Democratic Socialist Party.
PO Box ~~508~~ 806. Dublin 8.

DEMOCRATIC SOCIALIST PARTY

OUTLINE POLICY ON

TAXATION

TAXATION POLICY

The inequalities of the present taxation system represent one of the most urgent economic grievances facing the working class of the Republic. It is now over three years since the campaign was launched to expose how the main burden of income tax was being carried by the PAYE sector. Several broad areas were singled out for reform: the PAYE sector was over-taxed through fixed income bands; capital taxation was absurdly low and had been getting lower; tax evasion was exceptionally high; and there was a huge imbalance in the distribution of the tax burden as between town and country. The campaign received massive support in the form of huge protest demonstrations held in all the major urban centres and sustained over a two year period. Yet to date the only discernible government response has been an attempt to side-step controversy by changing from high income tax to high rates of VAT. The Commission on Taxation set up by Fianna Fail hardly deserves a mention since only two out of its ten members are trade unionists and its report will not be published for several years.

It is the contention of the Democratic Socialist Party that the record of the two major parties shows them to be determined to preserve inequalities in taxation, and that the timidity of the Labour Party when confronted with powerful interest groups like the farmers has caused it to lose all credibility. An equitable system will not be introduced until there is effective socialist representation in the Dail.

Any progressive tax system should be based on the following four minimum objectives:

* To raise adequate revenue to finance the public services, the system of social welfare at a realistic level, and Government measures aimed at increasing the national productive capacity.
* To ensure that the principle of "equality of sacrifice" is adhered to in the application of taxes.
* To effect a redistribution of wealth.
* To coordinate the tax system with progressive economic aims wherever possible, e.g., tax incentives for industrial investment, reducing inflation by taking VAT off certain items like school books, or tax measures which help to modernise the economy.

Before examining the specific proposals for reform it is essential that one aspect of the political background is made clear. Over the last twenty years the Republic has been in transition from a largely agricultural society in which the values of the small farmer and the small businessman were held to be the ideal, to a largely urban society where the working class make up a majority of the population. Rapid social change has been taking place while in politics the changes have been minor.

On the question of a major tax reform, however, the interests of the traditional small business and farming sector of the economy run directly counter to the interests of the majority in the modern sector. Progressive tax changes like a clamp-down on tax evasion or the introduction of a substantial resource tax on agriculture may well have the effect of speeding up the decline of the older sector. The whole question therefore has implications, both political and social, which strike at a very sensitive nerve for the main parties.

1. MEASURES TO REDUCE TAX EVASION (ILLEGAL) AND TAX AVOIDANCE (THE USE OF LEGAL LOOPHOLES)

The amount of tax evaded each year is impossible to calculate for obvious reasons. If it is considered that the 6,000 tax dodgers actually caught in 1979 were only a tiny percentage of the whole and that no detailed examination of tax returns takes place unless there are glaring discrepancies, the figure of £100 million per annum can be taken as a conservative estimate. The worst area for both avoidance and evasion in income tax is the very large self-employed category which includes small businesses, the small number of farmers who are liable for income tax and certain of the professions. As a means of ensuring that the self-employed pay their share of tax, 10% of all self-employed tax returns should be selected on a random basis for thorough examination by the Revenue Commissioners (the system currently used in the U.S.), with severe penalties where tax evasion is discovered. In order to make the system effective an increase in the size and scope of the tax authorities is essential.

A trend during the seventies was that while several apparently progressive taxes were introduced like Capital Gains Tax, Capital Acquisitions Tax and Wealth Tax, there were so many loopholes that a relatively small amount of actual revenue was collected. If it proves impossible to fill the loopholes under present taxes new taxes on property or capital must be introduced. The success of the banks in discovering loopholes to cut down on tax payments makes them a special case. Businesses should be prevented from passing on capital allowances to the banks and the principle of a tax on windfall bank profits should be extended.

A programme of tax reform which does not include specific measures to clamp down on the exceptionally high rates of avoidance and evasion that occur in the Republic, would merely bolster the present inequities.

2. A RESOURCE TAX ON AGRICULTURE

Taxation in agriculture needs to serve two purposes: the farming community must pay its fair share of national taxation, and the tax should act as an incentive to efficient agricultural production. All economic surveys and reports on the subject are agreed that Irish agriculture functions at only a fraction of its potential. A large part of the problem is that too much land is in the hands of farmers who are unable or unwilling to adopt new ideas about farm management. It is essential that the type of taxation used on farming profits should be such that it encourages the conservative inefficient farmers to make way for those who can achieve a much higher productivity.

