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## Basic Income in Ireland: Surveying Three Decades

*Sean Ward*<sup>1</sup>

### What is basic income?

In its simplest or purest form basic income (sometimes called ‘basic income guarantee’) is a substantial, unconditional and tax free payment from the exchequer to all citizens on an individual basis and it is financed by a flat tax on all income. It replaces tax credits and tax allowances for those in paid employment and it replaces welfare payments for those who are not in paid employment. There are many variants of basic income, including:

*Universal<sup>2</sup> full basic income:* a substantial income, which is usually set at a social welfare rate. It may be topped up by conditional payments for particular groups.

*Conditional full basic income:* a substantial payment which is conditional. This conditionality can be defined in different ways. For example, it may depend on being usefully engaged, i.e. being in paid employment, having a caring role, engaging in voluntary work, attending classes, engaging in work search activity etc.

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<sup>1</sup> This paper represents the personal work and views of the author.

<sup>2</sup> All State-run schemes have some conditions. Accordingly, ‘universal’ should not be interpreted as meaning ‘completely unconditional’. For example, New Zealand has a ‘universal’ national pension scheme. However, there are residency requirements that must be met in order to qualify for the pension (Department of Social and Family Affairs, 2007).

*Universal partial basic income:* a universal but less than full payment, which may be topped up by conditional payments in respect of unemployment, disability, non-market work etc.

*Conditional partial basic income:* a less than full conditional payment, which may be topped up by further conditional payments in respect of unemployment, disability, non-market work etc.

These may be illustrated as follows:

**Figure 1:** Typology of basic income

C o v e r a g e -	+	Universal Partial	Universal Full
	+	Conditional Partial	Conditional Full
		---	+++
		Value	

Most analysis has focused on the upper right quadrant – universal and full basic income.

The administration of basic income can also vary. Thus Child Benefit (which is a basic income for children) is paid directly to the parent or guardian. However, for those at work, a Refundable Tax Credit<sup>3</sup> would be another way of administering basic income.

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<sup>3</sup> Some employees do not earn enough to use up the full tax credit and therefore they do not benefit from increases in the tax credit, which are implemented in the annual budget. A Refundable Tax Credit would mean that the ‘unused’ part of the tax credit would be refunded to the employee.

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## Why basic income?

The motivations for considering basic income are varied (Ward, 1998). The main attractions are the following:

- Impact on the incomes of the less well-off
- Impact on autonomy/entrepreneurship and participation in the labour market
- Simplicity.

When assessing basic income or any other tax/welfare model, it is important to make explicit the principles or criteria against which any model or proposal will be assessed. According to CORI (Healy and Reynolds 1995), the following principles are relevant:

- 1 Nature and its resources are for the benefit of all
- 2 Income adequacy
- 3 Adequacy must be guaranteed
- 4 Penalty-free
- 5 Equity
- 6 Efficiency
- 7 Simplicity and transparency
- 8 Freedom.

These authors went on to assess their basic income proposal against these criteria (Healy and Reynolds, 1995).

## Brief history<sup>4</sup>

Dowling (1977) developed the first basic income scheme for Ireland. Under his proposal, all citizens would receive a non-taxable cash grant, with supplements for old age, widows and employees. He envisaged

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<sup>4</sup> For a fuller account, see Ward (1998)

the elimination of all tax expenditures<sup>5</sup>, social welfare payments and employee PRSI contributions. The scheme would be financed by a tax on employee incomes of 34 per cent and by an employers' payroll tax of 9 per cent. Farmers and self-employed were also included in the tax base.

Honohan (1987) and Callan et al (1994) developed 'full' basic income schemes which were quite similar. Each adult of working age would receive an untaxed payment equivalent to Unemployment Assistance; elderly people would receive somewhat higher payments and smaller amounts would be paid in respect of children. Existing tax expenditures were retained in both schemes. Both authors concluded that a tax of 68 per cent plus would be required to fund these schemes.

