



Combat Poverty Agency

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Budget Analysis '89

Implications for Poverty

Preface

For the first time in recent history, the alleviation of poverty was presented as one of the primary aims of the Budget. The main task of this review is to analyse the effects of the Budget on poverty and those in the lowest income sector. It is intended to highlight both the positive steps that have been taken, to indicate where they need to be further developed and to identify continuing blocks to the alleviation of poverty.

It is a statutory obligation of the Combat Poverty Agency to advise the Government on all aspects of economic and social policy in relation to poverty. In this capacity, the Agency presented a Pre-Budget Submission to the Government entitled 'Poverty - Priorities for Action' in January 1989. This review takes that submission and others into account.

The Agency remains convinced that, even in today's difficult economic climate, it is possible to make significant adjustments to the distribution of income and resources so as to reduce the currently unacceptable levels of poverty. It is vital that a national anti-poverty programme be set alongside the Programme for National Recovery.

6 February, 1989

Overview

More so than for any recent budget, this year there was wide consensus on the need to address poverty and also on the measures required to do this. The Budget included positive and welcome moves, such as larger increases in some of the basic payments, tax reliefs for the low paid and the removal of some social welfare anomalies. It was in these areas that the Budget was at its most creative. Yet, while the Budget set out to improve the position of those on the lowest incomes, the measures included in it fall short of a concerted attack on poverty. A minority of social welfare claimants and the low paid will receive increases above the cost of living, the better-off taxpayers will benefit most from the taxation changes and only 3,000 jobs are expected to result directly from the Budget.

If poverty is to be tackled effectively, fundamental reforms in both the taxation and social welfare systems, a major job creation programme, improved public services for the poor and a programme of community development will be necessary. It was hoped that the Budget would contain a broad-ranging strategy which would set a firm foundation of anti-poverty measures for the coming years. Overall, however, the Budget will have little redistributive effect across sectors. Roughly the same proportion of tax revenues will be derived from the same sources, with some slight adjustments at the margins. Similarly, the increases in social welfare are largely paid for by savings achieved within the Departmental budget. In sum, therefore, the Budget will have little effect on the essence of poverty - the gap between the incomes of the poor and the majority of the population.

Looking to the immediate future, there is a need to build on the Budget's positive features and to establish a comprehensive anti-poverty programme to be set alongside the Programme for National Recovery. An important opportunity to begin such a process arises with the increased resources that will become available for integrated programmes from the EC structural funds. To realise the

Government's stated commitment to improving the position of those on low incomes, it is vital that combating poverty be made a strategic aim of the National Plan which the Government will soon be submitting to the EC.

Background to the Budget

The context within which this Budget was framed was one of guarded optimism. Economic performance continued to improve during 1988, especially in the later months, and the prospects appear to be even better for faster growth and more buoyant tax revenues in 1989. The main elements of economic growth during 1988 were a continued rise in exports, increased investment by industry and more spending by consumers. A major objective of budgetary policy was to control the borrowing requirement so that the confidence of the financial markets in Government economic policy would be sustained, thereby keeping interest rates at their current low level. Yet, there are many uncertainties, since we are a small open economy. Our improved economic performance has been heavily influenced, and favoured, by developments abroad: the consumer boom in Britain, growth in the pre-1992 European economy and a massive trade deficit in the US. Therefore, our continued economic recovery is contingent on favourable international developments. A further uncertainty at this stage is the amount of Structural Funds which will be obtained from the EC.

Control of the public finances was therefore the dominant theme of this Budget. However, in contrast with the last two, this was an inflationary budget in that it gave back more to tax payers and social welfare recipients than it took out of the economy. In all, the overall additional cost of the budget measures was £110m. In fact, the income tax reliefs and social welfare increases cost £126m and £70m respectively but the Government managed to offset most of these costs against savings and revenue generated by tax changes. The Budget was based on a targeted Exchequer Borrowing Requirement of £1,057m. (5.3% of Gross National Product).

