THE PAYE SECTOR'S PERSPECTIVE OF TAXATION AND TRADE UNION DEMAND FOR REFORM

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(Read before the Society, 2 November, 1983)

INTRODUCTION

I would like to thank the Statistical Society for inviting me to speak on the subject of taxation. It is a very broad area and I will take the opportunity to attempt to show the PAYE sector's perspective of taxation, why the large demonstrations took place, why they may recur, and outline the trade union demands for reform It is now over ten years since the first calls were articulated for a more equitable taxation system These calls were not translated into action until five years ago, and since the protests began, the tax system has actually become more regressive In spite of the largest mass protest ever seen in the country, the four alternate governments since then have shown themselves to be unconcerned with reform and have been unwilling to bend to the will of a majority of those at work

Sowing the Seeds of Protest

In the February 1973 issue of the ITGWU's journal Liberty, the Union called on the Government to implement a major reform of the tax system to reduce the glaring inequities. A major demand was that farmers be taxed and the Union also called for the indexation of tax allowances, a capital gains tax and a wealth tax Indeed, in 1974, a small number of farmers were brought into the tax net, a wealth tax was introduced and a Capital Gains Tax was introduced in 1975 too However, in the first regressive move of the 1970s', estate duties were abolished in 1975, and replaced with a capital acquisitions tax which affected only the very wealthy

At the same time, the burden of direct taxation on PAYE workers was rapidly increasing. The effective rate of tax, which had remained at between 12 and 14 per cent in the 1950s and 1960s began to rise rapudly in the 1970s and by 1979/80 had risen to 24 5 per cent This was because of conscious policy to allow fiscal drag to gather taxes Capital taxes, as a percentage of total taxation, fell dramatically in the in the 1970s. However, it was one statistic which caught the imagination and fired the anger of the PAYE workers in the late 1970s This was that the PAYE sector, which made up two-thirds of those at work, were paying almost 90 per cent of all income tax.

It was the realisation of this inequity between taxpayers and the increasing relative burden of direct taxation which led to the street demonstrations It was sparked off in early 1979 by the favourable treatment of the farmers by the government In the 1979 Budget, a 2 per cent levy was to be placed on the sale of most agricultural produce at the point of sale This was to help pay for education, research and advisory services to farmers which were costing £30m in 1979 The levy was to raise £16m. The Fianna Fail Government backed down on the levy in the face of farmer protests On 2nd March 1979 the Bricklayers Union wrote to the Dublin Council of Trade Unions calling for a one-day strike in the Dublin area because, while the Government failed to implement any of the demands for tax reform of the trade union movement, it had bowed to farmer pressure on this small levy. Over 150,000 people participated in a march organised by the Dublin Council of Trade Unions on March 20th and many thousands also marched in different centres throughout the country. The following year, prior to the 1980 Budget, the largest protest in the history of the State took place, when approximately 700,000 marched in 37 different centres.

The Growing Burden

The increasing burden of direct taxation can be seen from Table 1. A man earning the average industrial wage, married with two children, did not have to pay income tax until the late 1960s By the late 1970s, he was beginning to be taxed on more than half of his income. The effective rate* of tax had shot up too, and has reached nearly a quarter of each taxpayer's income by the late 1970s.

