

promoter. However, in the light of the recommendations in our first report<sup>2</sup> that gambling winnings in excess of a *de minimis* figure should be chargeable to income tax, we see no grounds for a betting tax on that basis.

11.8 Betting duties have been justified as a means of raising revenue from an activity which is, by definition, not essential and therefore described as 'a luxury'. Our views on this issue are set out in Chapter 5. Betting duties apply only to those forms of betting which are not subject to value-added tax. In the absence of a charge to value-added tax, special taxes on betting may be justified as a proxy for a general sales tax. It is reasonable to seek to charge all forms of consumption to tax. However, a charge of value-added tax on all betting would contravene the Sixth Directive.

### THE PRESENT SYSTEM

11.9 Betting duties are levied at a rate of 20 per cent on all off-course legal bets, i.e. organised wagers made through recognised agents or 'bookmakers'. They apply to all such betting, whether on horses, greyhounds, election results or any other future event. On-course betting carries a stamp duty of 1.5 per cent; in addition, the Racing Board collects a levy of 6 per cent. Betting on the results of photo-finishes is exempt.

11.10 Betting duties are levied on certain forms of gambling — although obviously not on others such as cards, games of chance and football pools. Therefore, we are faced with a situation in which some forms of gambling are taxed while some are not — and, of their nature, cannot be taxed.

### Evasion

11.11 We received evidence that the existing level of betting duties, particularly on off-course bets, is counter-productive as it leads to evasion. The incentive to evade is particularly strong in the case of short-priced bets in which the tax element has a very high marginal cost. This type of bet attracts the largest amounts of money. In particular, we were told that a substantial volume of betting from the Republic is telephoned to Northern Ireland and other parts of the United Kingdom since the addition to 'tax-on' bets<sup>3</sup> there is generally 10 per cent against 20 per cent in Ireland. In addition, illegal bookmakers have emerged, taking bets in public houses

<sup>2</sup>Paragraph 10.61.

<sup>3</sup>In the United Kingdom a betting duty of 8 per cent is charged on the total stakes received by the bookmaker, who is left free to decide how, if at all, he will pass the liability on to the punter. The same applies to the horserace betting levy which is charged at a rate of 0.7 per cent to 0.8 per cent depending on the turnover of the bookmaker. In practice, bookmakers use two methods of recovering these charges. One is to make a deduction from winnings. The other method is to accept 'tax-on' bets. This means that in return for a stake increased by, say 10 per cent, the bookmaker pays winnings calculated on the notional net stake without any deduction.

where racing is shown on television. Also licensed bookmakers themselves are taking tax free bets from punters they know well. While precise estimates are difficult to make, both the industry and the Revenue Commissioners feel that illegal betting has increased substantially in recent years. The Irish National Bookmakers' Association states that only about 15 per cent of off-course betting is now legitimate. They told us that bookmakers who keep the law are being forced out of business and that there is a spectacular growth in unlicensed operators.

11.12 The Racing Board stated that:

"The present rate of 20 per cent results in a huge rate of evasion. The general opinion is that it is only bets of less than IR£10 that suffer the 20 per cent duty. Anyone betting more either phones Northern Ireland or Britain or has an arrangement with a local bookmaker for a 'free of tax' bet. While the existing unrealistic rate of 20 per cent is maintained it is almost impossible to stop evasion.

11.13 The Revenue Commissioners advised us that:

"There is tight control of bookmakers, including the placing of test bets by revenue officials, but many of the very large personal bets made by regular customers escape the duty and there is considerable evasion which it is difficult to quantify. The high rate of tax is an increased incentive but no system could be suggested which would effectively counter this form of evasion.

When prosecutions are made in the District Court there are long delays because of the large number of other cases in these courts. The jurisdiction of the District Court has been challenged in the High Court but the penalties of the 1926 Act have been re-enacted to ensure that such offences come within the jurisdiction of the District Court. It has been exceedingly difficult for the Revenue to win any case before a jury".

11.14 In our first report we did not consider questions of evasion since these will be dealt with specifically in our final report. In the preparation of this report however, particularly in the context of excise duties, the extent of evasion of betting duty is such that it must be taken into account in framing our general recommendations.

11.15 We believe that a nominal rate of tax of 20 per cent on betting is virtually unenforceable. To attempt to enforce such a rate is irresponsible. It results in widespread breaches of the law and makes it very difficult for bookmakers to retain their livelihood and operate within the law. The rate of betting duty should be reduced as a matter of urgency.

11.16 We believe that betting should attract a higher rate of tax than other expenditure. This can be achieved even with a substantial reduction in betting duty. If the average rate of gross profit of bookmakers were 10 per cent and the appropriate rate of value-added tax were 35 per cent, the equivalent rate of betting duty would be 3.5 per cent. In setting the rate of betting duty, account must be taken of the rate of tax charged in the United Kingdom. We recommend that the rate of betting duty should not, in any circumstances, exceed the rate of tax charged in the United Kingdom.

#### **On-Course and off-Course Betting**

11.17 We have been advised that the differential in the rate of tax of 12.5 per cent between on and off-course betting is an incentive to encourage the public to attend race meetings. It also is claimed to encourage bookmakers to undertake the extra expense and trouble of attending meetings. The presence of bookmakers is, we have been told, necessary as a 'draw' to bring people to race meetings. It is also said to be necessary to generate a market since off-course bets are paid on the basis of starting prices. However, prospective developments in off-course betting will make this unnecessary in the near future. We believe that a reduced rate of betting duty is not the most efficient way of encouraging people to go to race meetings. Such a tax differential is very unfair to the off-course punter. If it is desirable that attendance at race meetings be encouraged by the state, this would be better achieved by grant-aiding improved amenities at racecourses.

11.18 It should also perhaps be noted that, in addition to the stamp duty of 1.5 per cent, betting on horses through bookmakers carries a levy of 6 per cent 'on-course' which is paid to the Racing Board. On-course betting on greyhounds also bears a 6 per cent levy which is paid to Bord na gCon, the state-sponsored body which controls the promotion and operation of greyhound racing and is responsible for the export trade in greyhounds, the regulation of public sales and the operation of the totalisator at greyhound racing. We considered whether such levies are a form of earmarked taxes and, as such, undesirable. After discussions with the Association of Bookmakers and the recipients, it is apparent that there is considerable support for these levies. The Commission of Inquiry referred to above may make recommendations in relation to the funding of the racing industry which would alter the basis of the levies. However, so long as levies remain in their present form, we believe that they should be regarded as a tax to be taken into account in any comparison of the incidence of taxation on off-course and on-course betting.

#### **GAMING PREMISES AND MACHINES**

11.19 Excise duties are levied on the grant of licences in connection with gaming. The present rates of duty are £300 on gaming premises licences for

a 12 month licence and £250 on gaming machine licences for a full licence for a period of a year. Special weekend licences carrying a duty of £160 are also available in respect of gaming machines. In addition to excise duties, receipts from gaming machines, unlike receipts from other forms of gambling, are specifically subject to value-added tax since 1980. (Prior to 1980 there was some doubt as to whether the exemption of 'betting' covered such receipts). We recommend no change in these arrangements.

### **Recommendations**

11.20 We make the following recommendations

1. In order to deal with evasion of betting duty, the rate of betting duty should be reduced as a matter of urgency. In any event, the rate of tax on betting should not exceed that charged in the United Kingdom.
2. Tax on off-course bets should be reduced to the level of duty and levy charged on on-course bets. The stamp duty on on-course betting should be abolished. Tax on on-course betting, other than betting levies, should be levied in the form of excise duties.

## CHAPTER 12

# MISCELLANEOUS EXCISES

### Introduction

12.1 In this chapter we examine the remaining excises now levied on goods and the excise duty on foreign travel. The chapter is divided into four sections as follows:

- (i) televisions, video players and gramophone records,
- (ii) matches and mechanical lighters,
- (iii) foreign travel tax, and
- (iv) hydrocarbons (other than oils used in road vehicles).

### Televisions, Video Players and Gramophone Records

12.2 The duties on these goods are normally justified on the grounds that the goods in question are non-essential or luxury items and that expenditure on them may be properly considered as a proxy for taxpaying capacity. However, the identification of 'non-essential' goods is extremely difficult and in practice must rest heavily on subjective evaluation. Without necessarily contending that life is insupportable without these things, it is obvious that there are a great many goods that could be considered non-essential and yet are not subjected to selective taxes. The objective of imparting a degree of progressivity in the tax system is clear from the excise rate structure for televisions which ranges from £24 for the smallest monochrome set to £121 for the largest colour set.

12.3 Another case for temporary selective taxes on consumer durables can be made on the grounds that they are necessary to regulate imports. Changes in excises on some items provide a flexible means of dealing with short-term balance of payments difficulties.

12.4 Table 16 shows the latest data on the availability of televisions, record players and cassette recorders by income range.

TABLE 16

Percentage of Households having Televisions Sets, Record Players and Tape/Cassette Recorders, 1980 by Gross Weekly Household Income

Income	Colour Television Set	Monochrome Television Set	Total	Record Player	Tape/Cassette Recorder
£	%	%	%	%	%
Under 20	20.4	47.3	67.7	15.3	12.3
20 and under 30	16.0	52.6	68.6	11.1	7.9
30 and under 40	25.0	53.4	78.4	15.1	6.7
40 and under 60	30.9	55.8	86.7	22.6	15.6
60 and under 80	37.3	53.9	91.2	35.4	24.0
80 and under 90	45.9	47.3	93.2	43.9	29.9
90 and under 100	48.7	46.1	94.8	52.3	31.7
100 and under 120	58.5	37.3	95.8	51.9	41.6
120 and under 140	63.5	35.2	98.7	59.5	42.5
140 and under 170	62.6	37.5	100.1*	57.5	43.1
170 and under 200	69.5	30.8	100.3*	65.6	54.4
200 and under 230	71.4	30.7	102.1*	69.7	61.6
230 and over	77.6	25.7	103.3*	74.7	64.3
Total	50.7	41.8	92.5	46.4	35.5

Source: Household Budget Survey 1980 Table 2.

\*Some households have both a colour and a monochrome set.

12.5 If there is a case for excise duties on goods such as televisions, there is also a case for a duty on items such as vacuum cleaners, clothes dryers, washing machines, dishwashers, refrigerators, deep freezers and telephones. Tax on these goods is likely to be shifted to suppliers in the form of reduced margins. For this reason, they may not be progressive, although they could reduce import demand significantly. Progressive taxation of expenditure is best achieved by a direct tax on expenditure on the lines proposed in our first report.

12.6 In general, EEC countries do not impose excise duties on items such as televisions and video players. Denmark, which has an extended excise system, is the exception. Because excise duties are not levied on televisions and video players in the United Kingdom, substantial differences arise between retail prices of such goods in the Republic and in Northern Ireland. These differences are aggravated by higher value-added tax rates in the Republic. The difference in the total tax burden on a colour television in Northern Ireland and the Republic is IR£160 for a 22", or IR£193 for a 26" colour television. Differences of this magnitude encourage smuggling.

12.7 Table 17 illustrates the nearer a business is to the border, the greater the effect of competition from across the border.

12.8 As can be seen from Table 17, sales of colour televisions on a population basis are

TABLE 17

**Effect of Distance from the Border on Retail Sales of Colour Televisions in Selected Towns in the Republic of Ireland in 1983**

Town	Population	Distance from Border (straight line) miles	Sales IR£	Sales per head of population IR£
Dundalk	25,663	1	170,000	6.62
Monaghan	6,172	4	80,000	12.96
Cavan	3,219	9	75,000	23.30
Clones	2,329	1	20,000	8.59
Bandon	2,535	175	229,000	90.34
Killarney	7,678	150	310,000	40.38
Tralee	16,491	150	615,000	37.29

Source: The Electrical Industries Federation of Ireland.

- almost 11 times greater in Bandon than in Clones,
- 3 times greater in Killarney than in Monaghan, and
- almost 6 times greater in Tralee than in Dundalk.

12.9 The Electrical Industries Federation of Ireland estimated that

“in 1982 a minimum of 10,000 colour televisions, at a retail cost of approximately IR£4.5 million, were illegally imported. This represents 15 per cent of the entire Irish market in that year. In 1983, we estimate that up to 30,000 colour televisions, at a retail value of IR£15 million, will be illegally imported or 33 per cent of the market for colour televisions”.

12.10 We conclude that selective excises on consumer durables may be necessary to reduce imports. Excises should only be imposed where the following criteria are met:

- (i) the goods selected should be a significant source of import demand, for example, above £20 million per annum,
- (ii) the imposition of excises should not result in significant administrative or compliance costs, and
- (iii) the prices of goods after imposition of excises should not be such as to encourage diversion of trade to Northern Ireland or give rise to opportunities for smuggling.

12.11 We recommend that the existing excises on televisions, video players and gramophone records be revised in line with these criteria.

### **Matches and Mechanical Lighters**

12.12 The excise duty on matches was introduced in 1916. Like many excise commodities, matches were selected partly on the grounds of administrative convenience but also because their consumption was relatively insensitive to price increases. The excise duty on cigarette lighters was introduced in 1980 at a time of rapid growth in the sale of disposable cigarette lighters. Notwithstanding the fact that lighters attracted VAT at the higher rate, the overall taxation favoured lighters. For this reason a new excise duty of 20p per lighter was imposed on all lighters. The revenue raised by the duties on matches and mechanical lighters in 1982 amounted to £840,000. The cost of administration was £45,000 or 5.35 per cent of the net receipts. No estimate is available of the compliance costs to taxpayers.

12.13 The excises on these goods might be rationalised on the grounds that as smokers' accessories they should be taxed in much the same way as the various tobacco products. We reject this argument. If there are valid reasons for selective taxes on tobacco products they should be confined to those products. Besides, matches and, to a lesser extent, mechanical lighters are used extensively for domestic or other purposes.

12.14 We conclude that excise duties on matches are a relic of the past and have no justification. Such goods should bear the same rate of tax as other goods. We recommend that excise duties on matches and mechanical lighters be abolished.

### **Foreign Travel Tax**

12.15 This tax was originally intended as a charge on persons leaving the state by chartered aircraft. Instead it was extended to all travellers by applying a charge (currently £5) to all sea and air tickets purchased in Ireland.<sup>1</sup> The primary motive for this tax is to raise revenue. A secondary motive is to improve the balance of payments. The Minister for Finance in the budget statement of 27 January, 1982 stated that

"An area of discretionary expenditure which I consider does not bear its fair share of tax at present is expenditure on foreign holidays. It has to be recognised that this growing expenditure abroad places considerable strain on our balance of payments".

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<sup>1</sup>It is proposed to remove the foreign travel tax from tickets issued in respect of groups of children travelling abroad on educational trips from 1 April, 1984 and to extend the tax to tickets sent from abroad to Irish residents for journeys commencing in the state. Budget Speech, 25 January, 1984.

12.16 As a measure to improve the balance of payments this tax is unlikely to be very effective. However, there is a case for imposing a tax on an area of expenditure which does not already bear tax. At present, the transport of passengers outside the state is not taxable for value-added tax purposes and any deductible tax arising in the state in connection with such transport is not recoverable through their returns by taxable persons. In principle, we consider that value-added tax should apply to the transport of passengers outside the state. Value-added tax would remove the costs imposed by the present foreign travel tax on businesses engaged in selling Irish goods abroad.

12.17 The imposition of value-added tax on foreign trips could cause considerable diversion of such business to the United Kingdom where such expenditure is exempt from tax. We recommend that the objective be to levy value-added tax at the normal rate on such expenditure as soon as the position in other countries allows this to happen. In the interim the foreign travel tax could be retained.

#### **Hydrocarbons Other than Oils used in Road Vehicles**

12.18 Diesel oil, gas oil, vaporising oil, paraffin oil, fuel oil and white spirit and LPG, with the exception of oils used as fuel in road vehicles, are subject to an excise duty of 8p per gallon (£1.75 per hectolitre). Concessionary rates apply to residual fuel oil used by the ESB and by industry and to oil used by fishermen and horticultural producers. There is also a special rate for diesel used in certain tractors and road rollers. Manufacturers of alumina in Ireland are also exempt from the excise duty on hydrocarbon oils.<sup>2</sup> There is only one manufacturer of alumina in Ireland — Aughinish Alumina Ltd. It is understood that the exemption from the duty is on foot of a long-standing contractual obligation which pre-dated the introduction of the duty in 1976. The various rates of duty charged are in Table 18.

12.19 When increasing the excise duty on hydrocarbon oil used other than in road vehicles in 1980, the Minister for Finance stated in his budget speech that "energy considerations, balance of payments considerations, and of course revenue considerations all arise here". Excise duty on hydrocarbon oils applies to oils used for both industrial and domestic purposes. We consider each of these in turn.

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<sup>2</sup>Imposition of Duties (No 265) (Excise Duty on Hydrocarbon Oils) Order, 1983. S.I. 126 of 1983.

TABLE 18

## Excise Duty Rates — Hydrocarbon Oils Other than Oils used in Road Vehicles (as at February, 1984)

	Rate per gallon
General Rate	8p
Residual fuel oil used by the ESB	7p
Residual fuel oil used by industry	3.5p
Hydrocarbon oil used by certain fishermen <sup>(1)</sup>	5p
Hydrocarbon oil used by certain horticultural producers <sup>(2)</sup>	2p
'Red' diesel for tractors used for agricultural purposes	7p
Hydrocarbon oil used by manufacturers of alumina	Nil

## Notes

<sup>(1)</sup>The effective rate of 5p per gallon applies to hydrocarbon oil used for combustion in the engine of a sea-fishing boat while engaged in sea-fishing.

<sup>(2)</sup>The effective rate of 2p per gallon applies to hydrocarbon oil used by a horticultural producer

(a) in the production of horticultural producers in one or more than one glasshouse of a total area of not less than a quarter of an acre, or

(b) in the cultivation of mushrooms in one or more than one building or structure of a total area of not less than 3,000 sq. ft.

## Industrial Oil

12.20 Table 19 shows how this tax compared with other European countries in 1980 and 1983.

TABLE 19

## Excise Duty on Fuel Oil in Certain European Countries, 1980.

Country	pence per gallon	
	1980	1983
Ireland	7.0	3.5
UK	3.5	4.5
F.R. of Germany	1.7	2.0
Netherlands	1.5	1.4
Netherlands	0.7	—
Belgium	0.3	0.02
Italy	—	2.6
France		

Source: Department of Industry, Trade, Commerce and Tourism.

12.21 Excise duties levied on products such as fuel oil, which are used as raw materials by industry increase industry's costs, penalise exports and subsidise imports. They place Irish industry at a competitive disadvantage both on the home and export markets. The degree to which a company

will be affected by the excise duty depends on its consumption of fuel oil and electricity, which is also affected by the excise duty on fuel oil. In fact substantial industrial users of electricity may bear a greater excise burden because of the higher rate of duty on fuel oil used by the ESB. Furthermore, little or no contribution is made in this area to energy conservation as a result of taxes levied, because many industries are heavily dependent on mineral oils as an energy source. The energy savings which are achieved are more likely to be the result of businesses closing down and reducing operations due to uncompetitiveness rather than through increases in efficiency.

12.22 One large manufacturing company advised us that

"large scale users of energy . . . (such as manufacturing industry) do not require the imposition of penal taxes to effect the utmost economy in its use. In such cases the use of energy is strictly non-discretionary."

12.23 We recommend that the existing excise duty on fuel oil used as raw material by industry and by the ESB should be abolished.

12.24 Similar considerations arise regarding the duty on hydrocarbon oil used by fishermen and horticultural producers. There is no evidence to suggest that there is scope for economies or for substitution of the existing fuels. There is little benefit to be gained from taxing inputs of enterprises which must compete on home or export markets. We recommend that these special discriminatory taxes be removed.

### **Domestic Heating Oil**

12.25 At present domestic heating oil is subject to an excise of 8p per gallon and to value-added tax at the reduced rate of 5 per cent. On a gallon of oil costing 115.62 pence (inclusive of VAT) the total tax levied amounts to 13.5 pence. This is equivalent to VAT at 13 per cent.

12.26 We think that a simplification of the taxation of domestic heating oil can be brought about by charging domestic heating oil to value-added tax at the single rate and abolishing the excise duty.

### **Recommendations**

12.27 We make the following recommendations:

1. Temporary selective excises on consumer durables should be imposed only when the following criteria are met:
  - (i) the goods selected are a significant source of import demand,

- (ii) the imposition of the excises does not result in significant administrative or compliance costs, and
  - (iii) the prices of goods after imposition of excises should not be such as to encourage diversion of trade to Northern Ireland or give rise to opportunities for smuggling.
2. Excise duties on televisions, videos and records should be revised in line with the criteria in recommendation 1.
  3. Excise duties on matches and mechanical lighters should be abolished.
  4. The objective should be to charge expenditure on foreign travel to value-added tax as soon as the position in other countries allows this to happen. In the interim, the foreign travel tax could be retained.
  5. Excise duties on residual fuel oil used by the ESB and by industry should be removed.
  6. Excise duties on hydrocarbon oil used by certain fishermen and horticultural producers should be abolished.
  7. Excise duties on domestic heating oil should be removed and such fuels charged to value-added tax at the single rate.

Part IV

**Stamp Duties**

## CHAPTER 13

# STAMP DUTIES

### Introduction

13.1 In this chapter we examine stamp duties and we conclude that they should ultimately be abolished. This would result in a loss of revenue. We do not regard the abolition of stamp duties, particularly in the case of houses, as urgent. However, it is something that should be done in the longer term, as resources permit. In Chapter 14, we recommend some reforms of stamp duties which should be implemented immediately. A description of the process of stamping and an outline of the existing provisions in relation to stamp duties are in Appendix 22.

### Background

13.2 Stamp duties are among the oldest sources of revenue in our fiscal system, stretching back to the seventeenth century. In their present form they date from the Stamp Act, 1891. Stamp duties are more akin to the ancient taxes on windows and widths of doorways, than to the more modern taxes such as income tax, corporation tax, value-added tax or any of the capital taxes. Originally they affected only the wealthy. The development of the duties has been rather haphazard with little evidence of consistent guiding principles other than the need to raise revenue.

### Justification for Stamp Duties

13.3 Stamp duties may once have been justifiable as a proxy for capital taxation but it is difficult to see their place in a modern fiscal system. However, stamp duties are still largely concerned with real property — stamp duties on conveyances accounted for 50 per cent of the total receipts from stamp duties and levies in 1982. This proportion rises to 75 per cent if the receipts from the bank and insurance levies are excluded from total receipts. Stamp duties may, therefore, be regarded as a form of property tax which applies on the occasion of the economic exchange of real property.

13.4 In addition to stamp duties a number of miscellaneous fees and charges are levied in the form of fee stamps — for example, fees in respect of companies' registration, passports, visas and consular services.

### **Incidence of Stamp Duties**

13.5 Stamp duties were designed to ensure that the paper on which a document was written should already have been stamped before the document was executed, although stamping after execution is the common practice today. The duty has to be paid because, except in criminal proceedings, a document is made inadmissible in evidence and unavailable for any legal purpose whatever unless it is duly stamped in accordance with the law in force at the time that it was first executed. While the legislation does not indicate who should pay the duty, and strictly, therefore, it is open to the parties to arrange for themselves how the duty is to be paid, by custom it is normally borne by the transferee. This, however, is only the formal incidence of stamp duties; the effective incidence of these duties, that is, who they affect and to what extent, is the important issue.

13.6 The imposition of a stamp duty on the transfer of an asset reduces the returns on that asset relative to other assets. Provided the market works efficiently, the price of the asset should fall until returns are equalised, taking account of differentials due to variation in the degree of risk. This implies that differentials in stamp duties bear on the holders of assets. If such assets are also liable for capital gains tax this constitutes double taxation.

### **Submissions**

13.7 We received relatively few submissions about stamp duties. The Construction Industry Federation noted the effect of inflation on stamp duties.

“Stamp duty rates and the bands at which these rates operate were set many years ago. Inflation has resulted in a massive increase in the real cost associated with this duty. In the United Kingdom these facts have been recognised and the maximum rate of stamp duty is 2 per cent while the bands have been recently raised. No similar measures have been implemented or even proposed in Ireland”.

13.8 Most of the criticisms directed at stamp duties referred to what was considered to be the unjustified financial, administrative and compliance costs involved in their collection. The Law Society submission reflected these attitudes

“... the amount of stamp duty collected annually does not appear to justify the cost of collection when one takes into account the need for

adjudication on value in many cases involving as it does considerable delay and valuable time of Revenue Officials and Valuation Office Valuers and personnel. The intricacies of the stamp duty laws in relation to valuation, adjudication and the assessment of duties, involve very many persons in using valuable time and do not seem to justify the amounts collected".

13.9 The Law Society went on to comment on the needless duplication of work and effort necessitated by the collection of stamp duty on property transactions, having regard to existing obligations in relation to capital acquisitions tax and capital gains tax.

### **Simplicity**

13.10 We asked the Revenue Commissioners about the costs and numbers of staff engaged in the administration of these duties. They replied that the administration of stamp duties is cheap and efficient. The total cost of administration amounts to 0.5 per cent of the yield. When this percentage is applied to the 1983 yield it gives an administration cost of £520,000. Postal delays are not frequent with turnover at 1-1½ days. In addition, a large percentage of documents are stamped 'over the counter' without any delay whatsoever. In dealing with instruments presented for adjudication, the Revenue Commissioners endeavour to assess a case or to seek further information where necessary within 3 or 4 days of receipt of the case or receipt of previous replies to questions raised. This position obtains from time to time but the Revenue Commissioners acknowledge that it cannot always be maintained. The number of cases is relatively high. There are approximately 54,000 applications and every time further information has to be sought the basic number for turnover is increased. Where the delay is getting serious (at 14 days), steps are taken to mitigate the effects. Cases where bridging finance is involved are given priority. Other cases in which solicitors indicate special urgency are also so treated. Certain cases give rise to contention, either because information required is difficult to obtain or agreement regarding values or legal technicalities cannot be reached. Such contentious cases can give rise to considerable delay which cannot readily be avoided. Only about one case per annum is referred to the Property Arbitrator. There are 51 staff engaged in collection of stamp duty on instruments presented for marking, adjudication of instruments and collection of stamp duty payable by companies on the raising of capital. The work done by these sectors each year is shown in Table 20.

13.11 The volume of paperwork in connection with stamp duties is considerable. A lot of this is turned over very quickly. However, some taxpayers incur compliance costs in terms of time, effort and delay arising from the adjudication and assessment of stamp duties.

**TABLE 20****Annual Transactions for Stamp Duties**

Instruments presented and marked at counter	85,000
Instruments received by post for marking	29,000
Number of money payments received in post	40,000
Other forms processed	56,000
Instruments presented for adjudication	54,000
Returns in respect of companies capital duty	6,500
Total	270,500

Source: Revenue Commissioners.

**Equity**

13.12 It is difficult to assess the equity of stamp duties since there are no data available on the payment of stamp duties by income range. However, most of the duty is payable on purchase of houses. Stamp duties may be regarded as a form of property tax, albeit one which is fairly arbitrary in its incidence, since it is not related to the amount of property held, but rather the frequency with which property or other assets are sold.