With the underlying need to control the public finances, the Budget was presented by the Government as having three aims:

- a) to address poverty and increase social equity;
- b) to maximise employment
- c) relieve the burden of personal taxation.

The likely effects of the Budget in relation to these aims and objectives are discussed below.

1. The Budget and Poverty

The Budget addresses poverty in two main ways: through increases in social welfare and by a package of taxation measures for the low paid. In these areas the Budget is at its most creative and progressive. There are four main elements of the Budget which the Agency welcomes.

First, the Budget continued the welcome trend of giving larger proportional increases to some of those on the lowest welfare payments. This year long-term unemployed claimants receive a 9% increase on top of their 3% cost of living increases (last year there was an additional 8%).

A second welcome policy development is the Budget's attempt to address family poverty. A number of measures were introduced for this purpose: the lowest child dependant allowances were increased; the high rate of Child Benefit was extended to the fifth child; an allowance of £200 per child for tax purposes was introduced for families below an income threshold and the tax exemption threshold for married couples was increased by £500; child dependant allowances are to be continued for families with children up to the age of 19 years in full-time education; the expenditure on the Family Income Supplement is to be increased by almost a quarter, i.e., £1m.

Thirdly, there is a further attempt to improve the social welfare system. The main elements of this in the Budget are the rationalisation of child and adult dependant allowances and the move towards a common basic payment for children. In addition, some fathers rearing children on their own will now be eligible for

payments equivalent to widow's pension and deserted wife's allowance.

Fourthly, the inclusion of tax reliefs for the low paid as a way of dealing with poverty is a major policy shift. Up to now low pay as a cause of poverty has not been widely accepted. The response of this Budget to low pay, in that it recognises the need to address it in its own right, is very welcome and concurs with the view of the Agency.

i) Social Welfare Changes

It is important to put in perspective and to clarify the social welfare changes in the Budget. Who will benefit and by how much?

a) Increases for the Long-term Unemployed

The long-term unemployed are the main group within the social welfare population targeted by the Government's anti-poverty measures. One of the major positive features in the Budget is the 12% increase to this group, continuing a trend set last year. It is widely reported that all the unemployed will get an increase of this magnitude. This is not true. The Agency estimates that around 75,000 claimants will receive a 12% increase in income. These are the single long-term Unemployment Assistance and Smallholders Assistance claimants and those on Single Women's Allowance.

Excluded from increases of this magnitude are long-term unemployed married couples and families, claimants of Unemployment Assistance for less than 15 months, and those on Supplementary Welfare Allowance who are the worst off of all. In contrast with last year when all of the lowest payments got the larger proportional increases, this year short-term Unemployment Assistance and Supplementary Welfare Allowance rates were increased by 8%. Confining the larger increases to certain categories has a number of effects.

First, the differential between long and short-term unemployment payments will be widened - from 7.7% to 12%. Secondly, the

disparity between single claimants and couples is increased. For the second year in a row, married couples received a lower increase than single claimants because the adult dependant allowance was increased by only 3%. Thus for example, this year the increase for married couples on long-term urban Unemployment Assistance was only £1 greater than that for single people (£6 and £5 respectively) while in 1988 couples got 80p more than individual claimants. Over two years therefore, the equivalence ratio for long-term Unemployment Assistance will be reduced from .72 to .62. In this regard, it is worth noting that the Commission on Social Welfare recommended an equivalence ratio of .6 once the basic minimum payment had been achieved. Thirdly, the differential between insurance and assistance rates has been disrupted, in some cases even overturned. Unemployment Assistance (long-term) rates are now 4% higher than Unemployment Benefit. This is a very significant policy shift (especially in view of the recommendation of the Commission on Social Welfare that insurance payments be 10% higher than assistance payments).

b) Improvements for Families

A second major policy aim of the Budget is to address family poverty. Apart from the taxation and Family Income Supplement changes (which will be discussed in the next section), the main measures for helping families include a minimum child dependant allowance of £10, extending the high rate of Child Benefit to the fifth child in the family (down from the sixth) and extending child dependant allowances for children in full-time education from 18 to 19 years.

