Annex 4 - Taxation

To accompany Chapter 4 of our Socio-Economic Review 2021, in this annex we outline the background data on taxation in Ireland. We first compare the overall level of taxation in Ireland to that of other European countries and then trace how this has changed over time. We then examine trends in income tax levels, outline and compare income tax levels across the income distribution, and examine the distribution of indirect taxes on households.

Ireland's total tax-take up to 2019

The most recent comparative data on the size of Ireland's total tax-take has been produced by Eurostat and is detailed alongside that of 26 other EU states in table A4.1. The definition of taxation employed by Eurostat comprises all compulsory payments to central government (direct and indirect) alongside social security contributions (employee and employer) and the tax receipts of local authorities.[1] The tax-take of each country is established by calculating the ratio of total taxation revenue to national income as measured by gross domestic product (GDP). Table A4.1 also compares the tax-take of all EU member states against the average EU-27 tax-take of 37.4 per cent.

Table A4.1: Total Tax Revenue as a % of GDP for EU-27 Countries, 2019

Country	% of GDP	+/- from average	Country	% of GDP	+/- from average
France	47.4	+10.0	Czechia	36.1	-1.3
Denmark	46.9	+9.5	Poland	36.0	-1.4
Belgium	45.9	+8.5	Cyprus	35.6	-1.8
Sweden	43.8	+6.4	Spain	35.4	-2.0
Austria	43.1	+5.7	Slovakia	34.6	-2.8
Italy	42.6	+5.2	Estonia	33.3	-4.1
Finland	42.3	+4.9	Malta	32.1	-5.3
Greece	41.9	+4.5	Latvia	31.3	-6.1
Germany	41.7	+4.3	Lithuania	30.4	-7.0
Luxembourg	40.5	+3.1	Bulgaria	30.3	-7.1
Netherlands	39.8	+2.4	**Ireland GNDI**	**29.6**	**-7.8**
Croatia	38.7	+1.3	**Ireland GNP**	**29.3**	**-8.1**
Slovenia	37.7	+0.3	Romania	26.8	-10.6
Portugal	36.8	-0.6	**Ireland GDP**	**23.0**	**-14.4**
Hungary	36.5	-0.9	**EU-27 average**	**37.4**	

Source: Eurostat online database and CSO online database: National Income and Expenditure Accounts.

Notes: EU-27 average is the arithmetic mean. As Ireland's figures have been skewed by large multinational effects in national accounts and taxation income we use three national income measures.

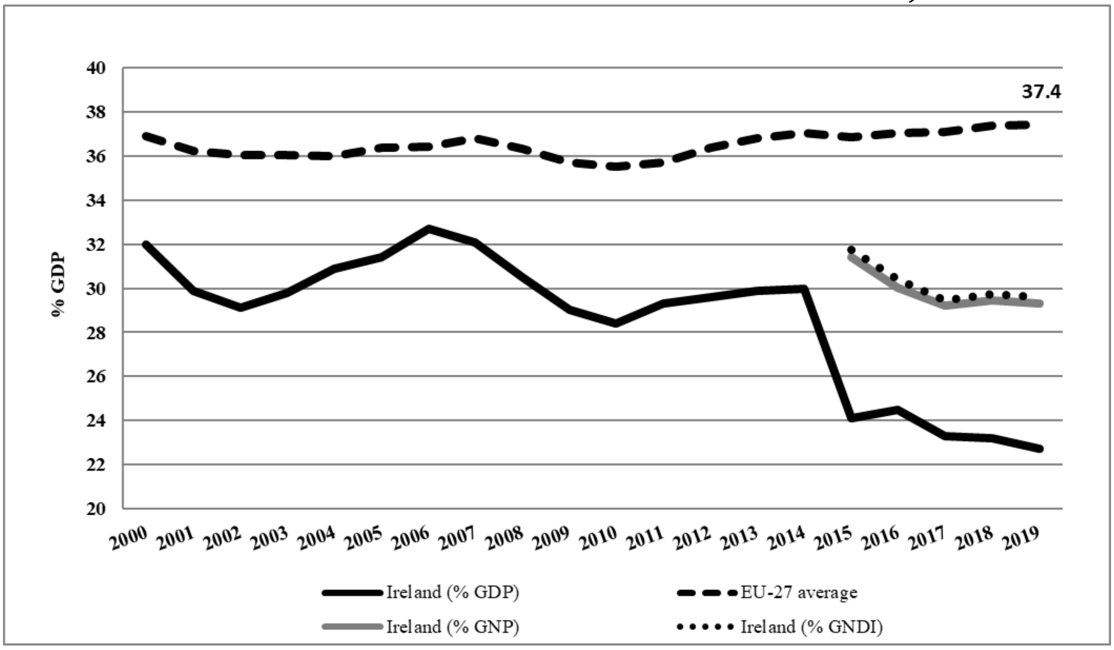
Of the EU-27 states, the highest tax ratios can be found in France, Denmark, Belgium, Sweden and Austria while the lowest appear in Romania, Bulgaria, Lithuania, Latvia and Ireland. The effect of multinational company restructuring on Ireland's national accounts in 2015, and subsequent tax short-term corporate tax revenue increases, impacts on the data by inflating the GDP (and GNP) figure. Prior to this effect, Ireland's tax to GDP ratio stood at 30.5 per cent; some way below the EU average.

