Fairness and Changing Income Taxes

A context for Budget 2027

September 2026

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Introduction

The need for fairness in the tax system was clearly recognised in the first report of the Commission on Taxation over four decades ago. It stated:

> *"…in our recommendations the spirit of equity is the first and most important consideration. Departures from equity must be clearly justified by reference to the needs of economic development or to avoid imposing unreasonable compliance costs on individuals or high administrative costs on the Revenue Commissioners."* (1982:29)[1]

The need for fairness is just as obvious today, and *Social Justice Ireland* believes that this should be a central objective of policy making as various plans for changes to the system are considered.

Despite low overall levels of taxation, and historically low effective income taxation rates, reductions in income taxation levels continue to be highlighted as a potential policy reform.[2] *Social Justice Ireland* believes that the best reform to the income taxation system would be to make tax credits refundable. Such a reform would mean that the full value of tax credits goes to everybody who has an earned income. The main beneficiaries would be low-paid employees (full-time and part-time). This option would improve the net income of workers whose incomes are lowest.

Broader reforms to income taxes are not a central priority for *Social Justice Ireland* either in the forthcoming Budget or in any future plans for taxation policy reform. We believe that 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 for disadvantaged groups such as for people with disabilities and for the long term unemployed – policy priorities highlighted throughout our various publications.

However, as discussion and policy considerations often focus on income taxation reductions, we undertake this study to examine, from the perspective of fairness, various reform choices. As a minimum, the analysis highlights the distributive impact taxation policy choices can have and the potential for policy to pursue both fair and unfair outcomes.

This briefing includes two examinations:

- **A.** An assessment of the fairness of eight possible income taxation options, each with a full year cost of between €482m to €635m; equivalent to between 1.2 per cent and 1.6 per cent of the annual income taxation yield.
- **B.** An assessment of the fairness of the *Programme for Government* proposal to index income taxes and a comparison of this with an income tax credits focused package using the same funds (around €935m-€940m in a full year).

[1] Commission on Taxation (1982) *Commission on Taxation First Report*, Dublin, Stationery Office.
[2] We detail current levels, and recent trends, in overall taxation levels and in effective income taxation levels in our annual Socio-Economic Review. The 2026 edition, entitled *Social Justice Matters 2026,* is available on our website.

A. Fairness and Changing Income Tax – 8 options compared

Here we examine the fairness of various income tax reform options open to Government. Our analysis is based on the Post-Budget 2026 *Taxation Ready Reckoner* published by the Revenue Commissioners (October, 2025) and the current (2026) income taxation system.[3]

We examine eight possible income taxation options. Each of these options and their full year costs are outlined below. The full year costs range from €482m to €635m; equivalent to between 1.2 per cent and 1.6 per cent of the expected income taxation yield in 2026.[4] The reforms examined are:

- a decrease in the top tax rate from 40 per cent to 39 per cent (full year cost €567m)
- a decrease in the standard rate of tax from 20 per cent to 19.5 per cent (full year cost €535m)
- an increase in the personal tax credit of €180 with commensurate increases in couple, widowed parent and the single person child carer credit (full year cost €563m)
- an increase in the standard rate band (20 per cent tax band) of €2,000 (full year cost €530m)
- the abolition of the 0.5 per cent USC rate – that applies to income below €12,012 – **and** a 1 percentage point decrease in the 2 per cent USC rate – that applies to income between €12,012 and €28,700 (full year cost €635m)
- a 1.25 percentage point decrease in the 2 per cent USC rate – that applies to income between €12,012 and €28,700 (full year cost €569m)
- a 1 percentage point decrease in the 3 per cent USC rate – that applies to income between €28,700 and €70,044 (full year cost €482m)
- a 1.5 percentage point decrease in the 8 per cent USC rate – that applies to income above €70,044 (full year cost €540m)

Table 1 presents the results of this comparison. It outlines the annual gains that would accrue to earners under each of the eight options. To reflect the structure of the income taxation system, we differentiate between the income gains experienced by single individuals and those who are in couples with either one or two earners. Although all of the income taxation options have similar costs (1.2 per cent to 1.6 per cent of the income taxation yield), they each carry different effects on the income distribution.

We can identify three reforms with relatively fair distributive outcomes.

Abolishing the 0.5 per cent USC rate and simultaneously reducing the 2 per cent rate by one percentage point benefits all those with incomes of more than €13,000.[5] Earners above €28,700 (the entry point to the next USC rate) experience the full benefit of the reduction. Therefore, the increased income received by a single earner on €50,000 and on €150,000 is the same – an extra €227 per annum.

Similarly, reducing the 2 per cent USC rate by a 1.25 percentage point (to 0.75 per cent) also produces a relatively fair outcome. Earners above €28,700 per annum experience the full income gain of €209 per annum, but there are no benefits for earners below €13,000 and reduced amounts for those earning less than €28,700.