13.13 The existing system is particularly haphazard. New houses are exempt and there is no evidence on the income distribution effects of this. The main result may be to increase the price of new houses relative to other houses. It is hard to see how this improves the equity of taxation. Furthermore, the sale of a house for £50,000 attracts liability of 4 per cent, while on a sale for £50,001, the rate is 6 per cent on the whole amount — an increase of £1,000 in duties for a £1 increase in value. Such a rate structure is clearly unfair, distorts the housing market and encourages evasion.

**Efficiency**

13.14 The major criticisms of stamp duties arise on efficiency grounds. The exemption of new houses artificially increases the attractiveness of new houses and distorts the housing market. The Construction Industry Federation advised us that

“the impact of stamp duties on the cost of second-hand houses has significantly increased with inflation and acts as an impediment to people purchasing these houses with damaging consequences for the whole housing market”.

13.15 Stamp duties increase transactions costs in exchanging one asset for another. By driving a wedge between buyer and seller, they may inhibit transfers of assets which are desirable on efficiency grounds. For example, the stamp duties levied on the purchase and sale of houses may inhibit

people from moving from one part of the country to another or from changing house to suit their needs.

13.16 The duties on stocks and shares and the exemption of government securities similarly distort financial markets. It is also difficult to justify imposing special taxes on cheques in a situation in which workers are being encouraged to accept payment by cheque because of the need, on security grounds, to minimise the movement of large amounts of cash.

### **EEC Harmonisation**

13.17 The EEC Commission has made two proposals for harmonising stamp duties. The first resulted in Council directives regulating taxes on the raising of capital by companies. Under the terms of the directives, the imposition of a 1 per cent duty is mandatory on all member states. The second proposal was for a directive to harmonise duties charged on the transfers of stocks and shares on sale. Member states would have been left free to decide whether to impose duty or not; but if they did so it would be on condition of observing the rules in the directive. This proposal was submitted to the Council of Ministers in April 1976 but it has made no progress since. It is understood that the Commission has no other proposals in mind in relation to stamp duty.

### **The Future of Stamp Duties**

13.18 Ultimately, new forms of communication will have implications for stamp duties. In theory, the title to all the properties in the state could be recorded on a computer. Purchases, sales and other dealings could be effected by entry in the computer without the use of any documentation. Dealings in company shares, particularly those belonging to public companies could also be dealt with in this way. If there is no document, there is nothing to stamp, consequently, stamp duties would have no relevance. Some changes in the law would be necessary before this could become a reality, as generally, to be fully effective at law, transfers of immovable property must be by a deed and transfers of shares must be in writing. We believe that these developments are probable in the light of modern technology.

### **PRESENT SYSTEM**

13.19 We now examine the main heads of stamp duties under the present system. There are four categories of stamp duties:—

- (i) *Ad valorem duties*:— these duties are charged at variable amounts upon instruments such as conveyances on sale, voluntary conveyances, leases, share transfers, mortgages, releases of mortgages

and policies of insurance. The duties payable on such instruments are usually calculated upon the consideration involved;

- (ii) *Capital duties*:— these are charged upon capital transactions by capital companies (e.g. on formation of capital companies or where there has been an increase in issued capital of a capital company);
- (iii) *Fixed duties*:— these duties are charged at a standard amount upon such instruments as bills of exchange, promissory notes, cheques, options and certain conveyances (generally where no beneficial interest passes). The rates which apply to these documents are low — £5.00 or less;
- (iv) *Imposed duties*:— these duties are imposed (as a levy) on such institutions as the Irish Hospitals' Sweepstakes Committee, the Racing Board, Bord na gCon, banks, insurance companies and promoters of credit cards or charge cards.

13.20. All of the above categories are treated as stamp duties by tax legislation. Most involve the stamping of instruments with stamps supplied by the Revenue Commissioners for tax purposes. An analysis of the revenue receipts under the main heads is in Appendix 23.

### Conveyances

13.21 Stamp duties are a form of property tax related mainly to the frequency with which property is sold. In our first report<sup>1</sup> we considered the taxation of imputed income from housing. We concluded that while taxation of imputed income was the most satisfactory method of removing the inequity which exists between owners and renters of houses, there would be significant difficulties in introducing such a scheme. We recommended also that capital gains tax should be charged on all profits arising from the sale of houses whether the proceeds were reinvested or not provided that stamp duties payable were credited against any liability to capital gains tax. In general, we believe that stamp duties on conveyances are an inefficient form of taxation which does not have any place in a modern fiscal system. They have undesirable effects particularly in inhibiting labour mobility. We recommend the abolition of stamp duties on conveyances of lands, houses and other property, leases, mortgages and settlements.

13.22 We do not consider the complete abolition of stamp duties on conveyances to be a priority in the reform of the tax system. The loss of revenue is substantial and we will consider alternative sources in a further

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<sup>1</sup>Chapter 10.

report. In the meantime, we consider that there is a need to reform the existing structure of stamp duties and to remove a number of anomalies. Our proposals here are discussed in Chapter 14.

### **Transactions in Stocks, Shares and other Securities**

13.23 At present, transfers of Irish stocks are liable to duty at a rate of 1 per cent. Foreign stocks and shares attract a duty of 2 per cent. Irish government and certain other securities are exempt.

13.24 No stamp duty is payable upon an instrument effecting the renunciation of a renounceable letter of allotment unless under seal when it will bear a fixed rate duty of £5. A sale of rights to an allotment of shares completed by a renunciation in favour of the purchaser normally goes free of *ad valorem* stamp duty. This is notwithstanding that the overall result is exactly the same as if the allottee had accepted the allotment of shares and had then transferred them — with the attendant liability to stamp duty — to the person in whose favour he renounces. In this way, shares can be acquired without payment of stamp duty. The absence of stamp duty is an encouragement to investors to subscribe to rights issues.

13.25 The issue of shares on renounceable letters of allotment is also a feature of takeover bids under a scheme known as the 'Preftrick'. Typically the value of the existing shares of the company to be acquired is reduced (by depreciating the rights attached to them), a new class of shares is created and the shares offered to the existing shareholders on renounceable letters of allotment. The renunciation in favour of the rights to allotment of the new shares in favour of the acquiring company is exempt from duty.

13.26 This regime of duties on transactions in stocks, shares and other securities discriminates against certain stocks and shares in a way which we think is undesirable. It places a barrier in the way of companies trying to raise equity capital and it discourages wider share ownership. We recommend that stamp duties on these transactions be abolished.

### **Companies' Capital Duty**

13.27 The imposition of a 1 per cent duty on the raising of capital by companies is mandatory<sup>2</sup> in the member states of the European Community. This was provided for in Ireland by the Finance Act, 1973. The main directive permits a member state to provide relief in certain types of cases

<sup>2</sup>Directives of 17 July, 1969 (69/335/EEC) (O.J. 1969, L.249/25) and 9 April, 1973 (73/80/EEC) (O.J. 1973, L.103/15) amended by Council Directives of 9 April, 1973 (73/79/EEC) (O.J. L.103/13) and modified by Adaptation Council Decision of 1 January, 1973 (O.J. 1973, L.2, 1.1.1973, p.1) and the Directive of 7 November, 1974 (74/553/EEC).

— for example in respect of company reconstruction operations or in respect of publicly owned utility companies. Any proposal to provide relief outside the permitted areas has first to be referred to the EEC Commission.

13.28 The duty is charged on the issue of an increase in a 'capital company's' share capital and on certain other transactions. The duty is payable on the actual value of the net assets contributed to a capital company in consideration of the issue of shares, provided that the minimum amount on which the duty is payable is the nominal value of the shares allotted. The duty is payable, where at the date of transaction or as a result thereof, the effective centre of management or the registered office of the capital company is in the state. Any scrip issue of shares does not give rise to liability and a deduction may be claimed against the amount of capital duty payable in respect of a sum proportionate to the duty already paid (if any) on the nominal share capital of the company.

13.29 The definition of a 'capital company' is extremely wide but the most usual type of body falling within the definition is a limited company incorporated in a member state of the EEC or a company whose shares can be dealt in a stock exchange. Reconstructions and amalgamations of companies involving the issue of shares in one company to another are free of duty subject to certain conditions.

13.30 In our first report, we concluded that the only argument for imposing a separate charge on companies over and above that levied on unincorporated entities is that companies enjoy the privilege of limited liability. Reform of company law would appear to be the best way of dealing with this issue. We do not consider that a stamp duty is an appropriate method to charge for the privilege of limited liability.

13.31 Any change in companies capital duty, including any proposal for altering or extending the exemptions outside the permitted areas, would normally involve reference to the Commission of the European Communities and consideration by the member states of the EEC.

### **Cheques and Bills of Exchange**

13.32 Cheques, bills of exchange and promissory notes are chargeable to a duty of 7p. The duty on cheques and receipts was abolished in the United Kingdom in 1970 when a major review of stamp duties was carried out. However, any consideration of these duties must take account of the fact that value-added tax which applies to goods and services generally does not apply to banking and financial services. In principle, we consider that value-added tax should apply to banking and financial services. However, we are precluded from making any recommendations in this area because of the operation of the Sixth Directive. Stamp duty on cheques could be

justified as a proxy for value-added tax. However, this would be a rather crude substitute, given the fact that stamp duty would not be allowed as a credit against value-added tax liability. Moreover, these duties are likely to be overtaken by developments leading to greater use of electronic transfer of money balances.

13.33 We consider that these duties are outdated. We recommend that they be abolished.

### **Promoters of Credit Cards and Charge Cards**

13.34 A stamp duty of £10 per year is imposed on banks in respect of each credit card account in the number of accounts shown in the bank's financial statement which is required to be delivered to the Revenue Commissioners within three months of 1 April in each year. The duty is payable on delivery of the statement. The bank charges the individual account holder with the amount of the stamp duty in respect of that account.

13.35 A fixed rate of stamp duty at £5 for each period of 6 months (or part thereof) is imposed on promoters in respect of each charge card, company charge card or supplementary charge card shown as being valid in the promoter's financial statement which is required to be delivered within two months of the end of each quarter. The duty is payable upon delivery of the statement. The promoter is entitled to charge the individual account holders with the amount of the stamp duty paid in respect of that account.

13.36 The duties were imposed on the basis that duties were already payable on cheques. We have recommended the removal of stamp duties on cheques. We, therefore, recommend that the duties on credit cards and charge cards be abolished.

### **Insurance and Miscellaneous Duties**

13.37 Stamp duties are chargeable on policies of life insurance. These policies are no more than contracts between the policy holders and the insurance companies. Many other contracts do not attract stamp duty and we see no reason why policies of life assurance should be treated differently. We recommend that the stamp duties payable on insurance policies be abolished.

### **Sweepstake Duty**

13.38 Stamp duty at the rate of 25 per cent is charged on the available surplus of the Irish Hospitals' Sweepstake (that is, the portion of the proceeds available to the hospitals). The committee must furnish the Revenue Commissioners with a financial statement showing the available surplus within fourteen days of the audit of the accounts of each sweepstake.

13.39 In our first report<sup>3</sup> we recommended that the exemption from tax of profits of the organisers of any sweepstake held under the Public Hospitals Act, 1933 be withdrawn. In these circumstances, we recommend that the stamp duty chargeable on such sweepstakes should then be removed.

### **Bank Levy**

13.40 A special levy of £25 million was imposed on the banking system in January, 1984. This levy was imposed as a stamp duty and was the fourth in a series of levies first imposed in 1981. In Chapter 30 of our first report, we examined the case for special levies on banks and we concluded that they are unjustified.

### **Insurance Levy**

13.41 A special levy is also imposed under stamp duties legislation on certain insurance transactions. This duty is assessed at a rate of 1 per cent on the gross amount received by insurers by way of certain premiums from domestic business, excluding medical insurance.<sup>4</sup>

13.42 This duty is a further special tax on the motorist, the householder and on certain forms of saving. In dealing with excise duties we have proposed a rationalisation of the special taxes required on motoring on grounds of efficiency. We do not consider that a stamp duty on household insurance is an appropriate method of taxing householders. Finally, the

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<sup>3</sup>Paragraph 10.64.

<sup>4</sup>The Finance Bill, 1984 proposes to vary the basis of the insurance levy in relation to life insurance premiums. For policies effected on or after 1 July, 1983, the premiums received for the first twelve months during which premiums are paid will be charged to duty at the rate of 1½ per cent. Where a premium is increased, the increase will be similarly charged. All other life insurance premiums will be excluded from the levy. These charges will take effect for premiums received on or after 1 July, 1984.

insurance levy imposes a special discrimination on certain forms of savings. We recommend that no further levies be imposed on insurance premiums.

### **Fee Stamps**

13.43 Fee stamps are miscellaneous fees collected by means of stamps. They include fees payable under the Censorship of Films Acts; companies' registration fees; passport, visa and consular services fees; public records fees and certain court fees. A full list of the fees together with an analysis of receipts for year ended 31 December, 1980 is in Appendix 23.

13.44 We consider that fees should in all cases be set at a level sufficient to cover the administrative costs of regulation or registration of the relevant activities. The fees should be reviewed on a regular basis.

### **Recommendations**

13.45 Our recommendations on stamp duties will result in a loss of revenue. We do not regard them as priority matters but rather as items that should be implemented in the longer term as resources permit. In Chapter 14 we discuss reforms of stamp duties which should be implemented immediately. We make the following recommendations:

1. Stamp duties on conveyances of lands, houses and other property, leases, mortgages and settlements should be abolished eventually.
2. Stamp duties on transactions in stocks, shares and other securities should be abolished.
3. Stamp duties on cheques, bills of exchange, promissory notes and on credit cards should be abolished.
4. Stamp duties chargeable on life insurance policies should be abolished.
5. Stamp duties on the available surplus of sweepstakes should be abolished when the profits of the organisers of such sweepstakes are charged to income tax as recommended in our first report.
6. No further duties should be levied on banks or the insurance companies.
7. Fees should be charged at a level sufficient to cover the administrative costs of regulation and registration of the relevant activities. The fees should be reviewed on a regular basis.

Part V

**Implementation of Proposals**

## CHAPTER 14

### IMPLEMENTATION

#### Introduction

14.1 In this chapter we give our views as to how our proposals for the reform of indirect taxation could be implemented. The reforms which we believe are desirable are very substantial. They would change the incidence of taxation — in some instances quite significantly. Some of the reforms are extremely urgent and should be undertaken as a matter of priority.

#### AREAS OF REFORM

14.2 Tax reform is required in the following areas:

- (i) value-added tax,
- (ii) excise duties, and
- (iii) stamp duties.

#### Value-added Tax

14.3 Value-added tax in Ireland is levied at six different rates. The estimated expenditure at these rates in 1983 is shown in Table 21.

TABLE 21

Value-Added Tax Base 1984 (Full year)

Rate of Tax %	Total Expenditure £m
zero	3,092
5	1,879
8	360
18	136
23	4,229
35	786
	10,482

*Notes:*

1. The equivalent single rate in present terms would be 14.4 per cent.
2. The figures quoted in the table assume that the adjustments in rates of VAT announced in the Budget in January, 1984 were in force from 1 January, 1984.
3. The bases for the 23 per cent and 35 per cent rates do not include farm inputs. Under the present system, changes in the rates on farm inputs would require a change in the compensation paid to unregistered farmers.

14.4 This structure is much too complicated and involves both taxpayers and the Revenue Commissioners in much unnecessary work. For example, in order to collect £1100 million, the Revenue Commissioners must collect a total of £1900 million and repay £800 million.

14.5 Our proposals involve a significant change in the structure of value-added tax. The present structure with rates ranging from zero to 35 per cent is broadly equivalent to a single rate of 14.4 per cent, arithmetically calculated. The Revenue Commissioners have told us that some allowance should be made for the increased efficiency and better compliance which could be expected under a single rate.

14.6 There are a number of possible ways of making the transition to a single rate of value-added tax. The EEC Commission<sup>1</sup> has suggested

- (i) a gradual widening of the tax base — for example, by restricting zero-rating during an initial stage to foodstuffs alone, excluding clothing and footwear and then during a second stage to basic foodstuffs alone such as bread, milk and meat,
- (ii) a gradual increase in the taxation of the goods and services which would thus be excluded from the scope of zero-rating. During an initial period the rate of tax could be set at a fairly low level. Subsequently, this special rate would be increased, and
- (iii) a gradual reduction in the rates of value-added tax in line with the widening of the tax base.

14.7 A further possibility is to make the transition to a single rate of value-added tax much more quickly or even immediately. This would involve increases in value-added tax of up to 14.4 per cent on some items and reductions of 20.6 per cent on others. In our view, the disparity between the existing rates of zero and 35 per cent is too wide to enable this to be done in one step without seriously disrupting the economy.

14.8 The first priority is to reduce significantly the disparity between the highest and lowest rates of value-added tax — at present 35 per cent — and to reduce the number of rates. One option is to change to a two-rate system in the interim period. For example, rates of 10 per cent and 18 per cent could be introduced on a revenue-neutral basis. It would also be possible to have rates of 8 per cent and 22 per cent. Even this more conservative approach would more than halve the difference between the highest and lowest rates from 35 per cent to 14 per cent.

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<sup>1</sup>Document COM (82) 885 final.

14.9 We favour as short a transition to a single rate of VAT as is feasible. The major part of the significant savings in administrative and compliance costs will only be realised when a single rate is fully in place.

14.10 To the extent that the changes we propose have no effect on the total revenue raised, they should result in no net change in the consumer price index, provided the weightings used accurately reflect the pattern of consumer expenditure. However, the prices of some goods and services would change. These may not alter to the extent indicated by the changes in nominal rates because present differential rates are shifted to retail prices to different degrees as traders recover the total tax due by them as best they can by adjusting their profit margins. We recommend that the extent to which the incidence of taxation changes be monitored and that compensatory measures be taken to the extent necessary to protect the lower income groups. Increases in social welfare payments and children's allowances are the most efficient way of doing this.

14.11 Particular problems arise in considering the transition to a single rate of VAT on building and associated services and sales of building land. We favour the application of the reduced rate of VAT to building and associated services and sales of building land in any interim period involving a two-rate system of VAT. This would reduce the impact of any additional tax. Furthermore, in our discussion of the transitional reforms needed in relation to stamp duties, we suggest that the stamp duty on conveyances which are subject to VAT should be abolished. The removal of stamp duties from sales of building land would mitigate during the transitional period the imposition of a higher VAT rate even on the sales of new houses. While conveyances of new houses<sup>2</sup> are exempt from stamp duty at present, duty of up to 6 per cent is paid by the developer on the acquisition of the land.

### **Excise Duties**

14.12 The first priority is to reduce the level of taxation on certain items, the prices of which are significantly in excess of those prevailing in Northern Ireland — we have alcohol, petrol and betting particularly in mind here. It is immaterial whether the adjustment in the prices of these items is effected through a reduction in value-added tax or excise duties. The indexation of specific excise duties should also be introduced as soon as possible. Reduction of betting duty from the present levels which encourage illegality is also a priority.

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<sup>2</sup>This exemption is in respect of sales of houses which would have qualified for grants under the regulations in force up to 31 December, 1975. Housebuyers are required to submit a floor area certificate.

14.13 At a later stage, when revenue constraints permit, we think that a number of excises should be completely removed. The items we have in mind are matches, mechanical lighters, table waters and motor vehicle parts and accessories and commercial vehicles.

14.14 Some of the goods and services which we recommend should bear excises will benefit under our proposals from a reduction in value-added tax. The question arises as to whether or not excise duties should be increased to compensate. We would have no objection to this in principle, provided the excises conform to the criteria we have laid down.

### **Stamp Duties**

14.15 We believe that stamp duties are a relic of the past which have no place in a modern fiscal system. The ultimate objective should be to remove them. However, stamp duties raise significant amounts of revenue mainly from housing transactions and should not be replaced until alternative sources of revenue are identified. Pending their removal, certain reforms of stamp duties are desirable.

14.16 The recommendations we have made in Chapter 5 regarding the treatment of building and associated services for value-added tax have implications for the attitude taken with regard to stamp duties on new houses. Looking at stamp duties in isolation, we would favour equality of treatment between new houses and second-hand houses. However, on the basis that our recommendations for charging building services to VAT are adopted at an early date we would propose to extend the existing stamp duty exemption for certain new houses to sales of all new houses and building land. During the transition, stamp duties in this area would then be confined to conveyances of second-hand property and land other than building land, leases, mortgages and settlements.

14.17 We are concerned about the effects of inflation which have succeeded in making the sale of quite modest houses now liable for stamp duty at a rate of 6 per cent.<sup>3</sup> We see little case in any event for a progressive system of stamp duties. The existing system is particularly outmoded. For example, a house which sells for £50,000 is liable at 4 per cent while a house which sells for £50,001 is liable at 6 per cent on the full amount — an increase of £1,000 in duties for a £1 increase in value. The distortion of the housing market and the encouragement of evasion which such a structure provides is highly undesirable.

14.18 We recommend that, pending the abolition of stamp duties on property transactions, stamp duties be levied at a single rate on all liable

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<sup>3</sup>We note the recent changes in stamp duties in the United Kingdom which impose a new flat rate of duty of 1 per cent on conveyances above £30,000. Below that level, no duty is payable.

transactions. Earlier in the transitional period, we consider that progressive rates should apply to the excess of value over certain figures rather than the total value of the property. This would bring the stamp duty rate structure on houses into line with capital acquisitions tax and income tax and is required as a matter of urgency to reduce evasion. Finally, while progressive rates apply, the 'slices' of the consideration chargeable at the various rates should be indexed in line with changes in the consumer price index

14.19 Where immovable properties of equal value are exchanged, only a £5 fixed duty is chargeable. If, as is more likely to be the case, the properties are of unequal value, the instrument whereby the exchange is effected is treated as if it were a conveyance on sale of the property which is of the greater value<sup>4</sup>. However, *ad valorem* duty is chargeable only on the difference between the values of the properties exchanged.

14.20 The number of occasions on which two individuals at arm's length from each other wish to effect an exchange of properties is fairly small. But it is difficult to justify treating such an exchange differently for stamp duty purposes from two separate sales of properties. Pending the abolition of stamp duties on property transactions, this anomaly should be rectified. In the United Kingdom where stamp duty is payable at present on new houses, subject to an exemption of £30,000, the practice of taking houses in part exchange for new houses is growing. We have also seen evidence of the growth of this phenomenon in Ireland.

14.21 We recommend that pending the abolition of stamp duties on property transactions, stamp duties should be levied on all such transactions at the single rate irrespective of the nature of the consideration.

### Recommendations

14.22 We make the following recommendations:

1. The transition to a single rate of VAT should be as short as possible.
2. The extent to which the introduction of a single rate of VAT changes the incidence of taxation should be monitored. Compensatory measures to the extent necessary should be introduced to protect the lower income groups.
3. Pending the abolition of stamp duties on conveyances of lands, houses and other property, the progressive rates should apply to the excess of value over certain figures rather than the total value of

<sup>4</sup>'Value' in this context means the value of the property free from all charges or incumbrances.

the property. At a later stage housing transactions should be charged at a single rate.

Miriam Hederman O'Brien (Chairman)  
Donal S. A. Carroll  
Derek Chambers  
James R. Gallagher  
Daniel Murphy  
Donal Murphy  
Donal Nevin  
Patrick P. O'Neill  
Raymond O'Neill  
W. J. Loudon Ryan

Donal de Buitléir  
Secretary  
Séamus P. Reic  
Assistant Secretary  
2 May, 1984

## **Appendices**

## APPENDIX 1

### THE ORIGINS AND EARLY DEVELOPMENT OF INDIRECT TAXES

1. A system of indirect taxation was inherited from the United Kingdom on the foundation of the State in 1922. This system had developed in a piecemeal fashion over a number of centuries. In 1922 the main indirect taxes and duties were customs and excise duties, stamp duties, rates on property and motor vehicle duties. The origins of each of these are described individually below.

#### Customs and Excise Duties

2. 'Custom' is an ancient levy which at one stage was imposed mainly on goods exported, such as wool and leather. It also consisted of taking, where a ship was importing wine, one tenth of its cargo for the king's use. From these origins the old poundage on goods and tunnage on wine grew up in the sixteenth century. The original enactment in 1500 did not lay down the value of goods to be adopted for duty purposes — a situation which led to considerable administrative problems. The Act of Customs, 1622 overcame these problems by laying down rates (or values) for goods imported and exported. The 'book of rates' contained some 900 rates of merchandise inwards and some 200 rates of merchandise outwards. For example, items for export like butter 'good or bad' and cheese were valued at ten shillings, the hundredweight.

3. The original concept of excise was that of a broadly-based tax upon inland consumption. It was first introduced in England upon a Dutch model in 1643. The Act of Excise passed in 1662 identified two categories of excise: 'inland excise' on beer and spirits and 'import excise' on goods such as drugs, tobacco, hemp and flax, wine, silk, salt and other goods specified in the 'book of rates'. The import excise was in essence a customs duty. However, it was classified as an excise because all duties to be paid under the act for any merchandise imported were to be paid by the first buyer, in other words, the retailer, rather than by the merchant who had imported them.

### **Stamp Duties**

4. Stamp duties which were introduced in England by the Stamp Act, 1774 are the revenue duties chargeable on certain legal and commercial instruments and on certain transactions. With the exception of a few unusual cases, the instruments affected are listed in the First Schedule to the Stamp Act, 1891. The idea of stamp duties like that of excise had come from Holland.

### **Rates**

5. The rating system as it exists in Ireland is also derived from the system that has operated in Britain since 1601. The poor rate introduced by the Poor Relief Act, 1601 was intended to be of the nature of a local income tax but due to the difficulties of rating personal property in the seventeenth century it became a tax on a particular class of property.

### **Motor Vehicle Duties**

6. The main classifications for the purpose of assessing motor vehicle duty were set out in the Finance Act, 1920, the two main categories being private cars and goods vehicles.

### **Broadly-based Taxes**

7. In recent years, broadly-based indirect taxes have become a feature of the Irish tax system. A turnover tax was introduced in November, 1963 and a wholesale tax was added in 1966. These taxes were replaced by a value-added tax on 1 November, 1972.

## APPENDIX 2

### COMPARISON OF INTERNATIONAL CLASSIFICATION OF TAX REVENUES

1. In this appendix we compare the classification of taxes in the main international systems of tax classification.
2. Outside the fairly clear cases of income taxes and consumption taxes, it is difficult to classify taxes as either direct or indirect. Many criteria have been proposed in recent years for the classification of revenues into direct and indirect. Some of these criteria give different results for certain taxes. As a result, the distinction between direct and indirect taxes is not used by some international organisations, notably the OECD and the International Monetary Fund. However, the United Nations System of National Accounts (SNA) and the European System of Integrated Economic Accounts of the European Communities (ESA), which is primarily an elaboration of SNA, contain a division of tax revenues into direct and indirect taxes. These classifications are summarised overleaf.