Ireland's overall tax take has remained notably below the EU average over recent years (see

[1] See Eurostat (2014:268-269) for a more comprehensive explanation of this classification.

chart A4.1). The increase in the overall level of taxation between 2002 and 2006 can be explained by short-term increases in construction-related taxation sources (in particular stamp duty and construction related VAT) rather than any underlying structural increase in taxation levels.

Chart A4.1: Trends in Ireland and EU-27 Overall Taxation Levels, 2000-2019



Source: Calculated using data from Eurostat and CSO online databases

In the context of the figures in table A4.1, and the trends in chart A4.1, the question needs to be asked: if we expect our economic and social infrastructure to catch up to that in the rest of Europe, how can we do this while simultaneously gathering less taxation income than it takes to run the infrastructure already in place in most of those other European countries? In reality, we will never bridge the social and economic infrastructure gaps unless we gather a larger share of our national income and invest it in building a fairer and more successful Ireland. In response our tax target, outlined in Chapter 4, presents a realistic target for providing adequate recurring taxation income.

Effective income tax rates

To complement the trends and data outlined in Chapter 4, it is possible to focus on the changes to the levels of income taxation in Ireland over most of the last two decades. Central to any understanding of these personal/income taxation trends are effective tax rates. These rates are calculated by comparing the total amount of income tax a person pays with their pre-tax income. For example, a person earning €50,000 who pays a total of €10,000 in tax, PRSI and USC will have an effective tax rate of 20 per cent. Calculating the scale of income taxation in this way provides a more accurate reflection of the scale of income taxation faced by earners.

Following Budget 2021 we have calculated effective tax rates for a single person, a single income couple and a couple where both are earners. Table A4.2 presents the results of this analysis. For comparative purposes, it also presents the effective tax rates which existed for people with the same income levels in 2000 and 2008.

In 2021, for a single person with an income of €15,000 the effective tax rate will be 0.8 per cent, rising to 12.6 per cent on an income of €25,000 and 40.8 per cent on an income of

€120,000. A single income couple pay 0.8% at an income of €15,000. This increases to 5.8 per cent at an income of €25,000, 21.9 per cent at an income of €60,000, and 36.6 per cent at an income of €120,000. In the case of a couple, both earning and with a combined income of €40,000, their effective tax rate is 7.6 per cent, rising to 30.3 per cent for combined earnings of €120,000.

