

Speech by Irish Tax Institute President, Frank Mitchell at the Institute's Annual Dinner 2020

Minister for Finance, Distinguished Guests, Ladies and Gentlemen.

You are all very welcome to the Clayton Hotel Burlington this evening.

It is a huge honour for me to address you as the President of the Irish Tax Institute. I am particularly delighted that my parents, my wife Bec and our four wonderful children Zach, Ella, Emilie and Alice can be here tonight. Kids I hope you have a great night and wait until you see how good all the grown-ups are at staying quiet during daddy's speech. If you see anyone talking, just tell Martin and we'll put them on time out.

At the outset, Minister, I want to congratulate you personally on your re-election. You along with all the other candidates have been through a very challenging and I'm sure exhausting contest and we are very grateful to you for being with us here.

In preparing to speak to you all tonight I found myself thinking back to how the renowned psychiatrist Professor Anthony Clare described Ireland in the late 1980's.

He thought of Ireland as a patient whom he described as young and beautiful. She had by then emerged relatively recently from a long-term relationship which had not ended well. It had left her isolated, broken and penniless. But, she had many children some of whom “had gone abroad where they had earned fame and fortune, selling beans, hosting chat shows and becoming American presidents. Others stayed at home where they too earned distinction fighting amongst themselves, drinking, and dreaming of going abroad.”

It’s difficult to overstate how much this country has changed since 1990. That, of course, was the year when Ireland went to the world cup, scored two goals, won just one match and the country lost its mind. It was a great time but as a country this was a very different place.

In 1990 there was 13% unemployment, there was net outward migration of 23,000 people per annum and the population of the Republic of Ireland was 3.5 million people.

Now unemployment is 4.8%, we have net inward migration of 34,000 per annum and our population is just a whisker shy of 5 million people.

The population of greater Dublin was 1.35m in 1990; it is now as near as makes no difference to 2m.

The greater Dublin area has grown by 48% in just 30 years compared to London which grew at a rate of 30% and Paris by 18%

It is, by any measure, a remarkable transformation.

But our country's growth has created problems in housing, homelessness, health and public transport and the result of the recent election leaves no doubt as to the level of dissatisfaction that exists on these issues.

But the challenge is not in identifying problems, it is in finding the solutions.

The incoming Government must ensure that our tax system collects the revenue needed to provide these essential public services. A well-designed tax system needs to redistribute income across the population while simultaneously supporting economic growth and job creation.

It is a fact that the distribution of household income in the Republic before taxes and benefits is the most unequal in the EU. But our highly progressive tax system substantially offsets this, bringing inequality in take-home income very close to the EU average. As a recent ESRI study found, no other country in the EU does more through its tax system to redistribute wealth. The study also shows that disposable income has risen significantly over the last 30 years, reflecting strong, balanced growth across all income levels. And, on most measures, this increase in household income has resulted in income inequality being lower in 2017 than it was in 1987.

In the lead up to the election different ways of funding our essential public services were proposed, including the raising of taxes on high-earners and enterprise. Whilst this may seem a simple and popular solution, a moment's thought tells us that just as a tax on cigarettes is a disincentive to smoking, high taxes on labour are a disincentive to work and investment.

In any debate on tax rates we cannot lose sight of the mobility of capital and talent. In 1990 5.5m passengers travelled through Dublin airport; today, that annual figure stands at 32 million. That's the annual passenger numbers from 1990 flying in and out of Dublin airport every eight weeks. Ireland has benefitted massively from this increased mobility, but we must not forget that it leaves us very exposed.

Relatively recent experience in other European countries is also cautionary. Both France and Britain raised tax rates for high income earners as part of their response to the financial crisis and in both cases, it proved counter-productive and was quickly reversed.

The international tax tables produced for our budget submission compare our rates to the taxes imposed by seven other countries including Germany, France, the UK and the USA. On incomes of €25,000 we apply the second lowest amount of tax. On incomes of €100,000 and €150,000 we apply the third highest.

Our personal tax system is highly efficient at ensuring that the highest income earners bear the brunt of the tax burden, but there is an equilibrium to be achieved between redistribution and competitiveness: increasing rates of tax on top earners can and will result in a loss of capital, talent and investment.

Any debate on amendments to the personal tax system must also take account of the fact that the outcome of the digital reform process remains far from clear. Now is not the time to be testing the limits of our economy's endurance.

It is difficult to overstate the importance of the Digital Reform Process to our economy and Minister, I want to acknowledge the important work undertaken by you and your officials on this critical project. Under your leadership, Ireland's engagement with the OECD has been highly constructive while at the same time you have stoutly defended Ireland's economic interests. That is no mean feat and we thank you for your efforts on our behalf.

I also want to acknowledge the continuing work of the Tax Appeals Commission in creating a modern, transparent appeals process. The extra resources given by you, Minister, have undoubtedly been of great assistance and we welcome the progress which has been made in transforming the appeals process since TAC was first established in 2016.

There are two types of people in the room tonight. Those who actually understand what Tik Tok is and the rest of us. Those of you who understand Tik Tok probably think that thirty years is a long time; in preparing for this speech tonight, one of the predictive questions which Google threw us was "were there computers in 1990"?