OECD	SNA	ESA	IMF
1000 — Taxes on income, profits and capital gains	Direct taxes —on income —not elsewhere classified	Taxes on income and wealth	1. Taxes on income, profits and capital gains
1100 — Households: —income and profits —capital gains			1.1 Individual
1200 — Corporate enterprises: —income and profits —capital gains			1.2 Corporate
1300 — Unallocable between households and corporations			1.3 Other unallocable
2000 — Social security contributions	(Separate flows)	(Separate flows)	2. Social security contributions
2100 — Paid by employees			2.1 Employees
2200 — Paid by employers			2.2 Employers
2300 — Paid by self-employed or non-employed			2.3 Self-employed or non-employee
3000 — Employers' payroll or manpower taxes	Indirect other than import duties	Other taxes levied on production and importation	3. Employers' payroll or manpower taxes
4000 — Taxes on property	Taxes on immovable property	Taxes on production and importation	4. Taxes on property
4100 — Recurrent taxes on immovable property	Indirect, other than import duties		4.1 Recurrent taxes on immovable property
—households			
—others			
4200 — Recurrent taxes on net wealth	Net wealth taxes	Taxes on income and wealth	4.2 Recurrent taxes on net wealth
—individuals	Direct when paid by households, indirect, other than import duties, when paid by enterprises		4.2.1 Individual
—corporate	Separate flow; capital transfers not a tax	Taxes on capital	4.2.2 Corporate
4300 — Taxes on estate, inheritance and gifts	Indirect tax, other than import duties		4.3 Estate, inheritance and gift taxes
4400 — Taxes on financial and capital transactions	Separate flows; capital transfers	Taxes on production and importation, stamp and transfer duties	4.4 Taxes on financial and capital transactions
4500 — Non-recurrent taxes —net wealth —other non-recurrent		Taxes on income and wealth	4.5 Non-recurrent taxes
4600 — Other		Taxes on production	4.6 Other-recurrent

OECD	SNA	ESA	IMF
5000 — Taxes on goods and services	Indirect taxes —import duties —other taxes (Other taxes include permanent surpluses of public enterprises reduced by normal profit margin)	General turnover taxes Import duties and agricultural levies	5. Domestic taxes on goods and services
5100 — Taxes on production, sale, transfer, leasing and delivery of goods and rendering of services; General taxes —value added taxes —sales taxes —other Specific taxes —excises —fiscal monopolies —customs and import —exports —investment goods —specific services —other international		Excise duties and taxes on the consumption of goods Taxes on services  Other taxes levied on production and importation	5.1 General taxes  5.2 Excises 5.3 Fiscal monopolies 6.1 Import duties 6.2 Export duties
Other 5200 — Taxes on use of, or permission to use, goods or to perform activities —recurrent taxes —non-recurrent taxes	Various, see paragraphs 26, 32, 54 of report	Various	5.4 Taxes on specific services 6.3, 6.4, 6.5, 6.6 Profits of Market Boards exchange profits and exchange taxes, other international 5.6 Other 5.5 Taxes on use of, or permission to use goods or perform activities
6000 — Other taxes			7. Other taxes

### APPENDIX 3

#### EXCISE LICENCES AND OTHER MISCELLANEOUS FEES

This appendix contains a detailed list of excise licences other than liquor licences and a list of other fees included in the National Income Accounts.

##### *Licences other than Liquor Licences*

1. Auctioneers.
2. Auction Permits.
3. Bookmakers.
4. Dog Licences.
5. Game Dealers.
6. Gaming.
7. Gaming Machines.
8. (Hawkers — at higher rate.  
(Hawkers — at lower rate.
9. House Agents
10. Hydrocarbon Oil Refiners.
11. Hydrocarbon Oil Vendors.
12. Liquid Petroleum Gas Vendors.
13. Match Manufacturers.
14. Methylated Spirit Makers.
15. Methylated Spirit Retailers.
16. Moneylenders.
17. Pawnbrokers.
18. Refreshment Houses:—  
Under £30 Annual Value.  
£30 and upwards.
19. Salmon and Trout Dealers.
20. Salmon and Trout Exporters.
21. Table Water Manufacturers.
22. Tobacco Growers.
23. Tobacco Manufacturers.
24. Tyre Manufacturers.

### *Miscellaneous Fees<sup>1</sup>*

Bill of entry receipts and miscellaneous fees.  
Licences etc. of football pavilions and storage of boats at Dún Laoghaire and Howth.  
Film Censorship Fees.  
Fees re grant and renewal of publicans' licences.  
Fees payable by applicant for grants under Housing Acts.  
Fees re certificates of reasonable value and appeal fees.  
Inspection fees in respect of the scheme of structural guarantee for new houses.  
Fees payable by applicants for driving tests.  
Housing grant fees.  
Receipts from fees in respect of poultry hatching licences.  
Receipts from licences, inspection fees etc. under Fish Meat Acts and Pig & Bacon Acts.  
Receipts for dairy premises. Contributions and fees payable under Section 7 of Gas Regulations Act (and Weights and Measures Acts).  
Export guarantee premiums and fees under the Insurance Act, 1953.  
Receipts under the Trade Marks Act, 1963 and Patents Act, 1964.  
Searches and certified copies of entries of Births, Deaths and Marriages.  
Receipts re Duties paid, materials etc.  
Land Registry Fees.  
Landing Fees.  
Fees for Nationality and Citizenship Certificates.  
Registry of Deeds Fees.  
Salmon Levy.  
Salmon Export Licence Fees.  
Fee Stamps (including Court Fees, Companies Registration Fees, Land Commission and Land Registry Fees, Official Arbitration (Land) Fees, Public Record Office Fees and Road Transport Act (Vehicle Plate) Fees.

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<sup>1</sup>These are the fees shown as taxation in the National Income Accounts under the heading 'other fees' for the year 1981. 'Fee Stamps' are a separate classification in the National Income Accounts.

## APPENDIX 4

### MONETARY COMPENSATION AMOUNTS UNDER THE EEC COMMON AGRICULTURAL POLICY

1. In this appendix we describe the historical development of Monetary Compensation Amounts (MCAs) in Ireland. We also summarise a recent analysis of the effects of MCAs on trade.

#### MCAs

2. The official guaranteed price for Common Agricultural Policy (CAP) products is set in European Currency Units (ECU). The rate of exchange between the Irish pound and the ECU for farm prices is known as the 'green' rate. The market value of the Irish pound within the European Monetary System (EMS) is also fixed to the ECU within a fixed band. If the market value of the Irish pound depreciates, there can be a difference between the market value of the Irish pound and the 'green' pound unless the 'green' pound is devalued by the same amount.

3. If a currency is devalued, exporters can gain a price advantage and importers are put at a price disadvantage. In line with the EEC policy of common prices for all agricultural producers, a system of monetary compensation amounts was devised to bridge the gap between devaluation (revaluation) of the national currency and the 'green' currency. These MCAs took the form of a tax on exports and a subsidy on imports for a devaluing country (known as negative MCAs) and a subsidy on exports and a tax on imports for a revaluing country (positive MCAs).

#### Historical Note

4. MCAs were first introduced in 1969 when the French franc was devalued. The French were allowed to phase in the 'green' devaluation over two years. The early 1970s was a period of currency fluctuation and the MCA system became so complex that "information on MCAs transmitted to Member States required telegrams running to 40 and 50 feet in length"<sup>1</sup>. Modifications were made to the MCA system throughout the 1970s.

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<sup>1</sup>R. W. Irving and H. A. Fearn, *Green Money and the Common Agriculture Policy*, 1975.

During the early and mid '70s, sterling was a depreciating currency and the Irish currency was linked to sterling at £1 for £1 exchange rate. This meant that both the United Kingdom and Ireland became negative MCA countries. There were no MCAs between Ireland and the United Kingdom until 1974 when the 'green' rate of the two countries diverged. Ireland devalued its 'green' rate more quickly than the United Kingdom reflecting the opposing interests of the two countries with Ireland being a net food exporter seeking high prices and the United Kingdom being a net food importer seeking low prices. Both countries were still negative MCA countries. Irish exporters paid an MCA tax on exports to the United Kingdom and received the MCA subsidy from importers of their goods in the United Kingdom. Since the subsidy exceeded the tax there was a net subsidy to Irish exporters to the United Kingdom over this period.

5. In 1979 the Irish pound broke away from its fixed par exchange rate with sterling. The 'green' rate and the market rate of the Irish pound was fixed to the ECU and other EMS currencies. The 'green' and market rates coincided so that until 1983 Ireland did not operate any MCAs. After the break with sterling, sterling began to appreciate and the United Kingdom became a positive MCA country. This meant that no subsidy was paid to Irish exporters to the United Kingdom, while exports from the United Kingdom received an MCA subsidy. In March, 1983 the Irish pound was devalued and negative MCAs were introduced. This means that Irish exports (including exports to the United Kingdom) bear an MCA tax while imports to Ireland (including imports from the United Kingdom) receive an MCA subsidy.

### Effects of MCAs

6. The original intention of MCAs was to neutralise the distortionary effects on CAP prices arising from currency fluctuations. The real effect, however, has been for MCAs to become a key determinant in distorting intra-EEC trade. In a recent analysis<sup>2</sup> three main conclusions were drawn:

- (i) the CAP and MCAs lead to a distortion of intra-EEC trade,
- (ii) MCAs encourage smuggling, and
- (iii) anti-smuggling measures have little or no effect.

7. Norton's analysis shows that during the 1970s the net subsidy to Irish exporters of cattle to Northern Ireland induced significant illegal smuggling from the North to the South. In the 1980s however, as sterling appreciated and the United Kingdom became a positive MCA country, smuggling flowed the other way from the South to the North. Cattle were moved

<sup>2</sup>D. Norton, *Ireland, the CAP, Trade Distortion and Induced Smuggling Activity 1974-81*.

illegally from the South avoiding the import tax and re-exported to the South to collect the MCA subsidy. Certain carousel operations started up. Cattle smuggled from the South to the North were exported to the South to collect the MCA subsidy and re-smuggled into the North and finally re-exported to collect another MCA subsidy.

8. Estimates of the number of smuggled cattle vary. The Irish Livestock and Meat Board (CBF) in its Annual Report for 1981 put it between 110,000 and 140,000 per annum. Norton's analysis shows that at least 25,000 head of cattle were smuggled in 1981. However, this is an underestimate as it does not take into account deflection of cattle exports from the South away from other markets. The total could be as high as 75,000 head. The difference an MCA subsidy can make to the price varies but can be as large as £65 per head. It is clear that MCAs provide large financial inducements for smuggling.

## **APPENDIX 5**

### **VALUE-ADDED TAX**

#### **Introduction**

1. In this appendix we outline the steps leading to the introduction of value-added tax in Ireland in 1972. We describe value-added tax as originally introduced and the effects of subsequent developments. We also set out the main current provisions together with some information about how it operates.

#### **Evolution of Value-added Tax in Ireland 1968-1972**

2. In 1963 Ireland and the United Kingdom applied to join the EEC. Both applications were rejected. In mid-1967 the Government applied to join for the second time. Arising out of this second application and also bearing in mind that the EEC had adopted value-added tax in 1967 as the common form of sales tax to be used in member countries, the Government, in June, 1968 issued a White Paper entitled "Added-value Tax". This paper described the value-added form of sales tax and explained why the Council of the European Economic Community had earlier decided in favour of its adoption by its member states in preference to other forms of sales taxation. Following on the issue of the White Paper, the Government continued to examine the question of the value-added tax and in July, 1970 the Minister for Finance announced in the Seanad that the Government had decided in principle that a value-added tax should be introduced in place of the turnover and wholesale taxes which existed at that time. In March, 1971 a second government White Paper on VAT entitled "Proposals for a Value-Added Tax" was published. Following consideration of the many observations on the proposals, supplied by interested persons and bodies, and also after consultations with farming and business representatives, the Government introduced the value-added tax in Ireland on 1 November, 1972, on which date the turnover tax, which had been in force during the preceding nine years and the wholesale tax which had operated since 1966, ceased to have effect. Prior to 1963 there was no form of sales tax in Ireland.

#### **Value-added Tax as Originally Introduced**

3. The legal basis for the introduction and operation of value-added tax in Ireland was set out in the Value-Added Tax Act, 1972. This Act was amended by subsequent Finance Acts but the most extensive amendments were those effected by the Value-Added Tax (Amendment) Act, 1978,

which implemented the provisions of the EEC Sixth Directive on the harmonisation of turnover taxes within the Community.<sup>1</sup>

4. The value-added tax system introduced in Ireland on 1 November, 1972 was a three rate system, the rates being 5.26<sup>2</sup> and 16.37 per cent (equivalent to the earlier turnover/wholesale tax rates) and zero per cent. The zero rate applied (apart from export sales) only to agricultural fertiliser and animal feed in 10 kilo or larger units, to commercial fishing nets and to construction work by public authorities; it did not apply to any part of personal consumer expenditure. In the area where it did apply, for example in the case of animal feed and fertilisers, the transactions affected were of large value and small number, which would normally be the subject of formal documentation.

5. It was a two-rate system for the vast bulk of the manufacturing, wholesaling, retailing and services sectors. All supplies were taxable supplies and insofar as a part of a trader's sales or turnover was not liable at one of the positive rates, it was liable at the other. The only area of distribution concerned with a three-rate system was the country general store type of business which, in addition to selling the usual range of consumer durables etc. liable at 16.37 per cent, would also sell goods such as building materials and fuel liable at 5.26 per cent, and zero-rated fertilisers and animal feed.

6. An exception of significance in the overall structure was the 3 per cent effective rate applied to buildings and building work. To avoid an extra rate this was achieved by applying the 5.26 per cent rate to the appropriate percentage of the relevant consideration. Accordingly, builders and property developers completed their returns by entering in the 5.26 per cent category only that percentage of the relevant consideration to give a 3 per cent effective rate. This arrangement obscured somewhat the clarity of the data on returns but it did not do serious damage because the persons concerned did not normally handle any other supplies liable at the 5.26 per cent rate or the 16.37 per cent rate.

7. The 5.26 per cent rate applied to some 92 per cent of the final tax base and the 16.37 per cent rate applied to the other 8 per cent. (There was also

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<sup>1</sup>A comprehensive statement of the law of value-added tax may be found in 'The Law of Value Added Tax' prepared by the Revenue Commissioners and published by the Stationery Office in August, 1981.

<sup>2</sup>As a supplement to the general rate structure, a limited scheme applied in respect of passenger motor vehicles, television sets, records, record players and radios. These goods were liable to a special rate of 30.26 per cent when sold by manufacturers and when imported by non-manufacturers. However, non-manufacturers who had purchased or imported such goods were allowed to claim credit only for tax at 5.26 per cent and on resale the goods were chargeable at 5.26 per cent. This two-tier VAT system was dismantled and replaced, without loss of revenue, by a combined VAT and excise duty system on 1 March, 1979.

a rate of 11.11 per cent applying to dances but this was a separate regime within the general scheme). The only frequently expressed criticism of the structure of the tax related to the arithmetical complexity of operating the 16.37 per cent rate. As regards the 5.26 and 11.11 per cent rates, these had the advantage of being the equivalents of charges of 5 and 10 per cent respectively on gross turnover. The rate structure did not give rise to continuous tax repayments except in the limited area covered by the zero rate.

8. Since the bulk of transactions was liable to tax at a positive rate, with the 5.26 per cent rate applying to some 88 per cent of all transactions (as distinct from 92 per cent of the base), the amount of the tax liability for any taxpayer or for one taxable period was, in general, relatively small. This factor and the general transparency of the system enabled the tax to be operated under a fairly undemanding control structure. Control consisted of the following elements:

- (i) the issue of a simple guide and some other instruction booklets and leaflets,
- (ii) a requirement that the value of all purchases and sales at each tax rate be included in traders' returns distinguishing between purchases of stock-in-trade and other purchases,
- (iii) some cross-checking of invoices between buyers and sellers,
- (iv) some scrutiny of returns in inspectors' offices after they had been processed by the Collector-General,
- (v) a cross-check between summaries of a trader's returns relating to each accounting year and the accounts submitted by him for income tax purposes, and
- (vi) occasional control visits to traders' premises on a projected average basis of once every three or four years.

### **Subsequent Developments**

9. The main changes which have occurred since the introduction of the tax in November, 1972 were

- (a) the introduction of zero-rating and its extension to the point where it covers nearly one-third of personal consumer expenditure,
- (b) increases in the positive rates of charge from 5.26 to 23 per cent in the case of the low rate and from 16.37 to 35 per cent in the standard rate,
- (c) the introduction of value-added tax at the point of importation subject to certain exceptions,

- (d) the introduction of two additional rates of 5 per cent and 18 per cent applying to new ranges of goods and services, and
- (e) the extension of VAT to adult clothing from 1 May, 1984 at a new rate of 8 per cent.

10. These changes have brought the tax from a position where it amounted to 21 per cent of total revenue<sup>3</sup> and 5 per cent of GNP in 1973/74 to 25 per cent of total revenue<sup>3</sup> and 9 per cent of GNP in 1984 (which has increased in the meantime by some 25 per cent in real terms). This dramatic increase in real terms in the size of the tax yield has come about at the same time as the size of the VAT base was reduced by nearly one-third.<sup>4</sup> The reduction of the base has led to a concentration of the tax amongst the larger taxpayers, which gives some advantage as regards collection. The number of registered persons has increased from 34,859 on 31 March, 1975 to 97,000 in 1983. The rate structure also involves a significant volume of repayments being made to taxpayers amounting to approximately 128,000 claims totalling about £800 million in 1983. In other words, the net yield of £1,196 million is made up of a gross collection of £1,986 million and repayments totalling £800 million. A list of major value-added tax changes since 1972 is in Annex 1.

### **Present Value-added Tax System in Ireland**

11. Value-added tax applies to all activities in the manufacturing, wholesale, retail and services sectors of the economy with a few major exceptions such as banking, insurance, education and medicine. The duty of compliance with the tax requires all traders to administer it on an continuous daily basis in determining prices, issuing invoices, recording cash, and recording and settling purchases and sales. This daily compliance culminates in the lodgement of a return together with the payment of the net tax due, or the claiming of a repayment, generally at the end of each two-month taxable period. Surveillance by the Revenue Commissioners is effected mainly by review visits by the field staff, by validity checking of returns and by cross reference to business accounts.

### **Rates**

12. At present all goods sold and services supplied, with specified exceptions arising from zero rates and exemptions (mainly food and certain professions), are liable to VAT at one of six different rates. Tax is charged at six rates depending on the classification of the goods and services

<sup>3</sup>Total tax revenue here excludes social security contributions and rates.

<sup>4</sup>Since the extension of VAT to fuels in 1983 and to adult clothing in 1984, zero-rated expenditure now accounts for approximately 30 per cent of the VAT base.

supplied, viz the zero rate and the positive rates of 5 per cent, 8 per cent, 18 per cent, 23 per cent and 35 per cent (the standard rate). The Revenue Commissioners are entitled to determine the rate at which particular items are liable with a right of appeal to the Appeal Commissioners and the Courts. In addition, there is a special rate of 2 per cent applying to sales of livestock.

### **Zero rate**

13. The zero rate applies mainly to food and oral medicine, children's clothing, footwear, books, certain medical appliances and electricity. In order to reduce the difficulties and complexities, the classification of the goods to which a rate applies must sometimes be extended beyond the scope of the original intention. The relief for food, for example, includes oral medicine, animal food and certain seeds. Although definitions are simplified and demarcations avoided, other difficulties may result, such as complaints of discrimination by traders.

14. Because of the over-riding need to cater for problems of compliance by traders, reliefs by way of zero-rating must apply to general categories of goods rather than individual items. The relief for food must, of necessity, apply to caviar and smoked salmon as well as to potatoes and sausages.

### **5 per cent rate**

15. This rate applies mainly to building work, concrete, garage repairs and fuel other than electricity. It also applies to agricultural field services and farm management and accountancy services and to certain services of auctioneers, solicitors and estate agents relating to sales of agricultural land. Tickets for theatre and other live performances are also subject to this rate.

### **8 per cent rate**

16. This rate applies to clothing and clothing materials other than clothing for children up to and including the age of ten years which is zero-rated.

### **18 per cent rate**

17. This rate applies to letting in the course of carrying on a hotel business and to short term hire of cars, boats, caravans and tents.

### **23 per cent rate**

18. The main items covered by this rate are goods liable to excise, i.e. drink, tobacco, hydrocarbon oils (other than 5 per cent items) and vehicles; also the main building materials (other than concrete), agricultural machin-

ery, sugar and flour confectionery etc., calculating and accounting machines including computers, furniture and furnishings and services generally.

19. The composition of the list was determined to a large extent by factors going back to the turnover/wholesale tax regime. Although plant and equipment generally is liable at 35 per cent, accounting machines etc. are liable at 23 per cent because of an old provision aimed at ensuring that retailers, who, in general were not registered for wholesale tax, should not bear tax on their purchases of cash registers. It is now difficult to explain why, in today's circumstances, the VAT rate on an accounting machine or a cash register should be different from the rate on, for example, a typewriter.

20. The application of the 23 per cent rate to services creates a potential area of difficulty in connection with those services, such as repair work, involving the passing of goods which might otherwise be liable at 35 per cent. This difficulty has largely been avoided by applying the 23 per cent rate to a wide variety of parts and accessories. The confusion which might arise, for example, as to whether the supply and fitting of a tyre or a car battery was a supply of goods or of services was prevented by the application of the service rate of 23 per cent to both tyres and batteries. However, when the rate on garage repairs was recently reduced to 5 per cent the problem reappeared. It was solved by the exclusion from the relief of the supply of tyres and batteries the supply of which continues to be liable at 23 per cent.

### **35 per cent rate**

21. In constructing a multi-rate VAT system, the normal practice is that a general rate is decided which, in say a three rate system, is the middle rate and, in a four rate system, is one of the two middle rates. The general rate normally applies to all goods and services other than those specified as liable at higher or lower rates. It also applies to both goods and services so that, in the general area of the tax, confusion as to whether a particular transaction was a supply of goods or of a service, or a combination of both, does not arise. The selection of the general rate from the middle or low rates has regard to the fact that, being the general rate, it is also the residual rate and, therefore, applies to the whole range of inter-industry goods and services, including equipment, plant and materials. Although these are an essential element in the concept of a value-added tax, they do not enter to any appreciable extent into the tax base and do not, in a substantial way, affect the Exchequer yield.

22. The way sales taxes had developed in Ireland prior to 1972 and the objective of the Government in 1971 to minimise the effect of price changes when introducing VAT, combined to produce a rate structure which does not have a general rate, as is the practice elsewhere. Under the Irish system,

the highest rate became the general rate but it applies only to goods when it might be expected to apply to both goods and services. There have been large increases in the Irish VAT rates, resulting from the contraction of the base for those rates and from taxation policy generally. The general rate is 35 per cent and cannot be any longer regarded as having the characteristics normally understood as a general rate.

23. The base for the 35 per cent rate is about £700 million but the total of transactions actually taxed at that rate within the state is about £3,500 million. Of the difference of £2,800 million about £1,100 million would be explained by goods being taxed more than once as they pass through the distribution system and the balance of £1,700 million represents inter-industry goods referred to earlier.

### Exemptions

24. An exemption differs significantly from a zero-rating. Although an exempt firm pays VAT on purchases, it cannot charge VAT as a separately stated tax to customers and does not have the right to claim a refund of VAT paid on purchases. Zero-rated supplies are technically taxable although in effect no tax is paid on them. However, tax charged on inputs relating to those supplies can be reclaimed.

25. The main exemptions are as follows:

- (i) *Education*: This applies to school or university education and vocational training or retraining (and goods and services incidental thereto) provided by educational establishments recognised by the state, and education, training or retraining of a similar kind provided by other persons.
- (ii) *Health*: This group consists of the supply of professional services and the supply of goods in connection therewith by registered medical practitioners, dentists, opticians, nurses, midwives and ancillary persons. Thus the supply of spectacles is exempt if they are supplied as part of the services of an optician. The exemption also applies to the provision of care or medical or surgical treatment in a hospital or other registered or exempted institution such as a registered private nursing home.
- (iii) *Finance*: This group consists of any dealings with money, securities for money, foreign exchange and the granting of credit. The exemption applies to the services of financial institutions and stock brokers. The exemption only applies to the money transactions of financial institutions. Their advisory services are subject to the tax.
- (iv) *Insurance*: This group consists of the provision of any kind of insurance or re-insurance and insurance brokerage.

- (v) *Betting, Gaming and Lotteries*: This group consists of on-course and off-course betting liable to betting duty and the granting of a right to take part in a lottery. Promotion of and admissions to sporting events are also exempt.

26. The classification of a good or service as being in the exemption or zero-rated categories hinges on whether the principal aim is to exclude a particular good from the tax base or to free it from taxation. If the aim is to exclude a good from the tax base, then exemption is preferable, even though the result may be some tax on the good. If the aim is to free it from taxation, then zero-rating is necessary. Annex 2 shows that the exempt categories mainly consist of professional services.

### **Persons who must register for VAT**

27. Persons are obliged to register for VAT if their annual turnover exceeds or is likely to exceed the following amounts:

- (i) £25,000 a year for traders selling goods only and for traders who obtain not less than 90 per cent of their turnover from the sale of goods,
- (ii) £12,000 a year for other traders including traders supplying services.

However, for the purposes only of deciding if a person is obliged to register for VAT, there may be deducted from actual turnover an amount equivalent to VAT borne on purchases of stock for resale. Accordingly, the trader whose annual purchases of stock for resale is, say, £24,600 (£20,000 plus £4,600 VAT at 18 per cent) and whose actual turnover is, say, £29,000 is not obliged to register. This is because his turnover, after deduction of the £4,600 for VAT charged to him on purchases of stock, is below the registration limit of £25,000. Traders whose turnover does not exceed the appropriate limit may elect to become registered if they wish. In addition, there are special registration provisions for farmers and fishermen (see paragraphs 33 to 36). There are some 97,000 persons registered for VAT in Ireland.

### **Returns**

28. Every taxable person must make a return on the prescribed form at end of each two-month taxable period detailing the tax due in respect of sales and the deductible tax on purchases of goods and services. The net amount of tax payable must then be paid. Nineteen days are allowed to make these returns. If a refund of tax is due, the refund is also then payable but usually is made about three to four weeks after the return is made. Late payments of tax attract an interest charge of 1.25 per cent per month.

## **Sales**

29. Registered persons are obliged to issue invoices containing detailed information, keep detailed accounting records and to prepare detailed two-monthly VAT return forms. In particular, a taxable person supplying goods or taxable services to another taxable person is obliged to issue a VAT invoice showing

- (i) the name and address of the person issuing the invoice,
- (ii) the VAT registration number,
- (iii) the date of issue of the invoice,
- (iv) the date of supply of goods or services,
- (v) the full and detailed description of the goods or services,
- (vi) the amount charged excluding VAT,
- (vii) the rate and amount of VAT at each rate (including zero rate), and
- (viii) the name and address of customer.

These requirements apply equally to credit notes and supplementary invoices.

30. In addition, a taxable person must keep a record of sales showing the amount charged in respect of every sale to a registered person and a daily summary of total sales to unregistered persons. In each case it is necessary to distinguish between transactions and all sales items must be cross-referenced to the relevant invoices, sales dockets, cash register tally rolls etc. Sales must be distinguished from self-supplies.

## **Purchases**

31. Taxable persons are obliged to maintain detailed records of purchases of goods and services. Purchase invoices must be consecutively numbered in the order in which they are filed. A purchases record has to be maintained showing

- (i) the date of the invoice,
- (ii) the invoice number,
- (iii) the name of the supplier,
- (iv) the cost exclusive of tax, and
- (v) the tax.