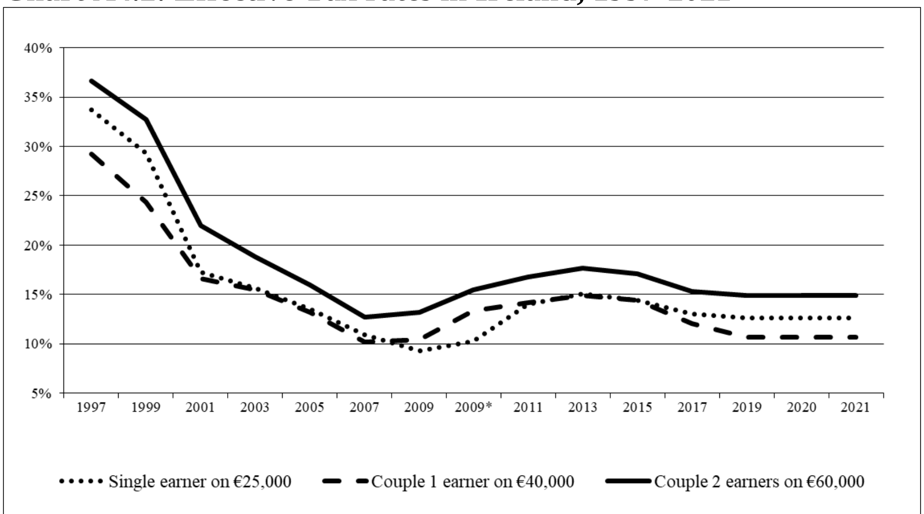
Table A4.2: Effective Tax Rates following Budgets 2000 / 2008 / 2021

Income Levels	Single Person	Couple 1 earner	Couple 2 Earners
€15,000	13.9% / 0.0% / 0.8%	2.5% / 0.0% / 0.8%	0.8% / 0.0% / 0.0%
€20,000	13.9% / 4.4% / 6.9%	8.3% / 2.7% / 3.4%	6.1% / 0.0% / 0.0%
€25,000	24.0% / 8.3% / 12.6%	12.3% / 2.9% / 5.8%	11.0% / 0.0% / 0.6%
€30,000	28.4% / 12.9% / 15.2%	15.0% / 5.1% / 6.2%	14.6% / 1.7% / 1.9%
€40,000	33.3% / 18.6% / 20.9%	20.2% / 9.4% / 10.7%	17.5% / 3.6% / 7.6%
€60,000	37.7% / 27.5% / 30.1%	29.0% /19.8% / 21.9%	28.0% /12.2% / 14.9%
€100,000	41.1% / 33.8% / 38.5%	35.9% /29.2% / 33.6%	35.9% /23.8% / 26.4%
€120,000	41.9% / 35.4% / 40.8%	37.6% /31.6% / 36.6%	37.7% /27.2% / 30.3%

Source: Social Justice Ireland (2020:6).
Notes: Data calculated as the total of income tax, levies/USC and PRSI as a % of total income.
Couples assume 2 children and 65%/35% income division
All workers are assumed to be PAYE earners

While these rates have increased since 2008 for almost all earners they are still low compared to those that prevailed in 2000. Few people complained at that time about income tax levels being excessive and the recent increases should be seen in this context. Taking a longer view, chart A4.2 illustrates the downward trend in effective tax rates for three selected household types since 1997. These are a single earner on €25,000; a couple with one earner on €40,000; and a couple with two earners on €60,000. Their experiences are similar to those on other income levels and are similar to the effective tax rates of the self-employed over that period.

Chart A4.2: Effective Tax rates in Ireland, 1997-2021



Source: Department of Finance (2020) and Social Justice Ireland (2020:6).
Notes: See notes to Table A4.2. 2009*= Supplementary Budget 2009 (April 2009)

The two 2009 Budgets produced notable increases in these effective taxation rates. Both Budgets required government to raise additional revenue and with some urgency - increases in income taxes providing the easiest option. Similarly, the introduction of the USC in Budget

2011 increased these rates, most notably for lower income earners. The subsequent Budget 2012 provided a welcome reduction for the lowest earners through raising the income level at which the USC applies. Despite that change, the employee PRSI increase in Budget 2013 targeted lowest income earners hardest and increased effective taxation rate for almost all workers. Budget 2015 further raised the USC entry point and Budget's 2016-2019 decreased most USC rates, having the effect of further decreasing the effective income tax rates faced by all taxpayers.