[3] This is the latest version available when this analysis was completed (August 2026). A further update is expected to be published in advance of Budget 2027.
[4] The expected income tax yield (€38,795m) comes from Table 11 of the *Budget 2026 Economic and Fiscal Outlook* document (Department of Finance, 2025). Income tax revenue for 2026 has been running ahead of the Department's expectations meaning the proportional size of these policy options will have reduced.
[5] Individuals with incomes of less than €13,000 are not liable to the USC.

A decision to increase the personal tax credit would also provide a relatively fair distributive outcome. The gain is the same for all taxpayers earning sufficient income to pay more than €180 in income taxes. However, below €20,000 for single earners / €30,000 for couples with one earner / €40,000 for couples with two earners, there are no gains as up to these points tax credits absorb all income tax liabilities.

Table 1: Comparing gains under eight possible income tax reforms (€ per annum)

Gross Income	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Decrease in the top tax rate from 40% to 39% (full year cost €567m)						
Single earner	0	60	310	560	810	1060
Couple 1 earner	0	0	220	470	720	970
Couple 2 earners	0	0	130	120	370	620
Decrease in the standard tax rate from 20% to 19.5% (full year cost €535m)						
Single earner	125	220	220	220	220	220
Couple 1 earner	0	250	265	265	265	265
Couple 2 earners	0	250	375	440	440	440
Increase in the personal tax credit of €180 (full year cost €563 million)						
Single earner	180	180	180	180	180	180
Couple 1 earner	0	360	360	360	360	360
Couple 2 earners	0	360	360	360	360	360
Increase in the standard rate band of €2,000 (full year cost €530 million)						
Single earner	0	400	400	400	400	400
Couple 1 earner	0	0	400	400	400	400
Couple 2 earners	0	0	0	800	800	800
Abolish 0.5% USC rate and a 1 percentage point decrease in the 2% rate (full year cost €635m)						
Single earner	190	227	227	227	227	227
Couple 1 earner	190	227	227	227	227	227
Couple 2 earners	102	342	429	454	454	454
A 1.25 percentage point decrease in the 2% USC rate (full year cost €569m)						
Single earner	162	209	209	209	209	209
Couple 1 earner	162	209	209	209	209	209
Couple 2 earners	53	277	387	417	417	417
A 1 percentage point decrease in the 3% USC rate (full year cost €482m)						
Single earner	0	213	413	413	413	413
Couple 1 earner	0	213	413	413	413	413
Couple 2 earners	0	38	201	426	564	651
A 1.5 percentage point decrease in the 8% USC rate (full year cost €540m)						
Single earner	0	0	74	449	824	1199
Couple 1 earner	0	0	74	449	824	1199
Couple 2 earners	0	0	0	0	168	412

Notes: All workers are assumed to be PAYE workers. For couples with 2 earners the income is assumed to be split 65%/35%. Cost estimates are based on the latest available Revenue Commissioners taxation ready reckoner and are applied to the structure of the 2026 income taxation system. The increase in the personal tax credit assumes a commensurate increase in the couple, widowed parents and the single person child carer credit. USC calculations assume earners pay the standard rates of USC. Results are rounded to the nearest Euro.

Compared to these three options, the other five income tax reforms skew the benefits towards those on higher incomes.

A decrease in the top tax rate only benefits those paying tax at that rate. Therefore, a single earner on €25,000 gains nothing from this change while those on €50,000 only gain €60 per annum. In comparison, single earners on €100,000 gain €560 per annum while those on €150,000 gain €1,060. The higher the income, the greater the gain.

Reducing the two top USC rates (3 per cent and 8 per cent) also produces notably unfair outcomes. Decreasing the 3 per cent rate benefits earners with any income between €28,700 and €70,044 and for those within this band the benefit is greater the higher an individual's income. Similarly, it is only individuals with earnings in excess of €70,044 who gain from a reduction in the 8 per cent rate, with the gains greatest for those with the most income. Reducing the 8 per cent USC rate is the least fair outcome of those examined.

Changing the entry point to the top tax rate (i.e. increasing the standard rate band) also provides gains which are skewed towards higher incomes. A single earner on €25,000 gains nothing from this reform, and gains are only experienced by single individuals with incomes over €44,000, one-earner couples above €53,000 and couples with two earners with a gross income above €88,000.

Finally, decreasing the standard rate of income tax (from 20 per cent to 19.5 per cent) also skews any gains towards higher income earners. A single individual on less than €20,000 gains nothing while those on €25,000 get some benefit (+€125). The maximum value of the gain is only available to single individuals with incomes over €44,000, couples one-earners with an income of over €53,000 and couples two earners with a gross income above €88,000.

The diagrams below (Charts 1-8) illustrate these changes.[6] Judged from the perspective of fairness, reducing the bottom two USC rates or increasing tax credits are the best options.

