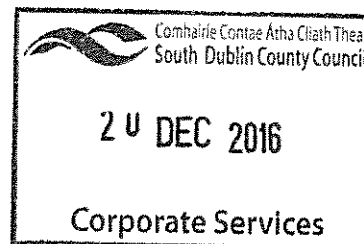




Our Ref: 16/4064/MF (Your Ref: M2/1016)

19 December 2016

Mr Colm Murphy
Meeting Administrator
Corporate Performance and Change Management
South Dublin County Council
County Hall
Tallaght
Dublin 24



Dear Mr Murphy

The Minister for Finance, Mr Michael Noonan TD, has asked me to reply to your letter of 26 October 2016 concerning a motion agreed at the meeting of South Dublin County Council held on 17 October 2016 *"that this Council, concerned at the need for adequate and sustainable funding for Local Government and services, and rejecting the regressive Local Property Tax, calls on the Minister for Housing, Planning and Local Government, and the Minister for Finance to repeal this Tax and allocate funds drawn from a Financial Transaction Tax, a Wealth Tax from those with assets valued above a million euros, and a strict implementation of the 12.5% Corporation Tax, thus enabling Local Authorities to fund necessary services for our citizens. The Chief Executive to convey the content of this Motion to the above Ministers and a copy be circulated to all City and County Councils."*

The objective of the Local Property Tax (LPT) is to broaden the domestic tax base and to replace some of the revenue from transaction-based taxes with an annual recurring property tax. Our reliance in the past on transaction-based taxes proved to be an unstable source of Government revenue. In contrast, the experience internationally has been that property taxes are a stable and secure source of funding. Moreover, the LPT enables us to achieve the goal of stability in a way that does not directly impact on employment. Research and experience internationally consistently show that taxes on immovable property are among the taxes that are least detrimental to growth.

The charging structure for the LPT is progressive as the owners of the most valuable properties pay the most. The basic rate of 0.18% applies up to property values of €1 million, with a higher rate of 0.25% applying on the portion of value above the €1 million threshold. In addition to the progressive rate structure, and to the extent that better off people tend to own more valuable properties, the LPT is a progressive tax particularly over the life cycles of taxpayers. The LPT legislation provides appropriately in relation to ability to pay and conforms to international norms.

The LPT is producing a stable revenue yield for local authorities although both yields (and tax rates) are modest internationally. By end 2016 and since its inception LPT is expected to have contributed about €1.7 billion to the funding of local authorities.

With regard to a Financial Transactions Tax, the position of the Government is that a Financial Transactions Tax would be best applied on a wide international basis to include the major financial centres. This would prevent the danger of activities gravitating to jurisdictions where taxes are not levied on financial transactions with a likely loss of employment and tax revenue. Notwithstanding this, the previous Government was not prepared to stand in the way of EU Member States that wished to work together to implement a Financial Transactions Tax and, in this regard, adoption of a decision formally authorising enhanced cooperation took place during the Irish Presidency of the European Union in January 2013. The UK intention to commence the process of leaving the European Union increases the difficulties of introducing such a tax given the potential for the UK to compete more strongly using different domestic measures for such financial services activities outside the EU. In any event, despite significant engagement by the relevant Member States there has been no agreement on the introduction of a Financial Transactions Tax and it is not clear whether agreement will be achieved in the near future.

Furthermore, Ireland already has a tax on financial transactions; a Stamp Duty on transfers of shares in Irish incorporated companies which currently stands at 1%. The yield from this charge in 2015 was over €424 million. If Ireland was to participate in a Financial Transactions Tax it would require us to abolish this Stamp Duty.

Members of the Council may also wish to note that the Financial Institutions Levy announced by the Minister for Finance as part of Budget 2014 is a revenue raising measure which provides for a contribution from the banking sector to Ireland's economic recovery. The levy is in place for the years 2014 to 2016 inclusive with an anticipated annual yield of €150 million. As the levy is a percentage of an institution's Deposit Interest Retention Tax (DIRT) liability in 2011, liability to the levy relates to the size of an institution's Irish operation. The entire banking system has been underpinned by the strong Government support provided both here and abroad and the Minister considers it is appropriate therefore that the banking sector should make a contribution to the State's economic recovery. Accordingly, he announced in his Budget 2016 statement that he proposed to extend the levy out to 2021, subject to a review taking place of the methodology used to calculate the levy. This extension has accordingly been provided for in Finance Bill 2016 and is expected to bring in an additional €750 million over the period, which is a very significant additional contribution to the Exchequer.

The Government has no plans to introduce a wealth tax, although all taxes and potential taxation options are of course constantly reviewed. Wealth can be taxed in a variety of ways, some of which are already in place in Ireland. Capital Gains Tax (CGT) and Capital Acquisitions Tax (CAT) are, in effect, taxes on wealth, in that they are levied on an individual or company on the disposal of an asset (CGT) or the acquisition of an asset through gift or inheritance (CAT). DIRT is currently charged at 41%, with limited exemptions, on interest earned on deposit accounts. The LPT is a tax based on the market value of residential properties. Finance Act 2010 introduced a new levy known as the Domicile Levy which can be seen as a form of wealth tax. It is aimed at high wealth individuals with a substantial connection to Ireland, whether they are tax resident or not, to ensure they make a tax contribution to this country in a year of at least €200,000.

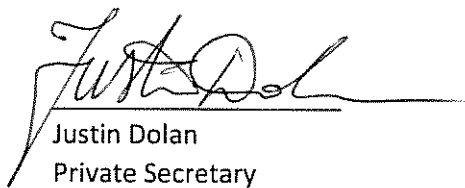
Members of the Council may be interested to know that as part of the joint research programme agreed between the Department of Finance and the Economic and Social Research Institute (ESRI) covering macroeconomic and taxation issues, a research project involving detailed analysis of household wealth distribution in Ireland and taxation was recently undertaken. The research was based on data collected by the Central Statistics Office (CSO) in 2013 as part of the Household Finance & Consumption Survey and involved analysing a wide variety of wealth tax scenarios, including scenarios based on wealth taxes currently in operation in Europe, that could hypothetically be applied

to households in Ireland. The aim of the research is not to make recommendations on any particular system but rather to provide a broad range of estimates to demonstrate the factors that would need to be considered in formulating a wealth tax and how they would impact the overall tax returns and the numbers and types of households that would be affected. The research paper can be found at: <https://www.esri.ie/pubs/WP549.pdf>

In relation to strict implementation of the 12.5% rate of Corporation Tax, Corporation Tax is payable by all trading companies operating in Ireland. Analysis prepared by the Department of Finance has shown that the headline 12.5% rate is very close to the effective rates of Corporation Tax paid by companies. Ireland has a low rate, applied to a broad base with a very small number of targeted incentives. The 12.5% rate of Corporation Tax is the cornerstone of our corporate tax policy. It has been a key driver for inward investment since its introduction in the late 1990s. Its importance has been maintained by the ongoing commitment to it in the Programme for a Partnership Government.

I trust that the foregoing is of assistance to the members of the Council.

Yours sincerely



Justin Dolan
Private Secretary