32. A separate record is required for purchases at each rate, including the zero rate and purchases qualifying for flat-rate credit from unregistered farmers and fishermen, distinguishing purchases for resale from purchases not for resale. It is particularly important to note that these requirements apply equally to persons dealing only in zero and exempted goods and who, therefore, do not collect tax for the Exchequer. All of these records must be maintained for six years. Unregistered traders are required to retain all invoices received in respect of their purchases of goods and services and copies of the relevant customs entries in respect of imported goods.

### **VAT and Farmers and Fishermen**

33. Farmers, irrespective of their turnover, are not obliged to register for VAT but they may elect to do so. Farmers who do not register for VAT are compensated for the tax they are charged on their farm purchases other than farm buildings by means of a 2 per cent flat-rate addition to their prices.<sup>5</sup> Unregistered farmers do not have to keep VAT records or to make VAT returns. Farmers who elect to become registered for VAT receive compensation for the tax they are charged on their purchases in the same way as other registered traders, that is, they are able to claim a credit or deduction for such tax in their VAT returns. The flat-rate addition does not apply in the case of registered farmers who are obliged to keep records and make returns in the same way as any other registered person.

34. A farmer who, in addition to farming, carries on a non-farming activity other than racehorse training, the turnover of which is clearly in excess of £12,000 in any continuous period of twelve months, is obliged to register and account for tax in respect of *all* his activities.

35. A farmer who, in addition to farming, provides racehorse training services, the turnover of which is clearly in excess of £12,000 in any continuous period of twelve months, is obliged to register for value-added tax purposes but he is not accountable for value-added tax on his farming activities. Racehorse training services are treated for value-added tax purposes as being, in effect, a separate business from farming. The amount on which tax is chargeable is the amount of fees which relates to training only and not those amounts which relate to associated services such as keeping, feeding, minding and generally looking after the animal's well-being. As a general rule, the Revenue Commissioners are prepared to accept that only 10 per cent of the total charge made by trainers relates exclusively to training. Thus the total training fee earnings of a farmer providing racehorse

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<sup>5</sup>An unregistered farmer who has borne or paid tax on the construction, extension, alteration or re-construction of farm buildings or on land reclamation, may reclaim the tax, provided the expenditure qualified for a grant from the Department of Agriculture, Roinn na Gaeltachta or the Land Commission.

training services would have to exceed £120,000 before he would be obliged to register for VAT.

36. As with farmers, fishermen<sup>6</sup> are not normally<sup>7</sup> obliged to register for VAT but they may elect to do so. Unregistered fresh water fishermen and fish farmers are compensated for the tax they are charged on their purchases in the same way as unregistered farmers, i.e. by means of the 2 per cent flat-rate addition to their prices. Sea-fishermen are not compensated by means of a flat-rate addition. Instead they are entitled to repayment of the tax on the purchase of taxable fishing boats, most sea-fishing equipment and related services, subject to certain conditions.

### Features of Operation and Control

37. VAT is a self-assessed tax which is administered and controlled with the minimum of intervention by the Revenue Commissioners, there being only one visiting officer for every 600 who are registered for VAT. In operating the VAT system, traders have to keep the necessary records and compile returns by reference to the various rate categories. Where traditional trading patterns involve the supply of a wide range of goods, record keeping can present a formidable task. For example, the range of goods sold by Irish chemists, supermarkets and grocers is such that they are all involved in accounting for tax at three different rates and since the imposition of tax on solid fuel and gas some of them have four rates to contend with.

### Imports and Exports

38. Imports and exports are treated for VAT purposes on the basis of the destination principle; broadly speaking, imports are taxable but exports are not. The same approach is adopted in all EEC countries. As a general rule imported goods are liable to tax at the rate applying to the sale of the same goods within the state. Goods which are not chargeable to tax on sale within the state are likewise not chargeable when imported. Value-added tax (and duty, if any) is payable before imported goods are released by the Customs, unless an importer is approved for and is participating in the deferred payment scheme in which case the tax is payable on the 15th day of the month following the month of importation.

39. Goods imported in some circumstances are not chargeable to VAT at importation. These include the following:

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<sup>6</sup>The term 'fishermen' here covers fresh water fishermen, fish farmers and sea water fishermen. The VAT legislation draws certain distinctions between these occupations.

<sup>7</sup>In certain circumstances fishermen are obliged to register for VAT.

- (i) certain goods imported temporarily: commercial travellers' samples, goods imported for use in competitions, exhibitions etc., professional equipment imported by non-residents, aircraft, yachts and boats and goods imported for testing,
- (ii) goods imported under transit arrangements,
- (iii) goods entered for trans-shipment,
- (iv) goods imported into Shannon customs-free airport,
- (v) goods imported by parcel post the value of which is £200 or less. This relief is restricted to imports by VAT-registered persons for business purposes,
- (vi) goods imported in circumstances which entitle them to admission without payment of customs duty e.g. used personal and household effects and portable wedding presents imported on transfer of residence, goods imported within travellers' personal luggage allowance, and
- (vii) raw materials and components imported by firms primarily involved in manufacturing for export. (To qualify firms must export 75 per cent or more of their production).

#### **Cost of Administration of VAT by Revenue Commissioners**

40. The cost of administration of VAT, stated as a percentage of the net VAT yield, is approximately 1 per cent.

## VALUE-ADDED TAX

### ANNEX 1

The following are the major changes in VAT since its introduction on 1 November, 1972. The rates at that time were zero, 5.26, 16.37 and 30.26 per cent. A special rate of 11.11 per cent applied to dances. A 1 per cent flat-rate relief for purchases from unregistered farmers and fishermen was part of the system.

*On 3 September, 1973* most food and oral medicines were added to the list of zero-rated goods. The positive rates of VAT were increased to 6.75, 19.5 and 36.75 per cent.

*On 1 March, 1975* the 1 per cent flat-rate relief for purchases from unregistered farmers was suspended insofar as purchases of live cattle were concerned.

*On 1 July, 1975* certain clothing, footwear, clothing material and fuel were zero-rated.

*On 1 March, 1976* the 6.75 and 19.5 per cent rates were increased to 10 and 20 per cent respectively. The coverage of the 36.75 per cent rate was modified, a new rate of 35 per cent being introduced on passenger motor vehicles and another new rate of 40 per cent on radios, television sets, record players and records. The special rate for dances was abolished and these became liable at the same rate as other entertainment services. The flat-rate relief for purchases from unregistered farmers and fishermen was discontinued.

*On 1 July, 1978* the rate of VAT on certain candles was reduced to zero per cent.

*On 1 March, 1979* the rates of 35 and 40 per cent were repealed and the goods in question transferred to the other rates. In the case of motor cars, television sets and gramophone records new excise duties were introduced to compensate for the reduction in VAT. The 1 per cent flat-rate relief for purchases from unregistered farmers and fishermen (excluding sea-fishermen) was restored.

*On 1 May, 1980* the 20 per cent rate was increased to 25 per cent.

*On 1 September, 1981* the 10 per cent rate was increased to 15 per cent. The flat-rate relief for purchases from unregistered farmers and fishermen was increased from 1 per cent to 1.5 per cent.

*On 20 November, 1981* the general limits for registration were increased to £15,000 a year for trader supplying services and to £30,000 a year for other traders.

*On 1 May, 1982* the 15 per cent rate was increased to 18 per cent. However, the effective rate of 3 per cent on buildings and agricultural services remained unchanged. Books were zero-rated. The 25 per cent rate was increased to 30 per cent. Furniture and joinery, soft furnishings, bed linen, blankets, rugs and floor coverings generally, including carpets, became subject to the 18 per cent rate instead of the 25 per cent rate which previously applied. The 1.5 per cent relief for purchases from unregistered farmers and fishermen was increased to 1.8 per cent.

*On 1 September, 1982* the 18 per cent rate was applied to the following services which were previously exempt; solicitors, barristers, debt and rent collection agents, accountants and actuaries. The liability of auctioneers, who were already liable for VAT on their sale fees to a limited extent, was extended to include, in the main, fees on the sale of exempted property. Accountancy and management consultancy services to farmers and solicitors' and auctioneers' fees on the sale of agricultural land were made at a special low effective rate of 3 per cent. VAT was charged at the point of import on all goods, subject to a deferral to the 15th day of month following importation.

*On 1 March, 1983* the 18 and 30 per cent rates were increased to 23 and 35 per cent respectively. The special low effective rate of 3 per cent which applied to building and certain agricultural contracting services was increased to 5 per cent.

*On 1 May, 1983* all zero-rated fuels, except electricity were charged at 5 per cent. The new 5 per cent rate was also applied to building work, garage repairs, agricultural field services and farm management and accountancy services and to certain services of auctioneers, solicitors and estate agents relating to sales of agricultural land. A further new rate of 18 per cent, for letting in the course of carrying on a hotel business was introduced. The 1.8 per cent relief for purchases from unregistered farmers and fishermen was increased from 1.8 per cent to 2.3 per cent.

*On 1 July, 1983* the rate of 5 per cent was extended to certain repair and maintenance services for motor vehicles and certain machinery. The 2.3

per cent rate relief for purchases from unregistered farmers and fishermen was reduced to 2 per cent.

*On 1 March, 1984* VAT on theatre and other live performances was reduced from 23 per cent to 5 per cent. VAT on concrete was also reduced to 5 per cent. A reduced rate of 18 per cent was applied to short-term car, caravan, boat and tent hire. A retail export scheme was also introduced allowing for relief from VAT in respect of goods purchased by visitors to this country for export. The relief also applies to Irish residents leaving this country for a period of at least 12 months.

*On 1 May, 1984* adult clothing was charged at a new rate of 8 per cent.

## **APPENDIX 6**

### **TRANSITIONAL PROVISIONS APPLICABLE UNDER THE COMMON SYSTEM OF VALUE-ADDED TAX PROPOSED IN THE EEC SIXTH DIRECTIVE**

#### **Introduction**

1. In this appendix we summarise the transitional provisions applicable under the common system of value-added tax proposed in the EEC Sixth Directive. We also outline the findings of a recent report on the transitional provisions by the Commission of the European Communities.

#### **Scope of the Transitional Provisions**

2. So as to facilitate the move towards the final form of the common system of VAT, Article 28 of the Sixth Directive lays down a number of transitional provisions relating to

- (a) maintenance of reduced rates and exemptions with refund of input tax (zero-rating),
- (b) the freedom to continue to tax transactions which will have to be exempt under the final arrangements,
- (c) the freedom to continue to exempt transactions which will have to be taxed under the final arrangements,
- (d) the freedom to maintain or grant the right to opt for taxation,
- (e) the freedom to derogate from the principle of immediate deduction,
- (f) the freedom to derogate from the arrangement whereby supplies are treated as taxable transactions and certain amounts received are not included in the taxable amount,
- (g) the freedom to take the difference between the selling price and the purchase price as the taxable amount for certain real property transactions,
- (h) the freedom to continue to exempt without repayment of input tax the services of travel agents.

3. Lists of the exempt transactions under the final scheme which may continue to be taxed and the taxed transaction under the final scheme which

may continue to be exempted during the transitional period are given in two tables in Annex 1. The tables also indicate which member states have made use of the transitional options.

### **Report of the Commission to the Council**

4. Article 28 of the Sixth Directive requires the Council of the EEC to review zero-rating applied by member states every five years and, where appropriate, to achieve the progressive abolition of zero-rating. On the 17 January, 1983 the Commission of the European Communities issued a report on the future of zero-rating and other transitional provisions. The Commission does not put forward detailed proposals for dealing with the large scale use of zero-rating in Ireland and the United Kingdom, but envisages that any change in the existing structure would have to be spread throughout a long period. However, the Commission does outline a number of possible solutions. These include

- gradual narrowing of the scope of zero-rating, for example by restricting it during an initial stage to foodstuffs alone, excluding clothing, footwear, etc., and, during a second stage, to basic foodstuffs alone (bread, milk, meat, etc.),
- gradual increase in the taxation of the goods and services which would thus be excluded from the scope of zero-rating; during an initial period, the rate of tax could be set at a fairly low level, though one which would be sufficient to allow deduction of input tax ('compensation rate'); subsequently, this special rate would be increased to the level of the reduced rate or the standard rate in one or more intermediate stages,
- gradual reduction in the level of the rate or rates of VAT, parallel to the process of narrowing the scope of zero-rating, where a member state wished to maintain the total yield of VAT at the same level. Another possibility would be to keep rates unchanged so as to provide some latitude for reducing the burden of other direct or indirect taxes.

5. The Commission also reports on the other transitional provisions provided for in Article 28. The Report does not recommend the abolition of any specific provisions, but seeks to identify those provisions which are not extensively used and which would be abolished fairly rapidly, and those which would have to be abolished over time or which present particular difficulties. The Commission notes that there is a tendency in member states due to growing budgetary difficulties to end the transitional exemptions provided for transactions which will have to be taxed under the final arrangements. The report of the Commission must be debated by the full Council of the European Economic Community.

## ANNEX 1

### TRANSITIONAL PROVISIONS IN THE EEC SIXTH DIRECTIVE

**TABLE 6.1**

#### Transactions to be Exempt under the EEC Final Scheme for VAT

	Countries that have maintained taxation
1. Parcel post services	Denmark
2. Services supplied by dental technicians in the supply of dental prostheses	Germany Belgium Ireland
3. Services supplied by independent groups of persons exempt from or not subject to VAT	Belgium France Luxembourg Ireland
4. Services linked to sport or physical education supplied by non-profit-making organizations	Germany United Kingdom
5. Cultural services supplied by bodies governed by public law	Denmark Ireland United Kingdom
6. The supply of transport services for sick or injured persons in ambulances	France United Kingdom
7. The supply of services by public radio and television bodies	Denmark Italy
8. The supply of services by intermediaries relating to the negotiation of credit guarantees or any other security for money and the management of credit guarantees	—
9. The supply of services by intermediaries relating to transactions in transferable securities	United Kingdom
10. Management of investment funds	Ireland United Kingdom
11. The supply of buildings that are not newly constructed	Denmark France (estate agents) Ireland Italy Netherlands (on option according to criteria prior to the Sixth Directive)
12. The supply of goods dispatched or transported by a purchaser not established within the territory of the country	Denmark Ireland
13. The supply of goods and services in respect of aircraft used for reward on international routes	—
14. Goods supplied to approved bodies which export them as part of their humanitarian activities	Denmark Ireland
15. The services of travel agents for journeys outside the Community	Germany Belgium Luxembourg

TABLE 6.2

## Transactions to be Taxed under the EEC Final Scheme for VAT

	Countries that have maintained exemption
1. Admission to sporting events	Denmark France Ireland Luxembourg
2. Services supplied by authors, artists and members of the liberal professions	Belgium Denmark France Netherlands
3. Supply of services by means of agricultural machinery	France
4. Supply of greyhounds and thoroughbred horses	Ireland
5. Telecommunications services supplied by public postal services	Germany France Ireland Italy (only telegraph) Luxembourg Netherlands
6. Services supplied by undertakers and cremation services	Germany Ireland Italy Netherlands United Kingdom
7. Transactions carried out by blind persons or workshops for the blind	Germany Denmark France Netherlands
8. The supply of goods and services for cemeteries, etc. commemorating war dead	Belgium France Luxembourg
9. Treatment of animals by veterinary surgeons	Belgium Netherlands Ireland
10. Transactions of hospitals	Belgium, Ireland and the United Kingdom exempt the whole of this sector but consider that the exemption falls under Article 13.
11. Services of experts in connection with assurance claims	France Netherlands
12. The supply of water by public authorities	France Ireland Luxembourg

	Countries that have maintained exemption
13. Management of credit and credit guarantees	Denmark Germany Luxembourg
14. Debt collection	—
15. The safekeeping and management of shares, etc.	Denmark Germany Luxembourg
16. Supplies of new buildings and building land	Belgium Denmark Germany Luxembourg
17. Passenger transport	Virtually all Member States, but in particular: Denmark and Ireland
18. The supply of goods and services relating to commercial inland waterway vessels	Belgium
19. Supplies of some used capital goods	France
20. Supplies of recuperable material and fresh industrial waste	Belgium France
21. Goods for the fuelling and provisioning of private boats proceeding outside the national territory	United Kingdom
22. Goods for the fuelling and provisioning of aircraft for private use	United Kingdom
23. The supply of goods and services relating to aircraft used by State institutions	Belgium Denmark Italy
24. The transport of goods on the Rhine and the canalized Moselle	France
25. The supply of goods and services relating to warships	Belgium Denmark Italy Netherlands
26. Transactions concerning gold other than gold for industrial use	France Luxembourg
27. The services of travel agents for journey within the Community	Denmark France Ireland Netherlands

## APPENDIX 7

### VAT OWN RESOURCES

1. In this appendix we set out the present arrangements in relation to the value-added tax element of the Irish contribution to the European Community's own resources (hereafter VAT own resources).
2. VAT own resources is calculated by applying an agreed percentage (not exceeding 1 per cent) to the value-added tax base calculated in a uniform manner for all member states and including, where appropriate, goods and services liable at the zero rate under national derogations.
3. A Council Regulation<sup>1</sup> sets out the detailed procedure by which this uniform base is to be calculated. This regulation gives member states the choice of calculating the base according to either (1) the value-added tax returns received from registered persons (Method A) or (2) the amount of value-added tax collected (Method B). Ireland uses Method A to calculate the base.
4. The value-added tax base so derived is then adjusted to take account of the extent to which the Irish value-added tax system is not in accordance with the uniform base referred to above. A list of the adjustments required for Ireland appears in Annex 1.
5. The amount of VAT own resources paid to date to the EEC is
  - 1980 : £41m
  - 1981 : £53m.
  - 1982 : £64m.
  - 1983 : £96m.

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<sup>1</sup>Council Regulation No. 2892-77 of 19.12.1977.

## **VAT OWN RESOURCES**

### **ANNEX 1**

#### **A. Positive Compensations — Additions to Base**

1. Admission to sporting events.
2. Supply of greyhounds and thoroughbred horses.
3. Telecommunications services supplied by public postal services and supplies of goods incidental thereto.
4. Services supplied by undertakers and cremation services together with goods related thereto.
5. Treatment of animals by veterinary surgeons.
6. The supply of water by public authorities.
7. Passenger transport.
8. The services of travel agents for journeys within the Community.

#### **B. Negative Compensations — Deductions from Base**

1. Services supplied by dental technicians in their professional capacity and dental prostheses supplied by dentists and dental technicians.
2. Supplies (of buildings and land) covered by Article 13B (g), Sixth VAT Directive insofar as they are made by taxable persons who were entitled to deduction of input tax on the building concerned.
3. The supply of goods dispatched or transported to a destination outside the territory of the country by or on behalf of a purchaser not established within the territory of the country with the exception of goods transported by the purchaser himself for the equipping, fuelling and provisioning of pleasure boats and private aircraft or any other means of transport for private use.
4. Goods supplied to approved bodies which export them as part of their humanitarian, charitable or teaching activities abroad.

#### **C. Other Adjustments**

- I Deductions from Base:

1. Transactions performed by traders whose annual turnover does not exceed 10,000 EUA (approx i.e. £7,200) and who are registered for Irish VAT.
2. Purchases of passenger motor cars and petrol by VAT registered traders.

II Additions to base:

1. Transactions performed by traders whose annual turnover exceeds 10,000 EUA (approx i.e. £7,200) but who are within Irish registration limits.

## **APPENDIX 8**

### **AN EXAMINATION OF SALES TAXES OTHER THAN VALUE-ADDED TAX**

1. In this appendix we examine briefly the main forms of sales tax other than value-added tax. We are conscious, of course, that EEC regulations would prevent the adoption of any such taxes by this country even if they were thought to be desirable.

#### **The Single-stage Tax at the Retail Level**

2. The single-stage retail tax scores well in terms of the criteria specified in Chapter 3. On the assumption that the tax is charged at a single rate and is applied to all consumer expenditures, the goal of neutrality is achieved, for the tax constitutes a constant percentage of all goods and services purchased. The tax can also provide equal treatment for domestic and imported goods. The main objection generally raised to a retail sales tax is that all the revenue is collected through a large number of retailers and evasion is more difficult to control.

#### **The Single-stage Tax at the Manufacturing Level**

3. A tax levied at the manufacturing stage would only be as neutral as a tax at the retail stage if it were possible to collect tax from manufacturers as a fixed percentage of the actual final selling price of goods to the consumer which may not be known at the time of its sale by the manufacturer. Therefore it would be impossible to obtain directly under a manufacturer's tax the neutrality of a retail tax. The major advantage of a manufacturer's tax is that it is relatively easy to administer. Compared with single-stage taxes at the wholesale and retail levels the number of taxpayers is smaller, the typical taxpayer is larger, his records are probably more satisfactory and evasion is minimal.

#### **The Single-stage Tax at the Wholesale Level**

4. A wholesale tax and a manufacturer's tax have a number of common characteristics. Both are hidden taxes in the sense that the retailer buys tax-paid goods; both are incapable of achieving the neutrality of a retail tax;

and both involve a limited number of taxpayers, generally with good records. The very fact however that a wholesale tax would be one stage nearer to the point of final consumption than a tax at the manufacturer's level means that it is more neutral.

### **Cascade Turnover Tax**

5. The cascade turnover tax which is levied at all stages is an unsatisfactory form of sales tax. Its major defect is that it discriminates arbitrarily against products which involve many stages of production and distribution. Since the tax is charged cumulatively on the full price every time goods change hands, commodities which pass through a long chain in the process of manufacture and distribution bear more tax than similar goods which pass through a shorter chain. When a cascade turnover tax is in operation, firms have a powerful incentive to eliminate as many independent transactions as possible in order to avoid tax. This elimination process is usually called vertical integration. While this can be beneficial in some instances insofar as it can lead to increased efficiency, we believe that its encouragement by the cascade turnover tax is improper and conflicts with the criterion of economic neutrality.

6. The cascade turnover tax confers a competitive advantage on integrated firms over non-integrated firms which is entirely without economic justification. A commodity produced and distributed within an integrated firm is likely to bear much less tax than a competing product that has to pass through a number of production and distribution stages before it reaches the consumer. Thus, all other things being equal, the final price to the consumer of an integrated firm's product will be lower than that of a similar product produced by a non-integrated firm. This is not only inequitable but it is also incompatible with the concept of neutrality.

7. Furthermore, the cascade turnover tax makes it difficult to refund the exact amount of tax on exports, particularly where products pass through a number of transactions before being exported. The tax tends to be concealed in the price and the repayment to the exporter cannot be made with precision. In consequence, exports may be penalised or subsidised depending on the amount of tax refunded. This leads to distortion in the pattern of international trade. As noted earlier it was mainly for this reason that the EEC rejected the cascade type taxes and adopted VAT.

8. The cascade turnover tax has only one real advantage. Because it may apply to all transactions at every stage of production and distribution, the extremely broad base permits very large sums of revenue to be raised at a relatively low rate of tax.

## **APPENDIX 9**

### **ANALYSIS OF HOUSEHOLD EXPENDITURE ON CERTAIN GOODS AND SERVICES BY DECILE**

1. In this appendix we analyse household expenditure on certain goods and services by decile group based on the results of the household budget survey, 1980. This analysis was carried out for us by the Operations Research Unit of the Department of the Public Service who were allowed access to unpublished material by the Central Statistics Office.

#### **Household Budget Survey**

2. A large scale household budget survey was conducted by the Central Statistics Office during 1980. The survey covered a random representative sample of 7,185 urban and rural households throughout the country. Summary results were published in December, 1982.

3. A number of issues must be decided before using the results of these data to analyse the income distribution effects of indirect tax changes. These are

- (i) what assumptions are to be made about the incidence of such taxes,
- (ii) what base (income or expenditure) is to be used to measure the impact of changes, and
- (iii) how should the data be adjusted to take account of different household size and composition.

Our views on these matters are set out in the following paragraphs.

#### **Incidence**

4. It is generally assumed that the incidence of indirect taxes falls totally on consumers. This is an oversimplification. As a general rule, the greater the fall in demand for a product resulting from a rise in its price, the less likely is a tax on that product to be passed on to the consumer. Thus, taxes on luxury goods and services, which by definition are inessential, are more

likely to be borne by the persons engaged in the production of these products. For this reason, it is misleading to put much reliance on the simple view of tax incidence that indirect taxes are borne by the consumer.

### **Income or Expenditure**

5. In our first report we concluded<sup>1</sup> that the best measure of ability to pay was cumulative lifetime income measured on a comprehensive basis — that is, potential rather than actual spending power. The problem is how to relate this ideal measure of ability to pay to the data available in the household budget survey.

6. The 1980 household budget survey states<sup>2</sup> that “the expenditure estimates, with the exception of alcoholic drink, are considered to be far more reliable than those received for incomes. Evidence of the deficiency in the income figures is the gap between disposable income and total expenditure as recorded in the survey which is more than could be attributed to definitional and time reference differences. The low income figures reflect the difficulty of collecting consistent income data directly from private individuals in a household survey. . . . The extent of understatement in the income estimates varies with the type and source of income. Therefore, comparisons between income levels of different groups of households could be quite misleading and should be avoided particularly where income sources differ appreciably”.

7. In the light of this information, we conclude that the best measure of ability to pay that is available for the purpose of our analysis is total household expenditure.

### **Adjustment for Household Size and Composition**

8. Households differ in size and composition. In order, therefore, to compare the standards of living of different household types it is necessary to find a common basis of comparison. Equivalence scales provide a means of converting total household expenditure (or income) to a common basis. These scales are essentially ratios of expenditure (or incomes) required by different household types to achieve a similar standard of living — taking into account the economies possible in the larger households from sharing of facilities, including heating and lighting and purchases in bulk. The related concept of equivalent expenditure (or income) is defined as a household's actual expenditure (or income) divided by its equivalence scale.

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<sup>1</sup>Chapter 8 and 19.

<sup>2</sup>pl 1221 p xi.

9. Unfortunately equivalence scales for Ireland are not available. In the context of setting tax credits by reference to equivalence scales, we recommend<sup>3</sup> that work should be undertaken to establish the appropriate equivalence deriving appropriate scales from Irish data and we used scales calculated for Britain.<sup>4</sup>

Single adults	0.6
Couple	1.0
Child aged 15	0.25
Each additional adult	0.5

10. In adjusting the results of the Household Budget Survey 1980 for the differences in household size and composition we took the following steps. We

- (i) selected an equivalence scale for each household,
- (ii) divided the total expenditure of each household by its equivalence scale, and
- (iii) reclassified the households by reference to their adjusted total expenditure.

The results derived from this procedure are given in the following paragraphs in respect of expenditure on food, clothing and footwear, oral medicine, electricity, domestic use of telecommunications services and passenger transport.

### Food

11. The data in Table 9.1 clearly illustrate that while the rich spend proportionately less of their total expenditure on food than the poor, in absolute cash terms they spend considerably more. It may be seen that expenditure on zero-rated food rises in absolute terms as total expenditure increases, so that the richest category of households spends almost twice as much on food as the poorest category, even though the poorest category spends a greater proportion of their total expenditure on food. Of every

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<sup>3</sup>First Report, paragraph 16.64.

<sup>4</sup>"These ratios have been abstracted from Appendix E to Report No. 6, Lower Incomes, Royal Commission on the Distribution of Income and Wealth, May, 1978, Cmnd. 7175. Thus, these figures relate to the United Kingdom. The Appendix cites L. D. McClements' Equivalence Scales for Children, 1975, an unpublished Department of Health and Social Security paper as one of its sources. On this work E. Fitzgerald in N.E.S.C. Report No. 47, Alternative Strategies for Family Income Support, makes the following comment at page 63:

"It was felt that rounding the equivalence values found by McClements would give a reasonable approximation to the results which might be obtained by the theoretically more desirable approach of deriving first equivalence scales based on Irish household spending patterns, and then applying these."