Table 1: The Tax Burden

Year	Tax Thresholds Male Industrial Earnings Married & 2 Children	Single	Effective Rate of Tax	Average Tax Paid	Nos on PAYE
	%	%	%		000's
1955/56	166 7	62 5	14 58	43 00	138
1956/57	161 5	60 6	13 75	45 00	148
1957/58	156 7	59 7	13 75	46 00	158
1958/59	148 5	57 9	12 92	44 00	170
1959/60	143 2	56 6	12 50	44 00	180
1960/61	165 8	71 0	12 50	34 00	180
1961/62	154 3	67 7	13 33	52 00	210
1962/63	140 9	64 0	13 33	55 00	250
1963/64	134 8	62 4	13 75	59 00	275
1964/65	121 8	58 8	12 92	64 00	350
1965/66	117 2	57 4	13 33	67 00	400
1966/67	105 9	54 4	14 17	70 00	475
1967/68	106 2	53 1	13 75	79 00	585
1969/70	88 6	47 8	14 17	95 00	605
1970/71	80 1	44 8	15 00	121 00	605
1971/72	73 2	42 3	15 88	152 00	650
1972/73	73 7	43 1	15 35	192 00	650
1973/74	66 2	40 3	16 99	254 00	670
1974/74 (1974)	51 9	21.6	17 89	315 00	670
1975/76 (1975)	41 1	19 6	19 95	404 00	680
1976/77 (1976)	43 0	17 9	21 47	549 00	680
1976/77 (1976)	43 0	17 9	21 47	549 00	680
1977/78 (1977)	39 5	16 6	22 45	661 00	673
1978/79 (1978)	48 5	19 0	22 48	749 00	699
1979/80 (1979)	53 9	24 5	24 52	915 00	708
1980/81 (1980)	49 4	24 8	n/a	1,130 00	777
1981/82 (1981)	45 5	24 2	n/a	1,398 00	782
1982/83 (1982)	50 2	29 5	n/a	1 603 00	792

Source Dail Report, March 1, 1983

* The effective rate of tax is the average effective rate of tax on each pound of actual income

Needless to say, the number of people brought into the PAYE tax net was also increasing rapidly. This, of course, was not because more and more people were employed, but because tax thresholds were being steadily lowered by fiscal drag to bring more people at lower levels of income, into the income tax net. Added to this was the discrimination against the growing number of married women at work, an anomaly which was not ended by reforming politicians but by court action.

Table 2: Percentage of Total Taxation

	Income Tax	*Indirect Taxes*	*Capital Taxes*	*Taxes on Company Profits*	*Taxes on Inheritances and Gifts*
1965/66	21.7	51.7	3.3	3.7	1.8
1966/67	22.2	52.2	2.8	3.3	1.6
1967/68	21.8	52.0	3.2	3.8	1.9
1968/69	22.0	51.4	3.5	3.5	2.1
1969/70	21.5	52.9	3.0	3.4	1.8
1970/71	22.8	51.8	2.3	4.0	1.2
1971/72	25.2	48.9	2.8	3.5	1.5
1972/73	54.8	48.6	3.5	3.0	1.9
1973/74	26.2	49.3	3.3	2.7	1.7
1974	26.6	47.4	3.0	2.7	1.7
1975	27.6	46.3	2.5	2.2	1.1
1976	28.2	47.6	2.0	1.8	0.6
1977	27.4	46.5	2.2	4.1	0.5
1978	28.2	46.3	2.3	5.5	0.5
1979	29.5	44.3	2.4	5.3	0.4
1980	31.6	43.3	2.1	4.4	0.3
1981*	31.0	44.4	2.1	5.0	0.3
1982*	29.6	45.0	2.2	4.7	0.3

Source: Dail Report, March 1, 1983
* Provisional Estimates

Table 2 above shows that the burden of income tax, as a percentage of total taxation, increased substantially in the 1970s from 22.8 per cent in 1970/71 to 31.6 per cent in 1980. It also shows that while indirect taxes fell, they are still a very high proportion of total taxes at 45 per cent in 1982. Indeed, Ireland has the second highest indirect taxes in the EEC (Table 3).

A recently published analysis of state taxes and benefits shows clearly that indirect taxes are regressive. (1) Table 2 also shows that capital taxes, while making up a small proportion of total taxes in the late 1960s, had fallen substantially by the 1980s Taxes on inheritances and gifts had fallen dramatically in the period reviewed. Indeed, in constant 1965/66 prices, taxes on inheritances and gifts fell from £4 7m in that year, to £2m in 1981

To fuel the PAYE anger it was revealed that the system of dealing with the accounts of self-employed, and the corporate sector, which had been archaic, was made almost redundant in 1977. It had been a purely administrative system, where the desk-bound Inspector of Taxes compared one year's accounts against those of the previous year. In response to being swamped by accounts in 1977, the Revenue Commissioners decided to introduce a most remarkable system of selection of accounts for what they euphemistically called, *critical* examination The infamous Superintending Inspector's memo, dated 14/1/77, ordered Inspectors of Taxes to give accounts of the self-employed a cursory examination to see if certain features were present, (such as the rate of gross profit of the business being out of line with that prevailing in the respective trade, or if gross receipts were understated or purchases overstated) If such features were not present, the accounts were to be passed without question A similar instruction was issued in respect of companies' accounts. In essence, these instructions meant that if accounts were well presented, they would be passed without question

Needless to say, since 1977, it has been open season for the self-employed and for the corporate sector. This also means that most VAT figures are not subject to double scrutiny. On the one hand, Ireland has one of the most efficient PAYE systems in the world, and on the other hand, it has one of the most inefficient and scandalous systems of dealing with the self-employed and companies, in spite of the huge tax protests.