The setting of a minimum child dependant allowance of £10 per child affects eight schemes.¹ As a result of these changes, some

¹These are: long and short-term Unemployment Assistance, Unemployment Benefit, Disability Benefit, Injury Benefit, Old Age
(Footnote Continued)

families will receive increases of between 5% and 25% per child. This is a significant improvement, moving as it does towards the concept of a basic minimum payment for child dependants. It will also reduce the gap between the rates paid for child dependants across schemes. However, although there has been a further rationalisation of child dependant allowances (from 20 to 12), anomalies in the amounts paid for first and second and subsequent children across schemes still remain. There is now a differential of £4.90 a week between the highest and lowest child rates. Overall, the increases for child dependants vary from 1% (10p) to 25% (£2).

The extension of child dependant allowances for children in full-time education from 18 years to 19 years is welcome and is a progressive measure because it may encourage children of social welfare recipients to remain in education. However, child dependant allowances are paid for the children of some single parents in full-time education up to the age of 21 years. It is hoped that there will be an extension to 21 years for all social welfare schemes in the near future.

Overall, while the above measures are welcomed, in the light of the analysis conducted by the Agency for its Pre-budget Submission, child dependant allowances are still at too low a level, they are not age-differentiated and there are still differentials across payments.

Another welcome Budget measure was the extension of the higher Child Benefit payment to the fifth child. This will mean an additional payment of £6.70 a month for some 23,000 families. However, some uncertainty now surrounds the future of Child Benefit given the Budget's proposal to confine Child Benefit to families with incomes below a certain level in 1990. Although the thresholds have yet to

(Footnote Continued)
and Blind Non-contributory Pensions and Supplementary Welfare Allowance.

be determined, this is an undesirable development. It may seem inequitable to pay Child Benefit to families with high incomes when low income families are clearly in need of increased benefit. However, it is not as simple as that. The main purpose of Child Benefit is to protect the wellbeing of all children, regardless of their parents' income. It is a measure designed to increase horizontal equity - to transfer income from non-family households to family households. Furthermore, the universal Child Benefit scheme has a number of advantages: it is a payment to the mother; it creates no poverty traps; it is a floor from which to build rather than a ceiling trapping people in poverty. Targeting is complex and difficult to achieve. A finding from the recent ESRI research on poverty is enlightening in this regard: 46% of Child Benefit goes to households in the three lowest income deciles in comparison with 52% of benefits that are means-tested.² Moreover, the number of children for whom Child Benefit is claimed is falling: in the nine-month period between December 1987 and September 1988, the numbers of children for whom Child Benefit was paid fell by nearly 3%. In money terms, this represents savings somewhere in the region of £500,000. It should also be pointed out that Child Benefit has not been increased since 1986.

The Agency is of the opinion that any decisions about Child Benefit should follow a broad-ranging review of all family and child support policies. Two recent reports have underlined the need to review how we provide for our children.³ One of the main conclusions of a NESC review of certain public expenditures was that households in which families were being raised got less benefit than other households

²T. Callan and B. Nolan, 'Family poverty in Ireland: A survey based analysis' in B. Reynolds and S. Healy, Poverty and Family Income Policy. Dublin: Conference of Major Religious Superiors, 1988, p.84.

³See National Economic and Social Council, Redistribution Through State Social Expenditure in the Republic of Ireland: 1973 - 1980. Dublin: NESC, 1988 and F. Kennedy, Family, Economy and Government in Ireland. Dublin: ESRI, 1989.

from policy changes in taxation and social expenditure over the 1970s. In addition, Kennedy's recent review of the family in Ireland points to the need to take an integrated look at how state policies affect the family. The Agency currently has research underway which should provide information that will make an important contribution to the debate about family support policy and provision.

c) Action on Anomalies

A new and welcome measure in the Budget is the inclusion of widowers and deserted husbands for eligibility for payments equivalent to Deserted Wife's and Widow's Pensions. This will bring a significant increase in weekly income for an estimated 5,500 families. However, single fathers caring for their children are not included. Thus, there is a danger that in addressing one anomaly a further one is being created. The Agency in its Pre-Budget submission suggested that a comprehensive scheme for all lone parents should be considered. It is to be hoped that the Budget's measures are a step towards achieving a single scheme for lone parents which would also ensure equal treatment between men and women.