Ward (1994) developed a proposal whereby children and the elderly would receive a 'full' basic income, while those of working age would receive a substantial 'partial' basic income, which would be topped up for the unemployed to the level of Unemployment Assistance. Further payments would be available to protect certain existing welfare entitlements. All tax expenditures would be abolished and a range of public expenditures, including supports for farmers, students and business, would be reduced or abolished. There would be no employer or employee PRSI and the scheme would be funded by a 50 per cent tax on all personal income.

Ward's proposal was developed into a full basic income proposal by Healy and Reynolds (1995) and Clarke and Healy J (1997). According to Clark and Healy (1997), their proposal ('Variant A') would involve:

- Full basic income payments to all adults and children
- Additional 'social responsibility' payments to preserve existing welfare entitlements
- Exchequer savings arising from the abolition of existing redundant income supports and administrative savings in the Department of Social and Family Affairs.

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<sup>5</sup> Reductions in tax liability arising from personal allowances, mortgage interest relief, pension contributions, certain business investments etc.

The scheme would be financed by a tax on personal income of 47 per cent and an employer payroll tax of 8 per cent.

The Government Green Paper on Basic Income (Department of the Taoiseach, 2002) examined a full basic income model with the following characteristics:

- Basic Income payments were paid unconditionally and payment amounts were aligned with social welfare rates, which they replaced
- All tax expenditures were abolished
- All farm income supports remained
- DIRT was set at 24 per cent
- Employee PRSI / levies were abolished
- A Social Responsibility Tax (replacing Employers PRSI) was set at 8 per cent; this money was used to provide ‘top up’ payments to certain low income individuals.

The Department of Finance estimate of the tax rate required to finance the proposal was 48 per cent on personal income together with an employer payroll tax of 8 per cent.

Clarke (2002) produced a detailed critique of the impact of basic income schemes such as that envisaged in the Green Paper: these impacts are alluded to later in this paper.

## **Themes analysed**

### *Tax rate*

Whatever about the apparent attractions of a basic income system, vastly differing estimates were put forward regarding the personal tax rate that would be required to fund a basic income system in Ireland. Estimates ranged from 47 per cent (Clark and Healy, 1997) to 68 per cent or more (Callan, O’Donoghue and O’Neill, 1994). If the higher estimates were necessary, then basic income would not be viable.

The basic income model for the Green Paper (Department of the Taoiseach, 2002) was established for 1998 using projected budgetary data from February of that year. Both the basic income system and the ‘conventional’ system were projected to 2001, using ‘harmonised’ data: this means that both the basic income system and the ‘conventional’ system had access to the same resources in 2001. It became apparent during the course of the Green Paper studies that these projections for 2001 were conservative. According to the Green Paper:

“The additional resources which were calculated to be available for this updated estimate were not included in the income distribution analyses of basic income that were carried out by the two sets of consultants. The reason for this is that the additional resources could be used not just to enhance basic income but equally they could be used to enhance the conventional options. Hence, by using tax rates which they calculated based on the original study parameters, the consultants achieved “like with like” comparisons.”

Based on the agreed parameters, the two consultants engaged in the Green Paper process produced estimates of the required tax rate for the basic income model of 47.3 per cent (Clark 1999) and 53 per cent (Callan et al 2000a) - plus an (agreed) Social Responsibility Tax on employers of 8 per cent of payroll.

In 1999, the Department of Finance was asked by the Green Paper Steering Group to provide an estimate of the required tax rate for 2001, taking account of the faster than expected economic growth that had occurred. According to the Department of Finance, a single tax rate of 48 per cent and a Social Responsibility Tax of 8 per cent would be required to fund this scheme.

The Green Paper reported some uncertainty around the tax rate required to fund basic income in that the data used in the Department of Finance analysis did not fully capture the economic growth that occurred between 1999 and 2001: according to the Green Paper, the use

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of updated (2001) data would reduce the required income tax rate below 48 per cent in 2001. Further uncertainty arose, however, from the dynamic effects to which basic income could give rise; for these could be either positive or negative.

One result of the Green Paper analysis of the required tax rate is that the earlier, very high, estimates are no longer applicable.