Conclusion

Overall, three of the changes would produce fairer outcomes:

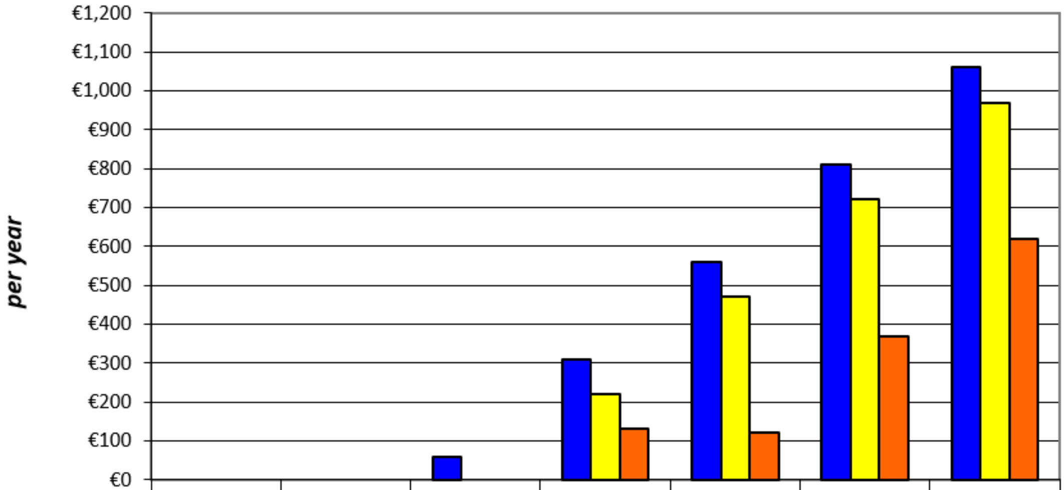
- increasing the personal tax credit;
- abolishing the 0.5 per cent USC rate and reducing the 2 per cent rate by 1 percentage point; and
- reducing the 2 per cent USC rate by 1.25 percentage points.

Five of the changes would produce unfair outcomes:

- reducing the top tax rate to 39 per cent;
- reducing the standard tax rate to 19.5 per cent;
- increasing the standard rate band;
- reducing the 3 per cent USC rate; and
- reducing the 8 per cent USC rate.

[6] For ease of interpretation, all charts are presented with the same scale.

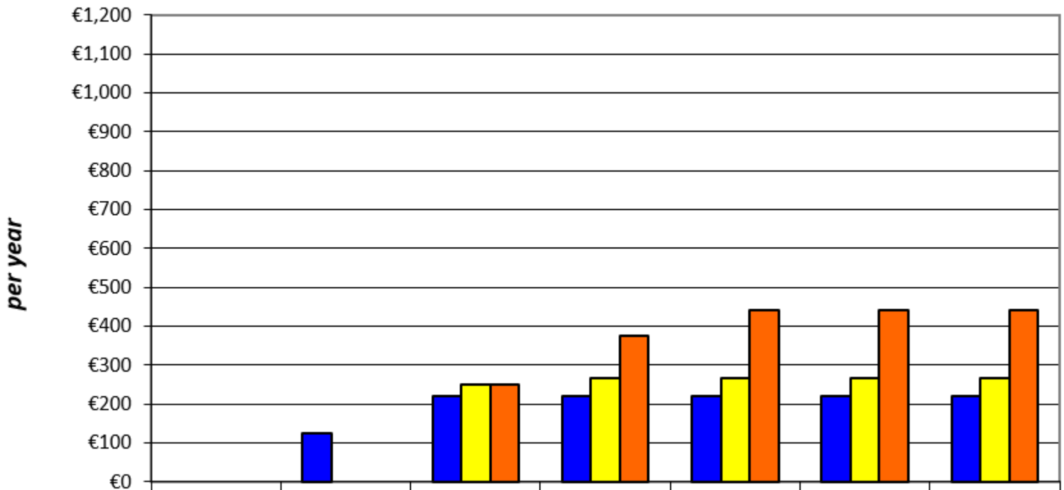
Chart 1: How much better off would people be if the top tax rate was decreased from 40% to 39% (full year cost €567 million)



	Unemp	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Single	-	0	60	310	560	810	1060
Couple 1 Earner	-	0	0	220	470	720	970
Couple 2 Earners	-	0	0	130	120	370	620

Notes: All workers are assumed to be PAYE workers. For couples with 2 earners the income is assumed to be split 65%/35%. Cost estimates are based on the latest available Revenue Commissioners taxation ready reckoner and are applied to the structure of the 2026 income taxation system (calculated August 2026). Results are rounded to the nearest Euro.