The extension of the free schemes to certain EEC pensioners and occupational injuries beneficiaries is also welcome as is the flexibility in the use of free electricity units. Another very progressive and welcome move is the removal of the anomaly whereby households with more than one social welfare claimant lost the entitlement to free fuel vouchers.

Among the other measures that will improve the administration of social welfare and the wellbeing of recipients are the updating of the classification of areas as rural or urban, the promised measures to make split payments more equitable, and the rationalisation of adult dependant allowances within Unemployment Assistance and Unemployment Benefit schemes. Most of these, along with other measures, had been sought by the Agency in its Pre-Budget submission.

d) Funding for Voluntary Organisations

The 1988 Budget contained a special additional allocation of £3m over three years to finance the provision of accommodation for homeless persons by voluntary bodies. One million of this was spent in 1988. This year's Budget makes provision for an extra £1m for accommodation for homeless persons, making a total provision of £2.5m in 1989. This is a welcome addition.

Special once-off grants to the Society of St. Vincent de Paul, the Samaritans and the Rape Crisis Centre were announced. There are many other voluntary projects, for instance local women's groups, family centres and community enterprise projects, that are currently starved of resources. There is thus a need for a whole review of funding for voluntary organisations and indeed the need to develop a flexible and responsive system of recurrent funding for the voluntary sector generally.

e) Overview of the Social Welfare Changes

While many of the changes in social welfare are progressive and very welcome, the first point to note is that they are being met largely from existing expenditure. Although the total cost of the Budget's social welfare measures will be £57.5m in 1989 (and £135m in a full year), there is very little extra expenditure involved this year for the Department of Social Welfare because substantial further savings are planned. The background financial data to the Budget indicate that a further downward adjustment of 4,000 on the Live Register (from 236,000 to 232,000) is expected to save £10.5m in 1989, while unspecified adjustments in departmental expenditure will yield savings of a further £40m this year. Thus, the Budget's measures will cost only about £7m in 1989. Clearly, there is a downward trend in social welfare expenditure in that savings of £88m were already included in the Abridged Estimates for 1989.

A second point that should be made is that the net cost of these measures will be reduced further because of claw-backs. This is because the eligibility thresholds for some schemes have not been

changed. There are a number of such claw-backs: the Differential Rents scheme run by the local authorities; thresholds for rent supplements under the Supplementary Welfare Allowance scheme; the 85% wage stop rule for PRSI payments; reductions in the alleviating payments under the EC Equality Directive. Each of these will have the effect of reducing the cost to the Exchequer of the changes. To take an example, up to £2 of the £5 increase for single long-term unemployed recipients could be clawed back by adjustments in the rent supplement. Approximately 6,500 people receive rent supplements.

Cost of living increases (to the value of 3%) were granted for all schemes. A number of points should be noted about percentage increases. First, increases given on a percentage basis are worth more to those on higher incomes, both for people on social welfare and those in employment. Secondly, inflation-based increases fail to raise the real value of welfare payments. This is especially significant when some payments are inadequate to begin with. It is now widely accepted that an adequate basic income is £60 a week for a single person (£96 for a couple). An increase to £50 for a single person and £83 for a couple as an interim basic payment has been widely sought. The increases announced in the Budget will mean that the basic long term-unemployment assistance payment is still £3 short of the interim basic level. In addition, short-term unemployment payments (both urban and rural) and Supplementary Welfare Allowance will remain considerably below the basic recommended minimum at £42 and £40.80 respectively.

