Changes in employee contribution rates for low wage Irish Employees from 2015-26

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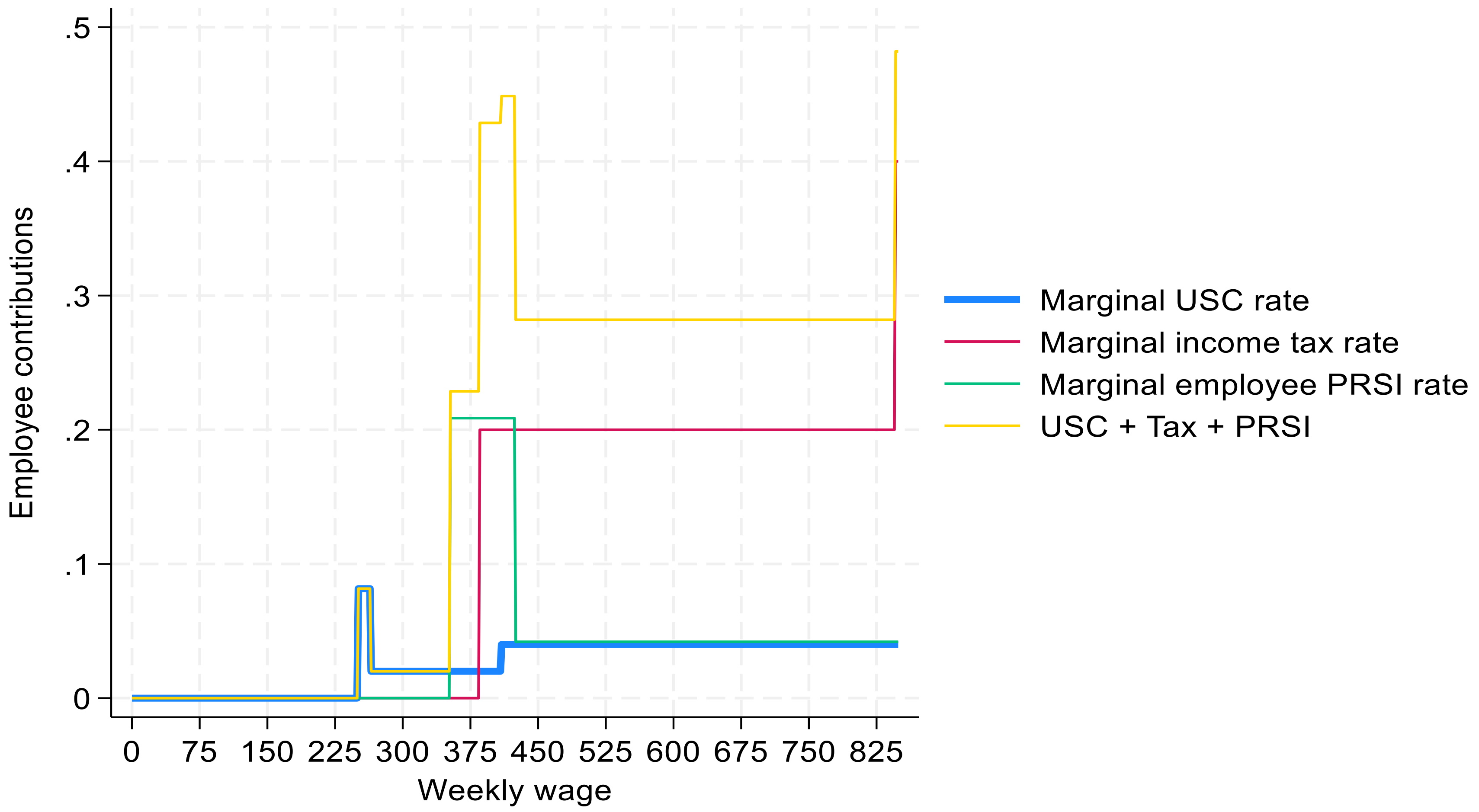
- We calculate average and marginal tax rates at different levels of weekly income for a single (not lone-parent) employee between 2016-2025
- We also plot tax rates by hours worked at the minimum wage
- There are notable changes in the tax schedule facing these workers and a notable downward shift in the hours work distribution
- We have not yet investigated whether there is a causal link between these two trends
- Employee contributions are: **Income Tax** + **USC** (An additional Tax)