*Impact on income adequacy*

It has been proposed that a key advantage of basic income would be that it could facilitate greater equity and a reduction in income poverty (Healy and Reynolds, 2005).

Income inequality has been described in the following terms:

“Ireland has less equality of opportunity than other European countries and this has changed little over the last decade despite a huge expansion in education and economic growth. We now have a wealthier but a more unequal society with the richest 20% of our working age population earning 12 times as much as the poorest 20%, - one of the highest levels of market income inequality among OECD countries. Nearly 14% of households in poverty are now headed by those with a job, a rise from 7% in 1994 – an indication that employment is not always, on its own, a route out of poverty” (NESF, 2006).

Some of the reasons for this outcome have been outlined by the Combat Poverty Agency:

“The level of income poverty is likely to be due to a number of factors. First, social welfare increases have not kept pace with considerable wage growth over the past decade. Second, very significant and dramatic economic growth has resulted in a large increase in high paid jobs stretching the upper tail of the income distribution higher. Third, successive income tax cuts have benefited high-income individuals more (in real terms) than

those on low incomes over the past decade. Thus, the taxation system in Ireland needs to work better at redistributing resources” (Combat Poverty Agency, 2006).

The ESRI carried out a distributional analysis of the “Green Paper” model using micro data in their SWITCH model (Callan et al, 2000a). The analysis was rigorous in that both the existing tax/welfare system and basic income were allocated identical resources for distribution. Accordingly, any gains accruing to individuals under basic income vs. a conventional alternative must be counterbalanced by equal losses accruing to other individuals under basic income vs. the same conventional alternative.

According to the analysis, the combined effect of the full basic income payments and the conditional top up payments would be very significant for the distribution of incomes. With regard to income poverty, the analysis showed that:

- 70 per cent of households in the bottom four deciles would gain from basic income, while 16 per cent would lose out
- Half of the individuals who would be below the 40 per cent poverty line under conventional options would be brought over this poverty line by basic income.

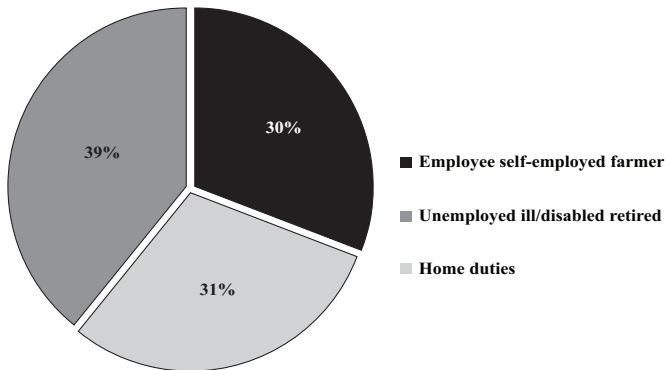
Counter balancing these gains, basic income would bring about many ‘losers’ compared with the current system: this arises inevitably from the equality of resources for both systems referred to above. Thus, only 15 per cent of individuals in the top four deciles would gain under basic income, whereas 84 per cent would lose compared with the current system.

According to the Green Paper, basic income would involve a significant transfer of income. This would result in less income for most households in the upper deciles and higher incomes for most households in lower deciles. It has been argued that in periods of economic growth the adverse effects on ‘losers’ can be mitigated so

that their incomes may not actually fall but simply not rise as quickly as those of the ‘gainers’ under basic income (Healy and Reynolds, 2005).

Paid employment is a good antidote to income poverty for many people. However, paid employment is not an option for everyone. In addition, almost one third of those below 60% of median income are in households headed by someone who is either employed, self-employed or a farmer (CSO, 2007).

**Figure 2:** Composition of those below 60 per cent of median income in 2001



According to the proponents of basic income, the alleviation of income poverty and the promotion of equity would be major advantages of the introduction of basic income: this contention was largely borne out in the Green Paper analysis.

#### *Impact on autonomy, entrepreneurship and paid work*

It has been proposed that a major advantage of basic income is that it does not merely present individuals with the choice of paid work or cash transfers that are contingent on behaviour and/or a means test. Rather, it facilitates paid work, but also caring, education, personal development etc. (Clark, 2002).

