

# NERI Research inBrief

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## How Does Ireland's Income Tax Compare?

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### SUMMARY

A great deal of political debate in Ireland rests on the assumption that Ireland's rates of taxation are prohibitive. This is generally taken to mean that Irish taxes on income, specifically, are particularly onerous. This perception is rarely, however, assessed with reference to available statistics.

This *Research inBrief* uses the Organisation for Economic Co-Operation and Development (OECD) data concerning estimates of the effective direct taxes paid by households of varying income and marital status in 2014 to assess Ireland's rates of taxation on income relative to those observed in other comparable nations.

### KEY POINTS

- Irish effective tax rates on gross income for single earners were generally substantially lower for most income levels relative to international comparators.
- This was most pronounced at the lowest income levels.
- At the highest income levels for which data is available (200 per cent of average income), effective tax rates were slightly higher than the OECD average but remained below EU15 averages.
- Effective tax on income for dual income couples were similarly comparatively low at lower joint income levels, although rates were approximately equal to the OECD average for a single joint income of 200 percent and 167 percent of the average wage. EU15 average effective tax rates still exceeded Irish rates at these maximum income levels.

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## Introduction

A great deal of political debate in Ireland rests on the assumption that Ireland's rates of taxation are prohibitive. This is generally taken to mean that Irish taxes on income, specifically, are particularly onerous. This perception is rarely, however, assessed with reference to available statistics.

This *Research inBrief* uses the Organisation for Economic Co-Operation and Development (OECD) data concerning estimates of the effective direct taxes (taken here to mean both income and social contributions) paid by households of varying income and marital status in 2014 to assess Ireland's rates of taxation on income relative to those observed in other comparable nations.

This analysis does not, however, investigate the separate but related issues of the incidence of indirect taxation, marginal tax rates on income, or the significant tax expenditures present within the Irish system. It should also be noted that effective tax rates have fallen in subsequent budgets.

## Data

The data presented here are sourced from the OECD's *Tax Benefit Calculator* for a number of OECD member countries for the year 2014.

Given the wide range of incomes and potential tax arrangements that depend on factors such as marital status and the presence of dependent children, this *inBrief* focuses on the effective tax rates at a variety of income levels defined relative to an "average wage"<sup>i</sup>. These levels are 50, 67, 100 and 200 per cent of the average wage for single earners. Married, dual income households are compared at 167, 200 and 67 per cent of the average wage for the primary earner, with a corresponding secondary income of 100, 167 and 67 per cent of average wage respectively. All tax units are childless in these examples, and possible benefits received are not considered.

Irish effective rates are compared in all cases to the OECD<sup>ii</sup>, and EU15<sup>iii</sup> unweighted average effective tax rate on income.

**Table 1: Single Earner Incomes 2014**

Gross Income (Euro)	Income Relative Average (per cent)
€17089	50%
€22899	67%
€34178	100%
€68356	200%

## Single Earners

Figure 1 displays the effective tax rate on gross income for Ireland against selected comparators in 2014. The nominal gross incomes corresponding to each relative income category for 2014 are displayed in Table 1 for Ireland.

At 50 percent of the average wage, Irish effective rates were significantly lower than international comparators. The Irish effective tax rate of 3.7 per cent was dwarfed by an OECD average of 19.8 per cent and an EU15 average of 20.8 per cent.

At 67 per cent of the standard wage, Irish effective rates more than tripled, in contrast with OECD and EU15 rates which increased by about a fifth and a quarter respectively relative to effective rates at 50 per cent of the average wage. Still, Irish effective rates were significantly lower than comparators at 13.6 per cent, relative to rates of 23.7 per cent and 25.9 per cent respectively.

