

Annex 4

TAXATION

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 household.

Ireland's total tax-take up to 2012

The most recent comparative data on the size of Ireland's total tax-take has been produced by Eurostat (2014) and is detailed alongside that of 27 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.¹¹⁹ 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 tax-take of 36.3 per cent.

Of the EU-28 states, the highest tax ratios can be found in Denmark, Belgium, France, Sweden, Finland and Italy while the lowest appear in Lithuania, Latvia, Bulgaria, Slovakia, Romania and Ireland. Overall, Ireland possesses the sixth lowest tax-take at 28.7 per cent, some 7.6 per cent below the EU average. Furthermore, Ireland's overall tax take has notably decreased over recent years with the 2012 value representing a marginal increase from a record low figure in 2010 (see 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.

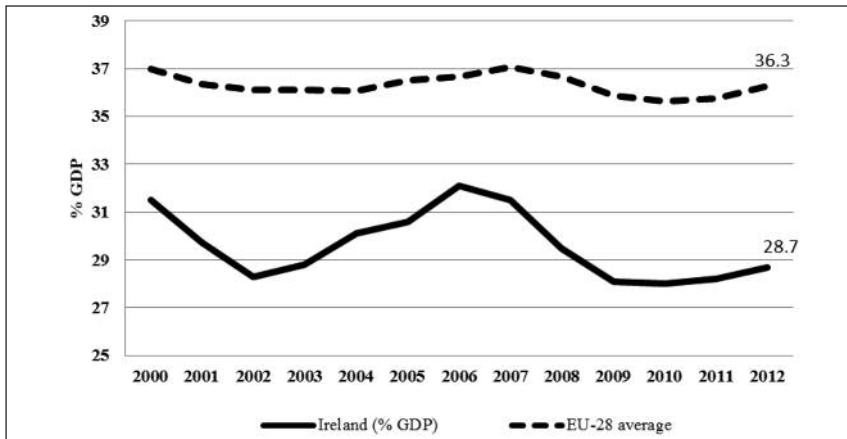
¹¹⁹ See Eurostat (2014:268-269) for a more comprehensive explanation of this classification.

Table A4.1: Total tax revenue as a % of GDP for EU-28 Countries in 2012

Country	% of GDP	+/- from average	Country	% of GDP	+/- from average
Denmark	48.1	11.8	Ireland GNP	35.1	-1.2
Belgium	45.4	9.1	Czech Republic	35.0	-1.3
France	45.0	8.7	Greece	33.7	-2.6
Sweden	44.2	7.9	Malta	33.6	-2.7
Finland	44.1	7.8	Estonia	32.5	-3.8
Italy	44.0	7.7	Spain	32.5	-3.8
Austria	43.1	6.8	Poland	32.5	-3.8
Luxembourg	39.3	3.0	Portugal	32.4	-3.9
Hungary	39.2	2.9	Ireland GDP	28.7	-7.6
Germany	39.1	2.8	Romania	28.3	-8.0
Netherlands	39.0	2.7	Slovakia	28.3	-8.0
Slovenia	37.6	1.3	Bulgaria	27.9	-8.4
Croatia	35.7	-0.6	Latvia	27.9	-8.4
UK	35.4	-0.9	Lithuania	27.2	-9.1
Cyprus	35.3	-1.0	EU-28 average	36.3	

Source: Eurostat (2014:174) and CSO National Income and Expenditure Accounts
 Note: All data is for 2012.

Chart A4.1: Trends in Ireland and EU-28 overall taxation levels, 2000-2012



Source: Eurostat (2014:174) and CSO National Income and Expenditure Accounts

GDP is accepted as the benchmark against which tax levels are measured in international publications. However, it has been suggested that for Ireland gross national product (GNP) is a better measure. This is because Ireland's large multinational sector is responsible for significant profit outflows which, if included (as they are in GDP but not in GNP), exaggerate the scale of Irish economic activity.¹²⁰ Commenting on this, Collins stated that "while it is clear that multinational profit flows create a considerable gap between GNP and GDP, it remains questionable as to why a large chunk of economic activity occurring within the state should be overlooked when assessing its tax burden" and that "as GDP captures all of the economic activity happening domestically, it only seems logical, if not obvious, that a nations' taxation should be based on that activity" (2004:6).¹²¹ He also noted that using GNP will understate the scale of the tax base and overstate the tax rate in Ireland because it excludes the value of multinational activities in the economy but does include the tax contribution of these companies. In this way, the size of the tax-take from Irish people and firms is exaggerated.