Regarding *participation in tertiary and continuing education*, Callan et al (2000b) posit two distinct and opposing influences of basic income:

“On the one hand, the guaranteed basic income may allow individuals who could not otherwise finance (a return to) further education and training to participate in such schemes. On the other hand, the financial incentive to forego current earnings in the anticipation of future increases in income may be seriously affected for those individuals (a majority of current employees) who see their marginal tax rates rise by about 20 percentage points. The net impact for any one individual will depend on a range of factors including the level of earnings and the discount rate applied to future earnings. We can expect that for some individuals the lower cost of financing a spell in education or full time training will dominate, so that they will be able to choose a higher level of education under the basic income system, while for others the reduced returns to investment in education and training will induce them to choose a lower level of education than under the conventional system. The net impact on the skill level of the workforce is unclear.”

The view of Clark (2002) is more about freedom and possibilities than forecast:

“The new model (for the new economy) is for moving between paid employment and further education. Workers who want to be retrained, either in their present field, or changing fields, would have the basic income payment to live on while they are earning less or no income. Furthermore, a basic income makes it easier for low-income households to send their children to tertiary education, as they will not need the income these teenagers and young adults would have contributed to the households.”

Regarding the *financial independence of women*, Callan et al (2000b) state that:

“One of the claims made about basic income is that it increases the financial independence of women. There are two major features of the basic income system which support this claim. First, women who are currently treated as “qualified adults” in the social welfare system would receive a higher payment than at present, and receive it directly in their own right. While the current system allows for split payments, this is somewhat unusual. The change could be seen as increasing the financial resources of many such women, and potentially increasing the women’s control over those resources. Second, for married women described as “engaged in home duties”, whose husbands are in employment, the change in system would bring about a direct cash payment instead of a transferable cash allowance reducing the husband’s tax bill. The impact on the net financial resources of the couple may be positive or negative.

There are, however, other perspectives on the financial independence of women which would stress the role of employment in providing women with longer-term economic independence. The combined effect of the basic benefit and the basic benefit tax rate is to raise the replacement rate for a substantial number of women in employment. A likely consequence is that fewer women will choose to participate in the paid labour market. This may have negative long-term consequences for women’s financial independence. Those wishing to re-enter the labour market at a later date would tend to find the wage which they could command would be adversely affected, with the size of the impact depending on the length of the period of withdrawal.”

Clark’s view is more about freedom and possibilities:

”Participation in the paid workforce should be based on a voluntary choice, not by the force of material deprivation...A basic income allows both men and women more freedom in making the choices of how they wish to participate in society,

using the criteria of where they feel they can make a contribution and where they feel the need is greatest, and not merely avoiding destitution.” (Clark, 2002).

Regarding *crime and social problems*, Clark (2002) states that:

“As a basic income system reduces some of the barriers to social participation (poverty and employment traps) it will have a positive effect on crime and social problems. But, more importantly, a basic income system has the potential of ending material poverty.”

Finally, according to Wilkinson (2002), quoted in Clark (2002), countries with the best health are the ones that have the smallest income differentials between rich and poor. Egalitarian societies have stronger community life, stronger social fabric, lower crime rates, less stress and other corrosive effects of inequality.

The likely impact of basic income on *participation in paid employment* remains a contested area. The Green Paper acknowledges that analysis of this issue is necessarily tentative. Typically, two statistics are employed in discussing the implications for labour supply, the Replacement Rate and the Marginal Tax Rate.

The Replacement Rate (RR) is calculated as ‘out of work family income’ divided by ‘in work family disposable income’. The RR statistic is relevant for those facing the choice between (low) paid employment and no work: the lower the value of RR, the greater the incentive to take up paid employment.

Under basic income, the RR is lower for those out of work and for many in work on low wages; the main reason for this is that basic income is not withdrawn on taking up paid employment (Department of the Taoiseach, 2002). This means that basic income would *increase* the incentive for these people to participate in paid employment.