Also for an account of equivalence ratios applied or proposed in various countries see First Report, Appendix 14.

£100 spent on zero-rated food items only £14.4 is spent by the poor (i.e. the bottom two income groups).

**TABLE 9.1**

**Proportion of Total Weekly Expenditure on Food and the Share of every £100 spent on Food in 1980 by Decile adjusted by Equivalence Scales**

Decile Groups 1	Total Weekly Expenditure 2	Expenditure on zero-rated Food 3	% of Total expenditure on zero-rated food items Col. 3 as % of Col. 2 4	Of every £100 spent on zero-rated food items each decile spends 5
	£	£	%	£
Decile 1	274.7	27.3	9.9	10.0
Decile 2	201.2	31.3	15.5	11.5
Decile 3	165.1	30.7	18.6	11.2
Decile 4	151.0	30.9	20.5	11.3
Decile 5	124.1	29.0	23.4	10.6
Decile 6	116.4	30.6	26.3	11.2
Decile 7	97.1	28.8	29.6	10.5
Decile 8	76.9	25.7	33.4	9.4
Decile 9	58.3	22.9	39.4	8.6
Decile 10	32.7	15.8	48.4	5.8

Source: Household Budget Survey 1980 and Department of the Public Service.

### Clothing and Footwear

12. In the case of clothing and footwear, expenditure by the richest category of households is not only substantially greater in absolute terms but also as a proportion of total household expenditure. Of every £100 spent on clothing and footwear only £3.82 is spent by the poor.

**TABLE 9.2**

**Proportion of Total Weekly Expenditure on Clothing and Footwear and the Share of every £100 spent in 1980 by Decile adjusted by Equivalence Scales**

Decile Groups 1	Total Weekly Expenditure 2	Expenditure on Clothing and Footwear 3	% of total Expenditure on Clothing & Footwear Col. 3 as % of Col. 2 4	Of every £100 spent on Clothing and Footwear each decile spends 5
	£	£	%	£
Decile 1	274.7	26.5	9.6	24.1
Decile 2	201.2	19.6	9.7	17.8
Decile 3	165.1	15.3	9.3	13.9
Decile 4	151.0	13.1	8.7	11.9
Decile 5	124.1	10.0	8.1	9.1
Decile 6	116.4	9.2	7.9	8.3
Decile 7	97.1	7.2	7.4	6.5
Decile 8	76.9	5.1	6.6	4.6
Decile 9	58.3	3.1	5.4	2.9
Decile 10	32.7	1.1	3.3	1.0

Source: Household Budget Survey 1980 and Department of the Public Service

### Children's Clothing

13. We also analysed expenditure on children's clothing. The data in Table 9.3 suggest that a tax on this category of expenditure would, not alone in absolute terms, but also as a proportion of total weekly expenditure, bear less heavily on the lower and middle income households than on higher income households.

**TABLE 9.3**

**Proportion of Total Weekly Expenditure on Children's Clothing and the Share of every £100 of Expenditure on Children's Clothing by Decile in 1980, adjusted by Equivalence Scales**

Decile Group	Total Weekly Expenditure	Weekly expenditure on Children's Clothing	% of Weekly expenditure on Children's Clothing	Share of every £100 spent on Children's Clothing
	£	£	%	£
Decile 1	274.7	2.9	1.1	13.7
Decile 2	201.2	3.6	1.8	17.0
Decile 3	165.1	3.1	1.9	15.0
Decile 4	151.0	2.6	1.7	12.6
Decile 5	124.1	2.3	1.9	10.8
Decile 6	116.4	2.2	1.9	10.6
Decile 7	97.1	1.8	1.0	8.5
Decile 8	76.9	1.2	1.6	5.8
Decile 9	58.3	0.9	1.5	4.5
Decile 10	32.7	0.3	0.9	1.4

Source: Household Budget Survey 1980 and Department of the Public Service.

### Oral Medicine

14. A large number of people qualify for free medicines, particularly in the lower income groups. Table 9.4 shows that the richest households spend six times as much on medicines<sup>5</sup> as the poorest households. It also shows that of every £100 spent on medicines only £6.20 is spent by the poor (i.e. the bottom two income groups).

<sup>5</sup>The data in Table 9.4 refer to medicines on prescription and other medicines.

TABLE 9.4

**Weekly Expenditure on Medicines and the Share of every £100 of Expenditure on Medicines by Decile in 1980, adjusted by Equivalence Scales**

Decile Group	Total Weekly Expenditure	Weekly expenditure on Medicines	Share of every £100 spent on Medicines
	£	£	£
Decile 1	274.7	1.2	16.2
Decile 2	201.2	1.2	15.8
Decile 3	165.1	1.0	14.0
Decile 4	151.0	0.9	12.8
Decile 5	124.1	0.8	10.4
Decile 6	116.4	0.7	9.6
Decile 7	97.1	0.6	8.5
Decile 8	76.9	0.5	6.6
Decile 9	58.3	0.3	4.1
Decile 10	32.7	0.2	2.1

Source: Household Budget Survey 1980 and Department of the Public Service

## Electricity

15. Table 9.5 shows that although expenditure on electricity is regressive, in absolute terms the richest households spend almost four times as much on electricity as the poorest. Furthermore, of every £100 spent on electricity by domestic consumers, only £9.90 is spent by the poor.

TABLE 9.5

**Proportion of Total Weekly Expenditure on Electricity and the Share of every £100 of Expenditure on Electricity by Decile in 1980, adjusted by Equivalence Scales.**

Decile Group	Total Weekly Expenditure	Expenditure on Electricity	% of Weekly Expenditure on Electricity	Share of every £100 spent on Electricity
	£	£	%	£
Decile 1	274.7	2.9	1.4	14.3
Decile 2	201.2	3.7	1.8	13.5
Decile 3	165.1	3.6	2.2	13.1
Decile 4	151.0	3.2	2.1	11.4
Decile 5	124.1	2.9	2.3	10.5
Decile 6	116.4	2.9	2.4	10.6
Decile 7	97.1	2.6	2.6	9.3
Decile 8	76.9	2.1	2.7	7.5
Decile 9	58.3	1.7	2.9	6.2
Decile 10	32.7	1.0	3.0	3.7

Source: Household Budget Survey 1980 and Department of the Public Service

## Telecommunications Services

16. Table 9.6 shows that the richest households spend over twenty times the amount in absolute terms spent by the poorest households and that of every £100 spent on telecommunications services only £3.30 is spent by the poor.

**TABLE 9.6**

**Proportion of Total Weekly Expenditure on Telecommunications Services and the Share of every £100 spent on Telecommunications Services in 1980 by Decile adjusted by Equivalence Scales.**

Decile Groups 1	Total Weekly Expenditure 2	Expenditure on Telecommunications Services 3	Of every £100 spent on telecommunications services each decile spends 4
	£	£	£
Decile 1	274.7	2.2	23.6
Decile 2	201.2	1.8	19.1
Decile 3	165.1	1.4	15.4
Decile 4	151.0	1.1	11.4
Decile 5	124.1	1.0	10.3
Decile 6	116.4	0.7	7.8
Decile 7	97.1	0.5	5.1
Decile 8	76.9	0.4	3.9
Decile 9	58.3	0.2	2.2
Decile 10	32.7	0.1	1.1

Source: Central Statistics Office and Department of the Public Service.

## Passenger Transport

17. Persons over pension age in Ireland are entitled to free transport. This obviously affects the incidence of expenditure on train and bus fares. Table 9.7 shows that the richest households spend eighteen times as much on train and bus fares as the poorest. Only £17.7 of every £100 spent on train and bus fares is spent by the lower and lower middle income groups.

**TABLE 9.7**

**Weekly Expenditure on Train and Bus Fares and the Share of every £100 spent on Train and Bus Fares in 1980 by Decile, adjusted Equivalence Scales.**

Decile Group	Total Weekly Expenditure	Weekly Expenditure on Train and Bus Fares	Of every £100 spent on trains and bus fares each decile spends
	£	£	%
Decile 1	274.7	1.5	16.7
Decile 2	201.2	1.7	17.0
Decile 3	165.1	1.7	15.1
Decile 4	151.0	1.4	12.8
Decile 5	124.1	1.2	10.4
Decile 6	116.4	1.3	10.6
Decile 7	97.1	0.8	7.1
Decile 8	76.9	0.8	6.5
Decile 9	58.3	0.4	3.2
Decile 10	32.7	0.1	0.9

*Source:* Central Statistics Office and Department of the Public Service.

## APPENDIX 10

### SALES OF GOODS TO TOURISTS AND OTHER TRAVELLERS

1. A scheme introduced on 1 March, 1984 provides for relief from VAT for certain goods purchased by foreign visitors and by Irish residents departing from the state for more than a year. In the case of purchases by EEC visitors (including visitors from Northern Ireland) and by Irish residents leaving for a period of more than a year for an EEC country, relief is generally confined to items of more than £152 in value. In the case of visitors from outside the EEC and Irish residents leaving for sojourns of more than a year in countries outside the EEC, a value limit does not generally apply. Goods purchased by Irish residents, even though the goods may be intended for export after being given as gifts to persons about to leave the country, do not qualify for relief.
2. The relief is allowed by way of zero-rating of taxable sales subject to the appropriate proofs.
3. Two separate schemes are operated as follows:
  - Scheme I* relates to goods exported in the purchaser's personal baggage, and
  - Scheme II* relates to goods shipped by the seller on behalf of the purchaser on board an aircraft or ship leaving the state.
4. The following are the main conditions for relief which apply to both schemes:
  - (i) the goods must be exported within 2 months of their purchase,
  - (ii) an invoice must be completed by the seller, certified by customs and returned to the seller,
  - (iii) the person selling the goods must be registered for VAT. He must also be satisfied that the customer is entitled to obtain the goods free of VAT,
  - (iv) if the purchaser's permanent residence is in an EEC member state and he intends to export the goods to that state or any other

member state, or, he is an Irish resident going to reside in another member state for more than one year, the value, including tax, of each individual item *must exceed* £152,

- (v) the purchaser must not, in any case, be a member of the crew of any ship, aircraft, train or other conveyance engaged in the transport of passengers or goods into or out of the state.

## APPENDIX 11

### PRESENT SYSTEM OF EXCISE DUTIES IN IRELAND

1. In Ireland excise duties are chargeable on a limited number of commodities, activities and licences. These are

- (i) certain goods manufactured in or imported into the state e.g. beer, spirits, tobacco products, hydrocarbon oils, motor vehicles, table waters and televisions,
- (ii) off-course betting,
- (iii) foreign travel, and
- (iv) various licences and certificates which constitute a control framework for the manufacture and sale of intoxicating liquor, possession of firearms, auctioneering, gaming, betting and numerous other activities.

2. The duties are all specific, i.e. a flat-rate charge on a fixed unit or quantity of goods, except for the duty on cigarettes, which is partly specific and partly *ad valorem* and the duties on motor vehicles, motor vehicle parts and tyres and betting, which are fully *ad valorem*. A complete list of the duties in force appears in Annex 1. Details of the excise receipts for 1982 with an indication of the relative importance of the various duties are in Annex 2.

### METHODS OF COLLECTION

3. In general, the system of collection of excise duties on both imported and home-produced goods entails physical control of the goods by officers of Customs and Excise and is such that traders may obtain delivery of the goods only if duty has either been paid or secured by bond or bank guarantee. It is unusual, therefore, for problems of collection to arise. The rules and methods of collection relating to customs duties on imported goods also apply generally to excise duties on imported goods. The same code of legislation applies, broadly speaking, to imported goods, whether they are liable to customs duty or to excise duty. Because of the potentially

greater revenue risk where excise duties are concerned, however, there is somewhat greater scrutiny of import consignments of excisable commodities.

### **Imported goods**

4. Goods may be legally imported only at approved places such as ports, airports and land frontier stations, where facilities for landing and examination are provided. Official cognisance of imported goods and potential liability to duty commences with the arrival of the importing ship. Each arrival is notified to Customs and the master of the ship must, by law, formally report his vessel and cargo to Customs. The report is written off according as individual consignments making up the cargo are cleared out of official custody to successive Customs entries. There is provision for the recording, storage and disposal of any goods not entered with Customs. Goods awaiting entry with Customs are usually stored in transit sheds under customs control.

5. While the event which gives rise to liability to import charges is the importation of goods, actual collection of the charges is more immediately associated with the lodgement of the Customs entry either by the importer or by his agent. The entry, which is a formal, signed declaration, is made on a special form; it contains a description of the goods and gives the relevant Tariff Code No. and the relevant Excise Reference No. which govern the rates of Customs and Excise duty chargeable. Customs entries are usually supported by other documents. An invoice showing the value of the goods would normally accompany the entry. A separate valuation declaration is required in respect of high-value items. The Customs entry is presented at a Custom House where it is checked for accuracy. When the entry is accepted, duty must be paid at that point unless deferred payment arrangements have been made. There is provision for deferred payment of excise duty on most imported goods. The period of deferment allowed varies but payment may normally be deferred until the end of the month following the month of charge. Details of these periods of deferment are given in Annex 3. Deferment is granted subject to the provision of security in the form of a bond or a bank guarantee. When an entry has been passed in the Customs House (and duty has been paid or secured), it must then be taken to the place (e.g. the transit shed) where the goods are stored, to enable them to be cleared from Customs control. The Customs officer on the spot relates the entry which was presented and passed to the actual goods awaiting clearance and takes due account of any discrepancies which might arise. He may detain the goods until a satisfactory entry has been presented and passed. Customs entries are subject to selective post-clearance checking. Both original and copy entries are retained for a number of years.

6. Goods arriving by air, by train or by motor vehicle are treated in the same way as goods arriving by ship.

7. As an alternative to putting goods directly into home consumption, the importer may decide to warehouse them. In practice, most imported goods liable to excise duties, including spirits, tobacco products, hydrocarbon oils, wine and motor vehicles, are warehoused on importation, deliveries from warehouse being made to satisfy immediate trade demands. Under the warehousing system, the goods remain under official control and the duty is suspended until the trader wishes to deliver the goods for home consumption. Removal of goods for home consumption from warehouse is regarded as analogous to removal of goods for home use from, for example, a ship, and duty is collected (or secured, where payment is deferred) at the time the goods are so removed; the goods are required at that stage to be entered with Customs and Excise in the officially prescribed manner. Official control of warehoused goods includes documentary records, physical examination of removals, frequent commodity stocktaking and periodic full stocktaking.

#### **Home-produced Goods**

8. In general, the production of goods chargeable with excise duty is officially licensed and supervised during the manufacturing stages, the degree of official check being intensified as the goods near the finished state. Excise controls usually involve a system of warehousing, whereby the goods remain under official control and the duty is suspended until the trader wishes to deliver the goods for home consumption.

9. Excise duty normally becomes payable at the time at which the goods are delivered from the manufacturer's premises or from bonded warehouse for home use. Payment of excise duty on home-produced goods is normally deferred to a date beyond the time of delivery of the goods for home use, provided adequate security for due payment by way of bond or bank guarantee is furnished. Brewers are, exceptionally, not required to provide security as the Revenue Commissioners have a lien for the duty on the brewer's plant and materials. As regards beer, the duty charge is raised not on the finished beer but at an early stage of the production of beer. The charge is raised on the worts when the unfinished beer is collected in vessels officially gauged and approved for the purpose of determining the quantity and strength of the beer to be produced.

10. Methods of collection of excise duties on home-produced goods vary as between different commodities. The policy of the Revenue Commissioners is to keep checks and controls to the minimum consistent with the maintenance of adequate revenue security. Both physical and documentary

controls are employed to ensure proper payment of excise duties, greater emphasis being placed on physical controls for commodities which yield large amounts of Exchequer revenue.

### **Other Excise Duties**

11. The excise duties other than those on particular commodities are not of great fiscal significance, except for the duty on betting. Each licensed bookmaker must register his betting offices with the Revenue Commissioners and make weekly returns of his liability and pay the duty due by the Thursday following each week's trading. He must keep records of all bets made with him and he must preserve betting slips for inspection by the Excise officer. The bookmaker is required to provide a bond or a cash deposit for due payment of the duty. Excise officers have powers to enter premises and to inspect bookmakers' accounts.

## ANNEX 1

### RATES OF EXCISE DUTY AS AT 1 FEBRUARY, 1984

#### *Tobacco*

Cigarettes £29.50 per 1,000 + 15.39 per cent of the retail price.

[Duty content of a packet of 20 cigarettes in the most popular category: £1.42 (average)].

Cigars £44.928 per Kg.

Other tobacco products: from £29.035 per Kg. to £45.401 per Kg.

#### *Beer*

£146.047 per standard barrel.

[Duty content of a pint of beer: 36p (average)].

#### *Spirits (main rate)*

£23.407 per litre of alcohol in the spirits.

[Duty content of a glass of whiskey: 66.5p].

#### *Wine*

Duty ranges from £1.96 to £3.93 per litre depending on actual alcoholic strength by volume.

[Duty content of a bottle of wine ranges from £1.47 to £2.95].

The duty ranges from £1.87 to £3.64 per litre in the case of 'wine' — i.e. wine made from anything other than fresh grapes.

#### *Cider and Perry*

Duty ranges from £0.53 per gallon to £8.50 per gallon depending on actual alcoholic strength by volume.

[Duty content of a flagon of cider (popular brands): 13p (average)].

#### *Table water*

£0.372 per gallon.

#### *Matches*

£0.566 for every 7,200 matches.

#### *Mechanical lighters*

£0.20 per lighter.

#### *Motor Vehicles*

Category A (cars, minibuses motor cycles etc)

—cars and minibuses not exceeding 16 horse-power, 54.5 per cent of the price to the dealer.

—cars and minibuses exceeding 16 horse-power, 64.5 per cent of the price to the dealer.

—motor cycles, auto cycles etc., 50 per cent of the price to the dealer

Category B (commercial vehicles, buses):

—11.5 per cent of the price to the dealer.

*Motor Vehicle Parts and Accessories*

25 per cent.

*Tyres*

home-manufactured — 5 per cent; imported — 10 per cent.

*Televisions*

Duty ranges from £24 (for the smallest monochrome set) to £121 (for the largest colour set).

*Video Players*

£40 per video player.

*Gramophone Records*

40 per cent of the chargeable value.

*Betting*

20 per cent on off-course bets.

*Gaming Machine Licences*

£250 per machine per annum. Licences for lesser periods (3 months, 6 months) may be taken out on payment of pro-rata amounts of duty. A reduced rate of duty licence is also available (£160 per annum) in respect of Saturdays, Sundays and Public Holidays only in the period specified in the licence.

*Hydrocarbon Oils*

Mineral Hydrocarbon light oil (Petrol)	...	...	108.1p per gallon.
Mineral Hydrocarbon heavy oil	...	...	8p per gallon.
Hydrocarbon oils, other sorts (Road-Diesel)	...	...	78.2p per gallon.
Imported goods which contain hydrocarbon oils	...	...	8p per gallon.
Gaseous Hydrocarbon in liquid form ...	...	...	76.7p per gallon.
(LPG used in road vehicles).			
Gaseous Hydrocarbons in liquid form	...	...	8p per gallon.
(used other than in road vehicles)			

*Foreign Travel*

£5 in respect of sea and air tickets purchased in the state other than tickets issued in respect of groups of children travelling abroad on educational trips.

## ANNEX 2

### EXCISE DUTIES

**TABLE 11.1**  
**Relative Importance of Various Duties**

Commodity	1982 Excise Receipts (Provisional)	% of Total
	£m	%
<i>Main Heads</i>		
(i) Alcoholic Beverages	382.546	33.9
(ii) Hydrocarbons	341.193	30.2
(iii) Tobacco Products	222.217	19.7
(iv) Motor Vehicles	138.948	12.3
<i>Other Heads</i>		
(i) Betting	18.133	1.60
(ii) Table Waters	12.548	1.11
(iii) Televisions	6.309	0.56
(iv) Licences	3.979	0.35
(v) Tyres	0.765	0.07
(vi) Records	0.697	0.06
(vii) Matches	0.617	0.05
(viii) Lighters	0.223	0.02
(ix) Foreign travel	0.561	0.05
(x) Videos	0.297	0.03
<b>Total</b>	<b>1,129.033</b>	<b>*100</b>

\*Slight discrepancy due to rounding

### ANNEX 3

#### PERIODS OF DEFERMENT ALLOWED FOR PAYMENT OF EXCISE DUTY ON MAIN EXCISABLE COMMODITIES

##### Beer

##### A. *Home-brewed beer*

##### (a) Normal deferment —

Duty may be deferred to a date not later than the 8th day of the second month following that in which the duty is charged. However, in the case of beer charged with duty in the month of November in any year, duty must be paid not later than the 28th day of December in the same year.

##### (b) Extended deferment — (which applies to bright beers which are kept in the brewery for a period of two months after manu- facture for conditioning purposes)

Duty may be deferred to a date not later than the 8th day of the third month following that in which the duty is charged. However, in respect of beer charged with duty in the month of October in any year, duty must be paid not later than the 28th day of December in the same year.

##### (c) Special deferment — (which applies to lager beer which is kept in the brewery for a period of at least three months after manufacture)

Duty may be deferred to a date not later than the 25th day of the fourth month following that in which the duty is charged.

##### B. *Imported beer* —

Duty may be deferred to a day not later than the 15th day of the month following that in which the duty is charged.

### **Spirits**

#### *Home and Imported —*

Payment may be deferred to a day not later than the last day of the month following the month in which the spirits are entered for home use.

However, in the case of spirits entered for home use between the 1st and 20th December in any year, payment must be made by the last day of that month; and no deferment is permitted in respect of spirits entered for home use on or after 21st December in any year.

### **Tobacco**

#### *Home and Imported —*

Payment may be deferred to a day not later than the last day of the month following that in which the duty is charged.

However, one-half of the duty charged in the month of December (other than on the last working day in that month) in any year must be paid not later than the last day of that month; and payment of the balance of the duty charged in that month may be deferred until the end of the month of January following.

### **Motor Vehicles**

#### *Home and Imported —*

Duty may be deferred to a day not later than the last day of the month following that in which the duty is charged.

### **Wine**

Payment may be deferred to a day not later than the 15th day of the month following the month in which the wine is entered for home use. In the case of wine entered for home use between the 1st and 20th December in any year, payment must be made by the last day of that month; and no deferment is permitted in respect of spirits entered for home use on or after 21st December in any year

## APPENDIX 12

### EXCISE DUTY ON ALCOHOL BEVERAGES

1. In this appendix we set out in detail the excise duties on alcohol beverages and the various reliefs and rebates which apply. The rates of duty shown are as at 1 February, 1984.

TABLE 12.1

Excise Duties on Beer

Description of Goods	Unit of Quantity	Rate of Duty
1. Beer (other than beer referred to at 2 below)	Gallon & standard barrel	£146.047 for every 36 gallons of worts of a specific gravity of 1,055 degrees, or in the case of imported beer for every 36 gallons of beer of which the worts were, before fermentation, of a specific gravity of 1,055 degrees and so in proportion for any difference in gravity

Note:

(1) A standard barrel of beer contains 36 gallons of beer of which the worts were, before fermentation, of a specific gravity of 1,055 degrees.

#### Reliefs from Excise Duties on Beer

2. In respect of beer brewed in the year ended 31 December, 1982 a rebate of excise duty was allowed at the rate of £1.33 per eligible standard barrel:

- (a) in the case of a brewer who brewed not more than 100,000 standard barrels of beer in that year, the first 75,000 barrels qualified for the rebate;
- (b) in the case of a brewer who brewed more than 100,000 standard barrels of beer in that year the number of barrels qualifying for rebate is reduced one for one by the excess of over 100,000 standard barrels. The rebate runs out at 175,000 barrels.

#### Special Provision

3. Where beer on which excise duty has been charged or paid is used to produce or manufacture beer containing not more than 0.5 per cent of alcohol by volume, there is provision for the remission or repayment of the

duty. In its place an excise duty at the rate of £0.372 per gallon on the beer so produced or manufactured is levied. Imported beer containing not more than 0.5 per cent of alcohol by volume is also chargeable at a rate of £0.372 per gallon.

### Cider and Perry

4. The excise duties on cider and perry are as follows.

**TABLE 12.2**

**Excise Duties on Cider and Perry**

Description of Goods	Unit of Quantity	Rate of Duty
Cider and Perry:		
Of an actual alcoholic strength by volume not exceeding 6 per cent volume	Gallon	£0.53 per gallon
Of an actual alcoholic strength by volume exceeding 6 per cent volume but not exceeding 8.7 per cent volume	Gallon	£2.6 per gallon
Of an actual alcoholic strength by volume exceeding 8.7 per cent volume	Gallon	£8.5 per gallon

**Notes:**

(1) 'Actual alcoholic strength by volume' means the number of volumes of pure alcohol contained at a temperature of 20°C in 100 volumes of the product at that temperature.

(2) 'Per cent volume' means alcoholic strength by volume.

### Spirits

5. The excise duties on spirits are as follows.

**TABLE 12.3**

**Excise Duties on Spirits and Goods containing Spirits**

Description of Goods	Unit of Quantity	Rate of Duty
Perfumed spirits (excluding spirits based on denatured spirits):		
Entered in such a manner as to indicate that the strength is not to be tested:		
Warehoused 3 years or more	Litre	£21.300 per litre
Not warehoused or warehoused less than 3 years	Litre	£21.344 per litre
Other:		
Warehoused 3 years or more	Litre of alcohol in the spirits	£23.407 per litre of alcohol in the spirits
Not warehoused or warehoused less than 3 years	Litre of alcohol in the spirits	£23.455 per litre of alcohol in the spirits

**TABLE 12.3** (continued)

**Excise Duties on Spirits and Goods containing Spirits**

Description of Goods	Unit of Quantity	Rate of Duty
<b>Other spirits (excluding denatured spirits or spirits based on denatured spirits):</b>		
In bottle and entered in such a manner as to indicate that the strength is not to be tested:		
Warehoused 3 years or more	Litre	£18.023 per litre
Not warehoused or warehoused less than 3 years	Litre	£18.059 per litre
<b>Other:</b>		
Warehoused 3 years or more	Litre of alcohol in the spirits	£23.407 per litre of alcohol in the spirits
Not warehoused or warehoused less than 3 years	Litre of alcohol in the spirits	£23.455 per litre of alcohol in the spirits
Imported goods, as indicated below, which contain spirits (other than denatured spirits or spirits based on denatured spirits) as a part of ingredient:		
All imported goods wherever classified in the Schedule of Customs Duties in the Tariff, except beer, wine, made wine, cider and perry.		Chargeable, in respect of the quantity of spirits used in the manufacture or preparation of the goods, at whichever of the above rates is appropriate (this duty is in addition to any other duty which may be chargeable).

**Notes:**

- (1) Admission of denatured spirits or goods based on denatured spirits without payment of excise duty is subject to such conditions as the Revenue Commissioners may see fit to impose.
- (2) An additional excise duty of £0.013 per litre of alcohol in the spirits is payable when payment of duty is deferred.
- (3) For the purposes of the above duties, 'alcohol' means pure ethyl alcohol.

