

Changes to Tax Policy can Support Economic Growth and Competitiveness - NCC

The National Competitiveness Council in its submission to the Government's Commission on Taxation has called for changes in tax policies to meet the needs of the current economic environment and which contributes to long term competitiveness.

"Ireland's economic success in the last number of years is due, in no small part, to the taxation policies of successive governments. In the current economic climate, the NCC believes that tax policy can continue to play an important role in supporting economic growth and enhancing Ireland's long term competitiveness", commented Dr Don Thornhill, chairperson, NCC.

"Firstly, Ireland's corporation tax rate of 12.5 per cent built on earlier tax policies which stimulated exports and foreign direct investment. The equalisation of corporate rates for manufacturing and services companies is also paying dividends as the internationally traded services sector is a major factor in driving Ireland's export performance. Secondly, the reduction in personal tax rates, a key consequence from our social partnership process, has enhanced the incentives for people to participate in the labour market and has reduced the costs for companies when they hire more people", he continued.

To meet new challenges the NCC recommends that policy in this area needs to change and evolve.

Summary Findings

- **Labour Taxes**
Despite greater fiscal pressures on Government, the maintenance of a competitive tax wedge (i.e. the ratio of total labour taxes to total labour costs) is an important guiding principle for taxation policy going forward.
- **Knowledge Economy**
Consideration should be given to the role that taxation policy can play in making the knowledge economy a reality, particularly how taxation policy can encourage people to continuously enhance their skill levels, how companies - especially small companies - can be encouraged to invest in research and development, and how the creation and management of intangible assets (e.g. brands, software, copyright, etc.) from Ireland can be encouraged.

- **Property**

Stamp duties, which are taxes on property transactions, increase the costs of buying and selling property and reduce liquidity in the housing market. This results in the inefficient use of existing housing stock and reduces labour mobility. The NCC acknowledges the difficulties in reforming property taxes but would advocate taxation of property stocks through recurrent taxes rather than taxes on transactions. The goal of such a tax on property stocks would not be to increase overall revenues and care would be required not to 'double tax' those who have paid significant stamp duty taxes in recent years.

- **Investment**

The NCC recommends that the Government should continue to shift tax incentives away from investments in property. Strong tax incentives for property have the effect of reducing the incentives for investment in productive assets (e.g. firms) which would stimulate the exporting capacity of the economy and other financial assets (e.g. pensions, shares, etc.). Potential may exist over time to reorient property incentives towards meeting other key national goals such as encouraging long term savings to meet the needs of retirement.

- **Carbon Taxes**

The NCC cautions that Ireland needs to proceed carefully on the introduction of a carbon tax as the costs of doing business in Ireland have already increased rapidly in recent years. It is also notable that businesses are already facing significantly higher energy costs and are already making significant progress in reducing their energy and carbon intensity. If a carbon tax is to be introduced, it should be introduced at a relatively low rate, and then ramped up over time.