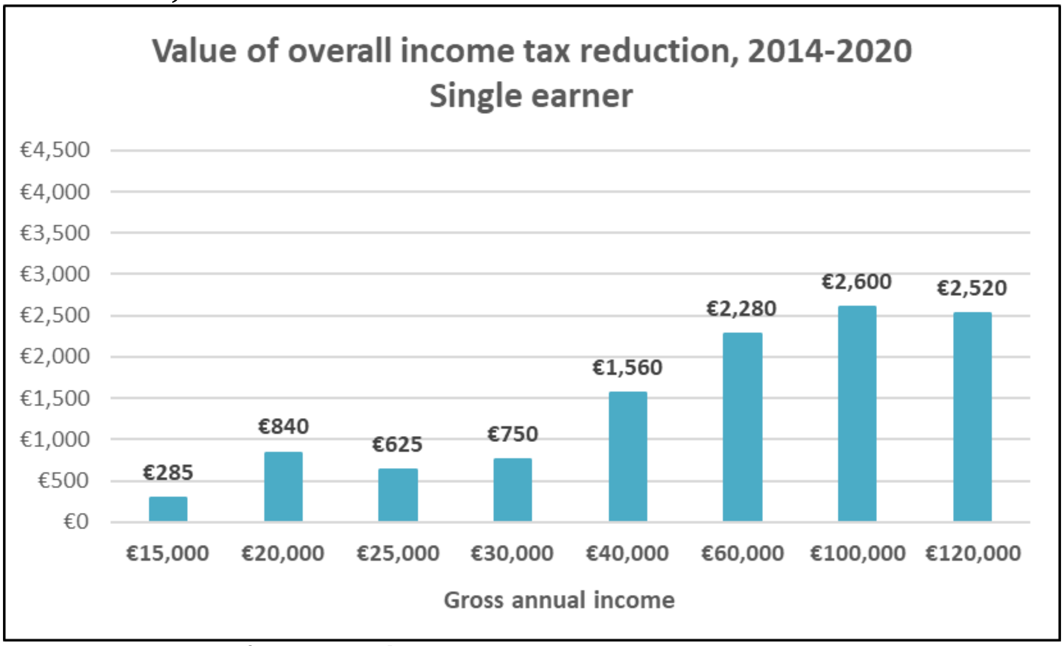
However, income taxation is not the only form of taxation and, as we highlight in Chapter 4, there are many in Ireland with potential to contribute further taxation revenues.

Income tax changes 2014-2020

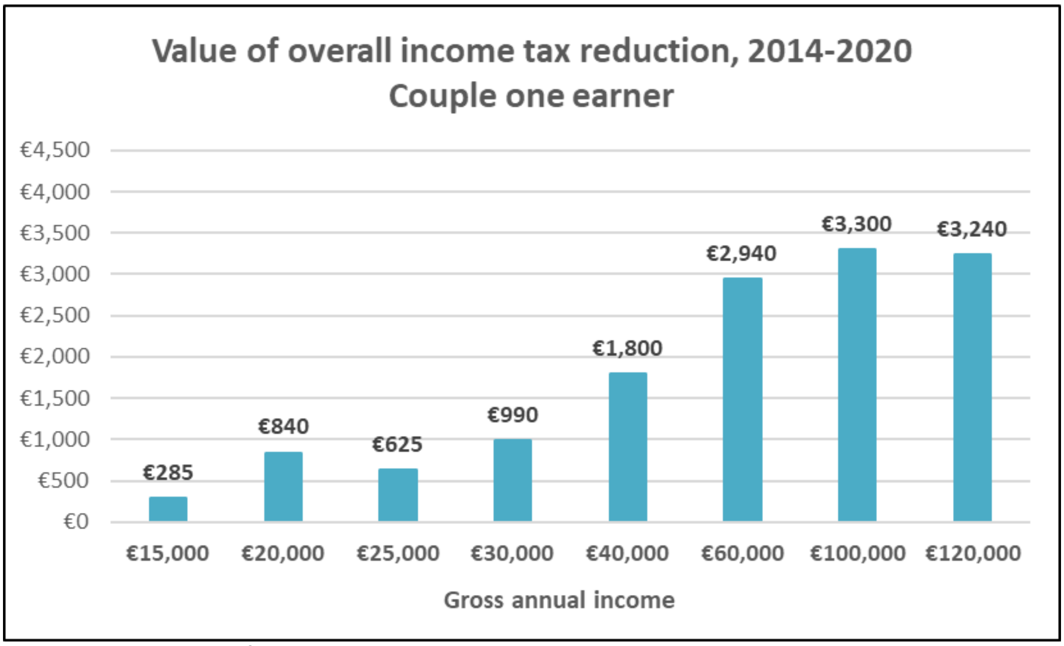
In advance of Budget 2021 *Social Justice Ireland* examined who gained from the recurring income tax decreases provided over most Budgets since 2014. We reproduce that analysis, from our *Budget Choices* document, here. Over three diagrams we compare the total annual value of these reductions between 2014 and 2020. The analysis captures changes to income tax rates, USC rates, social insurance rates and structures, and income tax credits. For example, a single earner with a gross income of €40,000 paid €9,920 in income taxes, employee PRSI and USC in 2014 and paid €8,360 in 2020; a reduction of €1,560 per annum.