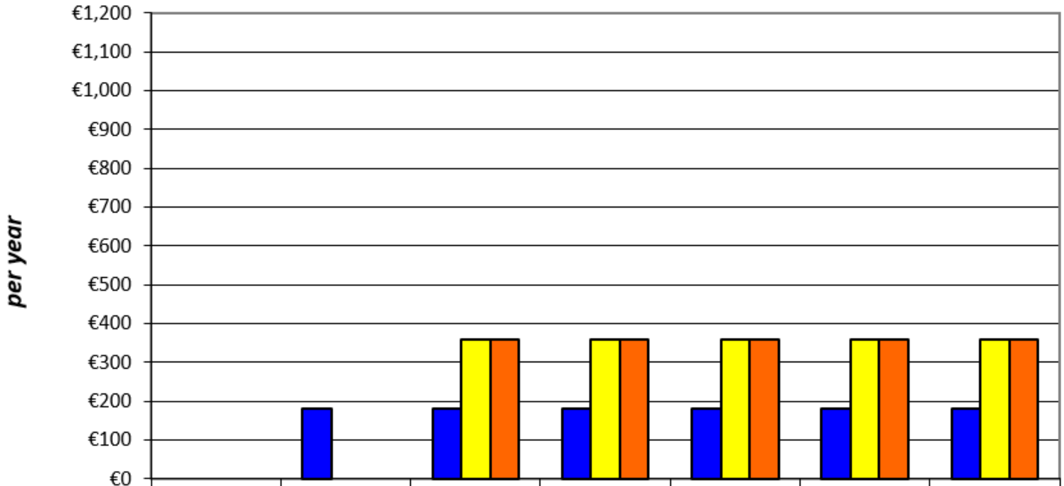
Chart 2: How much better off would people be if the standard tax rate was decreased from 20% to 19.5% (full year cost €535 million)



	Unemp	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Single	-	125	220	220	220	220	220
Couple 1 Earner	-	0	250	265	265	265	265
Couple 2 Earners	-	0	250	375	440	440	440

Notes: See Chart 1.

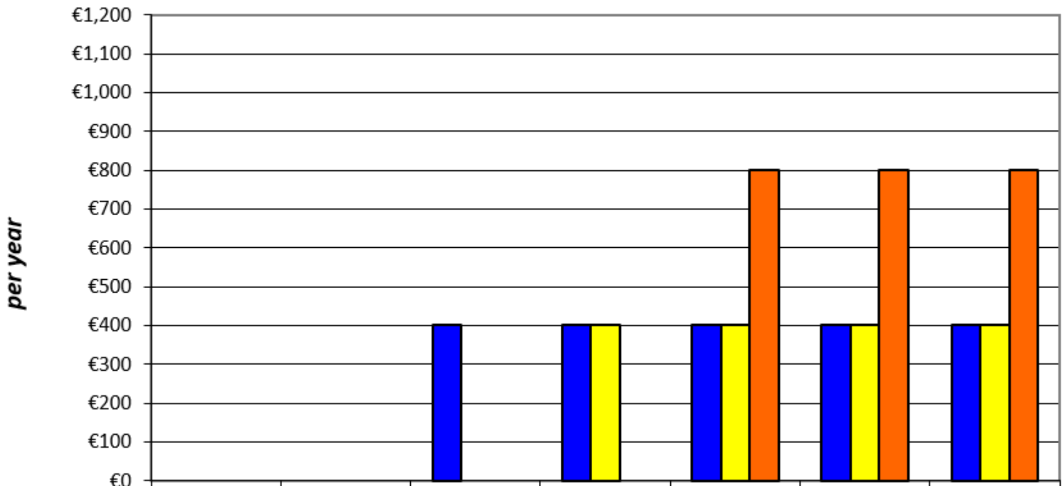
Chart 3: How much better off would people be if the personal tax credit was increased by €180 (full year cost €563 million)



	Unemp	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Single	-	180	180	180	180	180	180
Couple 1 Earner	-	0	360	360	360	360	360
Couple 2 Earners	-	0	360	360	360	360	360

Notes: See Chart 1. The increase in the personal tax credit assumes a commensurate increase in the couple, widowed parents and the single person child carer credit.