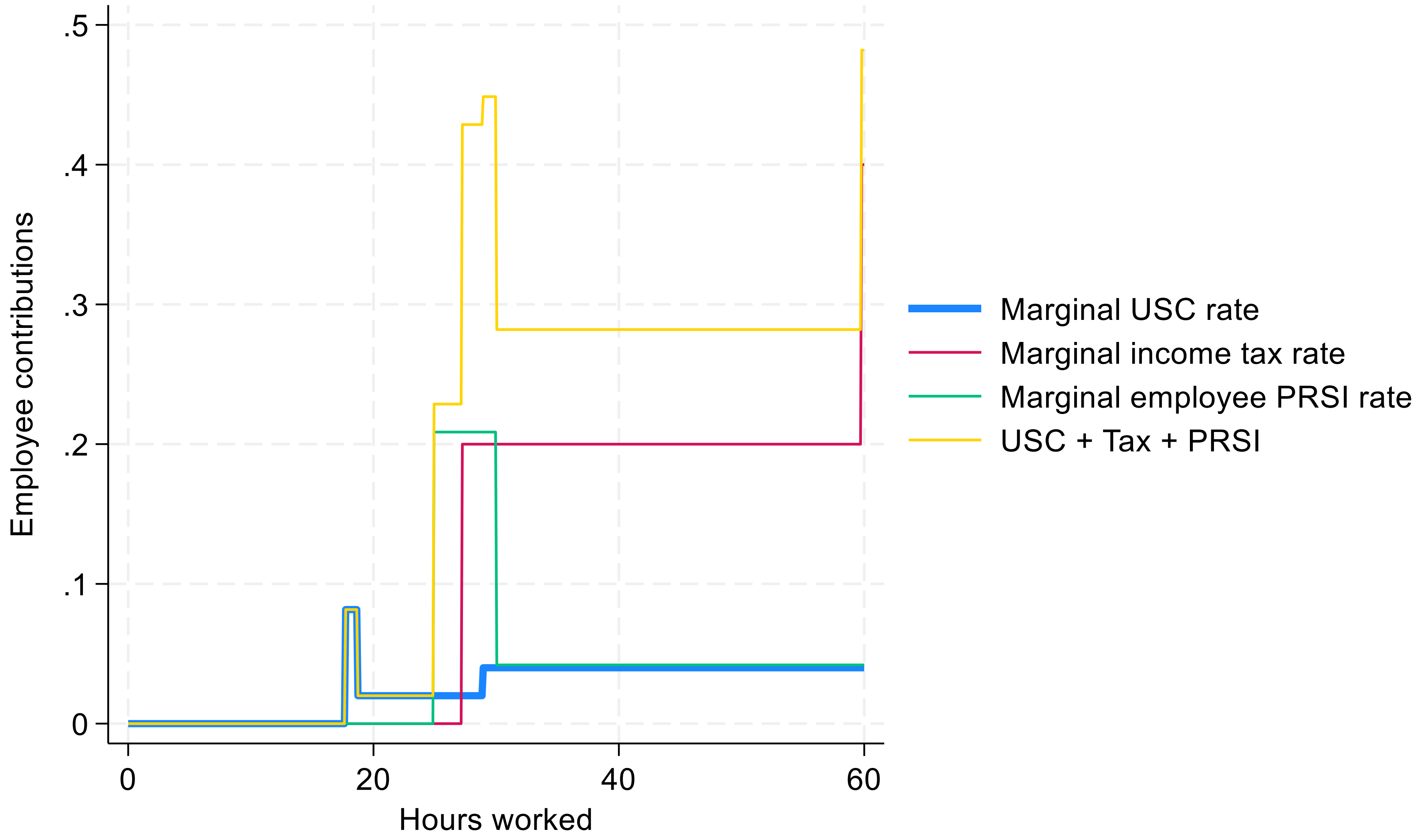
+ **PRSI** (Social Insurance)

Components of Employee Contributions in 2026: Full year workers

Weekly wage



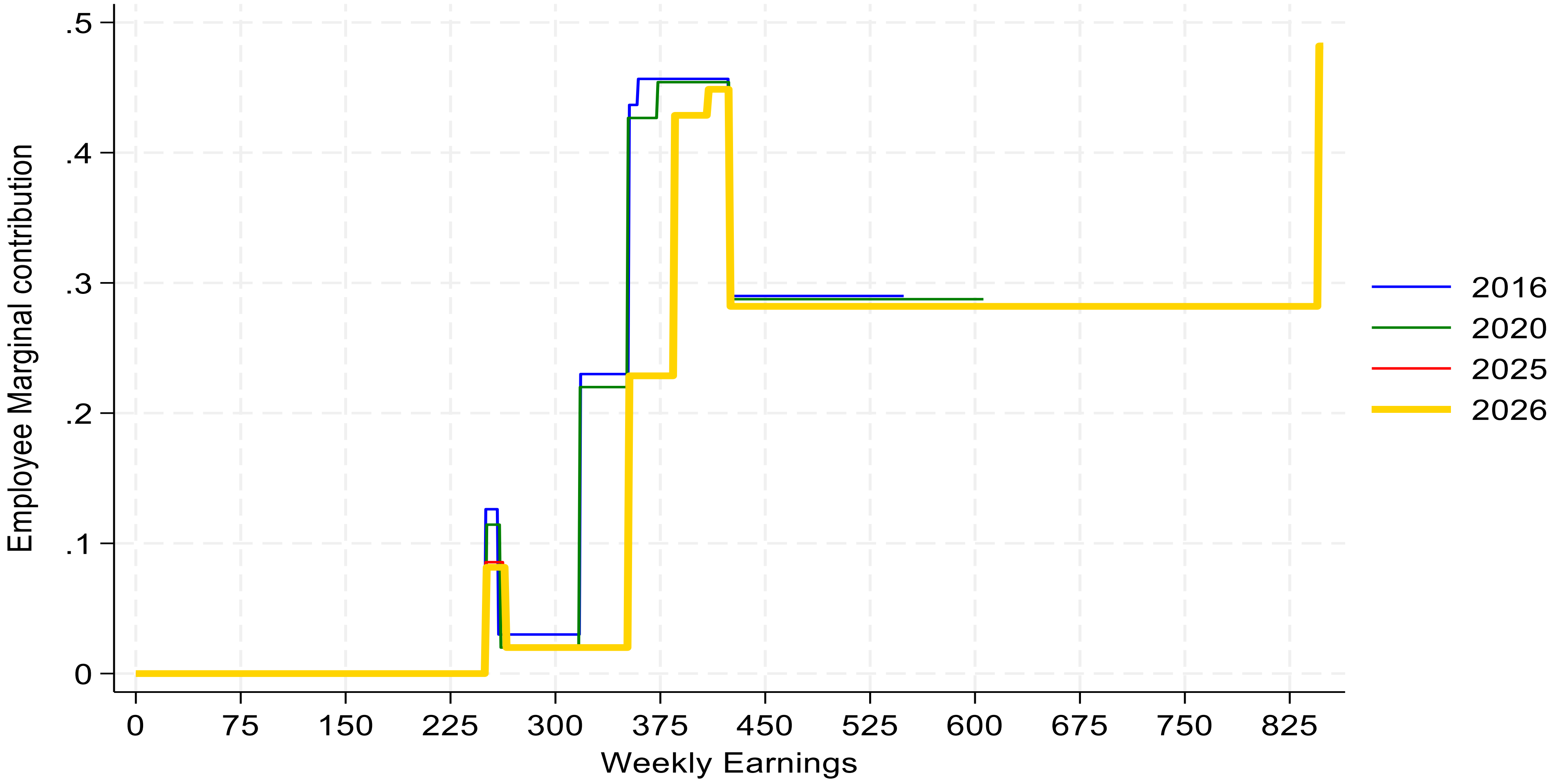
Hours worked at the minimum wage



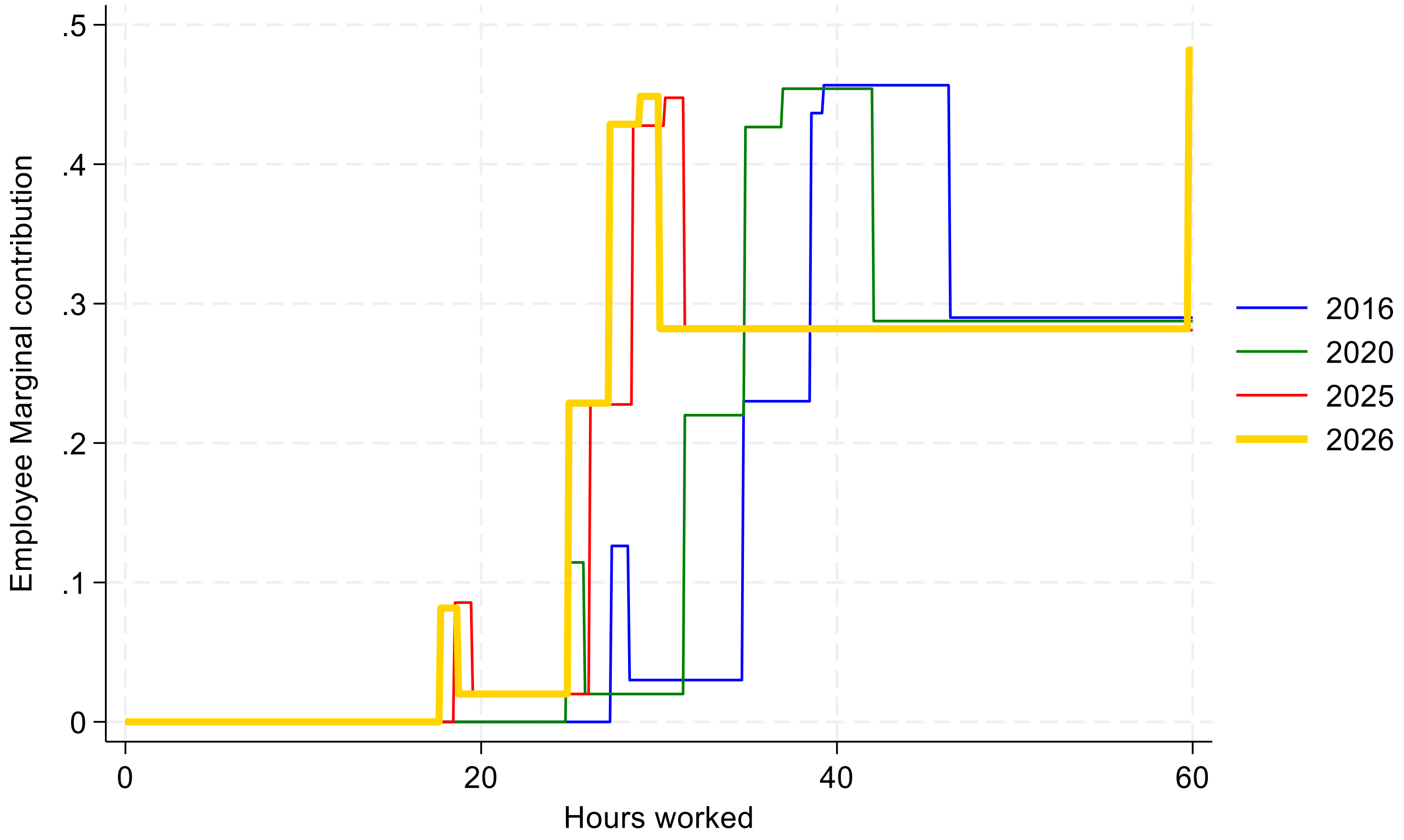
A full-year minimum wage worker would reach substantial marginal tax rates at about 25 hours per week