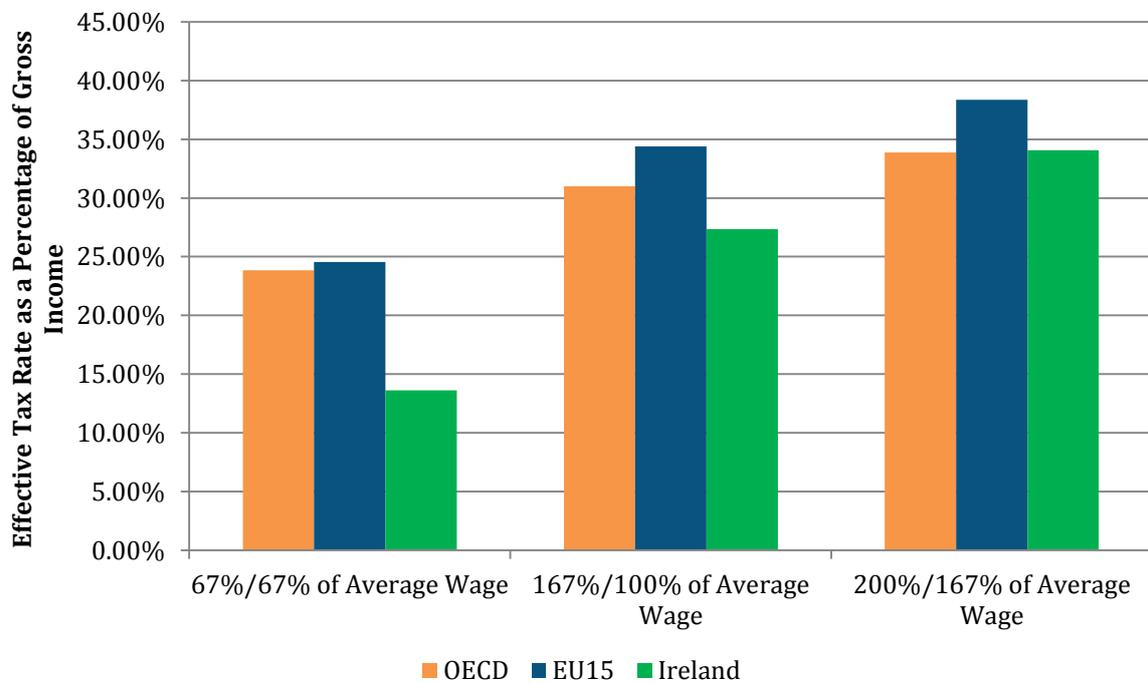
At 100 per cent of the average wage, Ireland's effective tax rate increased by about a half relative to rates at 67 per cent to 20.2 per cent. EU15 and OECD average effective rates increased between the two earnings cutoffs by a little less than a fifth. The OECD average absolute rate of 31.0 per cent and the EU15 average rate of 27.7 per cent remained substantially above the Irish effective tax level in 2014.

Irish effective tax rates attained levels similar to comparators at 200 per cent of the

Figure 1: Effective Tax Rates for Single Earners in 2014



Figure 2: Effective Tax Rates for Couples in 2014



**Note:** The first listed percentage figure corresponds to the Primary Earner while the second percentage denotes the Secondary Income. Each percentage is expressed as a proportion of the average wage.

average wage. Irish effective rates were slightly higher than OECD averages at 34.1 per cent compared to 33.9 per cent. The EU15 average rate remained somewhat higher, however, at 38.4 per cent.

**Table 2: Joint Incomes Married Couples 2014**

Total Household Income (Euro)	Income Relative Average (per cent)	
	Primary Earner	Second Earner
€91255	167%	100%
€125433	200%	167%
€45799	67%	67%

### Couples

Table 2 presents the nominal gross wages associated with each income level selected for the purposes of this analysis in Ireland in 2014 while Figure 2 graphs effective rates at each level for the same year relative comparators.

The effective tax rate for a couple in Ireland each earning 67 per cent of the average wage was 13.6 per cent compared to an OECD average of 23.8 per cent and an EU15 average of 24.6 per cent.

For a couple constituting a primary earner income of 167 per cent of the average wage and a secondary earner at 100 per cent of the average wage, Ireland was similarly lower than OECD or EU15 averages at 27.4 per cent. This gap, however, was significantly smaller than at lower income levels as the OECD and EU15 averages were 31.0 per cent and 34.4 per cent respectively.

A couple earning 200 per cent and 167 percent of the average wage (primary and secondary earner) in Ireland paid

approximately the same rate of tax as the OECD average at 34.1 per cent and 33.9 per cent respectively. Ireland remained below the EU15 average effective tax rate at this income level of 38.35 per cent of gross income.

### Conclusion

An assessment of the effective rates of tax (income tax and social insurance contributions) as a percentage of gross income does not find evidence that Irish taxes on income were high relative to international comparators in 2014.

At all but the highest income levels assessed here, effective rates of taxation were significantly below OECD and EU15 averages. At the highest income levels for single earners and couples, Irish tax rates were slightly above the OECD average, but remained lower than the average effective tax rate across the EU15.

Progressivity is observed insofar as taxes increased substantially relative to rates observed at low incomes, but this progressivity does not imply high absolute rates relative to comparators.

### References

OECD Statistics (2016) *Benefits, Taxes, Wages-Net Incomes*  
<https://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA#>

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<sup>i</sup> "Average wage" refers to an average wage for full and part-time employees converted to full time equivalents for NACE sectors B to N. See OECD methodological annex for more information.

<http://www.oecd.org/els/soc/Methodology.pdf>

<sup>ii</sup> The OECD data exclude Mexico.

<sup>iii</sup> EU15 refers to those nations who were members of the European Union before the ascension of other states in 2004. These states are generally considered comparable in income terms and consist of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom.