

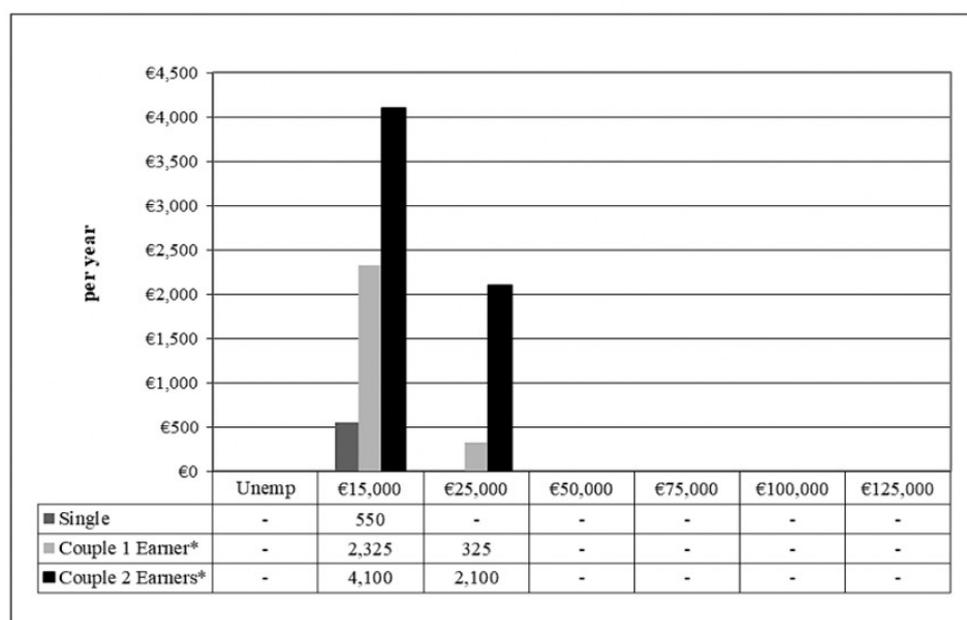
## Taxation

Table 8.1: Direct, Indirect and Total Household Taxation as a % of Gross Income

Decile	Direct	Indirect	Total
<b>Bottom</b>	0.72%	29.93%	30.64%
<b>2</b>	0.49%	17.85%	18.34%
<b>3</b>	1.00%	15.66%	16.66%
<b>4</b>	2.62%	14.20%	16.82%
<b>5</b>	3.97%	13.05%	17.03%
<b>6</b>	7.38%	12.57%	19.95%
<b>7</b>	10.67%	10.53%	21.20%
<b>8</b>	14.12%	9.62%	23.74%
<b>9</b>	17.27%	8.50%	25.77%
<b>Top</b>	23.99%	5.70%	29.69%
<b>State</b>	13.60%	10.36%	23.95%

Source: Collins M.L. (2014) "Taxation". In O'Hagan, J. and C. Newman (eds.) The Economy of Ireland (12th edition). Dublin: Gill and Macmillan, equivalised data using national scale.

Chart 8.1: How Much Better off Would People Be if Tax Credits Were Made Refundable?



Source: Social Justice Ireland (2023): Budget 2023 Analysis and Critique, Social Justice Ireland: Dublin.

Note: Except where unemployed as there is no earner. Refund of unused portion of personal and employee credit.

## Taxation

*Social Justice Ireland* believes that the tax that people and organisations should be required to pay should be based more on the value they subtract by their use of common resources. Taxation is the main way by which Government pays for services and infrastructure and accordingly, must be collected at an adequate level to sustain public services such as hospitals, schools, roads and so on. Low-income households are particularly dependent on public services, so ensuring that adequate resources are in place to maintain them is an important anti-poverty measure.

### *Indirect taxation and the income distribution*

Department of Finance<sup>1</sup> tax forecasts for 2023 project that after income tax (€32bn) and corporation tax (€22.7bn) the third and fourth largest source of taxation revenue will be VAT (€19.3bn) and excise duties (€6.3bn). These latter two categories are indirect taxes and they tend to be regressive – meaning they fall harder on lower income individuals and households.<sup>2</sup>

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. Table 8.1 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.

### *Refundable Tax Credits*

The *Social Justice Ireland* proposal to make tax credits refundable would make Ireland's tax system fairer, address part of the working poor problem, and improve the living standards of a substantial number of people in Ireland.

The major advantage of making tax credits refundable lies in addressing the disincentives currently associated with low-paid employment. The main beneficiaries of refundable tax credits would be low-paid employees (full-time and part-time). With regard to administering this reform, the central idea recognises that most people with regular incomes and jobs would not receive a cash refund of their tax credit because their incomes are too high. They would simply continue to benefit from the tax credit as a reduction in their tax bill, however as evident from Chart 8.1, introducing a refundable tax credit would be benefit employees on lower incomes.

### **Policy Priorities**

- Reform the Tax System to make it fairer and more transparent.
- Implement a Refundable Tax Credit System.

<sup>1</sup> Department of Finance (2022) Budget 2023. Dublin: Stationery Office.

<sup>2</sup> Barrett, A. and Wall C. (2005) *The Distributional Impact of Ireland's Indirect Tax System*. Dublin: Combat Poverty Agency; Collins M.L. (2014) "Taxation". In O'Hagan, J. and C. Newman (eds.) *The Economy of Ireland* (12th edition). Dublin: Gill and Macmillan.