Employee Contributions 2016-2026

Income tax thresholds have increased in nominal terms

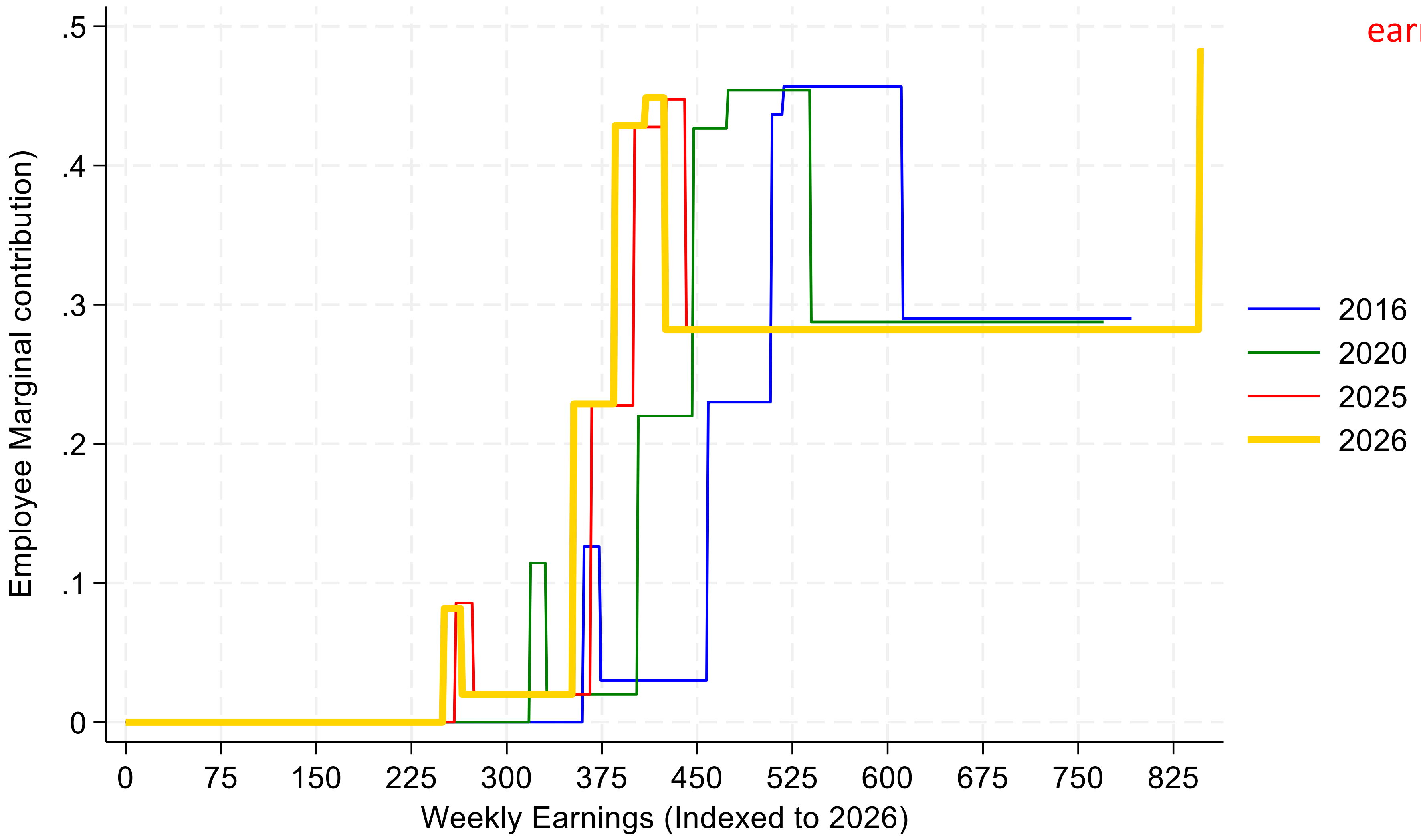


Marginal Employee Contribution Rate by Hours Worked at the minimum wage(2016-26)



- The pattern of the marginal rate is broadly similar over time
- The level of hours where the low and higher tax thresholds kick in are falling over time

