


# Modelling the Withdrawal of Personal Tax Credits from High Earners

TASC Lunchtime Seminar  
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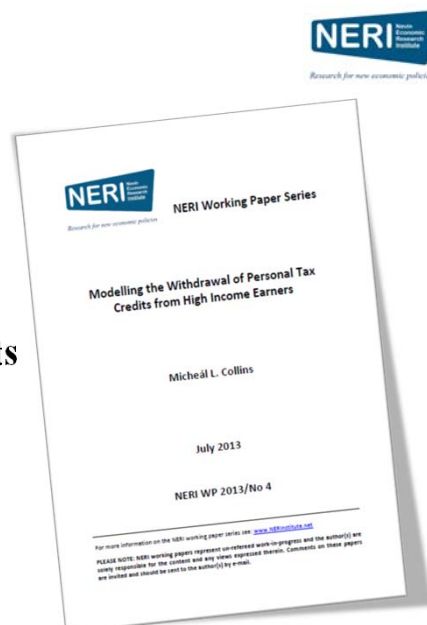


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## Outline

1. Introduction
2. Data & Definitions
3. Current Tax Rates
4. Withdrawing Tax Credits
5. Impact & Revenue
6. Implementation
7. Conclusion



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## 1. Introduction

- Options for fiscal reform
- Collins and Walsh (2010, 2011) on tax expenditures
- Tax Credits
  - provision, structure and value a choice for Government
  - roles to incentivise lab mkt participation & household choices
  - these occur well down the income distribution
  - focus here is at the top
    - top 100,000 earners
- A simple reform, but deserves analysis...

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## 2. Data & Definitions

- Drawing on NERI's tax modelling and forthcoming microeconomic model
- SILC 2011 microdata as the basis
  - 11,005 individuals and 4,333 households
  - weighted for non response and population representation
  - 2011-2014?
  - not perfect, but...
- Using 'taxable income' definition

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**Table 1: Distribution of Gross Income and Taxable Income across all individuals in the state, 2011**

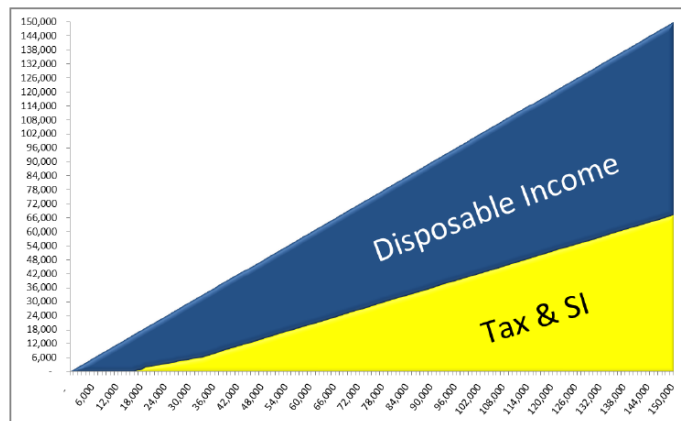
Income Category	Gross Income	Taxable Income
€0 - €16,500	2,890,000	3,030,000
€16,500 - €50,000	1,200,000	1,060,000
€50,000 -€75,000	262,423	256,267
€75,000-€100,000	86,027	85,689
€100,000+	53,463	50,963
<b>Total</b>	<b>4,490,000</b>	<b>4,490,000</b>

Source: Calculated by author from SILC 2011 microdata.



### 3. Current Tax Rates

**Figure 3: Gross Income, Tax & SI and Disposable income - single PAYE worker, 2013**



## 4. Withdrawing Tax Credits

- Aim:
  - Recapture personal tax credit from all above €100,000
  - €1,650 in 2013
  - But
    - cannot just cut it at that point
    - need to phase it in
    - number of options
    - to me this makes to most sense...

**Table 3: Revised Personal Tax Credit and Total Tax Credits available for PAYE and Self-Employed earners, by income range**

Income Range	Revised Personal Tax Credit	Total PAYE Tax Payers Credits	Total Self-Employed Tax Payer Credits
0 – 83,000	1,650	3,300	1,650
84,000	1,600	3,250	1,600
85,000	1,500	3,150	1,500
86,000	1,400	3,050	1,400
87,000	1,300	2,950	1,300
88,000	1,200	2,850	1,200
89,000	1,100	2,750	1,100
90,000	1,000	2,650	1,000
91,000	900	2,550	900
92,000	800	2,450	800
93,000	700	2,350	700
94,000	600	2,250	600
95,000	500	2,150	500
96,000	400	2,050	400
97,000	300	1,950	300
98,000	200	1,850	200
99,000	100	1,750	100
100,000	0	1,650	0
100,000 +	0	1,650	0

**Note:** Calculated on the basis of the proposal outlined in this paper and tax credit values at their 2013 levels.

## 5. Impact & Revenue

- Looking at:
  - Effective tax rates
  - Headline marginal tax rates
  - Marginal effective tax rates
  - Labour market participation
  - Revenue