The analysis highlights a number of points. First, it provides evidence of the scale of the income tax reductions delivered over recent years; these are often overlooked, yet are substantial at the individual/household level and at the exchequer level. Second, the charts illustrate the distribution of these income tax decreases. As we have highlighted in our annual budget documents the gains have been skewed to higher income earners and households.

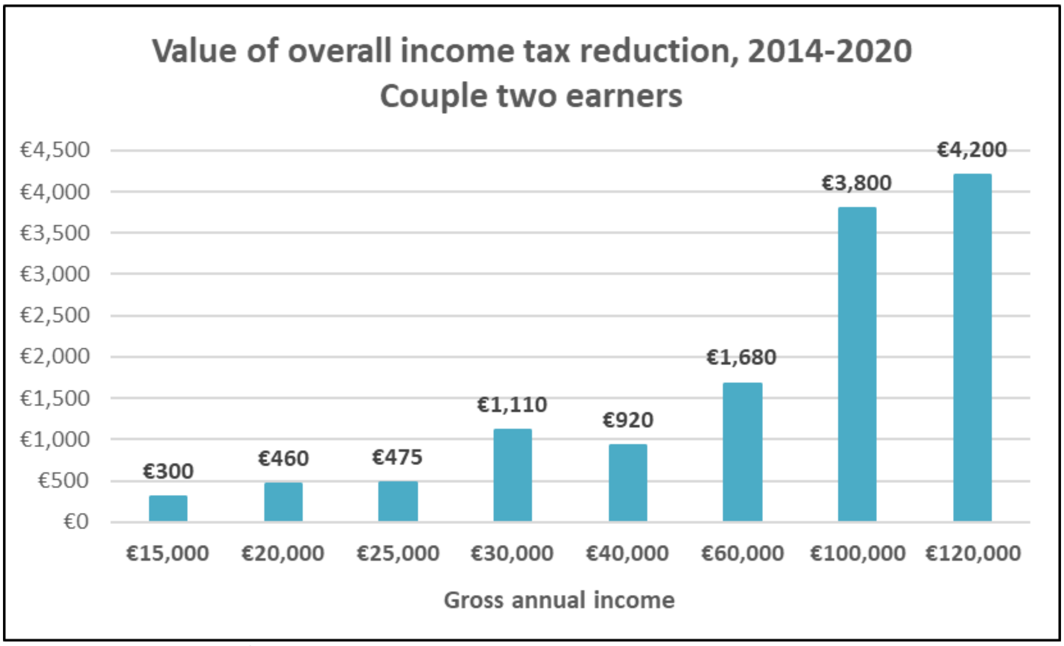
Chart A4.3a,b and c



Source: Department of Finance Budget Documents - various years.
Notes: All workers are assumed to be PAYE workers. For couples with 2 earners the income is assumed to be split 65%/35%.



Source: Department of Finance Budget Documents - various years.
Notes: All workers are assumed to be PAYE workers. For couples with 2 earners the income is assumed to be split 65%/35%.



Source: Department of Finance Budget Documents - various years.
Notes: All workers are assumed to be PAYE workers. For couples with 2 earners the income is assumed to be split 65%/35%.

Income taxation and the income distribution

An insight into the distribution of income taxpayers across the income distribution is provided each year by the Revenue Commissioners. The Revenue's ability to profile taxpayers is limited by the fact that it generally examines 'tax cases', or taxpayer units, which may represent either individual taxpayers or couples who are jointly assessed for tax. The latest data is the post-Budget 2021 projection by Revenue of the structure on income and income taxes in Ireland during 2021 (see table A4.4).