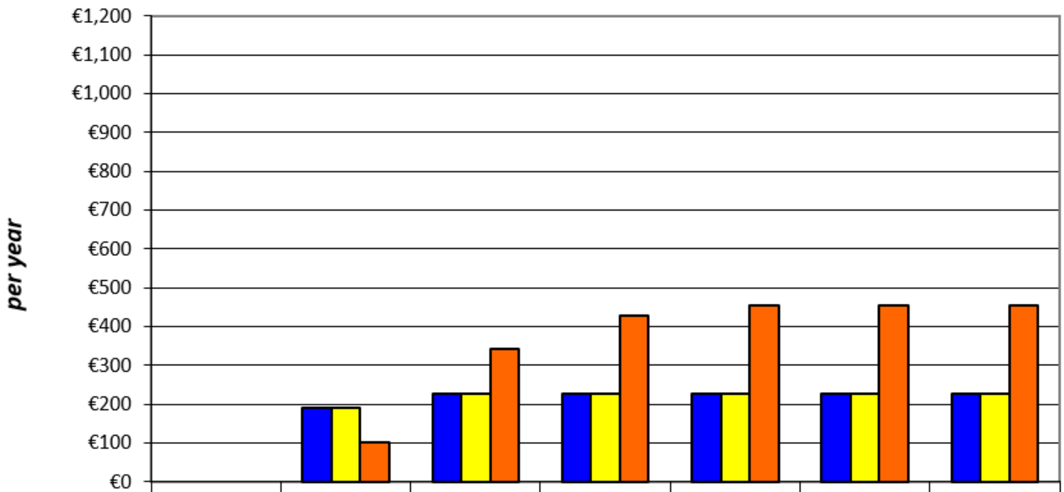
Chart 4: How much better off would people be if the standard rate band was increased by €2,000 (full year cost €530 million)



	Unemp	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Single	-	0	400	400	400	400	400
Couple 1 Earner	-	0	0	400	400	400	400
Couple 2 Earners	-	0	0	0	800	800	800

Notes: See Chart 1.

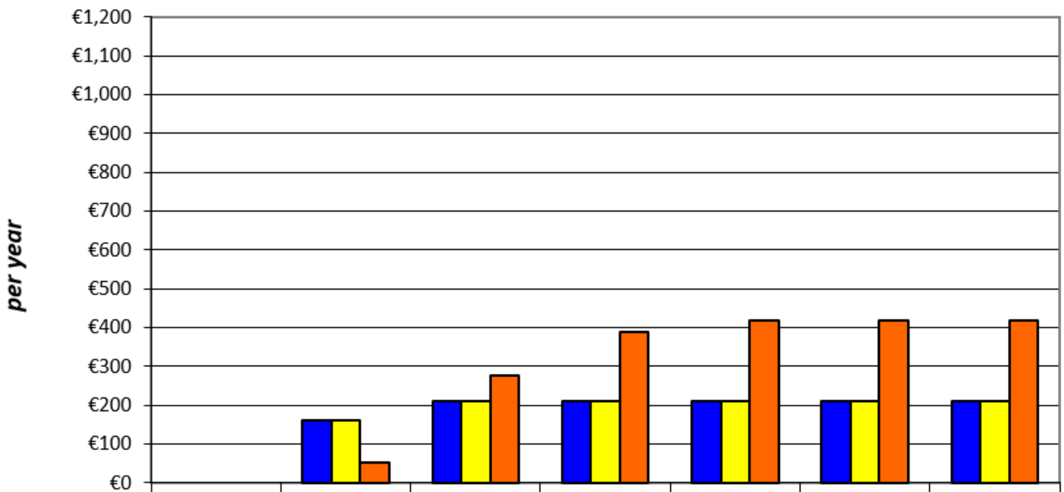
Chart 5: How much better off would people be the 0.5% USC rate was abolished and the 2% USC rate was reduced by one percentage point (full year cost €635 million)



	Unemp	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Single	-	190	227	227	227	227	227
Couple 1 Earner	-	190	227	227	227	227	227
Couple 2 Earners	-	102	342	429	454	454	454

Notes: See Chart 1. USC calculations assume earners pay the standard rates of USC.

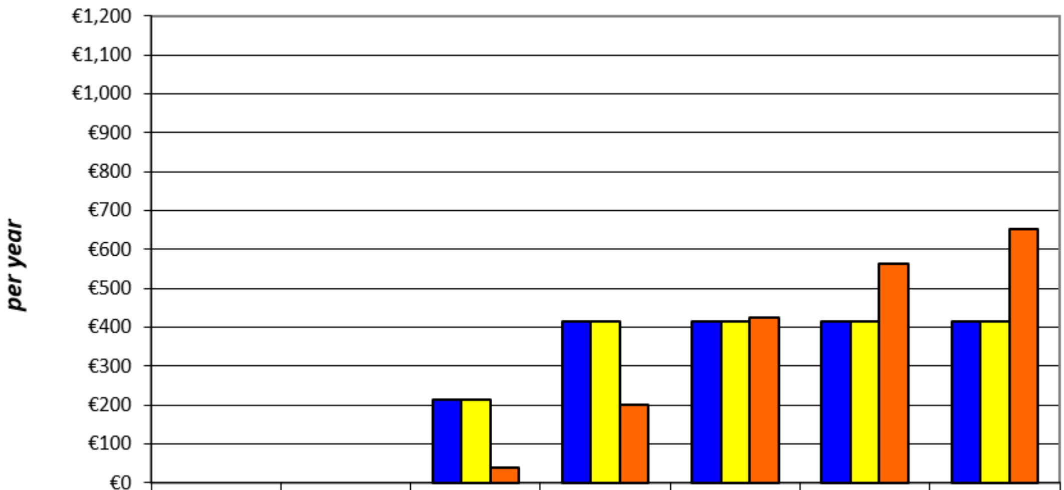
Chart 6: How much better off would people be if the 2% USC rate was reduced to 0.75% (full year cost €569 million)



	Unemp	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Single	-	162	209	209	209	209	209
Couple 1 Earner	-	162	209	209	209	209	209
Couple 2 Earners	-	53	277	387	417	417	417

Notes: See Chart 1. USC calculations assume earners pay the standard rates of USC.

