Information Note on the Report of the Commission on Taxation: Impact on Children

7 September 2009

The Commission on Taxation was established in February 2008, at the request of the Minister for Finance, to review the structure, efficiency and appropriateness of the Irish taxation system. The Commission issued its Report on Monday 7 September 2009. Over the coming months, the Government and the Dáil will deliberate on what actions should be taken to address the deficit in public finances – their decisions will be influenced, among other things, by the Report of the Commission on Taxation.

The Alliance believes it is important for children's rights to be seriously considered by Government when making decisions in relation to the future direction of taxation policy. For that reason the Alliance made a submission, *Position Paper on the Child Benefit Payment*, to the Commission opposing the taxation of the Child Benefit payment.[1] The Alliance met with the Commission on Taxation to present our position in June 2009.

Introduction to the work of the Commission

The Commission's primary focus was on the medium to long term, and the fitness for purpose of the Irish taxation system over a 10 to 15 year period. The Commission was chaired by Frank Daly, former Chairman of the Revenue Commissioners, and was made up of 17 members from a variety of backgrounds including academia, business, accountancy, trade unions, farming and the voluntary sector.[2]

The Commission's terms of reference were broad, including a request to "review all tax expenditures with a view to assessing the economic and social benefits they deliver and to recommend the discontinuation of those that are unjustifiable on cost/benefit grounds."[3] The Commission, in undertaking this work, was asked to have regard to the commitments on economic competitiveness and on taxation outlined in the current Programme for Government, in particular:

- To keep the overall tax burden low and implement further changes to enhance the rewards of work while increasing the fairness of the taxation system
- To ensure that our regulatory framework remains flexible, proportionate and up to date
- To introduce measures to further lower carbon emissions and to phase in, on a revenue neutral basis, appropriate fiscal measures including a carbon levy over the lifetime of the Government
- The guarantee that the 12.5% corporation tax will remain.

The Commission based its work on six guiding principles: equity, flexibility, tax neutrality, simplicity, evidence based approach and pragmatism.

1 The Position Paper on Child Benefit Payment is available at: http://www.childrensrights.ie/files/ChildrensRightsAlliancePositionPaperChildBenefit130709.pdf.

2 For a full list of members of the Commission see p. V Commission on Taxation Report, 2009. Available at http://www.taxcommission.ie/

3 Commission on Taxation Report 2009, p. 237

Commission Recommendations affecting children

Part 8, Section 8 addresses specific tax expenditures relating to children. Children as members of families, and of Irish society, will of course be impacted by other recommendations outlined in the Report.

Specific Commission recommendations in relation to children:

1. Child Benefit payment
2. Foster Care payments
3. One-parent Family tax credit
4. Home carer tax credit
5. Widowed parent tax credit
6. Capital allowances for childcare facilities
7. Income tax exemption for childcare service providers
8. Benefit in kind charges for employer-provided childcare facilities

Selected general recommendations of relevance to children:

1. Individualisation of taxation
2. Refundable tax credits
3. Tax treatment of social welfare payments
4. VAT on goods currently at the zero rate
5. Incapacitated child tax credit

Specific Commission recommendations in relation to children

1. **Child Benefit Payment**

   Child Benefit is a universal support payment, payable to parents or guardians of children under 16 years of age, or under 19 years of age if the child is in full time education. Child Benefit is paid at a rate of €166 for the first and second child, and €203 for third and subsequent children. At present, it is exempt from tax.

   The Commission recommends that Child Benefit should be taxable income. It qualifies this statement with two points, that:

   - "Taxing of Child Benefit should be benchmarked against alternatives, including means-testing, to ascertain the most effective method of achieving the aims and objectives of the Child Benefit programme;
   - If taxation is applied, the Commission recommends the introduction of child tax credit to offset the additional tax payable in respect of child benefit for those at the lower half of the income scale."

2. **Foster Care payments**

   Payments made by the HSE to foster parents in respect of children in their care are exempt from income tax. In 2008 the rates of payment were €16,588 per annum for children under 12 years, and €17,992 per annum for children over 12 years.

   The Commission does not recommend a change to foster care payments. It states that their exemption from income tax should continue.

3. **One-parent Family tax credit**

   A single parent, whether widowed, single, separated or divorced, with a dependent child or children may be entitled to receive the one-parent family tax credit. The value of this credit is €1,830 per annum, where due, this is given in addition to the personal tax credit. The tax credit can be claimed by both parents in full, provided that the child resides with them for a minimum of one night per year.

   The Commission recommends that the one-parent family tax credit continue. However, it believes the credit should not be paid to both parents. Therefore it recommends that the one-parent family tax credit be allocated to the principal carer only and in a similar way to the current arrangements for Child Benefit.