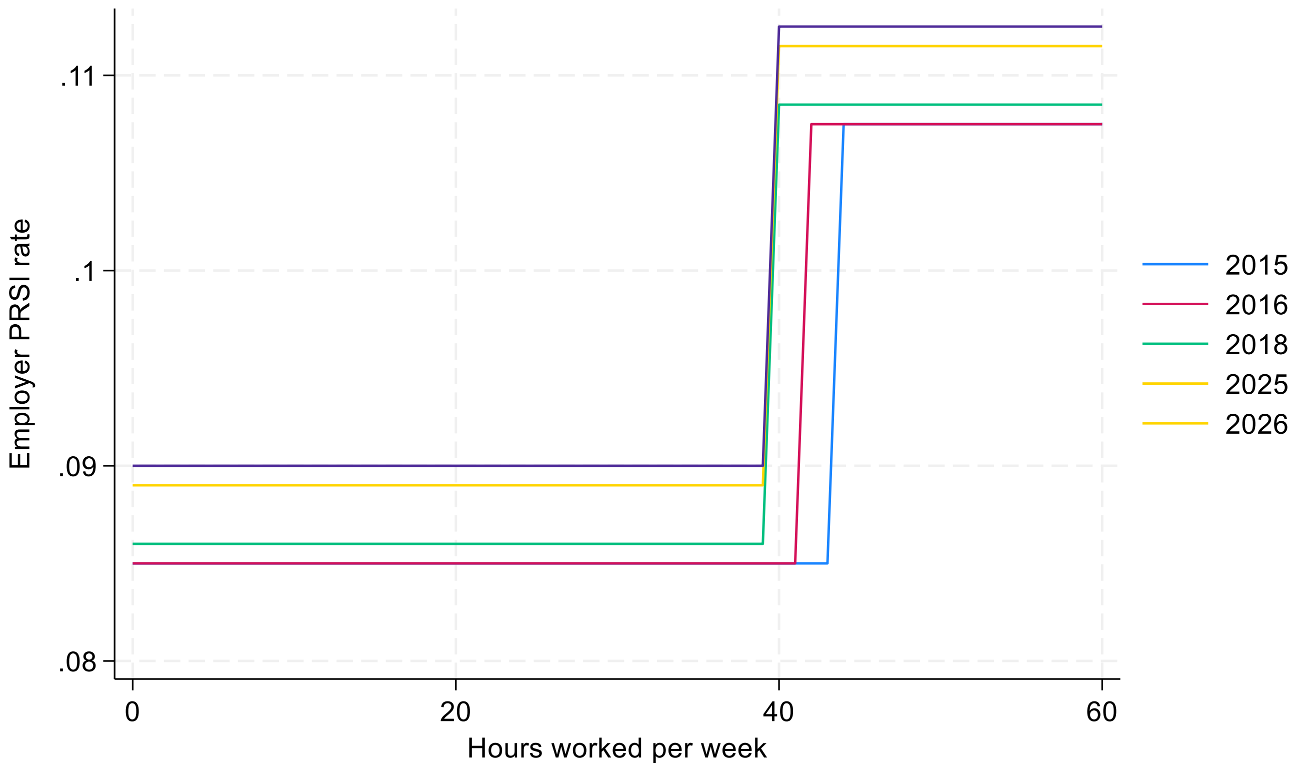
Total Employee Marginal Contribution Rate by Earnings in 2026 Euros



Earnings are deflated by an index of Median earnings with 2026=100

Employers PRSI rate (2015-26)

There is a low PRSI rate (8.15%-9%%) and a high rate (10.75-11.25).
The high rate is levied on **ALL** income once you reach a threshold **T**



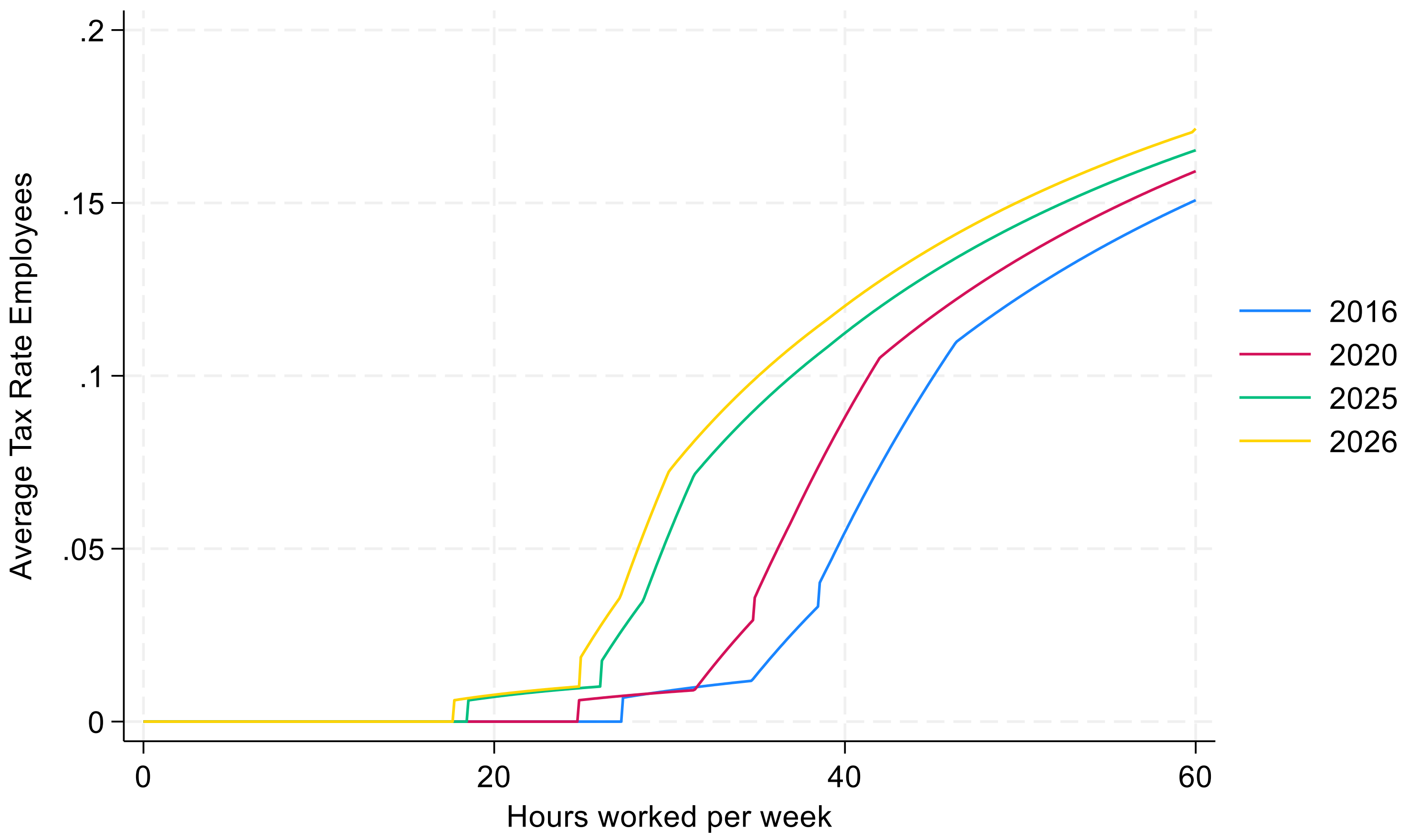
- From 2018 onwards government adjusted the threshold annually
- This meant an employee could work about 38 hours at the minimum wage without meeting the threshold
- The fixed cost of crossing the threshold is roughly one hour at the minimum wage or 1.3% of the median weekly wage
- The difference between the low and high rate is less than 2.5% in each year