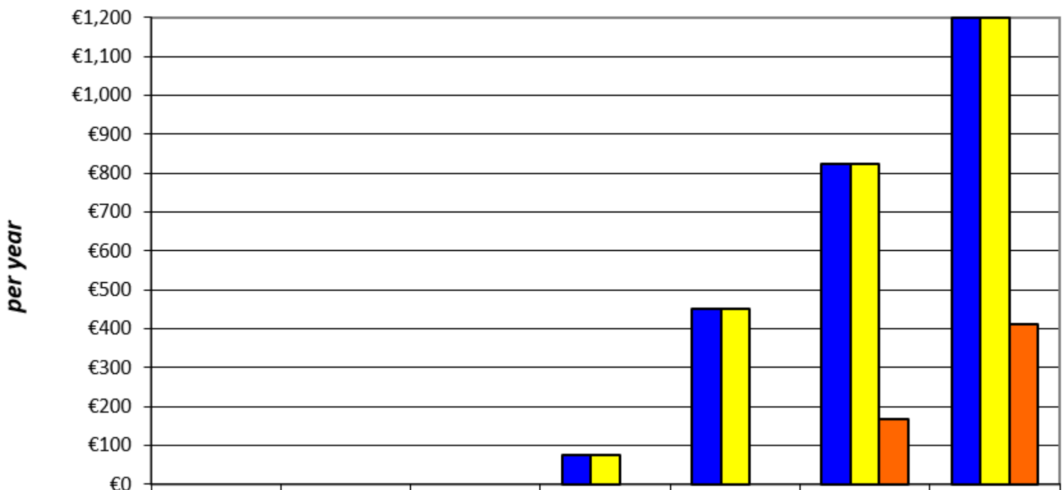
Chart 7: How much better off would people be if the 3% USC rate was reduced to 2% (full year cost €482 million)



	Unemp	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Single	-	0	213	413	413	413	413
Couple 1 Earner	-	0	213	413	413	413	413
Couple 2 Earners	-	0	38	201	426	564	651

Notes: See Chart 1. USC calculations assume earners pay the standard rates of USC.

Chart 8: How much better off would people be if the 8% USC rate was reduced to 6.5% (full year cost €540 million)



	Unemp	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Single	-	0	0	74	449	824	1199
Couple 1 Earner	-	0	0	74	449	824	1199
Couple 2 Earners	-	0	0	0	0	168	412

Notes: See Chart 1. USC calculations assume earners pay the standard rates of USC.

B. Analysis of Some Income Tax Reform Proposals for Budget 2027

It is of concern that a large proportion of recent political and policy discussion has once again returned to the issue of income tax reductions. Memories of similar discussions in the run up to the economic crash, when income taxes were at similarly low levels, seem to be already forgotten. Can we afford to let history repeat itself?

As we have outlined earlier, *Social Justice Ireland* believes that changes to income taxes should not be a central priority in the forthcoming Budget or in any future plans for taxation policy reform. We believe that 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 for disadvantaged groups such as for people with disabilities and for the long term unemployed – policy priorities highlighted throughout our various publications and pre-Budget submission.

However, in the *Summer Economic Statement* (July, 2026) the Government committed to an overall Budget 2027 package of €8.5 billion. This consists of €7 billion in additional expenditure and a €1.5 billion 'tax package'. Given this context, here we examine *Programme for Government* proposals to index income taxes and compare this to an alternative use of the same funds. Our perspective is to explore the relative fairness of these outcomes. As a minimum, the analysis highlights the distributive impact taxation policy choices can have and the potential for policy to pursue both fair and unfair outcomes.