The response of Fianna Fail Government to the massive demonstration in January 1980 was to set up a Commission on Taxation While it is normal practice of Governments to attempt to diffuse potential conflict situations by setting up Commissions, in this case, a review of the taxation system was urgently needed.

While the Commission was busy surveying the tax system, Governments continued to impose more and more tax on the PAYE sector, while at the same time reducing taxes on capital. From the PAYE workers' point of view, things were getting worse and worse. First, real industrial earnings had fallen for the average industrial worker (both male and female) between June 1980 and June 1983 by around 8 per cent For the single worker, net pay had fallen by approximately 15 5 per cent and for the married worker with two children, one earner, the drop in net pay was around 17.7 per cent. Secondly, it was not just income tax which was taking more out of his pocket, but also various assigned taxes. In 1980/81, PRSI was 4 5 per cent and this year, it and other regressive levies amount to 8.5 per cent of most incomes. VAT has also increased substantially in recent years

On the other side of the coin, the owners of capital were enjoying the abolition of the wealth tax, of domestic rates, of car tax, the replacement of estate duties and the almost ineffectual capital acquisitions tax and of the dilution of capital gains tax (though this was strengthened later) These were all regressive moves The PAYE worker was also watching the mushrooming of tax-avoidance lending by the banks which had resulted in the banks becoming net recipients of government aid The spectacle of the most powerful institutions in the state contributing nothing to the cost of running the State was galling to the PAYE worker On top of this he saw that most pampered sector in the Irish economy, the farmers, having rates on farm land abolished While general taxpayers were already paying a large proportion of rates, it rankled to see the larger farmers ceasing to pay the only direct tax which many had to pay. In addition, Fianna Fail not alone abolished, but repaid, the resource tax, a tax which could have gone a long way in increasing the productivity of land

Finally, it was revealed that the vast amount of money outstanding to the Revenue was not being paid (by the self-employed and the corporate sector) While the total amount outstanding was not as high as it first appeared (over £1,000m), the sum was still very large, at several hundred million

The Trade Union Demands

One of the successes of the trade union campaign on tax reform was the education of members to the fact that we were not looking for reduced taxation, which we were well aware would lead to cuts in public spending, and usually hit the poorest hardest The demands were for substantial increases in capital taxation, for the taxation of all farmers, and for an effective method of assessment and collection from the self-employed and corporate sector An equitable tax system should be progressive and redistributive It is realised that there is a clash between a tax system which is both equitable and gives incentive to industry, but the Irish trade union movement has, to date, been only mildly critical of the extremely generous incentives given to both industry and agriculture It is also realised that some powerful people do not want an equitable tax system. Every week we hear attacks being made on the principle of equity because it is supposed to reduce incentive to work Studies of the incentive/disincentive effects of taxation show that the relationship is not very strong. (2)

THE ITGWU made a submission to the Commission on Taxation which called for a simplified taxation system whereby the tax and social systems would be unified to provide a basic guaranteed income for each individual, irrespective of employment status. All those with an excess of that level would be taxed in an equitable manner with due allowance being made for each person's individual commitments and circumstances, and this would require minimum wage legislation to be introduced. The Union favours tax credits and that the various reliefs should only be allowed at 35 per cent. The number of tax rates should be reduced so that the majority of people are taxed at the standard rate with those on very high incomes paying tax at higher rates.