Social Justice Ireland believes that it would be more appropriate to calculate the tax-take by comparing either GNP or GNI (Gross National Income) and using an adjusted tax-take figure which excludes the tax paid by multi-national companies. As figures for their tax contribution are currently unavailable, we have simply used the unadjusted GNP figures and presented the results in table A4.1. In 2012 this stood at 35.1 per cent.¹²² This also suggests to international observers and internal policy makers that the Irish economy is not as tax-competitive as it truly is.

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.

¹²⁰ Collins (2004:6) notes that this is a uniquely Irish debate and not one that features in other OECD states such as New Zealand where noticeable differences between GDP and GNP also occur.

¹²¹ See also Collins (2014: 91) and Bristow (2004:2) who make a similar point.

¹²² The 2012 tax take as a percentage of GNI is 33.3 per cent. The Irish Fiscal Advisory Council has made an attempt to adjust the tax level calculation to reflect these views and have produced a measure known as H. It is calculated as $H = GNP + 0.4(GDP - GNP)$ and, although there is limited detail on the derivation and appropriateness of the adjustment, the overall tax take figure for 2012 is 32.2% of H.

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 the past decade and a half. 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 2015 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 2015, for a single person with an income of €15,000 the effective tax rate will be 1.9 per cent, rising to 14.4 per cent on an income of €25,000 and 42.3 per cent on an income of €120,000. A single income couple will have an effective tax rate of 1.9 per cent at an income of €15,000, rising to 7.6 per cent at an income of €25,000, 25.7 per cent at an income of €60,000 and 38.8 per cent at an income of €120,000. In the case of a couple, both earning and a combined income of €40,000, their effective tax rate is 9.1 per cent, rising to 32.9 per cent for combined earnings of €120,000.

Table A4.2: Effective Tax Rates following Budgets 2000 / 2008 / 2015

Income Levels	Single Person	Couple 1 earner	Couple 2 Earners
€15,000	13.9% / 0.0% / 1.9%	2.5% / 0.0% / 1.9%	0.8% / 0.0% / 0.0%
€20,000	13.9% / 0.0% / 10.2%	8.3% / 2.7% / 6.7%	6.1% / 0.0% / 1.1%
€25,000	24.0% / 8.3% / 14.4%	12.3% / 2.9% / 7.6%	11.0% / 0.0% / 1.3%
€30,000	28.4% / 12.9% / 17.1%	15.0% / 5.1% / 9.0%	14.6% / 1.7% / 4.3%
€40,000	33.3% / 18.6% / 23.7%	20.2% / 9.4% / 14.4%	17.5% / 3.6% / 9.1%
€60,000	37.7% / 27.5% / 32.8%	29.0% / 19.8% / 25.7%	28.0% / 12.2% / 17.1%
€100,000	41.1% / 33.8% / 40.4%	35.9% / 29.2% / 36.1%	35.9% / 23.8% / 29.2%
€120,000	41.9% / 35.4% / 42.3%	37.6% / 31.6% / 38.8%	37.7% / 27.2% / 32.9%

Source: Social Justice Ireland (2014:8).

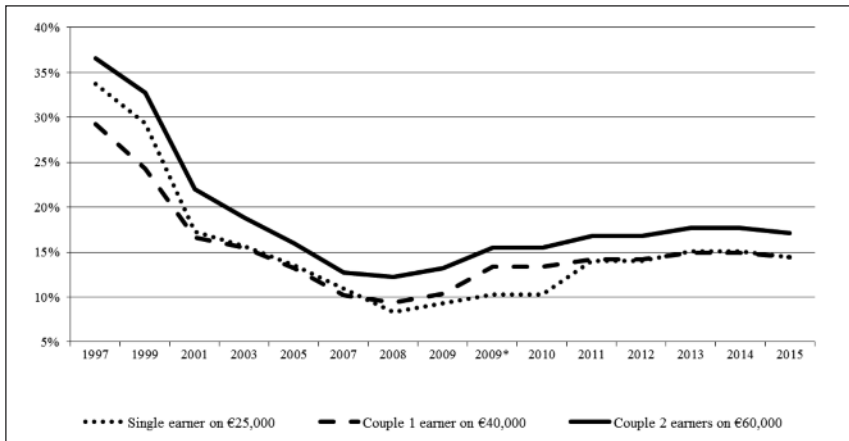
Notes: Tax = income tax + PRSI + levies/USC

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 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, 1997-2015



Source: Department of Finance, Budget 2015 and Social Justice Ireland (2014:8).

Notes: Tax = income tax + PRSI + levies/USC

Couples assume 2 children and 65%/35% income division

2009* = Supplementary Budget 2009 (April 2009)

All workers are assumed to be PAYE earners

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 decreased 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 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 only 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 2015 projection by Revenue of the structure on income and income taxes in Ireland during 2015 (see table A4.3).

Table A4.3: Income taxation and Ireland's income distribution, 2015

From €	To €	No. of cases	Av. income	Av. Tax & USC	% Total Tax & USC
-	10,000	402,649	€4,436	€1.42	0.0%
10,000	12,000	73,234	€11,006	€27	0.0%
12,000	15,000	116,836	€13,540	€260	0.2%
15,000	17,000	82,408	€16,018	€354	0.2%
7,000	20,000	130,705	€18,507	€677	0.5%
20,000	25,000	216,626	€22,477	€1,329	1.6%
25,000	27,000	83,130	€25,995	€1,901	0.9%
27,000	30,000	117,955	€28,460	€2,416	1.6%
30,000	35,000	173,843	€32,466	€3,273	3.2%
35,000	40,000	150,662	€37,448	€4,567	3.9%
40,000	50,000	229,709	€44,678	€6,917	9.0%
50,000	60,000	157,805	€54,637	€10,240	9.2%
60,000	75,000	149,372	€66,920	€13,985	11.9%
75,000	100,000	126,352	€85,689	€20,791	14.9%
100,000	150,000	82,764	€119,025	€34,133	16.0%
150,000	200,000	22,512	€170,753	€55,259	7.1%
200,000	275,000	12,188	€231,129	€79,094	5.5%
Over	275,000	12,455	€540,666	€202,409	14.3%
Totals		2,341,205	€39,527	€7,523	100%

Source: Calculated from Revenue Commissioners (2014:4) projections for the 2015 income tax structure.

The progressivity of the Irish income taxation system is well demonstrated in table A4.3 – 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, almost 18 per cent of cases have an income below €10,000; 52 per cent have an income below €30,000 and 89 per cent of cases are below €75,000. At the top of the income distribution, 5 per cent of households (almost 130,000) receive an income in excess of €100,000. The table also highlights the dependence of the income taxation system on higher income earners, with 27 per cent of income tax coming from cases with incomes of between €60,000 and €100,000 and 43 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.

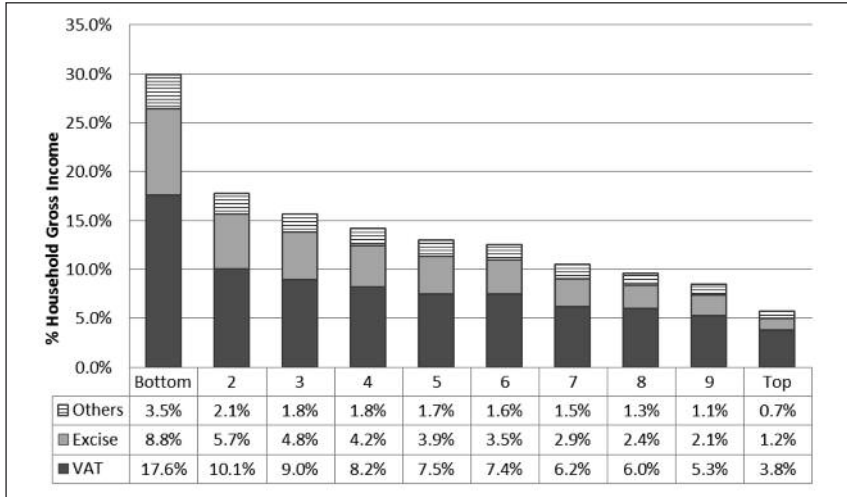
Indirect taxation and the income distribution

As chapter 4 shows, the second largest source of taxation revenue is VAT and the third largest is excise duties. These indirect taxes tend to be regressive – meaning they fall harder on lower income individuals and households (Barrett and Wall, 2006:17-23; Collins, 2014: 13-19).

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 A4.3 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 combine 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 recoding 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.

Chart A4.3: Indirect Taxes as a % of household gross income, by decile



Source: Collins (2014: 18)

Note: Others include levies, vehicle taxes and TV licences.

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