Our analysis is based on the Post-Budget 2026 *Taxation Ready Reckoner* published by the Revenue Commissioners (October, 2025) and the current (2026) income taxation system.[7]

Income Tax Indexation

We follow the approach taken in the latest Department of Finance *Tax Strategy Group* paper on Income Tax (26/01, June 2026). This suggests that indexation would link the value of the main tax credits (personal, employee/PAYE, and earned income) and the standard rate band (the entry to the 40 per cent tax rate) to the expected increase in wages next year.[8] The Department of Finance's April 2026 *Annual Progress Report* projects an increase of 4 per cent in average wages ('wages per head') in 2027. Based on this, income tax indexation in 2027 implies:

- a 4 per cent increase in tax credits
    - personal tax credit increase of €80 from €2,000 to €2,080 with a commensurate increase in the couple, widowed parents and the single person child carer credit (full year cost = €250.4m)
    - employee/PAYE and earned income tax credit increase of €80 from €2,000 to €2,080 (full year cost = €219.2m)
- a 4 per cent increase in the standard rate band
    - for a single person this would be an increase of €1,760 from €44,000 to €45,760 with commensurate increases to the couple 1 and 2 earner bands (full year cost = €466.4m)
- **Total full year cost of income tax indexation = €936m (2.4 per cent of expected income tax revenue)**

[7] This is the latest version available when this analysis was completed (August 2026). A further update is expected to be published in advance of Budget 2027.
[8] The Revenue Commissioners *Ready Reckoner* outlines a more comprehensive indexation approach including adjusting USC bands and exemption limits. 'Full indexation', according to the June 2026 *Tax Strategy Group income tax paper*, would also involve increasing other tax credits (e.g. home carers credit, age credit etc) and age exemption limits.

Alternative approach focused on tax credits

As a comparison, we examine the distributive picture associated with using the same amount of money to increase tax credits only. Our approach assumes that the tax system retains its current structure where the value of the personal (single), employee/PAYE and earned income tax credits are the same.

Our alternative income tax option includes:

- a €160 increase in the personal tax credit, from €2,000 to €2,160, with a commensurate increase in the couple, widowed parents and the single person child carer credit (full year cost = €500.84m)
- a €160 increase in the employee/PAYE and earned income tax credit increase – from €2,000 to €2,160 (full year cost = €438.4m)
- **Total full year cost of income tax credits package = €939.2m (2.4 per cent of expected income tax revenue)**

Table 2 presents the results of our comparison of these two options across a range of single, couple one earner and couple two earner households. The diagrams below (Charts 9 and 10) also illustrate the outcomes.

Table 2: Comparing gains under two income tax reforms for Budget 2027 (€ per annum)

Gross Income	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Indexation of tax credits and standard rate band (full year cost €936m)						
Single earner	80	432	432	432	432	432
Couple 1 earner	0	160	512	512	512	512
Couple 2 earners	0	160	160	864	864	864
Increasing all personal/employee/earned income tax credits by €160 (full year cost €939 million)						
Single earner	320	320	320	320	320	320
Couple 1 earner	0	480	480	480	480	480
Couple 2 earners	0	640	640	640	640	640

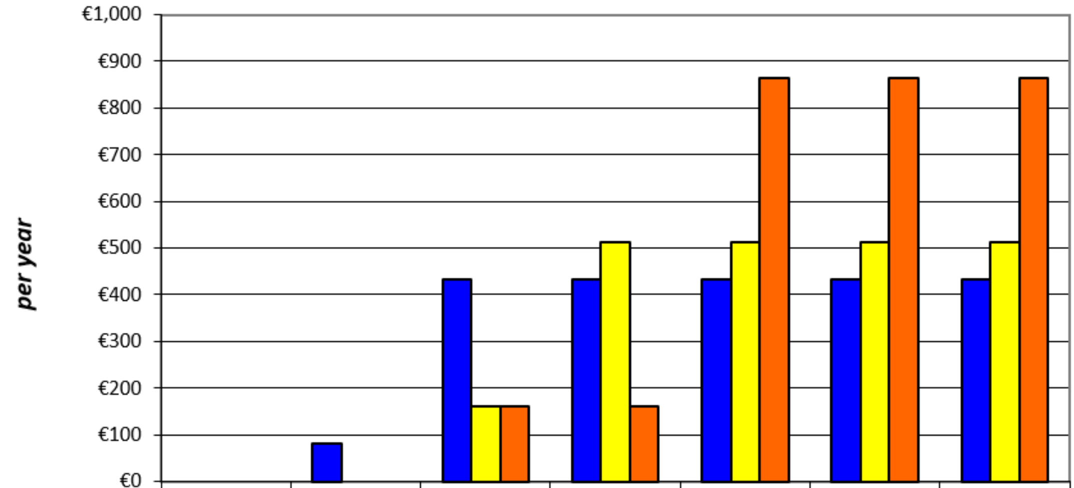
Notes: All workers are assumed to be PAYE workers. For couples with 2 earners the income is assumed to be split 65%/35%. Cost estimates are based on the latest available Revenue Commissioners taxation ready reckoner and are applied to the structure of the 2026 income taxation system. The increase in the personal tax credit assumes a commensurate increase in the couple, widowed parents and the single person child carer credit. Results are rounded to the nearest Euro.