The most progressive method of farm taxation is a tax on land as a resource (known as "Resource Tax" or "Land Tax"). Under this system a fixed amount of tax is payable based on the land holding (ideally, land type, etc., should be taken into

account, as well as acreage). There is thus a powerful inbuilt incentive to efficient production. This principle was partially accepted by Fianna Fail (or rather the Lynch wing of Fianna Fail) when in the 1980 Budget a Resource Tax was introduced. The tax only affected farms of over £70 Rateable Valuation (on average this meant farms of 140 acres and over, and affected only a small number of big farmers). It was therefore inadequate on several counts, and yet it has been scrapped in direct response to political pressure mounted by farming interests.

Farmers' income tax payments remain derisory. In 1980 86% of total income tax revenue came from the PAYE sector, while a mere 2½% was contributed by farmers. (Less than a quarter of the country's farmers are even liable for assessment for income tax purposes).

It has been clear over the last few years that the farming community have every intention of fighting to preserve their privileged position in the tax system, and looking at the political parties it is very likely that they will succeed. Fianna Fail and Fine Gael have always been in competition for the right to represent rural interests in the Dail; the Labour Party receives surprisingly high votes from certain rural areas, a fact which prevents it from even mentioning the subject of agricultural tax; and on the left, SFWP is so weighed down by the Sinn Fein tradition that it has difficulty attracting substantial working class support. This state of affairs was one of the major factors in the formation of the Democratic Socialist Party.

3. HIGHER CAPITAL TAXATION

Compared to other EEC countries the level of capital tax in our system is extremely low and during the last six years it has been decreasing. At present there are good grounds for believing that wealth is actually being redistributed in the opposite direction to that intended – from wage earners to the wealthy, while taxation on unearned income is often less than that on earned income.

Until 1975 the main form of capital tax was estate duties which brought in a paltry £12.13 million (1.6% of total revenue). This was replaced by Capital Gains Tax, Capital Acquisitions Tax and the Wealth Tax which in five years have brought £50 million into the exchequer – in real terms the equivalent of one year's estate duties. Briefly what happened is that in 1974 the Coalition Government proposed in a White Paper a new system of capital tax to replace estate duties and take in roughly the same amount of revenue. The measures caused such a storm of controversy stirred up by wealthy interests that the Government watered down its proposals very significantly. The Fianna Fail Government subsequently abolished Wealth Tax and applied a further reduction to Capital Gains Tax. This ludicrous situation highlights the lack of an effective and vigourous working class party in Irish politics.

In 1981, capital taxation contributed only about one halfpenny of every tax pound. This is a far lower proportion than in any other OECD country.

Wealth Tax should be re-introduced at a new rate of 3% and other capital taxes should be substantially increased.

4. HIGHER CORPORATION TAX

Corporation tax is the tax on company profits. The situation at present is as follows: profits of manufacturing industry are taxed at 10%; for companies not engaged in manufacture or exports the top rate of 45% (now due to to rise to 50%) applies (with lower rates for small companies) and all companies which are liable to corporation tax can write off expenditure on buildings and machinery against tax (the system of capital allowances).

The justification for this sytem is that low company tax helps to attract foreign industry to the Republic and the various differentials in the tax are designed to boost investment in the economically important areas of industry. It should be said that even under this exceedingly generous arrangement private industry is not investing anywhere near sufficient funds to solve the problem of unemployment. Ultimately the establishment of proper planning institutions and the expansion of public enterprise offers the best prospect for using public money to combat unemployment,and in this context the present arrangement allows private companies to receive public money (by not having to pay their share of tax) without the slightest provision for public accountability.

However the most urgent economic priority remains the provision of jobs in the existing political and economic circumstances. While the political system is dominated by conservative parties and while the public sector is run by managers with little commitment to public enterprise the DSP supports the principle of using the tax system to encourage investment. We also support the bias in favour of exports and the bias in favour of manufacturing companies.

There are at present many small companies not engaged in manufacture which employ very few people and yet which benefit enormously from the system of capital allowances. This abuse of the system must be ended.

Now that corporation tax on the profits of manufacturing companies has been reduced to 10%, the various reliefs and allowances effectively reduce the real tax rate to nil on these companies.

Tax rates and allowances must be changed to provide for a substantial tax yield on profits – which contributed only about 5% of tax revenue in 1981.

CONCLUSION

Lip service has been paid to the idea of a fairer tax system by the major parties, and a series of budget speeches proclaimed that a new dawn had arrived. Nevertheless, successive governments have managed to sidestep the demands of PAYE workers, even when the desire for a fairer tax system was expressed in general strikes and massive demonstrations. Evasion on a colossal scale continues, farm income remains in a privileged position by and large, taxation on capital and property has been whittled away over the years, company taxation is minimal – the inequities of the system have in fact increased. Nothing could illustrate more clearly the need for a strong determined political voice for Irish working people.