ii) Measures for the Low Paid

Taxation changes and planned improvements in the Family Income Supplement are the main ways in which the Budget aims to help the low paid. A package of taxation changes is to be introduced in the new tax year. These comprise:

- an increase in the general tax exemption limits (of £500 for a married couple and £250 for a single person);
- a special allowance of £200 per child for families falling

- within the exemption limits;
- an increase in the age exemption limits.⁴

As a means of benefiting low income families, these changes are very welcome. It is estimated that these measures will exempt some 24,000 taxpayers (with 46,000 children) from tax altogether, while a further 41,000 taxpayers will benefit from lower rates of marginal tax. The allowances for children are of major benefit to poor families: a family with an income of £6,800 and 4 children will gain up to £565 a year. However, the exemption thresholds are still very low. At most, a couple can earn an income of £115 a week before being taxed; if they have children their income threshold increases by about £3.80 a week per child. Thus, a couple with 4 children can have a weekly income of £130 before becoming liable for tax.

A second difficulty with the tax changes is that some low income families pay very high marginal tax rates on income over the basic threshold. There are now some 41,000 families who qualify for marginal tax relief, a system whereby tax is calculated only on that part of income that exceeds the tax threshold. This taxable income then becomes liable for tax at 60%. Effectively, this mechanism lowers the tax bill of this group from what it would be if their tax was calculated in the normal way. However, the fact remains that the Budget placed 41,000 taxpayers in a situation where they face marginal tax rates of 60% on low incomes. This is an anomaly within the tax system and may act as a work disincentive or as an incentive to employers to cheapen wages.

The other major measure to help the low paid is the additional investment of £1m (23%) in the Family Income Supplement scheme. The

⁴These increases are as follows: £300 for married couples and £150 for single persons aged between 65 and 74 years; £400 for married couples and £200 for single persons aged 75 years and over.

full details on how the scheme will be improved have yet to be decided. In its Pre-budget Submission, the Agency suggested a minimum FIS payment as a possible improvement. Others include the abolition of the 5 children ceiling and calculating the Supplement on net rather than gross income.

2. Employment and Unemployment

The Budget mainly relies on increased capital expenditure to generate employment: an increase of £97m (7%) in the Public Capital Programme (to £1,416m) is planned for 1989. Most (£72m) of this additional expenditure will come from the European Regional Development Fund (ERDF); the remaining £25m will be provided by Exchequer funds. Most (£44m) of the additional capital spending will be on roads. Tourism and environment projects will also benefit (by some £21.5m), as will sanitary services (£10m), industrial promotion and a special development plan for Tallaght (£8.5m) and harbour development. The extra ERDF funding is expected to generate 3,000 jobs in 1989. In view of the concerns currently being expressed by a wide range of local groups, it is to be hoped that a significant proportion of the additional funding from the EC Regional Development Fund will be used to develop public transport systems in the Greater Dublin area and to rejuvenate impoverished inner city communities and peripheral suburban estates. It is not apparent from the Budget whether such development has in fact been provided for; priority would seem to be given mainly to roads.

The Government projects that non-agricultural employment will increase by 16,000 in 1989. The fact that public service employment is expected to fall by 3,000 (due to the continuation of the voluntary retirement scheme) means that a net employment growth of 13,000 is expected for 1989. The Budget contained no specific job creation schemes beyond the 3,000 estimated to result from the increased capital expenditure, the £10m. preferential loan fund for young entrepreneurs and the encouragement of private sector support for community development projects. Meanwhile, unemployment is

projected to continue to fall in 1989, down 9,000 on 1988 figures to a yearly average of 232,000.⁵

Under the heading of Community Development the Budget encourages the business sector to launch an initiative to promote community development projects so as to help create jobs in areas of particular need. This development the Agency welcomes. There are now established schemes in many countries whereby businesses make both resources and skills available to local community enterprise initiatives. There is significant potential for creating exciting and worthwhile new partnerships between local communities and the private and the public sectors if such a scheme is carefully developed and builds on the experience and success of initiatives elsewhere. However, experience in other countries suggests that, if resources from the private sector for community development activity are to become significant, then the Government will need to consider broadening the basis on which tax reliefs for such activity are available through covenants, once-off donations and payroll deductions. The benefits of business involvement in community development is also likely to be greatly enhanced if it complements a national community development programme. Research has shown that at present community development activity is seriously under-resourced. The Agency hopes shortly to present to Government recommendations on the funding and promotion of community development on a national basis as one of the strands in tackling poverty.