Thresholds and Notches for Employer/Employee PRSI and Income Tax

Year	Employer PRSI Threshold	Threshold payment	Employee PRSI Threshold	Threshold payment 20% tax rate	Threshold for single earner with no kids @20% (52 Weeks)	Threshold for single earner with no kids @20% (50 Weeks)
2019	**386**	8.7	**352 - 424**	14.1	**317**	**330**
2020	**395**	8.9	**352 - 424**	14.1	**317**	**330**
2021	**398**	9.0	**352 - 424**	14.1	**317**	**330**
2022	**410**	9.2	**352 - 424**	14.1	**327**	**340**
2023	**441**	9.9	**352 - 424**	14.1	**340**	**354**
2024*	**441**	9.9	**352 - 424**	14.1	**361**	**375**
2024**	**496**	11.2	**352 - 424**	14.4	**361**	**375**
2025*	**527**	11.9	**352 - 424**	14.4	**385**	**400**
2025**	**527**	11.9	**352 - 424**	14.8	**385**	**400**

- Since 2018 Employer threshold increased, Employee Threshold unchanged while income tax threshold increased by less
- Since 2024 the Employee PRSI Threshold is the lowest (all employees face 20% tax rate from this point
- Arguably policy should focus on the three thresholds in a unified way
- Hargaden & Roantree (2019) find a spike of Employees at the Employees, but not the Employers threshold

Figure 4: Average tax rate (2015-26)

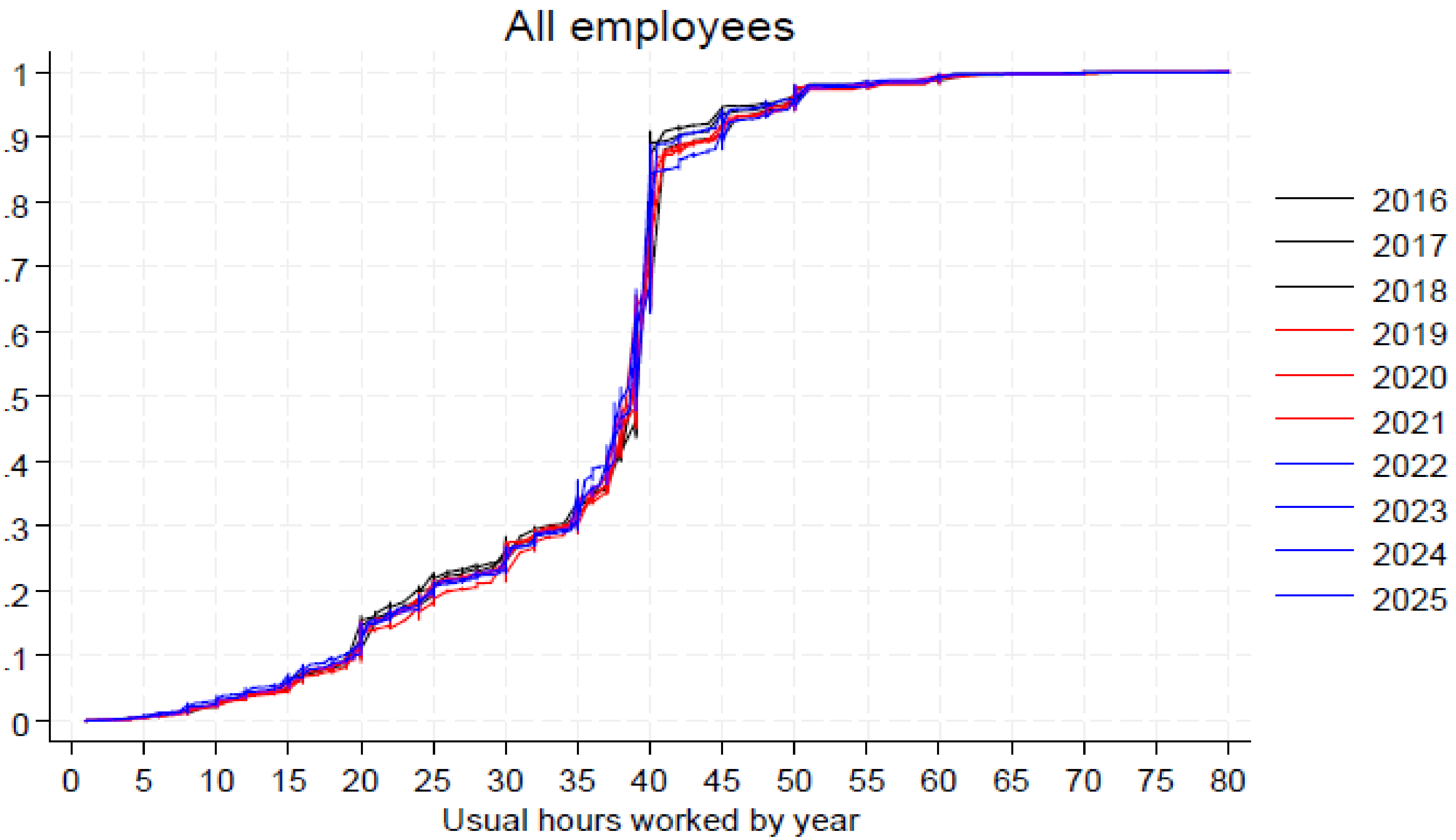


- the average tax rate of most minimum wage workers is fairly low
- It increased substantially for workers working over 25 hours a week