Table A4.4: Income Taxation and Ireland's Earnings Distribution, 2021

From €	To €	No. of cases	Av. income	Av. Tax & USC	Effective Tax Rate
-	10,000	480,932	€4,514	€0.83	0.0%
10,000	13,000	136,602	€11,508	€5	0.0%
13,000	15,000	96,820	€14,005	€101	0.7%
15,000	18,000	141,383	€16,501	€191	1.2%
18,000	20,000	98,120	€18,997	€530	2.8%
20,000	25,000	238,652	€22,485	€1,119	5.0%
25,000	27,000	94,840	€26,012	€1,655	6.4%
27,000	30,000	123,314	€28,561	€2,076	7.3%
30,000	35,000	205,565	€32,442	€2,802	8.6%
35,000	40,000	186,687	€37,378	€3,932	10.5%
40,000	50,000	259,494	€44,756	€6,066	13.6%
50,000	60,000	183,802	€54,695	€9,080	16.6%
60,000	70,000	128,375	€64,693	€12,090	18.7%
70,000	75,000	50,739	€72,370	€14,269	19.7%
75,000	80,000	44,539	€77,438	€16,188	20.9%
80,000	90,000	68,578	€84,750	€18,971	22.4%
90,000	100,000	49,909	€94,793	€23,062	24.3%
100,000	150,000	113,659	€119,366	€33,803	28.3%
150,000	200,000	32,925	€170,569	€57,616	33.8%
200,000	275,000	17,044	€231,108	€86,658	37.5%
Over	275,000	16,993	€540,046	€232,037	43.0%
Totals		**2,768,972**	**€41,255**	**€7,920**	**19.2%**

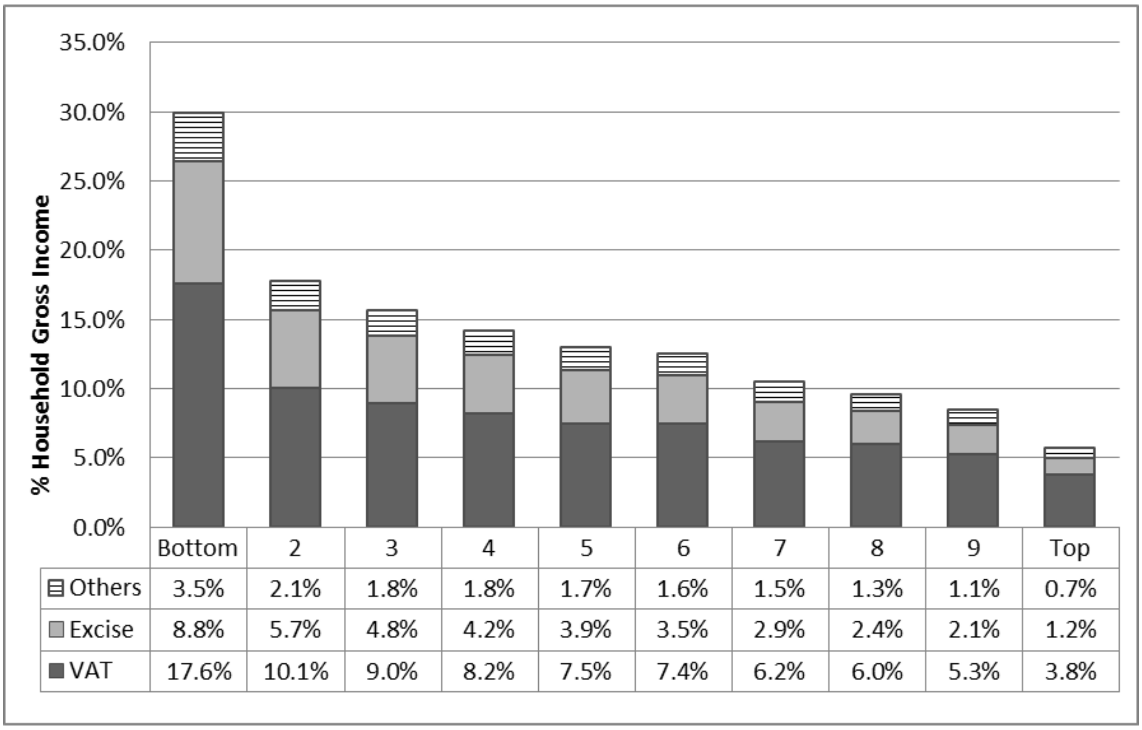
Source: Calculated from Revenue Commissioners (2020) based on projections for the 2021 income tax structure.