**Table 4: Impact of Policy on Effective Tax Rates for PAYE earners above €80,000+**

Income	Effective tax rates			Nominal value
	Pre-policy	Post-policy	Change	Change in Tax & SI
80,000	38.4%	38.4%	0.0%	0
85,000	39.2%	39.4%	+0.2%	+150
90,000	39.9%	40.6%	+0.7%	+650
95,000	40.6%	41.8%	+1.2%	+1,150
100,000	41.1%	42.8%	+1.7%	+1,650
105,000	41.6%	43.2%	+1.6%	+1,650
110,000	42.1%	43.6%	+1.5%	+1,650
115,000	42.5%	44.0%	+1.4%	+1,650
120,000	42.9%	44.3%	+1.4%	+1,650
125,000	43.3%	44.6%	+1.3%	+1,650
150,000	44.8%	45.9%	+1.1%	+1,650
175,000	45.8%	46.7%	+0.9%	+1,650
200,000	46.6%	47.4%	+0.8%	+1,650
250,000	47.7%	48.3%	+0.7%	+1,650

**Notes:** A more detailed version of this table is provided in the appendix –table A2  
 Self-employed earners have higher pre and post policy effective tax rates compared to PAYE earners (see table 2). However, the percentage increase in effective tax rates and the nominal increase in tax paid is the same as that reported above for PAYE earners.

**Table 5: Impact of Policy on Headline Marginal Tax Rates for earners above €80,000+**

Income	Headline marginal tax rates		
	Pre-policy	Post-policy	Change
80,000	52%	52%	0.0%
85,000	52%	52%	0.0%
90,000	52%	52%	0.0%
95,000	52%	52%	0.0%
100,000	52%	52%	0.0%
105,000*	52%	52%	0.0%
110,000*	52%	52%	0.0%
115,000*	52%	52%	0.0%
120,000*	52%	52%	0.0%
125,000*	52%	52%	0.0%
150,000*	52%	52%	0.0%
175,000*	52%	52%	0.0%
200,000*	52%	52%	0.0%
250,000*	52%	52%	0.0%

**Notes:** \* Self-employed earners with income above €100,000 experience an additional 3% USC levy giving them a marginal tax rate of 55%. This rate does not change when the policy proposal outlined in this paper is implemented.  
 A more detailed version of this table is provided in the appendix -table A2.

For earners between €83,000 and €100,000 the reform does impact on their effective marginal tax rate - a measure of the proportion of each additional euro of income deemed liable for taxation. The phased recapturing of the tax credits minimises this effect over the range but would, for example, result in an individual increasing their taxable income from €85,000 to €86,000 experiencing an effective marginal rate of 62%: 52% (as above) plus a withdrawal of €100 of tax credits representing 10% of the income increase. These effects only occur for individuals moving within the range of the tax credit recapture and conversely cushion any earning reductions over the same range.

### Labour market impacts?

- phased withdrawal + no headline marginal tax impact + numbers involved
- Likely to be minimal, if at all...

Table 6: Estimate of the Additional Taxation Revenue Arising from Policy Change

Taxable Income Range		Number of Individuals	Tax Credit Reduction €	Revenue
From €	To €			
0	83,000	4,387,080	0	€0.00m
83,000	84,000	3,615	50	€0.18m
84,000	85,000	2,948	150	€0.44m
85,000	86,000	3,173	250	€0.79m
86,000	87,000	3,899	350	€1.36m
87,000	88,000	5,644	450	€2.54m
88,000	89,000	2,677	550	€1.47m
89,000	90,000	2,414	650	€1.57m
90,000	91,000	974	750	€0.73m
91,000	92,000	3,979	850	€3.38m
92,000	93,000	2,182	950	€2.07m
93,000	94,000	2,848	1,050	€2.99m
94,000	95,000	1,064	1,150	€1.22m
95,000	96,000	4,222	1,250	€5.28m
96,000	97,000	2,912	1,350	€3.93m
97,000	98,000	786	1,450	€1.14m
98,000	99,000	953	1,550	€1.48m
99,000	100,000	584	1,650	€0.96m
100,000 +		50,963	1,650	€84.09m
<b>Total</b>		<b>4,490,000</b>		<b>€115.64m</b>
From income between €83,000-€100,000				€31.55m
From income in excess of €100,000				€84.09m

Note: Estimate calculated using NERI Microeconomic model and based on microdata from CSO's 2011 SILC survey.

## 6. Implementation

- Keeping it simple
- PAYE and income known: amend tax credit value
- Change during year: handled in same way as currently the case
- Variable income €3k-€100k and not self-employed (few): income projection, easy to see and amend entitlement, balancing statement
- Self-employed: via annual preliminary and final returns
- Married: amended in accordance with individual incomes

## 7. Conclusion

- Tax credits a Government choice and cost a lot in revenue forgone
- This focused at top 100,000 earners (€83k+)
- Personal credit phased out and eliminated for all above €100k
- Phasing limits any distortionary impacts...cannot avoid these
- No change to headline marginal tax rates
- Simple way to increase effective rates
- €15-€130m per annum

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