However, the availability of basic income to those who are not in paid employment also means that for many other people their RR rises; for example, the percentage of women engaged on home duties facing an RR of more than 70 per cent would increase from 36 per cent to almost 50 per cent.

It has been argued that the reduction in RR (consequent on basic income) for those out of work and those on low pay is the relevant statistic and that RR is largely irrelevant for those on higher wages as they are generally not facing a choice between paid work and no-work (Clark, 2002).

With regard to the rise in RR (consequent on basic income) for many women on home duties, it has been argued that this diminution in the incentive to take up paid employment could lead to a reduction in participation in the paid workforce by this group (Callan et al, 2000b). On the other hand, it has been argued that:

“Those in home duties have chosen to carry out these important and necessary activities, and thus have chosen not to be in the labour force as conceived by economists. Clearly, the only reason to calculate the replacement ratio of adults in home duties is to figure out what price signals would force these persons into paid employment. Here a basic income is clearly contrary to this view, as it gives adults in home duties the financial support to make a decision on how they will contribute to society based on what they feel is best for their families, and not forcing them into taking up a low-paying job because of economic need” (Clark, 2002).

Another statistic, which is relevant for the supply of labour (the number of hours worked) is the Marginal Tax Rate (MTR). According to the Green Paper:

“The main impact of a change to a basic income scheme was found to be on taxpayers with marginal tax rates less than 30%

under the conventional system, whose marginal tax rates would rise to 50%, or more in certain circumstances, under a basic income system. This increase could apply to 57% of taxpayers. Changes in marginal tax rates can affect decisions regarding hours of work, decisions to work overtime, to take on extra hours or to opt for part time work. It should be noted that in a basic income system each person receives a tax-free payment from the State. This means that their average tax rate could, and in many cases would, be lower while their marginal tax rate would be higher.”

It has also been argued that tax rates and benefit levels have very limited impact on adult males and single females and that, in general, income effects overwhelm the substitution of leisure for income in these situations. However, it is agreed that an increase in the marginal tax rate could influence the number of hours worked by married females (Clark, 2002).

Arising from the divergent arguments about Replacement Rates and Marginal Tax Rates, there are two alternative ‘forecasts’ of the effect of basic income on labour supply. According to one view, married women would be less active in the labour force and this would be the main channel for a forecast fall in labour supply. According to another view, by enabling greater flexibility for individuals who are freer to make choices that suit their personal circumstances, basic income may reduce the supply of labour for full time work patterns, but still would result in an overall increase of labour supply in a more flexible market (Department of the Taoiseach, 2002).

## **Developments on the ground**

A full, universal basic income system has not been introduced in Ireland. However, it is interesting to point out certain developments, which are akin to basic income, either in their form or in their effects, which have occurred since the year 2000. Aspects that are examined here include:

- Child benefit
- Tax credits
- State pension.

### *Child Benefit*

Currently, the value of Child Benefit for the first and second child is €38.18 per child per week plus a supplement of €21.08 if the child is less than 6 years old. The following table shows a comparison between these levels and those that applied in the year 2000; the table also compares these payments with Gross Average Industrial Earnings (GAIE) for these years.

**Table 1:** Child Benefit payments 2000 and 2008

	2000 per week			2008 per week		
Age of child in years	Child payment	Gross Average Industrial Earnings per week (June)	Child payment as per cent GAIE	Child payment	Gross Average Industrial Earnings per week (June) <sup>a</sup>	Child payment as per cent GAIE
Child 6+	€9.77	€342.86	2.8%	€38.18	€652.33	5.6%
Child 0-5	€9.77		2.8%	€59.26		9.1%

<sup>a</sup> estimated

Source: CSO and Department of Social and Family Affairs

It can be seen from Table 1 that the value of Child Benefit has increased substantially and, depending on the age of the child, it is now double or treble its value in 2000, in relation to GAIE.

According to CORI Justice (2008), the ‘poverty line’ for a child is €72.13 per week in 2008. Thus, the current level of Child Benefit for most children is 53 per cent of the poverty line; for children aged 0-5 years, Child Benefit is 82 per cent of the poverty line.