The progressivity of the Irish income taxation system is well demonstrated in Table A4.4 – as incomes increase the average income tax paid also increases. The table also underscores the issues highlighted earlier in Chapter 3; that a large proportion of the Irish population survive on low incomes. Summarising the data in the table, 17.4 per cent of cases have an income below €10,000; just over half have an income below €30,000 and 87 per cent of cases are below €75,000. At the top of the income distribution, 6.5 per cent of tax cases (just over 180,000) receive an income in excess of €100,000. The data also highlights the dependence of the income taxation system on higher income earners, with almost one-quarter of income tax coming from cases with incomes of between €60,000 and €100,000 and 51 per cent of income tax coming from cases with incomes above €100,000. While such a structure is not unexpected, a symptom of progressivity rather than a structural problem, it does underscore the need to broaden the tax base beyond income taxes – a point we have made for some time and develop further in Chapter 4.

Indirect taxation and the income distribution

Department of Finance (2020: 32) tax forecasts for 2021 project that after income tax (€22.7bn), the second largest source of taxation revenue will be VAT (€13.9bn) and the fourth largest will be excise duties (€6bn). These indirect taxes tend to be regressive – meaning they fall harder on lower income individuals and households (Barrett and Wall, 2006:17-23; Collins, 2014b).

Chart A4.4: Indirect Taxes as a % of Household Gross Income, by decile



Source: Collins (2014a: 18)
Note: Others include levies, vehicle taxes and TV licences.

An assessment of how these indirect taxes impact on households across the income distribution is possible using data from the CSO's Household Budget Survey (HBS), which collects details on household expenditure and income every five years. Chart A4.4 and Table A4.4 presents the results of an examination by Collins of the 2009/10 HBS data. It shows that indirect taxation consumes more than 29 per cent of the lowest decile's income and more than 13 per cent of the income of the bottom six deciles. These findings reflect the fact that lower income households tend to spend almost all of their income while higher income households both spend and save. Consequently, in our *Analysis and Critique of Budget 2012*, *Social Justice Ireland* highlighted the way that that Budget's increase in VAT was regressive and unnecessarily undermined the living standards of low income households. Other, fairer approaches to increasing taxation were available and should have been taken.

Table A4.4 brings together data for both the indirect and direct (income taxes) payments by households across the income distribution. Although income taxes are progressive, indirect taxes are regressive and the combined picture of overall household contributions offers a more nuanced understanding of the taxes people pay. Although the indirect taxes for the bottom decile are somewhat skewed by households recording zero incomes (yet still spending, such as self-employed households), the picture from the 2nd decile upwards is one of a flat taxation system for most households, with increases only noticeable for the top three deciles.

Table A4.4: Direct, Indirect and Total Household Taxation as a % of Gross Income

Decile	Direct	Indirect	Total
Bottom	0.72%	29.93%	30.64%
2	0.49%	17.85%	18.34%
3	1.00%	15.66%	16.66%
4	2.62%	14.20%	16.82%
5	3.97%	13.05%	17.03%
6	7.38%	12.57%	19.95%

7	10.67%	10.53%	21.20%
8	14.12%	9.62%	23.74%
9	17.27%	8.50%	25.77%
Top	23.99%	5.70%	29.69%
State	**13.60%**	**10.36%**	**23.95%**

Source: Collins (2014a: 19), equivalised data using national scale.

References

Barrett, A. and Wall C. (2005) *The Distributional Impact of Ireland's Indirect Tax System.* Dublin: Combat Poverty Agency.
Collins, M.L. (2014a) 'Total Tax Contributions of Households in Ireland' *NERI Working Paper*, 2014/18. Dublin: NERI.
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Online databases

CSO online database, web address: http://www.cso.ie/en/databases/

Eurostat online database, web address: http://ec.europa.eu/eurostat