The Submission called for the taxation of people on an individual basis and that the workers' PRSI should be incorporated into the income tax system as part of the integration of the tax and social welfare system Discrimination in the rates of PRSI between certain groups should be ended and PRSI on employers' contribution should be maintained

Dealing with corporation tax, the Submission said that the corporate sector does not make an adequate contribution to the Exchequer Because of the barrage of allowances and reliefs to the corporate sector, most firms pay less than 10 per cent on taxable profits, including those outside manufacturing There is a trend towards an even further declining tax rate because of continuous extensions of tax reliefs (3) It is accepted that the State should aid industry and that fiscal policy should be used to generate investment in desired areas However, the range of tax reliefs to industry, and indeed to the service sector, is so extensive that fiscal policy is not working effectively Capital allowances are much too generous, being as high as 120 per cent write-off in one year, in some areas

The ITGWU has been the foremost critic of tax avoidance lending by the banks The Telesis Report estimated that tax avoidance lending cost the State £55m in 1981 in tax foregone for the banks The introduction of advance corporation tax has reduced the impact of tax avoidance lending but it is still extensive If further subsidies are to be given to the corporate sector, the ITGWU holds that these should be given overtly, that is, in a way that can be seen and judged by economists and by the citizens of the State

The 10 per cent manufacturing rate is usually an effective rate of zero. The Union holds that the effective rate of tax should be 10 per cent The Union is against inflation-adjusted accounts because of the subjective element in measuring income Capital gains should be treated as income

On the capital taxation side, the Union has suggested that the thresholds for capital acquisitions tax should be lowered substantially and the rates of tax increased There should be a wealth tax at 4 per cent with lower thresholds and fewer exemptions than the previous wealth tax The abolition of domestic rates and rates of farmland were regressive There should be a property tax based on a new survey of land, and the continuous shift towards indirect tax should be reversed because it is regressive and such taxes are very high already

Finally, the present system of *examination* of the accounts of the self-employed and of companies should be ended. Cosy deals with accountants, which allows the majority of accounts to be passed without proper examination, should be scrapped. A system of random selection of a small representative proportion of accounts, by size of business, and occupation should be devised Those businesses selected should be subject to rigorous scrutiny and every receipt and every item of expenditure examined in depth The examination should be investigative and where unaccounted payments or receipts are uncovered, penalties should be imposed Mandatory jail sentences for major evasion of tax would have a remarkable deterrent effect This is a key demand for reform of the tax system and it has been raised by several other unions, including both the main tax unions Some of these demands have also been suggested by the Commission on Taxation

The First Report on The Commission on Taxation

The ITGWU found that the dominant philosophy of the Report advocates strong measures in favour of the private accumulation of capital and it also appears to recommend the abolition of progressive rates of income tax, and will reduce tax on businesses substantially The Union has rejected the recommendation by the Commission that the Report be accepted as a single package and it has grave reservations about many of the recommendations For example, the proposed expenditure tax appears to be aimed at a tiny minority and will be impracticable The Revenue are incapable of effectively assessing the accounts at present and thus will hardly be capable of implementing this proposal The Commission anticipates itself because, while it says that it will deal with incentives in a second report, it recommends that tax avoidance lending by banks continue and it is cold on a resource tax on farmland

There are welcome aspects in the Report, such as the introduction of tax credits, their indexation, the taxation of farmers and the elimination of many personal allowances. All in all, it might be said that the Commission's recommendations are better than the chaos whch we have at present

To Tax or To Axe?

Virtually all economists have said that the Government have two choices, either to tax or to axe. Most economists and government politicians hold that there is really only one choice, and this is to axe, because we are already over-taxed I would disagree with this approach. Ireland is not an over-taxed country by international standards. Total tax revenue as a percentage of GDP in 1981 was 38.3 per cent as against 49.9 per cent in Denmark and 42 9 per cent in France In 1980, tax revenue in Ireland as a percentage of GDP was less than the European average. The following table shows how various taxes compare with those in other EEC countries.

The essential point is that the tax base is too narrow in Ireland, and that the burden falls too heavily on one sector with relatively low incomes, in general, the PAYE sector, either as PAYE workers or through high spending taxes. It is an inescapable fact that the tax base will have to be broadened and deepened because of our growing unemployment, high dependency ratio, and the saturation of the PAYE sector.