Overall, the employment measures contained in the Budget are quite limited: it contains no specific job creation measures and the its jobs targets may be difficult to achieve. Given this, its main hope for job creation lies in stimulating the construction sector (by the

⁵As this is 4,000 less than that estimated for 1989 last October, further savings of £10.5m are planned in Live Register (i.e., Department of Social Welfare) expenditure.

increased capital expenditure) and spin-off jobs from the consumer boom. The Agency has continually emphasised the need for significant job creation in addressing poverty. Given that there will be a continued decrease in public sector employment, the Budget is heavily reliant on private sector job creation - a sector which has never created large numbers of jobs in low income communities.

3. The Budget and Taxation

The emphasis in the Budget is firmly on tax relief rather than tax reform. Our present taxation system has many shortcomings: it over relies on income tax and indirect taxes; the PAYE sector pays a very high amount of tax; investment in capital is encouraged at the expense of investment in jobs; the tax base is narrow and certain sectors and assets are either under-taxed or escape taxation. Tax reform demands an examination of the taxation system as a whole, the extension of the tax base and a redistribution of tax liability between different sectors. The Commission on Taxation provided a blueprint for such a thorough reform to be phased in over a number of years. No such long-term programme was adopted by the Budget. Instead the focus was almost exclusively on the present taxation system, adjusting it in order to provide increases in take-home pay for most taxpayers.

i) Personal Income Tax and PRSI

Apart from the low pay package, the Budget announced six main changes in personal taxation:

- the 35% standard rate was reduced to 32%;
- the 58% rate was reduced to 56%;
- the standard rate tax band was widened (by £800 for a married couple and £400 for a single person);
- the 48% tax band was widened (by £400 for a married couple and £200 for a single person);
- the limit for mortgage interest relief was reduced from 90% to 80%;
- the limit for tax relief on life assurance premiums was reduced to 80% of its existing level.

While there are some benefits to nearly all income tax-payers, generally the higher income groups gained most from these changes; there is a percentage rise in take-home pay as one goes up the income spectrum. Lower income groups, especially families on incomes between £7,000 and £12,000, benefit less because of the failure to index tax allowances. The incomes of those between £8,000 and £10,000 will actually fall; these are the major losers in the Budget. Thus, new 'poverty traps' may have been created.

Across the income spectrum, single people will benefit more than married people from the tax changes (because they are less affected by the failure to index tax allowances). Thus, the personal taxation changes contrast with the measures for the low paid and social welfare recipients which specifically targeted families.

The reduction in mortgage interest relief significantly curtailed the gain which tax-paying mortgage-holders might otherwise have received from this Budget. The reduction in mortgage interest relief, together with the failure to index tax allowances, cancels out any increases in take-home pay for some low income families. A more effective means of targeting relief to this group would have been to index personal allowances. In addition, discretionary tax allowances (mortgage, life assurance and other reliefs) could have been made more progressive if they were allowed against the standard rate of tax only.