Accordingly, Child Benefit has developed as a universal, partial basic income for children.

### *Tax credits*

These were introduced in 2001 to replace Personal and PAYE Tax Allowances. Criticisms that had been made of the old ‘Allowances’ system included:

- Their full value could not be availed of by those on low earnings and
- Those paying a high marginal rate of tax received more value from the allowances than those on the standard tax rate.

Currently, the values of the main tax credits are as follows: Personal credit: €1,830, PAYE credit: €1,830. The combined value of the credits is €3,660 or €70.14 per week and they are available to all workers. As currently configured, tax credits meet the second criticism that had been made of tax allowances.

However, they do not meet the first criticism. The reason why tax credits do not meet the first criticism is that in order to fully avail of them, annual earnings of at least €18,300 are required – which is slightly more than the National Minimum Wage, assuming 40 hours are worked per week for 52 weeks. However, if earnings are lower than €18,300 – due for example to ‘atypical’ or part-time working or breaks in employment – then the full value of the tax credits cannot be claimed. In 2004, the incomes of 683,000 (35 per cent) tax ‘cases’ were too low to pay tax: the vast majority of these people would have had ‘unused’ tax credits (Revenue Commissioners, 2007).

One can envisage a development of the current tax credit, whereby for ‘eligible’ low-paid workers the ‘unused’ portion of the tax credit could be claimed from Revenue at year-end. Such a development of the tax credit would address the ‘working poor’ issue – see Figure 2 above – and could be viewed as a significant partial basic income that would be conditional (available only to ‘eligible’ workers).

There are no published estimates of the cost of making tax credits refundable. In the Appendix, an indicative estimate of the exchequer cost of making tax credits refundable is set out. The estimate is based on the Statistical Report of the Revenue Commissioners for 2006 (Revenue Commissioners, 2007), but the table used relates to 2004. According to the analysis the estimated cost of making tax credits refundable in 2004 would be approximately €416m which is 4.1 per cent of the income tax yield in that year.

### *State pensions*

Currently the weekly value of the State pension is €223.30 (contributory) and €212.00 (non-contributory). The following table shows a comparison between these levels and those that applied in the year 2000; the table also compares these payments with Gross Average Industrial Earnings (GAIE) for these years.

**Table 2:** State pensions 2000 and 2008

Pension type	2000 per week			2008 per week		
	Payment	Gross Average Industrial Earnings per week (June)	Pension payment as per cent GAIE	Payment	Gross Average Industrial Earnings per week	Pension payment as per cent GAIE
Contributory	€121.89	€342.86	35.6%	€223.30	€652.33	34.2%
Non-contributory	€108.56		31.7%	€212.00		32.5%

<sup>a</sup> estimated

Source: CSO and Department of Social and Family Affairs

It can be seen from Table 2 that State pensions have fluctuated slightly in relation to the value of Gross Average Industrial Earnings. It is useful also to examine the coverage of State pensions, i.e. the percentage of

those in the relevant age groups who have the benefit of a State pension. Table 3 shows the position.

**Table 3:** Percent of population in receipt of State pension

Pension type	2000			2006		
	Population in receipt of a State pension	Total population aged 65+	Percent in receipt of State pension	Population in receipt of a State pension	Total population aged 65+	Percent in receipt of State pension
Contributory	214,076		49.8%	291,958		62.4%
Non-contributory	96,828		22.5%		101,050	21.6%
Totals	310,904	429,682	72.3%	393,008	467,926	84.0%

<sup>a</sup> estimated

Source: CSO and Department of Social and Family Affairs

It is clear from Table 3 that a high and rapidly increasing percentage of those aged 65+ is in receipt of a State pension. Furthermore, the increased take-up of State pensions has been focused predominantly on contributory pensions. Given the increase in the “insured” population – up by 18% from 2000 to 2005<sup>6</sup> – it can be expected that the proportion of older people in receipt of a contributory pension will continue to increase rapidly.

