Business

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IFAC: Hike income taxes if economy overheats

Eamon Quinn

Income taxes may need to be increased if the economy were to overheat, the Irish Fiscal Advisory Council (IFAC) has said.

The fiscal watchdog said there is still enough room in the fast-growing economy but plans to ramp up capital spending and the increase in the construction new homes may soon devour any remaining capacity and expose the country and Government revenues to new dangers.

Its latest assessment was nonetheless broadly positive about the outlook for the economy and comes as the Organisation for Co-operation and Development (OECD) delivered its brightest outlook for the eurozone economy for many years. But off-setting the potential risks of overheating for the Irish economy would require a more robust economic plan and the Government ought to be ready to take money out of the economy, if required, IFAC said.

Severe signs of overheating would mean the Government should be ready to forego any plans to cut taxes, and should be prepared to increase personal taxes, its chairman Seamus Coffey said.

The economy has "perhaps" been growing beyond its potential in recent times and, any large rise in construction of new homes could generate huge amounts of revenues from employment taxes on builders and Vat on home sales, which the Government should be encouraged to put aside. Spending tax revenues generated by the "tax rich" business of building and selling homes to fuel the economy further increases overheating risks.

IFAC estimates that there remains "some slack" but that the so-called output gap is narrowing and the economy is close to its potential.

"We could go to a stable position in the coming years or we could overheat," said Mr Coffey. IFAC was concerned about where the building workers will be sourced to build well over 25,000 homes annually that will be required in the short term to catch up for the housing shortages, he said.

The plan to increase capital expenditure will mean that Ireland's spending on capital projects will jump from one of the lowest levels in the EU during the crisis to the highest in the EU in 2022.

The Department of Finance should redesign its proposed "rainy day fund" and lift the funding cap of up to €500m a year to better help absorb excess resources, if the economy were to continue to grow strongly, the watchdog said. It also echoed concerns by an EU staff report last week which raised concerns about Ireland depending on revenues based on transactions from a potentially unstable taxes on commercial property transactions.

The increase in stamp duty to 6% from 2% announced in October was the centrepiece of Minister Donohoe's revenue-raising measures that helped him adhere to the EU fiscal rules by offsetting other spending increases. The Government aims to raise €376m a year from the tax.

Relying on corporation tax generated by multinationals was also risky. IFAC said that corporation tax receipts have climbed to almost €16bn, or 16% of all Government revenue. IFAC detailed that using conventional economic measures, Irish debt had shrunk to only 63.7% of GDP in terms of Government revenue in 2016. However, using the new method of measuring the size of the Irish economy, Ireland has the fourth highest debt among the advanced economies of the OECD.

EU tax haven blacklist planned

Francesco Guarascio

The EU's tax commissioner has called on the bloc's governments to be ambitious when they decide on a common blacklist of tax havens next week and said European funding to countries on the list should be frozen.

In the wake of disclosures of offshore tax avoidance schemes by corporations and wealthy individuals, EU states launched a process to list tax havens to try to discourage setting up shell structures abroad which are in many cases legal but could hide illicit activities.

After about one year of talks, EU finance ministers are expected next Tuesday to adopt the blacklist, although governments remain divided over which jurisdictions to include on the list and on sanctions.

"I invite member states to urgently adopt before the end of the year the European list of jurisdictions that refuse to reform their tax

Spearheading innovation

Economic development teams from the UK, Spain, Malta, Poland, Slovenia, and Estonia came to Cork this week to learn about how innovation is being spearheaded in the city. The Innova Foster EU project is focused on the improvement of innovation and entrepreneurship ecosystems in cities across Europe. Delegates will learn about schemes such as Enterprise Ireland's Innovation Voucher Scheme which allows small companies to explore business opportunities with academic support from third-level institutions. Cork City Council is one of seven city regions from seven countries taking part. The delegates will also visit the Tyndall National Institute, CIT, the CIT Blackrock Observatory, and Cork's digital co-working hub, Republic of Work. Seamus Coghlan of Cork City Council (back row, right), is pictured with delegates. Picture: Michael O'Sullivan/OSM Photo

Retail spending up but car sales falling

Pádraig Hoare

Retail sales were up 4.5% in October compared to the same month last year, but car sales continued to fall, dropping by almost 3%, according to CSO figures.

There was a decrease of 0.3% in retail sales — excluding motor sales — in October when compared with September. They were up, however, by 6% year-on-year.

Car sales are now down 2.8% compared with the same period last year, reflecting the trend of motorists importing cheaper cars from the UK.

Pharmaceuticals, medical, and cosmetic sales saw a more than 7% rise in October, while spending on fuel and clothing rose slightly.

Book and newspaper sales dropped 2.5%, while there was also less spend on electricals, and items such as toys.

Analysts at Davy said the growth in jobs will drive consumer spending.

"The data suggests that consumer spending continues to grow strongly and should be a key contributor

In brief

Most firms facing skills shortages

A total of 78% of Irish companies have experienced 'moderate' or 'extreme' skills shortages over the past 12 months, according to a new salary and recruiting trends survey from jobs company Hays Ireland. While the study found that 74% of companies plan on recruiting more staff over the next 12 months, 75% said they expect finding candidates with the right skills will be the top challenge during the hiring process. Nearly 60% of employees are dissatisfied with the salaries and almost a third plan on leaving their jobs because of this, the survey added. "Not having the right talent available is more than just a short-term operations and administration headache — 31% of employers acknowledged that it's a serious problem that can undermine revenue streams and stunt growth," said Hays Ireland director Maureen Lynch.

Cork company wins supplier award

The contract services business unit of engineering and project management group DPS, which has a major design office in Cork, has been awarded best emerging supplier for Europe. The firm, which employs