The rest of us can name Ireland's two goal scorers from the 1990 world cup and remember Packie's save like it was yesterday.

In the life of a country, thirty years flies by. We need to remember this and plan now to create the Ireland of 2050.

But what is the strategy that will get us there?

The chief economist of the OECD Laurence Boone had some advice when she visited Dublin two weeks ago. Advice that will surprise nobody in this room. According to the OECD, our current and continuing economic good fortune is over dependent on our high performing multinationals, and unless we grow productivity and innovation in our indigenous sector, we will be very vulnerable to the risk of a slowdown in foreign investment.

The stakes are high, and we have a lot of ground to make up if we are to future-proof our economy. We need to bridge the productivity gap between our high performing multinationals and our indigenous businesses.

But we have an important head-start on other countries. We have attracted the best and the brightest from all around the world to live and work in Ireland. They don't just live here and buy their cashew milk flat whites here; they go on dates here and send their kids to school here. As my wife, who's Australian, will tell you, when we get you to Ireland, if we put our minds to it, we can make it very hard to leave.

We have a massive concentration of exceptional talent in this county and when they are discovering and inventing the things that will shape our world in 2050, we need to make sure that they are doing that here.

In thirty years', time we don't just want to be attracting the biggest companies in the world; we want to be growing them.

Trying to imagine what Ireland will be like in 2050 is like trying to imagine a new colour.

This is what Adobe Photoshop looked like when it was launched in 1990.

The hottest technological ticket that year was Tetris on Gameboy.

These technologies now seem laughable but in October last year the scientific journal Nature reported that Google had created a new quantum processor which did in 200 seconds a calculation which would take the world's fastest computer 10,000 years.

It's almost impossible to imagine what it will be like playing Tetris at that kind of speed.

So how do we want to prepare for 2050? We need to intensify the great work already underway by our state agencies to build world class innovative, high tech businesses that will provide well paid jobs all around the country. And we need to provide the skilled workforce to fill these well-paid jobs.

To do all that, we need the same kind of sustained political commitment and policy focus that has characterised our approach to Foreign Direct Investment.

For our indigenous investors, the cost of labour, of which tax is a significant part, is a major concern. And for a small open economy like ours, it is crucial that the tax system is broadly based and is attractive when compared with that of our nearest neighbours.

We welcome the tax measures introduced in recent years. But, in light of the level of receipts from CGT, it is now time to review the overall rate, which the Institute believes is dampening productivity and growth in our SME sector.

It is essential that the various political parties consider these issues as they formulate their programmes for government.

As tax advisers we also have a role in this. We are the interface between government and enterprise. This is a responsibility which the Institute takes very seriously. Tax advisers are a thread that binds an essential part of the social contract, without which there would be no state or government. We know that our professional advice to our clients is part of the contract of citizenship. No single interest is sustainable without promoting the good of all. Fairness and transparency, together with the rule of law, are essential civic values. These are values we can build on, and we should.

In Ireland the tax compliance rate is 98%, a fact often missed in the debate on tax. And in that context, I want to say how much we value the constructive and collaborative working relationship between the Institute and the Revenue Commissioners. We don't always agree – it would be wrong if we did – but the constructive relationship which has grown between us can and does achieve positive outcomes for taxpayers and the State as was seen with Pay & File this year. I would like to welcome the Revenue Chairman, Niall Cody and his colleagues who are here with us tonight. We look forward to disagreeing with you for many years to come.

As we look to 2050, and wonder what lies beyond, it seems clear that the biggest challenge to be overcome in the long-term is climate.

A report from the UN last week told us we are on track to exceed our 2030 carbon emissions target by 208%. So, the task of achieving the zero net emissions target by 2050 is mammoth.

To state the obvious, we need widespread and speedy behavioural change. Tax, as ever, will be an important lever in providing the right incentives for sustainable behaviour by producers and consumers.

But decarbonisation is likely to have a direct impact on our tax take. We take in an estimated €3.5 billion in taxes on an annual basis from carbon based fuels. As we decarbonise our economy, we will need to find a way of plugging that revenue gap. The OECD points out that our environmental related taxation is comparatively low and concentrated on fuel. It recommends the use of other measures such as congestion charges in the busiest locations.

The incoming government is the first that will have to move from aspiration to action. As it works to reorient our economy and tax system, the government should seek to shift the tax burden away from labour, towards pollution and other indirect taxes.

Difficult decisions lie ahead but it is exciting to imagine the country which we can build together by 2050.

As we face into the 2020's I wonder how Professor Clare would have seen Ireland today:

She is still young and people now come from all around the world to see her beauty. She is very popular and has a wide social circle. She is now in a long-term relationship with a number of Europeans. It's complicated; but she's happy.

Over time she has developed a strong and even close relationship with her ex, but they are now going through something of a mid-life crisis, which leaves her with mixed feelings.

Her children are still her pride and joy and many still go abroad where they continue to earn fame and fortune, selling beans, hosting chat shows and becoming American presidents.

Others have stayed at home where they too have earned distinction, for putting their differences aside, leading by example, and still, occasionally, dreaming of going abroad.

It has been a huge honour to speak with you tonight. Thank you so much for listening.

28 February 2020