According to the Green Paper on Pensions (Department of Social and Family Affairs, 2007),

“Approximately 393,000 people, or 89 per cent of older people resident in this country, aged 66 years and over are receiving support through the Social Welfare system. That leaves approximately 47,000 people outside the system. These are mainly former self-employed people and public servants and their spouses or partners”.

<sup>6</sup> Statistical Information on Social Welfare Services 2006, Table A16

With regard to the former public servants, who are included in the 47,000 people outside the social welfare pension system, it would be worth exploring this a little to see if the figure includes public service pensioners who joined the public service before 1995 and who are not eligible for a contributory State pension. While their occupational pension is received from the State (as their former employer), these former public servants are not entitled to a contributory State pension based on PRSI contributions. Since 1995, all new entrants to the public service pay full PRSI – their salaries are increased to enable them to do this – and they are entitled to a contributory State pension when they retire; as a general rule, their occupational pension is reduced accordingly to leave them with the same total pension as their colleagues who did not pay full PRSI. In general, pre and post-1995 public servants receive the same (or similar) cash inflows from the State, both in work and in retirement<sup>7</sup>. It could be argued, then, that in terms of coverage, State pensions – contributory, non-contributory and occupational – should be viewed together. Accordingly, coverage of State pensions could be even higher than indicated in the Green Paper.

State pensions can be viewed as a system of basic income payments with two conditional sub-systems based on contributions and means; with the contributory pension being regarded as implicit in certain public service occupational pensions. The proportion of the relevant population that is excluded from the State pension system is low and falling rapidly; accordingly, the system is heading towards being close to universal in coverage.

## Conclusions

A considerable amount of analysis of basic income has taken place, particularly in recent years, as outlined above. Of equal interest are recent developments in Child Benefit, tax credits and State pensions.

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<sup>7</sup> For a good description and a worked example, see [www.cpsu.ie](http://www.cpsu.ie)

Most changes in society occur incrementally. An interesting perspective was provided by an Irish senior civil servant interviewed by Jordan et al (2000), “A refundable tax credit would now be technically much easier to administer...(On basic income) a technical, incremental stumbling backwards into it is more likely than a full-blown conversion”.

## Appendix

### **Estimated cost to the exchequer of making tax credits refundable**

The following scenario is analysed in this Appendix. All tax payers aged 21 years and over, who have ‘unused’ Personal and PAYE tax credits would be able to claim these at year-end from the Revenue Commissioners, in the same way that other tax reliefs can now be claimed. (There could also be a low income threshold that would have to be met. This is not factored into the calculations. For the purpose of this Appendix, it is worth noting that use of a threshold would reduce the exchequer cost.)

The main source of data for the analysis is the Statistical Report of the Revenue Commissioners for 2006 (Revenue Commissioners, 2007), Table IDS1. This Table relates to 2004.

From this Table, which is broken down by gross income ranges, it is possible to derive estimates of the amount of tax credit that was available to

- Single people
- Married couples, where one spouse was earning
- Married couples where both spouses were earning
- Widow(er)s.

The amount of tax credit that was actually used can also be derived. The difference between the amount of tax credit that was available and the amount that was used can be viewed as ‘unused’ tax credit that would be available to workers if tax credits were refundable.

In 2004, the standard income tax rate was 20 per cent and the combined values of the Personal and PAYE tax credits were as follows:

<b>Category</b>	<b>Personal and PAYE Tax credits</b>	<b>Corresponding tax-free income (tax credits x 5)</b>
Single	€2,560	€12,800
Married, one earning	€4,080	€20,400
Married, both earning	€5,120	€25,600
Widow(er)	€2,860	€14,300

In order to cost the scenario, it is necessary to remove those workers who are under the age of 21 years. From the Census of Population (CSO, 2007b), it is estimated that the number in the age-group 15-20 years inclusive in 2004 was 382,000. From the Quarterly National Household Survey, it is estimated that the percentage of those in the age group 15-20 who are earning is 35 per cent (CSO, 2008). Accordingly, it is assumed that 30 per cent of the age cohort were single, earning some money in the lowest earnings band, i.e. less than €10,000 of gross earnings in 2004, and included in the Revenue statistics. The balance of those in the age group who are at work is assumed to be earning sufficient money to fully avail of the tax credits.

