Some tax proposals currently being considered by Government should be rejected because they would give far greater benefit to people earning higher incomes than to lower income employees according to a new study conducted by Social Justice Ireland.

This study shows that the impact of some proposals currently being considered for Budget 2018 would be profoundly unfair because they would favour only those with higher incomes.

The study, Social Justice Ireland’s latest Policy Briefing, compares the impact of three proposals that would cost roughly the same amount (€196m – €202m) annually:

- an increase in the standard rate band of €1,000 (full year cost €202m) – along the lines of the Fine Gael proposals for Budget 2018;
- 0.5% decrease in the 5% USC rate – that applies to income between €18,772 and €70,044m (full-year cost €196m) – along the lines of the Fianna Fail proposals for Budget 2018; and
- an increase in the personal tax credit of €85 with commensurate increases in couple, widowed parents and the single person child carer credit (full-year cost €202m) – along the lines of Social Justice Ireland

Both increasing the standard rate band and decreasing the 0.5% USC rate skew the benefits towards those on higher incomes. In contrast, increasing the personal tax credit spreads the benefits more evenly across all earners according to the Briefing.

Changing the entry point to the top tax rate (i.e. increasing the standard rate band) provides gains which are skewed towards higher incomes. A single earner on €25,000 gains nothing from this reform and it is only individuals with incomes of €33,800 plus, and couples with two earners with a gross income above €67,600, who gain. The largest benefits flow to those on the highest incomes.

Reducing the 5% USC band, benefits earners with income between €18,772 and €70,044 and for those within this band the benefit is greater the higher an individual’s income. An individual on €25,000 gains €31.14 a year while an individual on €100,000 gains more than eight times as much (€256.36 per annum).

The USC is the most progressive of all the different taxes and charges that apply to people’s income. It affects higher earners to a greater extent than those on low pay and, perhaps as importantly, it is impossible to avoid. Government should keep these two facts in mind ahead of Budget 2018.

An €85 increase in the personal tax credit provides the same gain to all taxpayers earning sufficient to pay more than €85 in income taxes. However, below €16,500 for single earners / €24,900 for couples with one earner / €33,000 for couples with two earners, there are no gains as up to these points tax credits absorb all income tax liabilities.

Social Justice Ireland is not in favour of any net tax reductions in Budget 2018, or in reductions to the USC. Any available money should be used to improve Ireland’s social services and infrastructure, reduce poverty and social exclusion and increase the number of jobs.

The full Policy Briefing may be accessed here. [1]