Collecting tax outstanding, combating evasion, curbing avoidance, imposing capital taxes and boosting employment and incomes would raise hundreds of millions of pounds in extra taxation. In short, there is scope for more taxation. On the other side of the coin, if there are to be cuts, they should be aimed at cutting spending which benefits the well-off However, deflationary policies eventually will lead to higher taxes as even more become unemployed

Table 3: Tax Revenue in EEC Countries

Country	*1980 Total Tax Revenue a % of GNP*	*1980 Income Tax as a % of Total Taxation*	*1980 Indirect Tax as a % of Total Taxation*
Ireland	36 7	32 0	43 6
United Kingdom	36 1	30 0	28 8
France	42 6	12 9	30 0
Germany	37 4	29 9	27 0
Italy	32 4	24.7	27 0
Netherlands	46 2	26 3	24 8
Belgium	44 7	35 3	25 6
Luxembourg	45 8	27 4	19.5
Denmark	45 7	51 4	37 3
Greece	26 5	13 9	44.2

Source: Dail Report, March 1, 1983

Conclusion

It was not the increasing absolute burden of tax on the PAYE sector which led to the large demonstrations, but the growing burden relative to other sectors. PAYE taxpayers have been discriminated against and they were fully aware of it While the burden on the PAYE sector grew, there has been a conscious reduction in capital taxes, and a deliberately inefficient system of assessment and collection of the self employed and the corporate sector.

The response of the Governments was to set up a Commission on Taxation, while at the same time imposing more taxes on the PAYE sector Furthermore, the burdens on other sectors were lessened. The banks enjoyed a growth in tax avoidance lending, which was only slightly offset by the levies; the farmers had rates and the resource tax abolished; those who were assessed by accounts knew that the chances of proper investigation were miniscule; and the tax which they chose to declare did not have to be paid until it had yielded its maximum return.

It is important to emphasise that the prospects were not for less tax or for spending cuts, as has been the case in California and Holland; nor was it against the effectiveness of the PAYE system. It was, and is, still firmly believed by PAYE workers that farmers and other self-employed were not, and are not, being taxed as effectively as PAYE workers. It is also held that capital, wealth and high incomes must be taxed at higher levels than at present

While trade unionists recognise that there is a clear relationship between taxation and public spending, we do not see it as a simple choice between taxing and axing Much more tax can be raised from those who can best afford to pay it

In my opinion, if a major reform of the tax system was implemented over the next few years, then most workers would be willing to pay even more tax, provided the low paid were protected, and the revenue was used to seriously tackle unemployment. The level of unemployment is costing the State nearly £1,000m (4) in transfers, special employment schemes, and taxes lost The present deflationary policies will only add to this and will lead inevitably to higher taxes on a shrinking tax base The Government is aiming for a low employment balanced budget, instead of planning for a high employment balanced budget, which would boost tax revenues

The first report of the Tax Commission which is comprehensive and advocates many welcome reforms, regrettably does not meet many of the demonstrators demands. It advocates measures which would even further reduce the effective tax rates on businesses and the expenditure tax is likely to be impractical The Commission's proposals would probably result more in a redistribution within the PAYE sector, than between it and other sectors However, the proposals might be better than the current chaos, and it is hoped that the Minister for Finance's cool reception to the report does not indicate a cold response to tax reform.

There have been four governments since the tax protests began in 1979, alternating between Fianna Fail and the Coalition One government fell because of tax and another fell because of its economic programme, which included tax The largest demonstrations in the history of the State have resulted in more inequity. The demonstrations were, as the name implies, demonstrations, and relied on the reforming zeal of governments to introduce equity.

Each Government has been singularly unconcerned with reform, and has thus been contemptuous of the powerful mandate given to it by a majority of those at work. This Government has focussed obsessively on the other side of the equation, on spending. The discontentment of the PAYE sector still simmers and wil not go away. Tax reform must be placed high on the agenda, and be coupled with policies which stimulate the economy, employment and thus revenue.

FOOTNOTES

1. Redistributive Effects of State Taxes and Benefits on Household Incomes in 1980, Table J, Page XXI, CSO, September 1983.
2. Economy of Ireland, Policy and Performance, Editor J.W. O'Hagan, IMI 1981 (page 102).
3. "Effective Tax Rates on Profits", J.C. Stewart, SSISI, April 1981.
4. Paper by J.J. Sexton to ITGWU Conference of Unemployment, Nov. 1982 (Figures Updated).