It is also necessary to factor in the likely take-up of Refundable Tax Credits under such a scenario. The take-up of Family Income Supplement is thought to be of the order of 40 per cent (Dail Debates 11 May 2006). It is assumed (conservatively from the perspective of the exchequer) that the take-up rate for Refundable Tax Credits would be 50 per cent. It is reasonable to suppose that those who could claim larger amounts would be more likely to activate their claims; accordingly, it is assumed that 60 per cent of the unused tax credits would be claimed.

The detailed calculations are shown in the Table overleaf.

The result of the analysis is that the estimated exchequer cost under the scenario would be some €416m or 4.1 per cent of the total income tax receipts in 2004.

**Estimated Cost to The Exchequer Of Making Tax Credits Refundable in 2004**

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Gross income	Total income	N of cases	Tax credit available	Tax credit used	Unused tax credit	N aged 15-20	30% aged 15-20 single less €10k	N of cases can claim refund	Percent of cases can claim refund	Refunds to be claimed
	€m		(d)= (c)*STC	(e)= (b)/5	(f)= (d)-(e)		(h)= (g)*0.3	(i)= (c)-(h)	(j)=(i)/(c)	(k)= (f)*(j)
Single	€m		€m	€m	€m					€m
€0-10,000	1,715	357,966	916	343	573	382,000	114,600	243,366	68.0%	390
€10-12,000	683	62,165	159	137	23	n.a.	n.a.	n.a.	100%	23
€12-15,000	1,236	91,441	234	247	-13	n.a.	n.a.	n.a.	100%	negligible
									<b>Sub-total</b>	412
<b>Married, one earning</b>										
€0-10,000	171	36,684	150	34	115	n.a.	n.a.	n.a.	100%	115
€10-12,000	93	8,435	34	19	16	n.a.	n.a.	n.a.	100%	16
€12-15,000	229	16,783	68	46	23	n.a.	n.a.	n.a.	100%	23
€15-17,000	240	14,984	61	48	13	n.a.	n.a.	n.a.	100%	13
€17-20,000	409	22,150	90	82	8	n.a.	n.a.	n.a.	100%	8
€20-25,000	763	33,933	138	153	-14	n.a.	n.a.	n.a.	100%	negligible
									<b>Sub-total</b>	176

<b>Married, both earning</b>											
€0-10,000	49	9,493	49	10	39	n.a.	n.a.	n.a.	n.a.	100%	39
€10-12,000	25	2,237	11	5	7	n.a.	n.a.	n.a.	n.a.	100%	7
€12-15,000	57	4,186	21	11	10	n.a.	n.a.	n.a.	n.a.	100%	10
€15-17,000	62	3,880	20	12	7	n.a.	n.a.	n.a.	n.a.	100%	7
€17-20,000	127	6,827	35	25	10	n.a.	n.a.	n.a.	n.a.	100%	10
€20-25,000	318	14,085	72	64	8	n.a.	n.a.	n.a.	n.a.	100%	8
€25-27,000	172	6,595	34	34	-1	n.a.	n.a.	n.a.	n.a.	100%	negligible
										<b>Sub-total</b>	<b>81</b>
<b>Widow/er</b>											
€0-10,000	100.2	13551	39	20	19	n.a.	n.a.	n.a.	n.a.	100%	19
€10-12,000	82.04	7484	21	16	5	n.a.	n.a.	n.a.	n.a.	100%	5
€12-15,000	134.7	10014	29	27	2	n.a.	n.a.	n.a.	n.a.	100%	2
										<b>Sub-total</b>	<b>25</b>
<b>Tax credit refunds unused and available to be claimed</b>										<b>Grand total</b>	<b>694</b>
<b>Estimated unused tax credits claimed</b>										60%	
<b>Estimate of exchequer cost</b>											<b>416</b>

Note:STC=Standard Tax Credit (the sum of Personal Tax Credit and PAYE Tax Credit)

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