**Reliefs from Excise Duties on Spirits**

6. Any excise duty paid on spirits is repaid if it is proved to the satisfaction of the Revenue Commissioners that the spirits have been used for scientific purposes, or used solely in the manufacture or preparation of articles recognised by them as being used for medical purposes. Spirits may also be delivered without payment of excise duty under certain conditions for use in any art or manufacture or for use in the manufacture of methylated spirits.

7. Subject to such conditions as the Revenue Commissioners may think fit to impose, the following are not charged with excise spirits duty in respect of the spirits contained in them:

- (i) imported mixtures, compounds and other preparations which are recognised by the Revenue Commissioners as being used for medical purposes,
- (ii) imported chloroform (chloroform), collodion (flexible collodion, B.P.), ethyl acetate (ether acetic) and ethyl iodide, where no liability arises in respect of normal spirit content, and
- (iii) imported goods (other than food and drink and products intended for the manufacture of food and drink) containing spirits.

### Wines

8. The excise duties on wines are as follows.

**TABLE 12.4**

**Excise Duties on Wine and Made Wine**

Description of Goods	Unit of Quantity	Rate of Duty
Wine of fresh grapes; grape must with fermentation arrested by the addition of alcohol:		
Still, of an actual alcoholic strength by volume:		
Not exceeding 15 per cent volume	Litre	£1.96 per litre
Exceeding 15 per cent volume but not exceeding 18 per cent volume	Litre	£2.84 per litre
Exceeding 18 per cent volume but not exceeding 22 per cent volume	Litre	£3.71 per litre
Exceeding 22 per cent volume	Litre	£3.71 per litre plus an additional duty of £0.23 per litre for every 1 per cent volume or fraction of 1 per cent volume above 22 per cent volume
Sparkling, of an actual alcoholic strength by volume:		
Not exceeding 22 per cent volume	Litre	£3.93 per litre
Exceeding 22 per cent volume	Litre	£3.93 per litre plus an additional duty of £0.23 per litre for every 1 per cent volume or fraction of 1 per cent volume above 22 per cent volume

TABLE 12.4 (continued)

## Excise Duties on Wine and Made Wine

Description of Goods	Unit of Quantity	Rate of Duty
Made wine:		
Still, of an actual alcoholic strength by volume:		
Not exceeding 15 per cent volume	Litre	£1.87 per litre
Exceeding 15 per cent volume but not exceeding 18 per cent volume	Litre	£2.69 per litre
Exceeding 18 per cent volume but not exceeding 22 per cent volume	Litre	£3.44 per litre
Exceeding 22 per cent volume	Litre	£3.44 per litre plus an additional duty of £0.23 per litre for every 1 per cent volume or fraction of 1 per cent volume above 22 per cent volume
Sparkling, of an actual alcoholic strength by volume:		
Not exceeding 22 per cent volume	Litre	£3.64 per litre
Exceeding 22 per cent volume	Litre	£3.64 per litre plus an additional duty of £0.23 per litre for every 1 per cent volume or fraction of 1 per cent volume above 22 per cent volume

## Notes:

For the purposes of the above duties—

(1) 'Wine' means any liquor obtained from the total or partial alcoholic fermentation of fresh grapes or the must of fresh grapes, whether or not the liquor is fortified with spirits or flavoured with aromatic extracts, and shall include grape must with fermentation arrested by the addition of alcohol. Imported wine rendered sparkling or effervescent in bond is liable to excise duty at the rate applicable to sparkling wine.

(2) 'Made wine' means any liquor which is made from fruit and sugar, or from fruit or sugar mixed with any other material and which has undergone a process of fermentation in the manufacture thereof, and includes mead, but does not include beer, wine, grape must in fermentation or with fermentation arrested otherwise than by the addition of alcohol, cider, perry, piquette, spirits or table waters.

(3) 'Actual alcoholic strength by volume' means the number of volumes of pure alcohol contained at a temperature of 20°C in 100 volumes of the product at that temperature.

(4) 'Per cent volume' means alcoholic strength by volume.

## APPENDIX 13

### THE COSTS OF ALCOHOL ABUSE IN IRELAND AND OTHER COUNTRIES

1. In this appendix we discuss estimates of the costs of alcohol abuse in Ireland, the United Kingdom and the United States. With regard to Ireland we draw on Walsh's study<sup>1</sup> which attempted to place money figures on the various items in the list of costs of alcohol abuse. This study in the words of the author "advocates a fairly narrow idea of 'costs' in this context".

#### Economic Costs

2. The personal suffering from alcohol related disease and the stress experienced by the relatives and friends of problem drinkers and those who have come into conflict with the law as a result of drinking cannot easily be measured or quantified in money terms. Nor can the true costs be calculated of the treatment of all the conditions which may be induced or aggravated by abuse of alcohol. However, a number of studies identify the areas where costs arise and they provide orders of magnitude of the costs involved.

#### United Kingdom

3. In the United Kingdom precise measures of the economic costs of alcohol abuse have not been made. Estimates have been made, however, of the material cost of accidents at work and on the road, their resource impact on health and personal social services, the police and the courts; the resource costs of loss of output due to sickness, unemployment or premature deaths. A preliminary study of the cost to society of alcohol abuse in England and Wales in 1977 carried out by economists in the Department of Health and Social Security suggests that these quantifiable items totalled between £425 million and £650 million (the low and high estimates reflect different assumptions regarding the prevalence of serious drinking problems).

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<sup>1</sup>B. M. Walsh, *Drinking in Ireland*, ESRI 1980.

## **United States**

4. The pre-eminent study on the cost of alcohol abuse in the United States was carried out by Ralph Berry and others (Berry et al., 1977). This study estimated the economic costs for 1975 to be in the range of \$39,898 million to \$42,755 million. However, because of conservatism in the methodology and omissions from the calculations, a 1980 Report<sup>2</sup> suggests that these costs may actually have been much larger, perhaps as high as \$60,000 million for that year. The latest data offered by Leonard G. Schiffrin in an essay on the costs of alcohol to society puts the figure for 1975 at \$72,724 million. The costs for 1979 are reckoned to be of the order of \$113,000 million.

## **Ireland**

5. Much of the basic information that is required to arrive at reliable estimates of the costs of alcohol abuse is not available for Ireland. Only by making assumptions based on shreds of evidence and figures that have been used in other countries can any progress towards an estimate be made. Walsh's study suggests a figure in the region of £63 million as the 1976 cost to the Exchequer of health care and social service expenditure, unemployment benefits, pensions and loss of tax revenue due to alcohol abuse. (In 1976, the yield of excise taxation of alcohol in Ireland totalled £158 million).

## **Premature Deaths and Suicides**

6. Alcohol abuse can lead to untimely death. The death rate on a comparative age basis among people who have become dependent on alcohol is twice as high as that of the adult population at large, and the difference is particularly great in young age groups. Studies have shown a very high level of suicide and attempted suicide by problem drinkers. There is also a higher incidence of death from accidents, poisoning and violence in this group. Alcohol has been shown to be a factor in fatal falls and deaths in fires in the home but, although it is assumed to play an important part in domestic accidents generally, there is as yet little systematic information on this.

## **Road Traffic Accidents**

7. Perhaps the most widely recognised social aspect of alcohol abuse is 'drinking and driving' and the part alcohol plays in road traffic accidents. Alcohol dulls people's sense of judgement, essential when driving, yet at

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<sup>2</sup>Institute of Medicine of the National Academy of Sciences, Alcoholism, Alcohol Abuse, and Related Problems: Opportunities for Research.

the same time distorts their perception of their own abilities. Several important studies have shown that, however drinking drivers may assess their own capabilities, in reality, the more they drink before driving, the greater the risk of a road accident — an accident which may involve not only the driver but passengers and other road users. A pedestrian who is under the influence of alcohol could also be at greater risk of involvement in a road accident. In a survey of road traffic fatalities in Ireland over 40 per cent of drivers had a level in excess of the legal limit. A small sample of adult pedestrians was included in this survey. One in three pedestrians in the sample had a blood alcohol level in excess of 200 mgs/mls. This figure suggests that many pedestrians killed on the road have considerable amounts of drink taken — the level of 200 mgs/100 mls suggests a minimum of half a bottle of spirits or its equivalent consumed — and so are relatively insensitive to the behaviour of other road users.

### **Accidents at Work and Effects on Employment**

8. People whose judgement is impaired even temporarily by drink are a danger to the health and safety of themselves, their work mates and their employers, and to others who may be affected by their work activities. As with accidents in the home, there is scope for further investigation, but it has been shown that alcohol does play a part in industrial accidents. Its role has not always been recognised because many other factors may contribute to accidents at the work place and because those involved may be reluctant to admit that drink was a factor.

9. Many problem drinkers are in regular employment. They inevitably bring their problems to the work place. In one survey of problem drinkers roughly one-tenth were certain that their drinking had been responsible for an accident, and a further one-third thought it might have been a factor. Habitual heavy drinking may also have serious consequences for employment prospects, due to poor work performance, frequent absence and sickness, and inability to retain steady or skilled employment. For the drinker's employer, the picture is one of unreliability, inefficiency and lost output; for work mates it is one of unpredictable behaviour and the need to cover up for poor performance.

### **Violence and Crime**

10. As alcohol lessens inhibitions and to an extent weakens people's self-control, it may in some individuals and in some situations lead directly to violence and crime. Links between drinking and acts of vandalism and hooliganism have been shown, particularly by young people in groups. Some studies have been carried out on alcohol and serious crime, although few have been designed to assess the extent to which drinking contributes directly to the commission of criminal offences. In 1981, in Ireland there

were 16,020 prosecutions for alcohol-related offences, 5,827 of these related to drunkenness and 7,780 to drunken driving. Other studies have shown that varying and sometimes substantial proportions of violent offenders had been drinking at the time they committed the offence.

### **Family Life**

11. The wide ranging effects of alcohol abuse on the health and quality of life of individuals and their families, and on performance at work and industrial output, make it one of today's major social problems. It affects directly or indirectly the great majority of the population, not least because of the health and social resources that are diverted from less preventable forms of illness and social problems.

## **APPENDIX 14**

### **THE ECONOMIC IMPORTANCE OF THE DRINKS INDUSTRY IN IRELAND**

#### **Introduction**

1. In this appendix we reproduce a report commissioned by the drinks industry group and prepared by A. A. John and J. W. O'Hagan in relation to the economic importance of the alcoholic beverages industry in Ireland. This study examines the importance of the drinks industry in relation to employment and the balance of payments in some detail: specifically, the importance of employment in the production and retailing of alcoholic beverages over time, relative to other sectors and compared to other countries is considered, and an attempt is made to estimate linkage employment effects.

#### **Employment**

2. Table 14.1 shows direct employment in distilling, malting, brewing and mineral waters in Ireland between 1970 and 1981. It can be seen that over the 1970s the absolute number employed in the alcoholic drinks sector has fallen by almost one thousand, from almost six thousand in 1970 to about five thousand in the later years of the decade. It is interesting to note, though, that the numbers engaged in the production of aerated and mineral waters has increased from just under two thousand to almost three thousand; total employment in the drinks industry has thus remained at just under eight thousand through this period. This sector produces complementary goods to the alcoholic beverages industry, both directly — in the form of mixers — and indirectly, in the sense that non-alcoholic drinks may be consumed in a public house or elsewhere by a non-drinker in the company of drinkers. The inclusion of non-alcoholic beverages may therefore imply some overstatement; however, this is more than compensated for by the fact that the figures for distilling are based on a literal interpretation of the term, and thus grossly understate actual employment by the firms in this category.

3. It is important to emphasise that this employment is in the 'exposed'

TABLE 14.1

Direct Employment in the Production of Alcoholic Beverages, 1970-1981<sup>1</sup>

	Numbers employed (thousands)					
	Distilling <sup>2</sup>	Malting	Brewing	Total	Aerated and Mineral Waters	Total
1970	0.35	0.43	5.08	5.86	1.95	7.81
1971	0.35	0.40	4.93	5.68	2.05	7.73
1972	0.38	0.38	4.60	5.36	2.13	7.49
1973	0.35	0.35	4.55	5.25	2.28	7.53
1974	0.40	0.35	4.48	5.23	2.35	7.58
1975	0.33	0.35	4.45	5.13	2.43	7.56
1976	0.23	0.38	4.38	4.99	2.50	7.49
1977	0.20	0.35	4.35	4.90	2.65	7.55
1978	0.20	0.35	4.48	5.03	2.73	7.76
1979	0.20 <sup>3</sup>	0.30 <sup>3</sup>	4.50 <sup>3</sup>	5.00 <sup>3</sup>	2.60 <sup>3</sup>	7.59 <sup>4</sup>
1980	n.a.	n.a.	n.a.	n.a.	n.a.	7.76 <sup>4</sup>
1981	n.a.	n.a.	n.a.	n.a.	n.a.	7.71 <sup>4</sup>

Source: Central Statistics Office, *Irish Statistical Bulletin*, various issues.

## Notes:

<sup>1</sup>Calculated from quarterly data.

<sup>2</sup>The numbers employed by Irish Distillers Limited and the other Irish distilling firms greatly exceed these figures, because of the official interpretation of the term 'distilling', which, as the CSO accepts, is limited.

<sup>3</sup>First quarter only.

<sup>4</sup>Some care is necessary in interpreting these figures, as the classifications used by the CSO for these sectors have altered somewhat. The figures for 1979 to 1981, which are given according to the NACE classification, have been adjusted by a factor equal to the arithmetic mean of the ratios between the values for each sector in 1973, 1974 and 1975, when corresponding values are obtainable for the two classifications.

market sector, which is the key sector for future growth.<sup>1</sup> Essentially, this is because the level of Irish incomes relative to those outside Ireland is determined by relative efficiency in the traded goods sector; the non-traded sector is relevant to the extent that it is an input to the traded goods sector, and also because it affects relative living standards. Alternatively, the importance of the traded goods sector can be viewed in terms of the balance of payments constraint in a small open economy; incomes cannot grow disproportionately to the traded goods sector, for this would result in increased imports relative to exports and thus to an increased external indebtedness, which could not be sustained in the long-run.

4. The drinks industry is notable for its performance in the exposed market sector, where foreign rather than domestic firms have tended to be

<sup>1</sup>Many reports have established this: see for example S. Nolan, 'Economic Growth', in J. W. O'Hagan (editor), *The Economy of Ireland: Policy and Performance*, Irish Management Institute, Dublin 1981. The arguments here are essentially a summary of those in Nolan.

of greater importance during the last 20 years. Table 14.2 shows employment in drinks, textiles, and clothing and footwear as a percentage of total manufacturing employment in 1970 and 1976-81. These sectors represent the historically most important traditional Irish industries. Over the 1970s, all three diminished in relative importance in the manufacturing goods sector; however, it is noteworthy that this decline was much less significant in the drinks industry than in either of the other two. Of these two, the decrease in relative importance was more marked in clothing and footwear than in textiles. As well as this, it should be noted that although there has been an increase in textiles production in Ireland during the 1970s, this has been entirely due to the growth in the production of synthetic fibres, where overseas rather than domestic industry has dominated.<sup>2</sup>

**TABLE 14.2**

**Direct Employment as a Percentage of Total Manufacturing Employment, 1970-1981<sup>1</sup>**

	Drinks	Textiles	Clothing and Footwear
1970	4.0	12.9	12.2
1976	3.9	10.3	8.4
1977	3.9	10.3	8.0
1978	3.9	9.9	7.8
1979 <sup>2</sup>	3.6	10.0	8.1
1980 <sup>2</sup>	3.7	9.3	7.7
1981 <sup>2</sup>	3.8	8.8	7.3

Source: Central Statistics Office, *Irish Statistical Bulletin*, various issues.

**Notes**

<sup>1</sup>Calculated from quarterly data.

<sup>2</sup>See footnote 4, Table 14.1.

5. Table 14.3 presents an international comparison of the importance of the drinks industry as an employer: employment in the drinks industry as a percentage of total employment is given for the countries of the European Community. It can be seen that only in Luxembourg is the drinks industry relatively more important as an employer than it is in Ireland.

<sup>2</sup>See J. W. O'Hagan and K. P. McStay, *The Evolution of Manufacturing Industry in Ireland*, Helicon, Dublin 1981, pp. 40-41.

TABLE 14.3

**Employment in the Drinks Industry in EEC Countries as a Percentage of Total  
Employment,<sup>1</sup> 1975**

Belgium	0.5
Denmark	0.5
France	0.3
Germany	0.5
IRELAND	0.8
Italy	0.2
Luxembourg	1.0
Netherlands	0.3
United Kingdom	0.5
EC average (weighted)	0.4

Sources: R. Linda, *International Sectoral Comparisons Including Analyses on the Beverage Industries in Germany and Europe, Volume 1*, Commission of the European Communities, Brussels 1980; Central Statistics Office, *Irish Statistical Bulletin*, various issues; and Eurostat, *Regional Statistics*, 1975.

*Note*

<sup>1</sup>Defined as persons with a principal occupation.

6. In Luxembourg, one per cent of the employed population is employed in the drinks industry and in Ireland, 0.8 per cent; in most countries about 0.5 per cent is employed in drinks manufacture, with the European Community average being 0.4 per cent. Such employment is of least importance in Italy, where 0.2 per cent is in drinks manufacture.

7. The second important component of employment connected with the alcoholic beverages industry is that involved in retailing. Data for this sector are difficult to obtain, and all figures must be treated with caution. The 1971 Census of Population lists employment in the retailing of alcoholic beverages as 12.0 thousand in Public Houses and 3.2 thousand in Grocery and Public House combined, making a total of 15.2 thousand involved in the retailing of alcoholic beverages. However, the Census of Distribution for the same year gives figures of 18.2 thousand and 6.9 thousand respectively for the same categories — a total of 25.1 thousand. This is clearly a major discrepancy, which is probably in part accounted for by the fact that the Census of Population is concerned with principal occupations and so many exclude some part-time employment that is included in the Census of Distribution. In the absence of further information, these two figures must just be noted, and the only safe conclusion is that employment in the retailing of alcoholic beverages in 1971 was probably between these two limits of 15,200 and 25,100.

8. Using the Census of Distribution data, Table 14.4 indicates the importance of the retailing of alcoholic beverages relative to retail employment in other sectors. It can be seen that retail employment in Public Houses accounted for 15.1 per cent of total retail employment in 1971, and that

total retail employment associated with alcoholic beverages was 21.0 per cent of total retail employment in that year. Food and tobacco accounted for 33.8 per cent of total retail employment, while 11.2 per cent were employed in the retailing of clothing and footwear and 12.4 per cent in the retailing of vehicles. It is evident, therefore, that employment in the retailing of alcoholic beverages is an important element of total retail employment in Ireland.

9. A preliminary indication of the changes in employment in the retailing of alcoholic beverages since 1971 is given by the number of excise licences (both on-licence and off-licence) issued annually to retailers of alcoholic beverages. Between 1971 and 1979, the latest year for which data are published, the numbers issued have fluctuated somewhat, but in general they have been within five per cent of the 1971 figure; in 1979 the number of licences issued was about two or three per cent lower than in 1971.<sup>3</sup> Provisional estimates for 1980 suggest that there has again been little change.

TABLE 14.4

**Retail Employment in Various Sectors as a Percentage of Total Retail Employment, 1971**

Public House	15.1	
Grocery with Public House	5.7	
Wines and Spirits (not Public House)	0.2	
TOTAL ALCOHOLIC BEVERAGES		21.0
Grocery (including Supermarket)	21.1	
Tobacco, Sweets and Newspapers	4.5	
All other food	8.2	
TOTAL FOOD AND TOBACCO		33.8
CLOTHING AND FOOTWEAR		11.2
VEHICLES		12.4
OTHER		21.6
TOTAL		100.0

Source: Central Statistics Office, *Census of Distribution, 1971*, Stationery Office, September 1975.

10. Obviously changes in employment cannot be linked directly to the issue of licences because of the changing structure of the retailing of alcoholic beverages. In particular, there is evidence to suggest that a significant increase in average size of premises took place over this period. On the basis of this, together with retail sales data and other official information for the decade, it is likely that retail employment in 1981 was over 30 per cent higher than in 1971; employment in the retailing of alcoholic beverages in 1981 was therefore between 20,000 and 33,000.

<sup>3</sup>See *Annual Report of the Revenue Commissioners*, various issues, Stationery Office, Dublin.

11. A further area of retail employment not included in these figures, but still relevant, is that of hotels and restaurants. Approximately 33-34 per cent of expenditure in hotels in Ireland is on drink; this percentage has altered little since 1968.<sup>4</sup> Given this, it is not surprising that a report for the Irish Hotels' Federation identifies price increases in alcoholic beverages as being of 'particular relevance' to the hotel sector.<sup>5</sup> Clearly it might be misleading to try and qualify the employment associated with the retailing of drinks in hotels, especially as the percentage quoted above includes tax on drink; however, it can be concluded that a change in demand for alcoholic beverages, other things being equal, would be expected to have a significant effect on employment in the hotel industry.

12. Apart from direct employment in the production and retailing of alcoholic beverages, there is also considerable indirect employment associated with the industry. This is principally due to linkage effects, i.e., the fact that inputs to the drinks industry, such as agricultural products, bottles, cans and various services, are provided by Irish suppliers. Changes in output of the drinks industry, due to changes in demand or other causes, therefore not only affect employment within the industry, but also employment in other sectors of the economy. The importance of linkage effects naturally varies from industry to industry, because of the fact that some inputs are imported; in the drinks industry, the import content of direct inputs is remarkably low. Although it is difficult to obtain accurate figures, imports are almost certainly no more than 7 per cent of direct inputs (see Table 8.11) — far less than for the economy as a whole or for the major manufacturing sectors. Because of this, the linkage effects can be expected to be of greater significance than for other industries at the first stage. The extent of further linkage effects depends on the import content of the drinks industry's suppliers: in agriculture this would clearly also be low — probably about 10 per cent — while suppliers of fuel to the industry would obviously have a much higher import content.

13. An approximate estimate of employment associated with these linkage effects can be obtained by multiplying the ratio of non-imported purchased goods and services to wages and salaries in the alcoholic beverage industry by the figure for direct employment in the industry. This gives the employment that would exist assuming that all expenditure on purchased goods was spent on wages and salaries and that average wage rates associated with this expenditure were the same as in the drinks industry. This figure, therefore, must first be scaled down to account for the fact that only a proportion of this expenditure would be on wages and salaries. If it is

<sup>4</sup>*The Irish Hotel Industry 1980 Manual for Inter-Hotel Comparison*, Bord Fáilte Éireann, October, 1981.

<sup>5</sup>J. P. Byrne and N. Palmer, *The Hotel Industry in the Irish Economy*, Irish Hotels' Federation, November, 1980.

assumed that all the industry's purchased inputs are from the agricultural sector, then linkage employment associated with the industry can be estimated to be slightly over 10,000. Clearly, this assumption may involve some overstatement to the extent that the proportion of expenditure on employment maintenance would be higher in agriculture than in other sectors supplying inputs to the drinks industry; however, this would be more than compensated for by the fact that the industry is capital intensive and that average wages in the drinks industry are high relative to the economy as a whole and particularly relative to those sectors supplying it. In conclusion, then, a linkage employment estimate of 10,000 is almost certainly conservative.

14. Finally, it should be noted that any changes in real income, associated with changes in output of the industry, may give rise to changes in consumption, and therefore, through the multiplier effect, to increases or decreases in employment. Multiplier effects are usually not strong in an open economy such as Ireland's; furthermore, as noted, they are relevant only to *changes* in output, not to the level of output itself, and so it is not valid to include them in an employment estimate for the industry. Nevertheless, they are relevant when changes in the output of the industry are being estimated.

15. When employment in the production and retailing of alcoholic beverages is aggregated with that associated with linkage effects, it can be seen that total direct and indirect employment in the industry is probably between 38,000 and 51,000. This can perhaps best be interpreted as implying that the equivalent of a minimum of 38,000 people are in full-time employment connected with the industry, with about a further 13,000 in part-time employment; certainly the former figure is a minimum estimate. In interpreting this figure, the points made in the introduction should be borne in mind but, given the low import content of the industry, even a shift in consumption patterns with no overall change in expenditure could be expected to have significant employment effects.

### **Balance of Payments**

16. The net influence of the drinks industry on the balance of payments can be examined in two ways. First, exports and imports of alcoholic drink as a proportion of total exports and imports can be considered in order to evaluate the net balance of payments effect of *consumption* of alcoholic beverages. Second, the net effect of *production* of alcoholic beverages can be evaluated in terms of the exports and imports of the industry. Table 14.5 shows the net consumption effect for the countries of the European Community.

TABLE 14.5

## Imports and Exports of Beverages as a Percentage of Total Imports and Exports, Fourth Quarter 1980,

	Imports			Exports		
	Intra-EC	Extra-EC	Total	Intra-EC	Extra-EC	Total
Belgium/Luxembourg	1.6	0.2	1.1	0.4	0.0	0.3
Denmark	1.3	0.3	0.8	0.7	0.7	0.7
France	0.8	0.2	0.5	3.4	2.7	3.0
Germany	1.3	0.3	0.8	0.3	0.3	0.3
IRELAND	0.8	0.6	0.8	1.7	2.4	1.9
Italy	0.6	0.1	0.3	1.8	1.1	1.4
Netherlands	1.1	0.3	0.7	0.3	1.5	0.6
United Kingdom	2.1	0.9	1.4	1.2	2.4	1.9
EC average (weighted)	1.2	0.4	0.8	1.2	1.4	1.3

Source: Eurostat, *Monthly External Trade Bulletin*, 7/8 1981, Brussels 1981.

17. In Ireland, imports of beverages were 0.8 per cent of total imports, that is, equal to the overall EC average. Imports from within the Community were lower than for the Community as a whole, and imports from non-Community countries were higher than for the Community. However, exports of beverages were 1.9 per cent of total Irish exports, a figure considerably higher than the EC average of 1.3 per cent, and exceeded only by France of all the Community countries. As might be expected, the Irish percentage was higher than the Community average for both intra-Community and extra-Community trade. It is clear, then, that as a consumption good, alcoholic beverages make a relatively more important contribution to the balance of payments, than is the case in most EC countries.

18. A second measure of the net balance of payments effect of alcoholic beverage consumption is the ratio of exports to imports. Table 14.6 presents this ratio for the years 1970 to 1981.

TABLE 14.6

## Exports of Alcoholic Beverages relative to Imports of Alcoholic Beverages, 1970-1981

	Exports/Imports
1970	2.14
1971	2.39
1972	1.78
1973	1.40
1974	1.41
1975	1.52
1976	1.41
1977	1.42
1978	1.38
1979	1.52
1980	2.16
1981	2.91

Sources: Central Statistics Office, *Trade Statistics of Ireland*, various issues; B. M. Walsh, *Drinking in Ireland*, Economic and Social Research Institute Broadsheet no. 20, Dublin, September, 1980; and recent figures supplied by the Drinks Industry.

19. Up to the late 1970s, the ratio of exports to imports had been declining fairly steadily, reaching a low point in 1978 when exports were only 38 per cent greater than imports. This was, in fact, a trend that was observable in the 1960s as well. However, between 1979 and 1981, this ratio increased rapidly; in 1980 the level that existed at the start of the decade was regained, and the ratio of 2.9 in 1981 was the highest since 1961. The last few years, therefore, have seen a reversal in a long-run trend, suggesting that the relative balance of payments effect of drinks consumption may also be increasing.