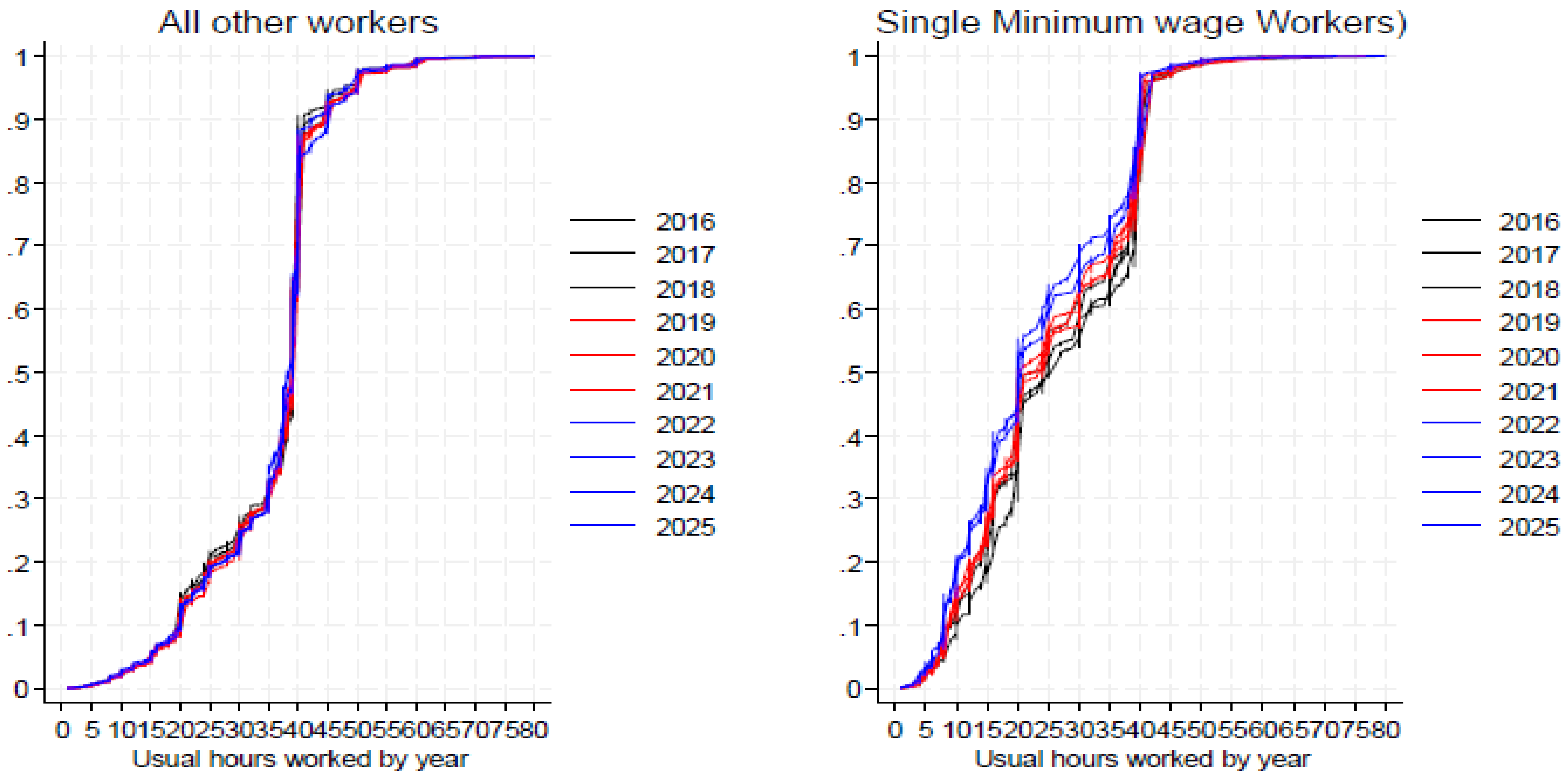
Preliminary Empirical Analysis

- We create a sample of **single Irish workers** earning the minimum wage who are not single parents using data from the Irish Labour Force Survey (2016-25)
- Since 2015, the **Labour Force Survey (LFS)** has included a question allowing us to identify minimum wage workers
- Employees are provided with the **current hourly rate** and asked if they are paid below, at, or above that figure.
- Since 2019 the **LFS** also includes Quarterly Earnings and Weeks worked from Revenue data
- We will look at the distribution of weekly earnings from this data
- First, we look at changes in the distribution of weekly hours worked in the LFS

This is the CDF of usual hours worked for all employees and is stable over the period



The CDF of hours worked for Employees not in the sample is stable, but shifts to the left for Minimum wage employees



