to the system of CAT related tax expenditures and the treatment of inherited/gifted income. For example, substantial reductions in the CAT reliefs for agriculture and business would be prudent – these principally benefit very substantial inheritances and are unlikely to benefit the economy in any meaningful way. These reliefs should be abolished. They could be replaced by instalment reliefs that would be payable over multiple years at zero or very low rates.

- **Reforms to the system of tax expenditures related to CGT** e.g. reducing the generosity of retirement relief and entrepreneurs' relief, and treating death as a disposal for CGT purposes.
- An **increase in the rate of the LPT** in Budget 2023, **as it applies to non-principal residences and to properties worth in excess of €1 million**
- **Consideration should be given to the introduction of a Site Value Tax (SVT)** alongside the existing LPT. An SVT would help reduce land and property prices.

- In relation to taxation of labour, Congress proposes that:
  - Reforms to social insurance should start in 2023, with **an increase in employer and self-employed PRSI on those earning in excess of €100,000**. Self-employed PRSI should eventually be increased to the combined employee and employer rate.
  - **The Special Assignee Relief Programme (SARP)** is extremely regressive and odious to any notion of fairness or equity, and **should be ended** in Budget 2023.
- In relation to taxation of consumption, Congress proposes:
  - **Increases to existing taxes and the introduction of new taxes on pollutants** (e.g. diesel, cars, packaging, air travel, car parks, congestion charges, and single-use plastics) and on **other activities and items with negative health or social outcomes** (e.g. tobacco and betting).
- Congress further proposes a review of the system of tax expenditures to eliminate unjustified or overgenerous measures and improve the equity of the system. For example:
  - **The Help to Buy scheme should be ended** at the earliest opportunity.
  - **The tax-free retirement lump sum and the Standard Fund Threshold** are both excessive and **should be reduced**.
  - The **R&D tax credit** carries enormous deadweight and **should be reformed** to better target micro and small businesses.[10]
  - The **tax relief for private health insurance should be eliminated** on a phased basis over the short-to-medium term. This relief is regressive and inconsistent with the policy goal of implementing Sláintecare.
  - The **restoration of the reduced 9% VAT rate for hotels and restaurants to 13.5%.**[11]

Finally, Congress supports fundamental reform of the treatment of multinationals. The coming international changes in the taxation of multinationals are welcome from a tax justice perspective. Harmful tax competition and facilitation of aggressive tax planning should not form part of Ireland's tax policy toolkit in the future. Ireland should be one of the 'first movers' in implementing the new global policy regime. Failure to do so risks further reputational damage for the country.

## Endnotes

1 A study of hospital employees in Australia found that 53% of respondents were negatively affected by a lack of appropriate childcare. "*The ability to maintain workdays/hours, to be at work on time, to work the usual shift times, and be more available for other shifts, was seen as a key benefit of having accessible onsite care for children with the appropriate operating hours*." (Stevens et al. 2021, p.790).

2 The 2020 **Oireachtas Special Committee on Covid-19 response** recommended (No. 2) that: *A review should be undertaken into the impact of privatisation of Ireland's nursing homes and to ascertain its impact on: Nursing levels; Expertise and qualifications of staff; Medical and other facilities available in older people care settings as a result of the policy decision by previous administrations to incentivise private care settings resulting in 80% of residential care been in the private sector, and; The adequacy of funding to deliver optimal outcomes.* The 2021 **expert review group on Covid-19 in nursing homes in Ireland,** observed: '*There is increasing evidence to show that highly dependent persons can live safely and more happily in domestic settings, provided their required homecare supports are in place. Given ageing demographic projections, particularly for the numbers aged 80 years or over, there will be a growing need for a range of long-term care, including nursing home care. Nursing homes should be part of a continuous spectrum of care of the older person in the wider healthcare system, with provision of multidisciplinary support*. It also recommended that: *Integration of private nursing homes into the wider framework of public health and social care should be advanced. This should be prioritised in the short term with the implementation of the recommendations in this Report, and longer-term reform should be pursued as a key component of the intended Commission on Care;* and that: *A review of employment terms and conditions of nurse and healthcare assistant staffing grades in nursing homes should be undertaken with a view to ensuring future capacity and the supply of qualified staff*.'

3 Written answer to Dáil written question, no.57173/21, 23 November 2021.

4 416 employees had been placed in short-time work support by their employers in February 2020. This rose to a peak of 1,619 in March 2021 (data to June 2021). Source: *2021 SPC annual review of the Social Protection Performance Monitor (SPPM) and developments in social protection policies: Annex 2, Table 8, p.74.*

5 See for example, *Inside-Out Hospitality: A study of working conditions in the hospitality sector in Ireland,*

Research report by Dr. Deirdre Curran, J.E. Cairnes School of Business and Economics, NUI Galway, June 2021.

6 Table C1.1. Total expenditure on educational institutions per full-time equivalent student, p.241.

7 OECD (2008) *Do Tax Structures Affect Aggregate Economic Growth?* Empirical Evidence from a Panel of OECD Countries, OECD Working Paper No 643

8 McDonnell, T. (2019) *Taxing Property: Suggestions for Reform*, July 2019, NERI Working Paper No 63

9 Combat Poverty Agency (2005) *Submission to the Department of Finance on the Review of Tax Reliefs and Exemptions on High Earners*

10 Tax Strategy Group paper 22/03 (July 2022) indicates that the cost has increased from €355 million in 2018 to €658 million in 2020 and states that, 'It is expected that the cost will increase again in future years.'

11 The Government puts the total cost of this subsidy reintroduced in Budget 2021 with effect from November 2020 to February 2023 at €902 million (answer by Minister of Finance to Dáil written question no.32761/2022, 21 June 2022.

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STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions

Irish Congress of Trade Unions
31/32 Parnell Square
Dublin 1
Ireland

Tel: +353 1 8897777 Email: congress@ictu.ie

www.ictu.ie

@irishcongress