20. As has been noted, the production of alcoholic beverages requires few imports relative to other industries. This is illustrated in Table 14.7, which gives imports as a percentage of total input for various sectors of the economy.

21. It must be stressed that the figures for the alcoholic beverages industry are approximate estimates intended only to indicate an order of magnitude. The figure of 7 per cent in the first column is probably a maximum value. European data indicate that this percentage is generally lower for the drinks industry, both in absolute terms and relative to production in the food industry.<sup>6</sup> It should also be noted that the import content of total input may vary markedly from year to year in certain sectors (including the production of alcoholic beverages) depending on the structure of capital spending. Nevertheless, these figures clearly indicate that the import content of total inputs is markedly lower in the drinks industry than in all other major sectors of manufacturing.

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<sup>6</sup>Eurostat, *Input Output Tables 1970*, Brussels, October, 1978.

TABLE 14.7

## Imported Input as a Percentage of Total Input and of Exports

	Imported Inputs	Exports	Imported Inputs
	Total Input	Total Output	Exports
Alcoholic Beverages*	7.0	35.0	20.0
All Food	8.6	48.3	17.7
Textiles	30.4	56.0	54.3
Clothing and Footwear	25.5	82.8	30.8
Wood and Furniture	23.0	18.0	127.4
Paper and Printing	37.4	24.1	155.1
Chemicals and Plastics	34.0	64.7	52.5
Structural Clay	15.5	21.7	71.3
Metal and Engineering	36.4	68.9	52.8
Other Manufacturing	31.8	29.5	107.8
Total Manufacturing	23.0	48.4	47.5

Sources: E. W. Henry, *Irish Input-Output Structure, 1976*, Economic and Social Research Institute, Dublin 1980; EFTA Brewing Industry Council, *Combined Statistics 1979*, Brussels 1980.

\*Estimates based on recent figures supplied by the Industry, which should be treated as approximations. All other figures for 1976.

22. The third column in Table 14.7, which, apart from rounding errors, equals the first column divided by the second (as total input equals total output by definition) illustrates the net balance of payments effect of production in a sector. Thus, it can be seen, for example, that there is a net negative impact on the balance of payments in three sectors, which combine a relatively high import content with a high percentage of sales on the home market. The percentage of output exported by the alcoholic beverages industry is low relative to manufacturing industry as a whole; the ratio of imported inputs to exports is still lower than in all sectors except food, however. The implication of this is that given that it contributes significantly to Irish trade, the drinks industry has a marked net positive impact on the balance of payments. Certainly, the figures in Table 14.7 demonstrate that the balance of payments effect of exporting a given value of output is notably greater for the drinks industry than for virtually all other major sectors of Irish manufacturing industry.

### Other Economic Effects

23. The previous two sections have detailed the importance of the alcoholic beverages industry to the Irish economy in terms of its two most significant effects — on employment and on the balance of payments. However, the industry may also have a notable impact on other areas of the economy. The export performance of the drinks industry naturally has associated with it various promotional campaigns, which emphasise the

'Irish' character of the products.<sup>7</sup> This can be expected to have two results. First, it may generate spin-off effects for other Irish products. Second, it is possible that such campaigns indirectly promote Ireland as a tourist destination; in effect, they may offer 'free' advertising for Irish tourism.

24. These effects are of course not unique to the drinks industry. However, they may be of particular importance because certain products of the industry such as stout, Irish whiskey, cream liqueurs, are significant in international perceptions of Ireland. In this sense the products of the industry are directly relevant to Irish tourism; furthermore this notion is not illusory. Table 14.8 shows the percentage of overseas visitors that engaged in certain activities on visits to Ireland.

TABLE 14.8

Percentage of Foreign Visitors engaging in Specified Activities during Visits to Ireland, 1979\*

Visits to stately homes	14
Visits to other historical sites	48
Visits to 'singing pubs'	32
Dancing, Discos	13
Shopping	77
Fishing	13

Source: Bord Fáilte Éireann, 1979 *Survey of Travellers*, Dublin 1980.

\*All activities with greater than 10 per cent participation listed.

25. It can be seen that 32 per cent of all overseas visitors to Ireland visited 'singing pubs', with only shopping and visits to historical sites attracting a greater percentage of visitors. Activities such as coach trips, horse-riding, golf, swimming, sailing, festivals, hiking, picnicking and visits to forestry parks all attracted less than ten per cent of all foreign visitors. Thus, while Ireland can justly boast its numerous attractions for foreign visitors, it is evident that singing pubs carry a far more universal appeal than most of these activities. Figures for domestic tourism, meanwhile, bear out the importance of the public house in Irish tourism. In 1979, visits to singing pubs was the most popular single activity with those travelling on short holidays: 51 per cent of such holiday-makers engaged in this pastime. For main holidays, the corresponding figure was 48 per cent, equalled by shopping and exceeded — by one percentage point — by country walks and other sightseeing.<sup>8</sup> The drinks industry is then an important asset to Irish tourism — a fact that is evidenced also by Bord Fáilte advertising campaigns — and consequently the promotion of the industry overseas associated with its export growth can justifiably be expected to have greater

<sup>7</sup>G. Quinn, *Excise Duty and the Future of Irish Spirits Exports* (submission to government on behalf of Irish Distillers), October, 1980.

<sup>8</sup>*Holiday Taking by Residents of the Republic of Ireland in 1979*, Bord Fáilte Éireann, May, 1980.

spin-off effects for Irish tourism, and perhaps also for other Irish exports, than the advertising of other products.

26. The indirect effects of the price of drink on the economy must also be given some consideration. First, it must be recognised that, despite the high tax on drink in Ireland relative to other countries,<sup>9</sup> there is little evidence to suggest that the price of drink is of great significance to the tourist trade, notwithstanding the importance of the Irish pub that has just been noted. This is because drink in Ireland is still cheaper than, for example, in many continental countries, due to higher retail margins (although caution must be exercised when deciding which drink prices should be compared). However, the price of drink is notably higher in Ireland than it is in either the United States or the United Kingdom, which are by far the most important sectors of the Irish tourism market.

27. This difference between the price of drink in Ireland and in the United Kingdom may have further economic significance, as it may cause fiscal leakages due to illegal importation of alcoholic beverages from Northern Ireland. It is very difficult to assess the importance of this, but it is clear that the existence of a differential is an incentive to such smuggling, and that this incentive increases as the price difference increases.

28. The distributional implications of the price of drink, especially given current taxation policy, have been detailed elsewhere. There are, however, other implications of the price of drink — and changes in this price — which may also be relevant. Obviously, changes in the price of drink affect the cost of living — the importance of this can be seen from the fact that alcoholic beverages are given a weighting of about 8.7 per cent in the calculation of the Consumer Price Index. Beer alone has a weight of over 5 per cent, while spirits have a weight of just over 3 per cent, and wine a weighting of over 0.5 per cent. Furthermore, as has been noted,<sup>10</sup> their importance may be even greater than these weights suggest, given their visibility to the press and the working population. Table 14.9 gives an indication of the relative importance of drink as a consumption item in the countries of the European Community.

29. Ireland's per capita consumption of alcohol is less than in all these countries; the same would almost certainly be true of per drinker consumption, with only the United Kingdom likely to be lower. However, the high prices of alcoholic beverages in Ireland, and the relatively low incomes, cause it to be a far more important item of expenditure than in any of the other EC countries listed. This is further evidence to support the

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<sup>9</sup>See O'Hagan and John, *op cit*.

<sup>10</sup>B. M. Walsh, *Some Aspects of Alcohol and Tobacco Taxation Policy in Ireland* (paper presented at the Dublin Economics Workshop Policy Conference, Killarney, October, 1979).

conclusion that "if the attention devoted by the National Prices Commission to the on-premise price of drink is taken as a guide, it seems to be one of the most sensitive of all the items that go into the cost of living".<sup>11</sup>

**TABLE 14.9**

**Expenditure on Alcoholic Beverages as a Percentage of Private Final Consumption**

Belgium/Luxembourg	3.3 (1979)
Denmark	4.3 (1975)
France	2.3 (1978)
Germany	3.7 (1978)
IRELAND	12.4 (1978)
Italy	2.0 (1979)
Netherlands	2.3 (1979)
UK	2.1 (1979)

*Source:* Eurostat, *National Accounts*, Brussels 1980, and OECD, *National Accounts, Volume II*, Paris 1981.

\*Includes non-alcoholic beverages (equal to approximately 0.5-1.0 per cent in most countries).

<sup>11</sup>*Ibid.*

## APPENDIX 15

### TOBACCO SMOKING IN IRELAND

1. In this appendix we trace the growth of cigarette smoking in Ireland.
2. Figure 1 shows the main trends in cigarette smoking in the Republic of Ireland from 1920 to 1974. Between 1920 and 1950, cigarette consumption in the Republic of Ireland increased fourfold. In 1920 the average yearly consumption of cigarettes per adult (15 years and over) was 640 cigarettes. Ten years later, in 1930, this had only increased to 930 cigarettes per adult per year. From then on the increase in cigarette consumption was quite dramatic, rising to a yearly consumption figure of 2,510 in the 1950s. This period includes the war years during which consumption of cigarettes grew rapidly. In the 1950s the rise in cigarette consumption slowed. However, in the 1960s growth accelerated and by 1974 a level of 3,550 cigarettes per adult per year had been reached.
3. Table 15.1 shows the prevalence of cigarette smoking in Ireland between 1972 and 1981 by reference to sex, age and social class.

TABLE 15.1

Prevalence of Cigarette Smoking in the Irish Population (16+ Years) 1972-1981

Smokers	72/73	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81
	%	%	%	%	%	%	%	%	%
Total	43	43	41	40	38	39	36	36	35
Men	49	48	45	45	43	44	40	41	39
Women	37	38	37	34	34	34	31	31	32
16-24 years	48	42	39	38	38	40	33	35	33
25-34 years	42	45	45	41	40	44	41	41	43
35-44 years	44	44	41	41	38	37	41	36	35
45-54 years	49	51	48	45	42	42	35	39	40
55+ years	37	37	36	37	36	34	32	33	30
ABCI (professional and administrative)	37	37	35	34	30	32	28	29	29
C2 (clerical and skilled working class)	45	46	45	42	41	40	39	41	38
DE (unskilled occupations)	51	50	47	45	46	47	45	46	46
F (farmers)	35	35	35	34	32	31	29	28	26

Source: Joint National Media Research Survey, Irish Marketing Surveys Limited.

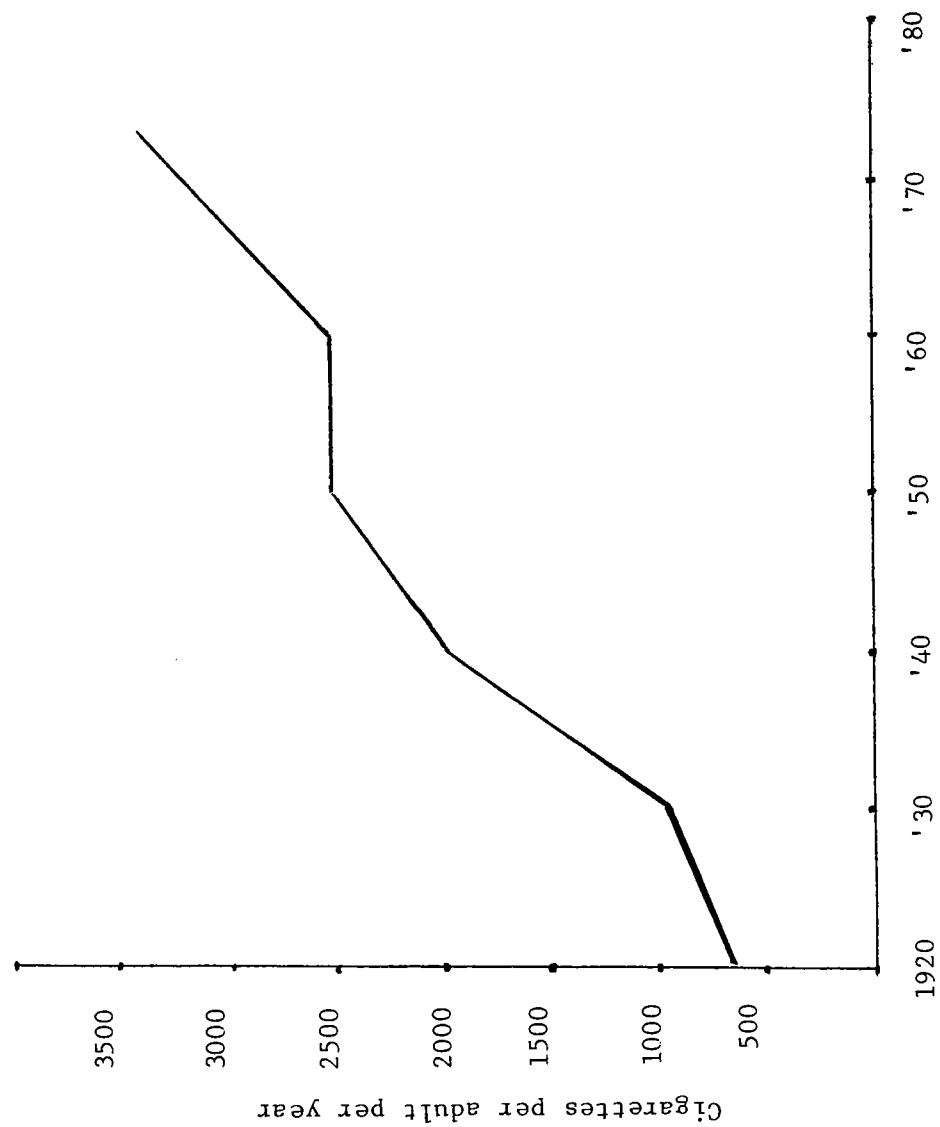


Figure 1: Cigarette consumption per adult (aged 15 years and over) in Ireland, 1920-1974. Source: Tobacco Research Council.

## APPENDIX 16

### EXCISE DUTIES ON TOBACCO PRODUCTS

1. In this appendix we describe the present system of excise duties on tobacco products.

#### Background

2. Cigarettes and tobacco products have traditionally formed part of the excise systems of many countries. Thus, the original six member states of the EEC had excise duties on cigarettes. However, there were differences in the way in which rates were expressed. In Germany, the excise tax was levied at a fixed amount per cigarette. In the other five states excise duty was levied as a percentage of the retail price. In 1972, following their policy of harmonising taxes, the Council of Ministers decided to harmonise these systems so that in each member state, the duty charged would consist partly of a specific component, that is a tax per cigarette, and partly of an *ad valorem* or proportional component.

3. Of the three member states who joined the Community in 1973, Denmark had a system like the German one — a specific tax per cigarette. Ireland and the United Kingdom operated a third system. They levied excise duty according to the weight of the leaf tobacco. On joining the EEC Ireland was granted a five year derogation from the EEC system. But on the 1 January, 1978, Ireland had to switch from the system under which the raw tobacco was taxed to the EEC system whereby the tax applied directly to the cigarette irrespective of the amount or quality of tobacco which it contained.

4. At present, the specific element of excise duty on cigarettes may vary between 5 per cent and 55 per cent of the total tax burden (including VAT) levied on the most popular price category. At the final stage of EEC harmonisation a single rate must be fixed for the specific element. The excise duties on tobacco products other than cigarettes are now end product taxes, i.e. the specific duties are applied to the finished weight. The rates are all expressed as an amount per kilogram of tobacco. Prior to 1978, the duties were applied to the weight of raw leaf at a specified moisture level.

Full details of the current rates of duty on all tobacco products are given in Table 16.1.

**TABLE 16.1**

**Excise Duties on Tobacco Products (Rates at 1 February, 1984)**

Description of Goods	Unit of Quantity	Rate of Duty
(a) Cigarettes	Thousand	£29.50 per thousand + 15.39 per cent of the retail price
(b) Cigars	kg	£44.928 per kg
(c) Cavendish or negrohead	kg	£45.401 per kg
(d) Hard pressed tobacco	kg	£29.035 per kg
(e) Other pipe tobacco	kg	£36.497 per kg
(f) Other smoking or chewing tobacco	kg	£37.913 per kg

**Reliefs from Excise Duties**

5. The Revenue Commissioners may, subject to certain conditions
  - (a) remit the excise duty on tobacco products which, during the course of manufacture or packing, are recycled or destroyed,
  - (b) remit or repay excise duty on tobacco products used solely for experimental, quality control or research purposes, and
  - (c) repay excise duty on bona fide trade returns to manufacturers.
6. Every licensed tobacco manufacturer is entitled to a rebate in respect of unmanufactured tobacco received by him which has been manufactured into tobacco products. Where the quantity received in any year commencing on the 11 April does not exceed 22,680 kg, the rebate is £1.97 per kg for each kg. Where the quantity received exceeds 22,680 kg, the rebate is £0.165 per kg for each of the first 22,680 kg.

## APPENDIX 17

### THE IRISH TOBACCO INDUSTRY

#### Introduction

1. This review of the economic impact of the Irish tobacco industry has been produced by the Irish Tobacco Manufacturers' Advisory Committee which represents the three main cigarette and tobacco manufacturers in the Republic of Ireland — P. J. Carroll and Co. Ltd, Gallaher (Dublin) Ltd and Player & Wills (Ireland) Ltd. These three companies collectively manufacture and/or market 99 per cent of all tobacco products in the country.

#### Objective

2. The information contained here summarises some basic facts and statistics about the industry in an endeavour to establish the significant contribution which the tobacco industry makes to the Irish economy, firstly as a provider of employment, secondly as a large purchaser of goods and services and finally as one of the major contributors to government revenue. All the data in this review relate to the twelve months ended 31 December, 1982.

#### Employment

3. The number of people directly employed by the three manufacturers as at 31 December, 1982 was 1,881. The breakdown of this total is as set out in Table 17.1.

TABLE 17.1

Employment in the Irish Tobacco Industry, 1982.

	Male	Female	Total
Staff (including management)	485	241	726
Production	637	518	1,155
Total	1,122	759	1,881

The total number of employed in the industry is 73 less than in 1981.  
Total pre-tax salaries and wages paid to these employees was £19,702,000.

It is not possible to estimate the numbers involved but in addition to those directly employed in the tobacco industry, there is a large number of people indirectly provided with employment, particularly in the print industry and the retail trade.

### **Sales of Tobacco Products**

4. Total sales of tobacco products for the year are set out below (1981 figures are shown in parentheses).

#### *Domestic market*

Cigarettes	6,701 million	(7,215)
Cigars	66.7 million	(65.3)
Pipe tobaccos	388,000 kilos	(383,000)

#### *Export market*

Cigarettes	1,529 million	(1,787)
------------	---------------	---------

Cigarette exports accounted for 18.6 per cent (19.8 per cent) of total cigarette sales.

### **Wholesale and Retail Trade**

5. On the domestic market, the manufacturers distribute their products directly to some 14,400 outlets and the contribution from tobacco goods to the income of the wholesale and retail trade is £35,927,000 (£30,650,000).

### **Government Revenue**

6. Tobacco products, over the years, have been a major source of government revenue. With effect from September, 1982, the total tax on a 20 packet of King Size cigarettes retailing at 114p was 81.5p or 71.5 per cent.

Direct taxation on tobacco products in the year 1982 was as follows (1981 figures are shown in parentheses).

	£ million*	
Excise	222.2	(190.8)
VAT	56.0	( 30.0)
Total	<u>278.2</u>	<u>(220.8)</u>

Indirect sources of government revenue from the tobacco industry are:

	£ million	
Corporation tax	1.33	(1.68)
Income tax paid by employees	4.90	(3.66)
PRSI contributions by employees and employers	2.90	(2.16)

The direct taxation of £278.2 million represents 6.86 per cent of total revenue from taxation, including VAT.

\*Source: Revenue Commissioners provisional figures.

### Contribution to Other Sectors

7. Through the purchase of materials and services, the tobacco industry makes a substantial contribution to other sectors of the economy. The details set out below show that purchases from trades associated with the tobacco industry amounted to £17,556,000. Imports of materials and machinery have not been included as they do not directly contribute to the Irish economy.

	£
All packaging materials	6,572,000
All other materials	5,270,000
Machinery and equipment	1,094,000
Freight (a) CIE	661,000
(b) Other carriers	432,000
Purchases of new vehicles	717,000
Petrol and oil costs for own fleet of 299 vehicles	459,000
Postage, Telephone and Telex	378,000
Energy — Electricity, Gas and Fuel Oil	1,256,000
Insurance premia	473,000
Municipal Rates	244,000
Total	17,556,000

### Summary

- \*1,881 people are directly employed by the three tobacco manufacturers and they are provided with pre-tax incomes of £19.7 million.
- \*In addition, the industry indirectly provides employment for many other people who are employed in the industries supplying the tobacco manufacturers and in the wholesale and retail trade.
- \*The wholesale and retail trade earn a gross £35.93 million from the sale of tobacco goods.
- \*Government revenue from excise duty and VAT on tobacco products was £278.2 million.
- \*This revenue was increased by a further £9.13 million from other sources of taxation.
- \*Through purchases of goods and services, the industry contributed £17.56 million to other sectors of the economy.

## APPENDIX 18

### EXCISE DUTIES ON HYDROCARBON OILS

1. In this appendix we set out the excise duties on all hydrocarbon oils including petrol, diesel and liquefied petroleum gas (LPG).

#### Hydrocarbon Light Oil

2. Most of the oil under this heading is petroleum. Technically, the expression 'hydrocarbon light oil' means hydrocarbon oil of which not less than 50 per cent by volume distils at a temperature not exceeding 185 degrees Celsius, or of which not less than 95 per cent by volume distils at a temperature not exceeding 240 degrees Celsius, or which gives off an inflammable vapour at a temperature of less than 22.8 degrees Celsius when tested in the manner prescribed by the Acts relating to petroleum. The expression 'hydrocarbon light oil' does not include white spirit.

3. The rates of duty on hydrocarbon light oil are given in Table 18.1.

TABLE 18.1

#### Excise Duties on Mineral Hydrocarbon Light Oil and certain Goods containing such Oil

Description of Goods	Unit of Quantity	Rate of Duty
Mineral Hydrocarbon Light Oil	Litre	£23.78 per hectolitre
Imported goods, as listed below, which contain Mineral Hydrocarbon Light Oil as a part or ingredient: —Paints, varnishes, hydrocarbon solvents (e.g. resins dissolved in hydrocarbon oils) —Firelighters —Oil-filled transformers	Litre	'Net' rate of £1.75 per hl on the oil contained in them

#### Reliefs from Excise Duties

4. No duty is liable on hydrocarbon light oils which are
- (i) not used as light oils although they satisfy the above definition,
  - (ii) home produced and brought to the manufacturer's premises,

- (iii) delivered to a refinery for processing,
  - (iv) made as a by-product in the manufacture and sale to the public of gas for lighting, heating or power, and
  - (v) manufactured for export or removed for shipment as stores.
5. Duty is charged at a rate of £1.75 per hl on any hydrocarbon oil used
- (vi) in the process of dyeing and cleaning, and
  - (vii) used as an ingredient in the manufacture of activities which are not of the character of hydrocarbon light oil or not merely a mixture or blend of hydrocarbon light oils.

### Mineral Hydrocarbon Oils Other Sorts

6. This category includes diesel oil, gas oil, vaporising oil, paraffin oil, fuel oil and white spirit. The rates of duty are given in Table 18.2.

TABLE 18.2

#### Excise Duties on Hydrocarbon Oils, Other Sorts and certain Goods containing such Oils

Description of Goods	Unit of Quantity	Rate of Duty
Mineral Hydrocarbon Heavy Oil <sup>1</sup>	Litre	£1.75 per hl
Hydrocarbon Oils, <sup>2</sup> Other Sorts: Comprising Hydrocarbon Oil not otherwise liable to Excise Duty	Litre	£17.21 per hl.
Imported goods, as listed below, which contain Hydrocarbon Oils, Other Sorts, as a part or ingredient: —Paints, varnishes, hydrocarbon solvents —Firelighters —Oil-filled transformers	Litre	'Net' rate of £1.75 per hl on the oil contained in them

#### Notes:

<sup>1</sup>'Mineral hydrocarbon heavy oils' means mineral hydrocarbon oils of a specific gravity of not less than 0.835 and not more than 0.950, the flash point of which, as determined by the Pensky-Martens apparatus, is not lower than 140° Celsius and not higher than 210° Celsius, and the viscosity of which, as determined by the Redwood No. 1 Viscometer at 21° Celsius, is not less than 100 seconds and not more than 1,000 seconds, and which are artificially coloured or, if not artificially coloured, are (when tested in a Lovibond Tintometer having a cell of which the length is eighteen inches) of a colour as pale as or paler than the combination of Lovibond Slides 5-6 red and 35.5 yellow.

<sup>2</sup>The expression 'hydrocarbon oil' includes petroleum oil and oil produced from coal, shale, peat, or any other bituminous substance, and all liquid hydrocarbons, but does not include any oil which is a hydrocarbon or a bituminous or asphaltic substance and is, when tested in a manner prescribed by the Revenue Commissioners, solid or semi-solid at a temperature of 15° Celsius.

### **Relief from Excise Duty**

7. There are a number of reliefs from excise duty on hydrocarbon oils. The reliefs generally apply to the use of hydrocarbon for purposes other than combustion in the engine of a motor vehicle.

- (i) A rebate of £15.46 per hl is allowed on hydrocarbon oil other sorts if used for a purpose other than combustion in the engine of a motor vehicle. This rebate is increased to
  - (a) £15.68 per hl in respect of fuel oil which is intended to be used for the purpose of generating electricity for sale,
  - (b) £17.21 per hl in respect of fuel oil which is intended for use in, or in connection with, the manufacture of alumina, or for the maintenance of the plant in which the manufacture is carried on,
  - (c) £16.23 per hl in respect of fuel oil intended to be used for other purposes.
- (ii) A rebate of £15.46 is given to a manufacturer of hydrocarbon oil if it is used in the process of manufacture or as an ingredient of a manufactured product.
- (iii) Duty at the rate of £1.75 per hl is levied on hydrocarbon oil other sorts if it is intended for the purpose of undergoing a process of manufacture or as an ingredient of a manufactured product.
- (iv) A rebate of £15.42 is allowed for hydrocarbon oil other sorts if it is used for passenger road services.
- (v) A horticultural producer may claim a rebate of £1.31 per hl on hydrocarbon oil charged at the net rate of £1.75 per hl.
- (vi) The owner or master of a sea-fishing boat may claim a rebate of £0.66 per hl on hydrocarbon oil charged at the net rate of £1.75 per hl.
- (vii) No duty is payable on hydrocarbon oil delivered to a refinery for processing.
- (viii) No duty is payable on hydrocarbon oil removed for exportation or for shipment as stores.
- (ix) No duty is charged or levied on any duty-paid home produced hydrocarbon oil brought back to the manufacturer's premises.
- (x) No duty is charged or levied on any hydrocarbon oil which is made as a by-product of the manufacturer and sale to the public of gas for lighting, heating or power.