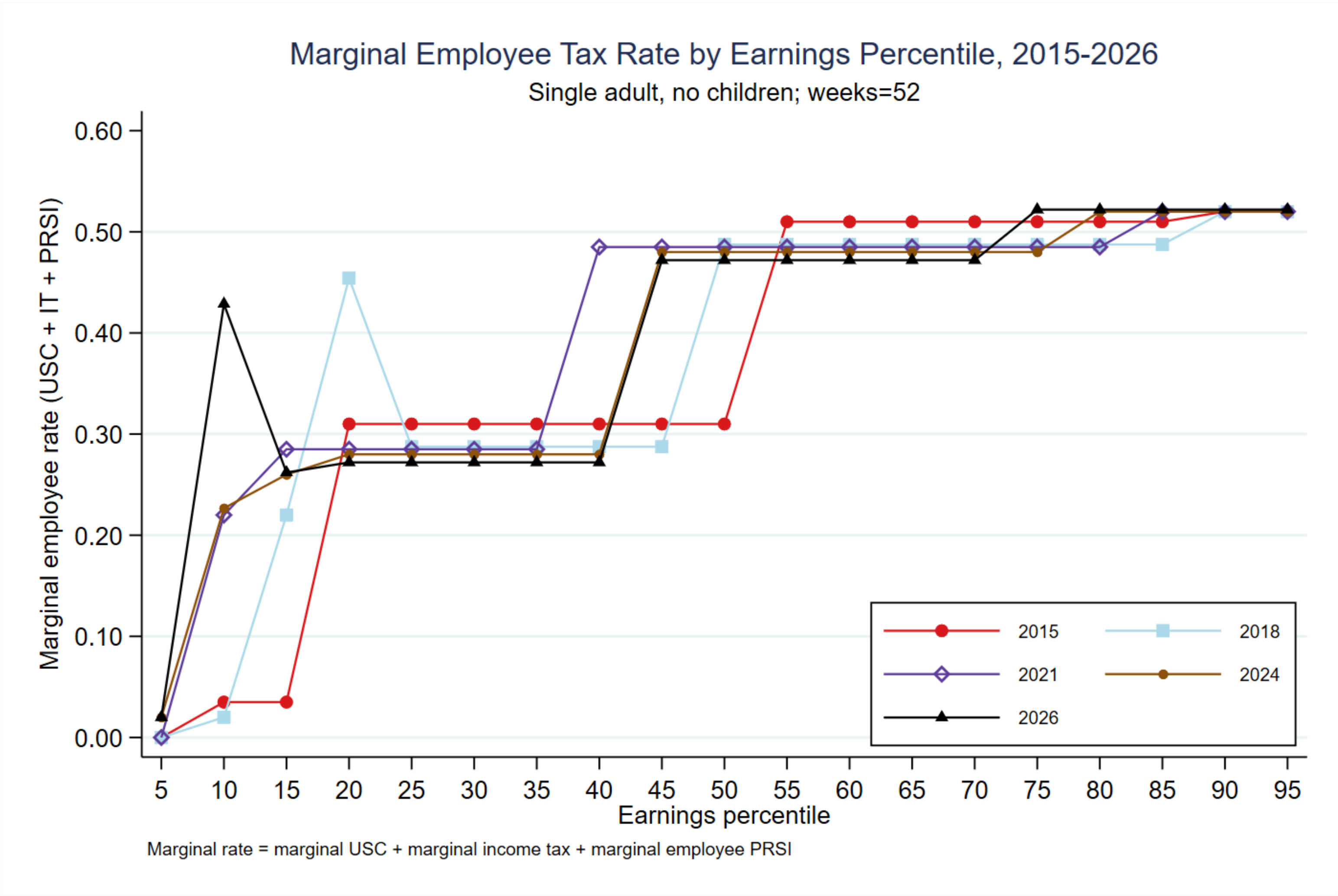
The picture for workers above and below 352 is similar (Since 2019)

% of Employees in Bands of the Marginal Employee Contribution rate: USC+Income tax+Employee PRSI

Band	2019	2020	2021	2022	2023	2024	2025	Total
0-6%	23%	21%	22%	22%	22%	22%	20%	22%
20-28%	35%	32%	31%	31%	37%	38%	37%	35%
40-52%	42%	47%	47%	46%	40%	40%	43%	43%

- The share paying 0-6% falls and the share paying 20-28% rises over time
- The share paying 40-52 are almost all between 48-52% and stable if we leave out Covid years

Calculations based on data from the labour force survey



- Looking at deciles of earnings from the population of employees
- Threshold where low wage worker hits 20%+ is falling
- Threshold for 40%+ also falling, but recovers

Calculations based on Annual earnings Deciles from www.cso.ie full population of employees

- Looking at deciles of earnings from the population of employees
- Average tax rates increase between the 5th-25th percentile

Calculations based on Annual earnings Deciles from www.cso.ie full population of employees

Summary

- For single workers with no children, the threshold where 20% Marginal tax rates has fallen substantially since 2015
- Individual earnings data from the LFS suggest the share of single employees with earnings at 20% plus marginal tax rates has increased
- The percentile at which a single employee would pay 20% plus tax rates has fallen and average tax rates have risen at lower percentiles of earnings for the population of employees
- The hours threshold where a minimum wage worker would pay a 20% plus tax rate has fallen substantially

Conclusions

- While there may be good reason that income for general tax, social security and emergency or other reasons such as USC would be designated into different categories, it’s less clear why there would be multiple thresholds and ways of dealing with threshold across all three?
- There are good arguments for increasing the minimum wage and a reasonable argument for easing the burden on sectors that bear the brunt of this. Doing both of these and also increasing taxes on the lowest paid employees is harder to justify?