In terms of fairness the analysis shows clear differences between the proposals. Indexing the income taxation system distributes the gains towards those on higher incomes. In contrast, increasing the various tax credits spreads the benefits more evenly across all earners with an income tax liability.

As Table 2 shows, under indexation a single earner on €25,000 gains €80 per annum from this reform and it is only individuals with incomes of €45,760 plus who experience the full value of the gains. One income couples only experience the full benefit of the indexation policy from incomes of €54,760 and for two income couples that point is €91,520. Overall, the largest benefits flow to those on the highest incomes while single individuals and couples on low-to-middle income receive small, if any, gains.

In contrast, focusing the income tax package on increases to tax credits provided a more equitable outcome. All single earners with an annual income above €21,600 receive the full benefit of the tax package; for one earner couples this threshold is €32,400 and for two earner couples it is €43,200. Above these thresholds the income gains are the same for all taxpayers. Overall, almost all low-to-middle income earners and those on higher earnings receive gains.

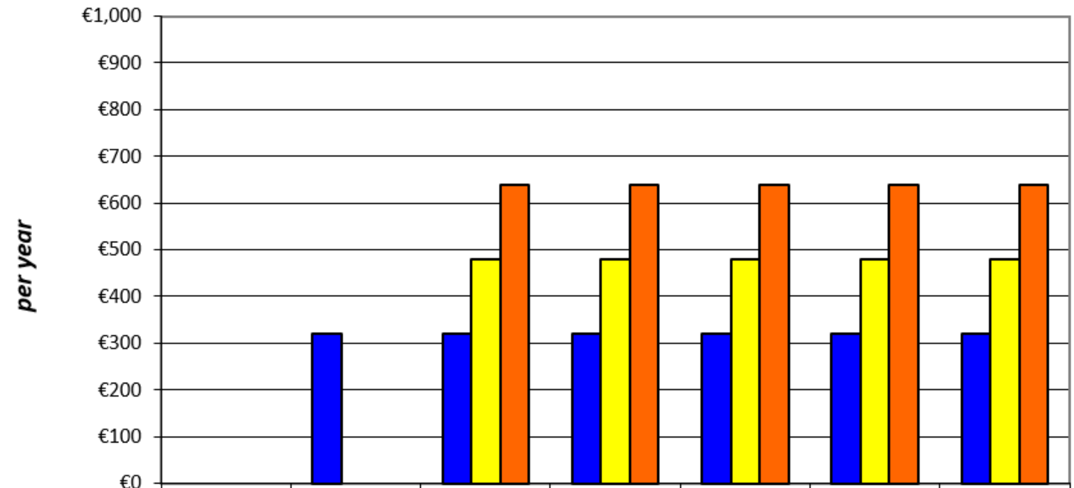
Chart 9: How much better off would people be if the income tax system (credits and standard band) was indexed by 4% (full year cost €936 million)



	Unemp	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Single	-	80	432	432	432	432	432
Couple 1 Earner	-	0	160	512	512	512	512
Couple 2 Earners	-	0	160	160	864	864	864

Notes: See notes to Table 2.

Chart 10: How much better off would people be if all personal/employee/earned income tax credits were increased by €160 (full year cost €939 million)



	Unemp	€25,000	€50,000	€75,000	€100,000	€125,000	€150,000
Single	-	320	320	320	320	320	320
Couple 1 Earner	-	0	480	480	480	480	480
Couple 2 Earners	-	0	640	640	640	640	640

Notes: See notes to Table 2.

Conclusion

Although both of these policy choices cost approximately the same amount (around €935m-€940m in a full year) they carry different distributive outcomes.

In terms of fairness, concentrating the budget income tax package on increases to tax credits is the fairest outcome. It delivers gains to almost all working households and avoids a situation where many low-to-middle income earners are excluded from budgetary gains.

On the basis of this analysis, if there is to be an income tax package in Budget 2027, we encourage Government to focus it on increasing income tax credits. We also suggest that it uses the remainder of the available tax package funds (approximately €500m) to address those low income earners who will not benefit from any of these tax choices. Introducing a system of refundable tax credits, where any unused portion of the employee/PAYE and earned-income tax credit would be refunded to a working household, would address this issue. It is an overdue reform and one we estimate would cost €210m to introduce.[9] Once adopted, a system of refundable tax credits would result in all future changes in tax credits being experienced equally by all employees in Irish society. Such a reform would mark a significant step in the direction of building a fairer taxation system and represent a fairer way for Irish society to allocate its resources. Coupled with Budget decisions to adequately increase welfare payments this would help deliver a notably fair and progressive Budget 2027.

[9] For further details see Chapter 4 (Taxation) of our annual Socio-Economic Review. The 2026 edition, entitled *Social Justice Matters 2026,* is available on our website.

Social Justice Ireland is an independent think-tank and justice advocacy organisation of individuals and groups throughout Ireland who are committed to working to build a just society where human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected.

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