The most noteworthy PRSI change introduced in the Budget was raising the income ceiling for employer's PRSI to £18,000. However, an increase to £20,000 had previously been announced by the Government. The Budget also announced a proposal to increase the present reduced rate of PRSI for the country's 160,000 public servants from next year. This, one of the recommendations of the Commission on Social Welfare, is a welcome move since full insurance cover is desirable.

ii) Other Sources of Taxation

Few other taxation changes were announced, apart from increases in the 'old reliables' - alcohol, tobacco and petrol. At present, there is a heavy reliance on VAT and excise duties: these accounted for 44.8% of all taxation revenue in 1988. The Budget made no moves towards adjusting the overall structure of indirect taxes, yet the process of European harmonisation of taxes, now only 3 years away, will require major changes in the shape of Ireland's indirect taxation system, resulting in substantial loss of revenue to the Exchequer.

Although new self assessment procedures for Capital Acquisitions Tax will improve efficiency and increase the yield, there are no new substantial changes to be made in this and other forms of taxation during 1989.⁶

A wide range of taxation relief schemes exist which can be used by businesses and companies to minimise their tax liability. These include Section 84 relief, toll road exemptions, Business Expansion Scheme, Section 23 relief. These are extremely costly (e.g., Section 84 reliefs cost £95m in 1988); yet none were changed by the Budget, although the Minister promised that the forthcoming Finance Bill will include measures to counter tax avoidance. Moreover, certain tax reliefs may have the undesirable effect of encouraging non-productive investment. Significantly, the overall yield from corporation tax is forecast to fall this year to £320m from £334m in 1988; yet the total yield from corporation tax in Ireland is very low at 4.5% of total tax yield in 1988.

⁶ Some corporation tax changes are planned for this year as a result of a two-year plan announced in the 1988 Budget. This involved a reduction in the standard rate of corporation tax (from 50% to 47% in '88/'89 and from 47% to 43% in '89/'90) with a corresponding decrease in the level of capital allowance relief for plant machinery and industrial buildings (from 100% to 75% in '88 to 50% in '89).

Farmers will continue to pay tax on actual income; there is no change in Government policy on this issue. The yield from farmer taxation doubled between 1987 and 1988 due to farmers availing of the tax amnesty to clear arrears. There has been much public disagreement about farmer taxation. Farming organisations have claimed that farmers are denied up to £2,172 per couple (i.e., the value of two PAYE and PRSI tax allowances). However, such allowances are not enjoyed by any of the self-employed since they are intended to compensate PAYE tax payers for the fact that they, unlike the self-employed, pay tax on current income. From March 1st, unregistered farmers will receive an increase in VAT refunds on their sales. The rate of refund was reduced in 1987 from 2.5% to 1.4% because of the arrears owed by farmers on levies and health contributions. This will now be increased to 2%, at a cost of £12m in 1989.

Other measures which will affect the business sector include the Bank Levy which was introduced in 1988 and will yield £36m again in 1989. With the reduction in the standard rate of tax, DIRT tax and the withholding tax on professional fees will be reduced from 35% to 32%. However, life assurance companies will continue to pay tax at 35% (thereby enjoying a lower tax rate than most corporations - 43%). The restriction of £6,000 allowable against tax on the cost of business cars is to be raised to £7,000. In addition, employers' contribution to the Redundancy and Employers' Insolvency Fund is to be reduced from April of 1989 with an estimated saving to employers of around £10m in the contribution year.

iii) Tax Administration and Collection

A number of new measures are being introduced in relation to the administration and collection of tax. The extension of self-assessment to companies this year, at first on a voluntary basis, later on a mandatory basis, is welcome. In order to facilitate small traders and employers, VAT and PRSI returns will be accepted on an annual basis instead of the present monthly or bi-monthly arrangements.

iv) Overview of Taxation Changes

Taken as a package the taxation provisions fail to significantly redistribute the tax burden because:

- a) the tax base has not been widened to increase the yield from those sectors which contribute little to the current yield: corporations, capital and property;
- b) the changes made in personal taxation are regressive in that they are of most benefit to the better off;
- c) the taxation burden has not been significantly shifted across income sectors by means of targeted tax relief and a reduction in those tax reliefs that favour the better off;
- d) no attempt has been made to reduce the dependence for revenue on indirect taxation (VAT and excise) despite the advent of EC tax harmonisation in 1992.