4. **Home carer tax credit**

   A tax credit of €900 is available for married couples, jointly assessed for tax, where one spouse works in the home caring for a dependent child, a person over 65 years or a person who is permanently incapacitated. To qualify for the full credit the annual income of the person receiving it must not exceed €5,080. The home carer tax credit was introduced in 2000 in the context of the individualisation of tax bands.

   The Commission does not recommend a change to the home carer tax credit. It states that their exemption from income tax should continue.

5. **Widowed parent tax credit**

In the year of bereavement a widowed person may receive a tax credit equivalent to the married tax credit. A further credit, the widowed parent tax credit, is available on a sliding scale for the first 5 years after bereavement. This credit is worth €4,000 in the first year, and €2,000 in the fifth year.

The Commission does not recommend a change to the widowed parent tax credit. It states that their exemption from income tax should continue.

6. **Capital allowances for childcare facilities**

Capital expenditure incurred on the construction, extension or refurbishment of a building or part of a building that is operating as a childcare facility qualifies for accelerated capital allowances.

The Commission recommends that capital allowances for childcare facilities should be discontinued. It does not consider accelerated capital allowances to be an appropriate policy instrument in this area.

7. **Income tax exemption for childcare service providers**

This relief provides an income tax exemption of up to €15,000 where a childcare service is provided in a carer's home.

The Commission recommends that income tax exemptions for childcare service providers should be discontinued. It notes that this tax relief does not require minimum standards of care as a precondition for entitlement.

8. **Benefit in kind charges for employer-provided childcare facilities**

Where an employer provides free or subsidised childcare facilities for employees, no taxable benefit arises to the employee. Taxpayers are not required to provide details of this benefit-in-kind in their tax return and therefore the Commission was unable to assess the cost, availability and progress of this measure. This service is made available mainly by large employers, and the equity issues it raises in relation to those parents whose employers do not provide such a service were noted by the Commission.

The Commission recommends that the exemption of employer-provided children from the benefit-in-kind charge should be discontinued. It notes that it does not consider this tax expenditure an appropriate instrument to address the provision of childcare for employees.

Selected general recommendations of relevance to children

1. **Individualisation of Taxation**
   The Commission considers the options for the tax system in the future, including the introduction of individualisation of the system (where each earner would have his or her own standard rate band at the same level as the current married one earner band), a reversal of individualisation (whereby a married one-earner couples would have the same band as married two-earner couples and that all married couples would have double the value of the band available) or a continuation of the current 'hybrid' approach.

   The Commission maintains that the latter 'hybrid' approach strikes a balance between the objectives of supporting labour market participation and growth on the one hand and recognising choices families make in raising their children on the other.

2. **Refundable Tax Credits**
   The Commission recommends that refundable tax credits could be considered in the future. The Commission notes that refundable tax credits have the potential to increase equity in the tax system as they would assist those low paid workers who are below the threshold of taxation and are not in receipt of income support payments. A significant disadvantage is that they can be a disincentive to participation, including increased participation, in the labour force and result in a negative impact on economic growth.

   However, if there is not an appropriate level of uptake of direct expenditure support through measures like the Family Income Supplement within a five-year period, the Commission recommends that refundable tax credits should be considered as a policy option to ensure a more equitable distribution of resources.

3. **Tax Treatment of Social Welfare Payments**
   As a general rule, the Commission recommends that all social welfare payments should be subject to tax. However, it makes exceptions for a number of payments, including:
   - Maternity benefit (no change)
   - Adoptive benefit (no change)
   - Domiciliary care allowance (recommends the introduction of a specific exemption)
   - Respite grant (recommends the introduction of a specific exemption)
   - Family Income Supplement (recommends the introduction of a specific exemption)

4. **VAT on Goods Currently at the Zero Rate**
   The Commission recommends retaining VAT at the zero rate for goods including children's clothing and footwear, books and oral medicine. While it would be possible to move goods currently subject to VAT at the zero rate to the reduced VAT rate or standard VAT rate, the Commission believes that this would have a negative impact on households with low incomes and it would drive up inflation.

5. **Incapacitated Child Tax Credit**
   The Commission recommends that when direct expenditure support at the appropriate level is in place, the incapacitated child tax credit should be discontinued. The incapacitated child tax credit may be claimed by a parent or guardian of a child who is permanently incapacitated,

either physically or mentally, from maintaining himself or herself. The rationale given by the Commission is that parents and guardians of permanently incapacitated children are deserving of additional support from the State, so it is therefore inequitable that individuals on low incomes who are not liable to taxation, yet are caring for an incapacitated child, obtain no benefit from the current tax credit.

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