**Liquefied Petroleum Gas**

8. The rate of duty on gaseous hydrocarbons in liquid form (LPG) is £0.767 per gallon.

**Reliefs from Excise Duty on L.P.G.**

9. The following reliefs apply:

- (i) a rebate of £0.687 per gallon is allowable in respect of LPG not used in motor vehicles,
- (ii) no duty may be charged on LPG removed from the manufacturer's premises for exportation or for shipment of use on ships' stores.

## APPENDIX 19

### EXCISE DUTIES ON MOTOR VEHICLES

1. In this appendix we outline the main excise duties on motor vehicles, motor vehicles parts and accessories, tyres and tubes. The rates of duty are given in Table 19.1.

TABLE 19.1

Excise Duties on Motor Vehicles and Motor Vehicle Parts and Accessories

Description of Goods	Rate of Duty
1. Category A Motor Vehicles [i.e., motor vehicles (excluding ambulances and hearses) which are designed, constructed or adapted for the carriage of not more than sixteen persons (inclusive of the driver), including such vehicles designed, constructed or adapted for the carriage of both passengers and goods or materials and which are of not more than 3 tons unladen weight and have, to the rear of the driver's seat, roofed accommodation which is fitted with side windows or which is constructed or adapted for the fitting of side windows]:	From 1 July, 1983
(a) which derive their motive power from an internal combustion engine and which exceed 16 horse-power	64½ per cent of the chargeable value
(b) other motor vehicles excluding motor cycles, auto-cycles or cycles fitted with an auxiliary motor whether or not incorporating a side car	54½ per cent of the chargeable value
(c) Motor cycles, auto-cycles and cycles fitted with an auxiliary motor whether or not incorporating a side car	50 per cent of the chargeable value
2. Category B motor vehicles (i.e., all motor vehicles not included in category A)	11½ per cent of the chargeable value
3. Motor vehicle parts and accessories (excluding tyres and tubes)	25 per cent

*Notes:*

(1) 'Motor vehicle' means any complete or substantially complete wheeled vehicle propelled by any engine and includes a chassis of a Category B motor vehicle fitted with an engine. Complete or substantially complete aggregates of parts from which a motor vehicle may be manufactured, which are imported by persons other than licensed manufacturers, are considered to be motor vehicles for the purposes of this excise duty.

(2) 'Chargeable value' means the price, excluding value-added tax and excise duty, which, in the opinion of the Revenue Commissioners, a motor vehicle might reasonably be expected to fetch on an arm's length sale after manufacture or importation, in the open market in the state to a dealer, i.e., a person who sells motor vehicles wholly or mainly to persons other than persons who sell such vehicles in the course of business.

### **Exemptions from Excise Duties on Motor Vehicles**

2. Excise duty shall not be charged on motor vehicles which, in the opinion of the Revenue Commissioners, are designed and constructed primarily for off-road use (except for racing vehicles, scrambling vehicles and other sporting vehicles), agricultural tractors, two-wheeled tractors, fire-engines, fire-escapes, road sweepers, invalid carriages or armoured fighting vehicles.

### **Reliefs from Excise Duty on Motor Vehicles**

3. Reliefs are granted to motor vehicles which are

- (i) exported,
- (ii) imported for research or quality control purposes, and
- (iii) returned without being used.

No excise duty is payable on motor vehicles which are

- (iv) exported to Ireland and have previously borne excise duty,
- (v) delivered for further manufacture, processing or subsequent exportation, and
- (vi) for display or exhibition.

### **Reliefs from Excise Duty on Motor Vehicle Parts and Accessories**

4. Reliefs are granted on

- (i) imported parts and accessories which are similar to parts and accessories made in Ireland,
- (ii) goods which have been incorporated into parts and accessories mentioned in sub-paragraph (i),
- (iii) parts and accessories for some other purpose than as a part and accessory of a motor vehicle, and
- (iv) parts and accessories by a licensed manufacturer of motor vehicles.

### **Excise Duties on Tyres**

5. The excise duties on tyres are in Table 19.2.

### **Reliefs from Excise Duties on Tyres**

6. Reliefs from excise duty on tyres may be given

- (i) to a manufacturer of motor vehicles,

**TABLE 19.2****Excise Duties on Tyres**

Description of Goods	Rate of Duty
Tyres manufactured in the state and which, in the opinion of the Revenue Commissioners, are designed, constructed, or suitable for use on a motor car or on a steam car or on both motor cars and steam car, but excluding agricultural tractor tyres	An amount equal to 5 per cent of the retail price
Tyres, imported	10 per cent

- (ii) to a supplier of a manufacturer of motor vehicles,
- (iii) for the purpose of remoulding or retreading, and
- (iv) if the tyres are for a purpose other than in connection with a motor vehicle.

## APPENDIX 20

### MOTOR VEHICLE DUTIES

1. The Finance Act, 1920 established the main classifications of vehicles for road tax purposes as they exist today (i.e. private cars and goods vehicles). The Finance (Excise Duties) (Vehicles) Act, 1952 replaced the 1920 Act and most of the subsequent amending Finance Acts.

2. In the period 1952 to 1976 there were four main revisions of road tax. In 1966 the rates applicable to cars and cycles were increased by 25 per cent. In 1970 the rates as revised in 1966 were increased by percentages ranging from 20 per cent for the smallest cycle to 33½ per cent for the largest car. In 1973 the revisions made related mainly to 'private' cars and 'goods' vehicles. These were:

- (i) The rates on 'private' cars were increased by 10 per cent.
- (ii) The rates on 'goods' vehicles were rationalised. Rates applicable to lighter type vehicles (up to 8 tons or so unladen weight) were increased and the rates on heavier vehicles were reduced. There had been no review of goods vehicle rates since 1952 and rates in the case of lighter vehicles were low by comparison with rates elsewhere, while rates on heavier vehicles were higher than in the United Kingdom. (The rates fixed in 1952 were fixed with a view to discouraging the use of very heavy vehicles on roads not fit to take them, and also in the hope that there would be an increase in the use of carriage of goods by rail. In any case high rates of tax on heavy vehicles were of relatively little significance in 1952 when there were very few vehicles exceeding 8 tons in unladen weight but by 1973 the number had increased to over 1,600). The increase in rates was not uniform as far as the lighter vehicles were concerned — increases ranged from 10 per cent to 22½ per cent. In the case of the heavier vehicles there were reductions of up to 45 per cent.
- (iii) *First registration charges* for all new vehicles were introduced (£1 in the case of motorcycles and £5 in the case of all other vehicles).

In 1976 road tax rates for private cars were increased by between 45 per cent and 75 per cent.

3. The following developments occurred since 1976:

1977 — as from 1 August, 1977 road tax on all private cars not exceeding 16 horse power (over 98 per cent of all cars) and on all cycles was abolished and instead these vehicles became subject to *annual* registration fees of £5 and £1 respectively (*first* registration charge was no longer payable in the case of these vehicles),

1980 — the first registration charges (introduced in 1973) and the annual registration fees (introduced in 1977) were increased,

1981 — first registration charge and annual registration fee of £10 were increased to £20,

1981 — annual registration fees were abolished and road tax was re-introduced at 1977 levels for private cars not exceeding 16 horse power and motorcycles as from 1 September, 1981. The tax rate on cars exceeding 16 horse power was increased from £6 to £8 per unit or part of a unit of horse power,

the first registration charges for new vehicles were reduced to 1977 levels (£1 for motorcycles and £5 for motor vehicles) with one exception; the initial registration charge of £20 for new cars over 16 horse power was retained,

1982 — road tax rates for private cars, motorcycles, taxis and hackneys were increased from 1 May, 1982,

1983 — road tax rates for a number of vehicle classifications were increased from 1 April, 1983. First registration charges were doubled,

1984 — road tax on private cars was increased from 1 March, 1984.

The rates in force at 1 March, 1984 for all vehicle classifications are set out in the following tables:

TABLE 20.1

Rates of Road Tax on Private Motor Vehicle Classifications

Category		Rate
In units of horse power	In cubic centimetres	£ per horse power
8 h.p. or less	0-1,012 ccs	8
9-12 h.p. incl.	1,013-1,512 ccs	10
13-16 h.p. incl.	1,512-2,012 ccs	12
17-20 h.p. incl.	2,013-2,512 ccs	14
21 h.p. or greater	2,513 ccs or greater	15

**TABLE 20.2**

**Rates of Road Tax on Motor Cycles**

Category	Rate
	£
Not exceeding 75 cc	11
Exceeding 75 cc but not exceeding 150 cc	11
Exceeding 150 cc but not exceeding 200 cc	18
Exceeding 200 cc but not exceeding 250 cc	26
Exceeding 250 cc	33
Electrically Propelled	6
Tricycles (Other than Driverless Vehicles)	28
Driverless Vehicles	21
Extra for Trailer or Sidecar	7

**TABLE 20.3**

**Rates of Road Tax on Goods Vehicles**

Category	Rate
	£
Unladen weight of vehicles	22
Not exceeding 1½ tons electrically propelled	
Other Goods Vehicles:	28
Not exceeding 12 cwt	34
Exceeding 12 cwt but not exceeding 16 cwt	41
Exceeding 16 cwt but not exceeding 1 ton	48
Exceeding 1 ton but not exceeding 1½ tons	55
Exceeding 1½ tons but not exceeding 1¾ tons	62
Exceeding 1¾ tons but not exceeding 2 tons	69
Exceeding 2 tons but not exceeding 2½ tons	77
Exceeding 2½ tons but not exceeding 2¾ tons	85
Exceeding 2¾ tons but not exceeding 3 tons	93
Exceeding 3 tons but not exceeding 3½ tons	101
Exceeding 3½ tons but not exceeding 3¾ tons	111
Exceeding 3¾ tons but not exceeding 4 tons	121
Exceeding 4 tons but not exceeding 4½ tons	131
Exceeding 4½ tons but not exceeding 4¾ tons	141
Exceeding 4¾ tons but not exceeding 5 tons	151
Exceeding 5 tons but not exceeding 5½ tons	161
Exceeding 5½ tons but not exceeding 5¾ tons	171
Exceeding 5¾ tons but not exceeding 6 tons	181
Exceeding 6 tons but not exceeding 6½ tons	198
Exceeding 6½ tons but not exceeding 7 tons	215
Exceeding 7 tons but not exceeding 7½ tons	232
Exceeding 7½ tons but not exceeding 8 tons	249
Each ½ ton over 6 tons	
	£
Additional duty payable in respect of vehicles having a trailer	£
Unladen weight of drawing vehicle	14
Not exceeding 2 tons	15
Exceeding 2 tons but not exceeding 3 tons	18
Exceeding 3 tons but not exceeding 4 tons	20
Exceeding 4 tons but not exceeding 5 tons	24
Exceeding 5 tons but not exceeding 6 tons	25
Exceeding 6 tons	32
	35
	42
	46
	54
	59

**TABLE 20.4****Rates of Road Tax on Mobile Machines and Forklift Trucks**

Category	Rate
Mobile Machines Electrically Propelled	£2 per unit of horse-power £16
Forklift Trucks	£2 per unit of horse-power £16

**TABLE 20.5****Rates of Road Tax on Small Dumpers**

Category	Rate
	£
Not exceeding 1 cubic yard	10
Not exceeding 2 cubic yards	20
Not exceeding 3 cubic yards	30
Not exceeding 4 cubic yards	40

**TABLE 20.6****Rates of Road Tax on Agricultural Tractors, Excavators, Trench Diggers, etc.**

Category	Rate
	£
Agricultural tractors	15
Excavators, Trench Diggers, etc.	15

**TABLE 20.7****Rates of Road Tax on General Haulage Tractors**

Category	Rate
	£
General Haulage Tractors	75

**TABLE 20.8****Rates of Road Tax on Horses**

Category	Rate
	£
Not exceeding 8 horse-power	26
9 horse-power	29
10 horse-power	33
11 horse-power	39
Exceeding 11 horse-power	44

**TABLE 20.9****Rates of Road Tax on Large Public Service Vehicle**

Category	£ by Seating Capacity
9-14 seats	£56
15-20 seats	£80
21-26 seats	£104
27-32 seats	£128
33 seats	£132
34 seats	£140
35 seats	£4 per seat
Over 35 seats	

*Note:* Current rates, effective since 1952.

**TABLE 20.10**
**Rates of Road Tax on Small Public Service Vehicles (e.g. taxis, hackneys).**  
**Current Rates, effective since 1 May, 1982**

Category	£ per vehicle
Not exceeding 8 h.p.	£24
Not exceeding 9 h.p.	£27
Not exceeding 10 h.p.	£30
Not exceeding 11 h.p.	£33
Not exceeding 12 h.p.	£36
Not exceeding 13 h.p.	£39
Not exceeding 14 h.p.	£42
Not exceeding 15 h.p.	£45
Not exceeding 16 h.p.	£50

*Note:* The maximum rate which may apply to a taxi is £30 and the maximum rate for hackneys is £50.

**TABLE 20.11****Rates of Road Tax on School Buses**

Category	£ per vehicle
Not exceeding 8 h.p.	£22
Not exceeding 9 h.p.	£22.50
Not exceeding 10 h.p.	£29
Not exceeding 11 h.p.	£33
Not exceeding 12 h.p.	£37.50
Not exceeding 13 h.p.	£42
Not exceeding 14 h.p.	£46.50
Not exceeding 15 h.p.	£51
Exceeding 15 h.p.	£55
Electrically propelled school bus	£22

*Note:* Current rates, effective since 1 June, 1973.

**TABLE 20.12****Rates of Road Tax on Community Buses**

Category	£ per h.p.
Not exceeding 8 h.p.	£5
Not exceeding 12 h.p.	£7
Not exceeding 16 h.p.	£8

**Notes:**

(1) No road tax is chargeable in respect of horse power exceeding 16. The maximum rate for community buses is £128.

(2) Current rates, effective since 1977.

**TABLE 20.13****First Registration Fees**

	£ per vehicle
1. Private Cars:	
Not exceeding 16 horse-power	10
Exceeding 16 horse-power	40
2. Motor Cycles	2
3. Goods Vehicles	40
4. Mobile machines and Forklift trucks	40
5. Hearses	40
6. Small Dumpers	40
7. Agricultural Tractors, Excavators, etc.	40
8. General Haulage Tractors	40
9. Large Public Service Vehicles	40
10. Small Public Service Vehicles:	
Taxis and Hackneys not exceeding 16 horse-power	10
Taxis exceeding 16 horse-power	20
Hackneys exceeding 16 horse-power	40
11. School Buses, Youth and Community Buses	40

## APPENDIX 21

### THE HISTORY OF BETTING TAXES AND LEVIES IN IRELAND

1. In the appendix we outline the present system of duties on betting and its historical development. A brief description of the Racing Board Levy is also included.

#### Background

2. Betting legislation covers all betting; horses, greyhounds, elections, beauty contests and so on. Before 1926, betting was illegal but because illegal betting was widespread it was thought wiser to legalise it and bring it within the tax net, thus imposing a degree of control and at the same time collecting additional revenue. In 1926, a tax was imposed on all on-course and off-course betting transactions.

3. The duty on on-course betting was removed in 1931. This was done with the intention of encouraging racecourse betting and discouraging off-course betting. On-course tax was re-imposed in 1980 in the form of a stamp duty at  $1\frac{1}{2}$  per cent.

4. The excise duty on off-course betting was first imposed at a rate of 5 per cent. The duty gradually increased over the years to the present rate of 20 per cent.

#### The Racing Board Levy

5. The Racing Board Act, 1945 gave the Racing Board authority to collect, for the benefit of racing, a levy on on-course betting. The Racing Board contributes the bulk of the prize money available to Irish racing. This money comes from the levy on all bets with bookmakers and the profits, if any, of the Totalisator (TOTE). Bookmakers collect the levy by means of a deduction from stake plus winnings on all winning bets. Because this levy is the major source of income available to the Racing Board, the finances of the Board and the Racing Industry are totally dependent on the buoyancy of on-course betting. The Racing Board and Racecourses Amendment Act, 1975 authorised the increase of the levy to a maximum of 10 per cent; the maximum had previously been 5 per cent. The Racing

Board only increased the levy to 6 per cent in the belief that any further increase would be counter productive. The total deduction from winning bets including stamp duty is now  $7\frac{1}{2}$  per cent.

**TABLE 21.1**

**Summary of the Rates of Duties and Levies on Betting since 1926**

Off-course betting		On-course betting	
1926	5% (Excise Duty)	1926	$2\frac{1}{2}$ % (Excise Duty)
	duty gradually increased to	1931	duty removed
1956	10%	1945	Racing Board is formed — $2\frac{1}{2}$ % levy imposed for benefit of the industry
1972	15%		gradual increase to 6%
1975	20%	1980	$1\frac{1}{2}$ % Stamp Duty imposed
Present:	20% Excise Duty	Present:	6% levy + $1\frac{1}{2}$ % Stamp Duty

## APPENDIX 22

### STAMP DUTIES IN IRELAND

1. In this appendix we set out the existing provisions in relation to stamp duties in Ireland and how the system operates.

#### The Process of Stamping

2. Payment of duty is indicated by a stamp which is impressed upon the instrument itself. The instrument must be presented to the Revenue Commissioners Stamping Branch so that the stamp may be impressed thereon by the use of dyes in the exclusive possession of the stamping authorities. Normally, instruments which attract stamp duty must be stamped within thirty days after they are first executed. A Bill of Exchange (cheque) or Promissory Note must be stamped before execution either with an impressed or adhesive stamp.

3. Failure to stamp a document, or failure to stamp a document correctly, does not generally render any person liable to any action against him by the Revenue Commissioners, nor does the want of a stamp invalidate the document. In the ordinary case, the Revenue Commissioners have no means of knowing when instruments are executed which are not duly stamped. The law deals with the problem primarily

- (i) by rendering unstamped (including insufficiently or improperly stamped) instruments inadmissible for any legal purpose except criminal proceedings, and
- (ii) by levying penalties when instruments are presented for stamping outside of the prescribed limits.

#### Main Heads

4. Stamp duties are charged mainly on legal and commercial instruments and in respect of certain transactions. The six main heads under which stamp duties are now chargeable are as follows:

- (i) *Conveyances of lands, houses and other property, leases, mortgages and settlements.*

Stamp duty is charged *ad valorem* on the consideration for the sale of the property. The rates of duty now in force are as follows:—

Consideration not exceeding £1,000 — Nil

Exceeding £1,000 and not exceeding £2,000	— 0.5 per cent
Exceeding £2,000 and not exceeding £6,000	— 1.0 per cent
Exceeding £6,000 and not exceeding £7,500	— £70 to £120
Exceeding £7,500 and not exceeding £10,000	— 2.0 per cent
Exceeding £10,000 and not exceeding £20,000	— 3.0 per cent
Exceeding £20,000 and not exceeding £50,000	— 4.0 per cent
Exceeding £50,000	6.0 per cent

In the case of voluntary dispositions, the duty is charged at the same rates on the value of the property. Where the disposition is between certain classes of relatives, the rate is one half of the appropriate *ad valorem* rate, whether the conveyance is voluntary or by way of sale.

The *ad valorem* rates apply also to the consideration, other than the rent, in the case of leases.

Exemption from duty is provided for conveyances, transfers or leases of newly erected houses which comply with certain requirements of the Housing Acts as well as for conveyances, transfers and leases of houses by local authorities to tenant purchasers and by public utility societies to their members.

Mortgages not exceeding £10,000 are exempt from stamp duty. Where that sum is exceeded, the rate is 25p for every £200 or part of £200.

Settlements are charged at 0.25 per cent on the amount or value of the property settled.

Transactions between associated companies are charged at the rate of £1 for every £50 or fractional part of £50 of the amount or value of the consideration;

(ii) *Transactions in Stocks, Shares, Debentures.*

The main item in this category is transfers of stocks and shares by way of sale. Foreign stocks and shares attract a duty of 2 per cent. Irish stocks and shares attract 1 per cent. Where the transfer is voluntary, similar rates apply to the value of the stocks or shares. Certain corporations have agreements with the Revenue Commissioners for the payment for composition for stamp duty on stock issues. Accounts are rendered half yearly and duty is paid at the rate of 5p for every £100 of stock. Whilst such agreements are in

force, transfers of the stock which is the subject of the agreement are exempt from stamp duty.

(iii) *Companies Capital Duty*

Companies capital duty was imposed in 1973 at the rate of 1 per cent on the capital of a capital company. Unlike the companies capital duty, which was imposed by the Stamp Act, 1891, which it replaced, the duty is charged on the assets contributed to or belonging to a company, not on its nominal share capital. The duty is payable in respect of transactions affecting companies which took place on or after 4 August, 1973.

(iv) *Cheques and Bills of Exchange*

Cheques, bills of exchange and promissory notes are chargeable with duty of 7p. A stamp duty of £5 per annum was applied to credit cards in 1982 and has been increased to £10.

(v) *Sweepstake Duty*

Stamp duty is charged at the rate of 25 per cent on the available surplus in every sweepstake held under the Public Hospitals Act, 1933.

(vi) *Insurance and Miscellaneous*

In the case of policies of life insurance, the duty is payable at the rate of 10p for every £100 or part of £100 where the sum insured exceeds £50 but does not exceed £1,000. Where it exceeds £1,000, the rate is £1 for every £1,000 or part of £1,000 of the amount insured. A fixed duty of £1 applies to all new insurance policies other than policies of life insurance.

(vii) *Bank Levy*

A special levy is imposed on banks which is charged on the current and deposit accounts of each bank, subject to certain adjustments including a threshold. The duty for 1983 (which amounts to £25 million) is assessed on the average of these accounts (so adjusted) as at certain dates in September, October and November, 1982, and rates of 0.2 per cent and 0.375 per cent apply as appropriate.

(viii) *Insurance Levy*

A special levy is also imposed on certain insurance transactions. This duty is assessed at a rate of 1 per cent on the gross amount received by insurers by way of premiums, other than premiums in respect of business which is specifically excluded.

5. Exemption from stamp duties arises under eight main heads as follows:

(i) **General exemptions**

- (a) Transfers of shares in government and certain other stocks.
- (b) Instruments for the sale, transfer, or other disposition, either absolutely or by way of mortgage, or otherwise, of any ship, vessel or aircraft or any part, interest, share, or property of or in any ship, vessel or aircraft.
- (c) Testaments and testamentary instruments.
- (d) Bonds given to sheriffs or other persons upon the levy of any goods or chattels, and assignments of such bonds.
- (e) Instruments made by, to, or with the Commissioners of Public Works in Ireland.
- (f) A transfer or lease of land made for charitable purposes.

(ii) **Bill of Exchange or Promissory Note**

- (a) Bill or note issued by the Bank of England or the Bank of Ireland.
- (b) Draft or order drawn by any banker in the state upon any other banker in the state, not payable to bearer or to order, and used solely for the purpose of setting or clearing any account between such bankers.
- (c) Letter written by a banker in the state to any other banker in the state, directing the payment of any sum of money, the same not being payable to the bearer or to order, and such letter not being sent or delivered to the person to whom payment is to be made or to any person on his behalf.
- (d) Letter of credit granted in the state, authorising drafts to be drawn out of the state payable in the state.
- (e) Draft or order drawn by the Accountant of the Courts of Justice.
- (f) Coupon or warrant for interest attached to and issued with any security, or with an agreement or memorandum for the renewal or extension of time for payment of a security.
- (g) Bill drawn on any form supplied by the Commissioners for the purpose of remitting amount of PAYE tax, tax deducted under construction contracts or value-added tax.

(iii) **Companies Capital Duty**

Stamp duty is not chargeable in the case of a transaction that is effected by

- (a) a capital company which is formed for the purpose of and carries on exclusively the business of supplying a public service such as

public transport or port facilities, or supplying water, gas or electricity, and not less than 50 per cent of the issued capital of which is owned by the state or a local authority, or

- (b) a capital company whose objects are exclusively cultural, charitable or educational.

(iv) **Policy of Life Insurance**

Where the sum insured does not exceed £50.

(v) **Sales of New Houses**

The Finance Act, 1969 provides for exemption from all stamp duties in the case of an instrument giving effect to the purchase of a new house where a grant under the Housing Act, 1966 has been or will be made in respect of the house. This exemption has been extended to include sales of houses which would have qualified for grants under the regulation in force up to 31 December, 1975.<sup>1</sup>

(vi) **Sale by a Local Authority and by an Industrial and Provident Society**

The Finance Act, 1969 exempts from stamp duty the sale of a house (i) by a local authority under the provisions of the Housing Act, 1966, and (ii) by a society registered under the Industrial and Provident Societies Acts, 1893 to 1966, in accordance with a scheme for the provision of houses for its members.

(vii) **Settlements**

An exemption applies to an instrument of appointment relating to any property in favour of persons specially named or described as the objects of a power of appointment, where duty has been duly paid in respect of the same property upon the settlement creating the power or the grant of representation of any will or testamentary instrument creating the power.

(viii) **Transfer of Agricultural Land**

A conveyance or transfer of agricultural land which operates as a voluntary disposition is exempt where the transferee is under 35 years of age and is the holder of certain qualifications in agriculture. There are, in addition, numerous special exemptions from stamp duty contained in miscellaneous acts. Those listed here are the exemptions of more general interest and application.

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<sup>1</sup>The exemption was dependent on the production of a certificate of reasonable value. Following the suspension of certificates of reasonable valuation, house buyers are now required to submit a floor area certificate.

## APPENDIX 23

### RECEIPTS FROM STAMP DUTIES

1. The distribution of receipts from stamp duties for the year ended 31 December, 1982 is in Table 23.1.

**TABLE 23.1**  
**Net Receipts from Stamp Duties, 1982 (excluding Fee Stamps)**

Heads of Duty	Net Receipts	% of Duty
General Stamps	£	%
Deeds and other Instruments not otherwise enumerated ... ..	50,304,136	58.69
Deeds, etc — Penalties ... ..	181,242	0.21
Companies Capital Duty ... ..	3,866,427	4.51
Composition for Duty on on-Course Betting ... ..	1,067,399	1.25
Bills of Exchange ... ..	14,446	0.17
Life Insurances ... ..	1,887,445	2.20
Cheques ... ..	5,809,865	6.80
Sweepstakes (Finance Act, 1932) ... ..	501,669	0.59
Bank Levy ... ..	20,330,568	23.72
Credit Cards and Cheque Cards ... ..	913,533	1.06
Insurance Levy ... ..	825,870	0.96
Total	85,702,600	100.00 <sup>1</sup>

Source: Finance Accounts for the Financial Year 1 January, 1982 to 31 December, 1982.  
Note: <sup>1</sup>Small discrepancy due to rounding of figures.

2. The net receipts of fees collected by means of stamps in 1982 are in Table 23.2.

**TABLE 23.2**  
**Miscellaneous Revenue — Details of Fee Stamps, 1982**

Description	Net Receipts
	£
Circuit Court ... ..	1,052,725
Companies' Registration ... ..	725,905
District Court ... ..	1,145,800
High Court and Supreme Court ... ..	2,166,019
Land Commission ... ..	2,316
Land Registry ... ..	565,145
Official Arbitration (Land) ... ..	7,980
Registration of Deeds ... ..	326,540
Road Transport Act (Vehicle Plate) Fees ... ..	7,570
Total	6,000,000

Source: Finance Accounts: For the Financial Year 1 January, 1982 to 31 December, 1982.