

How heavy is the weight of tax in the Republic of Ireland – Some high-level facts

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Summary: Irish government revenue from taxes and social contributions is lower than the EU average as a proportion of output (GNI* basis). Revenues from consumption and capital are above the EU average, whereas revenues from labour are below the EU average. The relatively high yield from capital is explained by Ireland's extremely high receipts from the income of corporations, whereas revenues from other capital sources such as stocks of capital and especially incomes of the self-employed, are below the EU average. The relative 'under-taxation' of labour income is explained by the low yield from employer social contributions. The implicit tax rate on employer contributions is just 54% of the average for the EU as a whole. Finally, the implicit tax rate on consumption is above the EU average.

Taxing the bases

Taxes on labour made up 51.7% of EU27 tax revenue in 2019, followed by 27.8% from consumption and 20.5% from capital. Table 1 shows that the Republic's tax revenue yield is relatively low in comparison to the EU average. Cross referencing with the latest data from the CSO indicates a GNI* ratio of 37.7*, which is 2.4 percentage points of GNI*, or €5.1 billion below the EU average. In general, the Western European economies tend to have higher tax ratios than their Eastern European counterparts. Denmark has the highest tax ratio at 46.1%, while Romania is lowest at 15.5%.

We can see that the Republic’s revenue yield from *consumption* taxes (mainly VAT and Excises) is marginally above the EU27 average. Consumption taxes are generally regressive when considered in isolation unless they are targeted at luxury goods and services. Even so, their net impact can be to contribute to an overall reduction in income inequality and poverty to the extent that such revenues contribute to funding social transfers and basic services. For example, the Nordic economies of Denmark, Sweden, Finland, Iceland and Norway all have high taxes on consumption but generally low levels of income inequality.

Table 1: Tax revenue (including SSCs) from the different bases, selected countries, % of GDP (% of GNI* for Republic of Ireland), 2019

Country	Labour	Consumption	Capital	Total
EU27	20.7	11.1	8.2	40.1
Germany	23.2	10.2	6.9	40.3
Denmark	22.8	13.4	9.8	46.1
France	21.2	11.7	11.0	45.5
Netherlands	19.6	11.8	7.9	39.3
Belgium	21.9	10.8	10.6	43.6
Poland	14.2	12.3	8.6	35.2
United Kingdom	13.0	11.1	9.7	33.8
Italy	21.2	11.3	9.8	42.3
Sweden	25.0	12.1	5.9	43.0
Republic of Ireland				
Eurostat (<i>Tax Trends</i>)	16.0	11.3	9.5	36.9
<i>Negative Tax Gap to EU27 (€ billions)</i>	<i>10.0</i>	<i>(-0.4)</i>	<i>(-2.8)</i>	<i>6.8</i>
CSO (<i>Government Finance</i>)				37.7
<i>Negative Tax Gap to EU27 (€ billions)</i>				<i>5.1</i>

Sources: Eurostat (2021) Taxation Trends in the European Union, CSO (2021) National Accounts, CSO (2021) Government Finance Statistics, Author’s Calculations

Notes: SSCs are Social Security Contributions. Eurostat reports Irish revenue at €78.9 billion in 2019 (36.9% of GNI*), whereas latest CSO government account report a yield of €80.5 billion (37.7% of GNI*). The decomposed tax gaps are based on the Eurostat estimate of yield.

Ostensibly, the Republic’s yield from *capital* taxes (e.g. taxes such as corporation tax and local property tax) is high relative to the EU average. This is a function of the relatively large proportion of income accruing to capital within the economy, and the commensurately elevated receipts from corporation tax. Table 2 shows the Republic’s extremely high receipts from corporation tax which, on a percentage of output basis, are €4 billion in excess of the EU average. It is unclear whether this high level of yield is sustainable over the long-term. In

contrast, the level of tax on income from self-employment and the level of tax on stocks of capital are both lower than the EU average measured on a percentage of output basis.

Table 2: Tax revenue from capital, selected countries, % of GDP (% of GNI* for Republic of Ireland), 2019

Country	Income of corporations	Income of households	Income of self-employed	Stocks of capital	Total
EU27	2.8	1.0	2.1	2.4	8.2
Germany	2.7	0.7	2.1	1.3	6.9
Denmark	3.0	3.1	0.9	2.8	9.8
France	3.0	1.9	1.9	4.2	11.0
Netherlands	3.7	-0.3	2.8	1.8	7.9
Belgium	3.7	0.5	2.3	4.1	10.6
Poland	2.2	0.3	4.3	1.9	8.6
United Kingdom	2.4	1.8	1.1	4.3	9.7
Italy	2.5	1.3	3.3	2.8	9.8
Sweden	3.0	1.3	0.4	1.3	5.9
Republic of Ireland					
Eurostat (<i>Tax Trends</i>)	5.2	1.0	1.2	2.2	9.5

Sources: See Table 1.

Table 3: Tax revenue from labour (including SSCs), selected countries, % of GDP (% of GNI* for Republic of Ireland), 2019

Country	Employee	Employer	Non-employed	Total
EU27	10.2	8.2	2.3	20.7
Germany	13.5	6.9	2.9	23.2
Denmark	17.2	0.7	5.0	22.8
France	8.8	12.4	1.7	22.9
Netherlands	10.1	5.5	4.0	19.6
Belgium	12.0	7.9	2.0	21.9
Poland	8.0	5.4	0.8	14.2
United Kingdom	8.8	3.9	0.2	13.0
Italy	8.4	9.8	3.0	21.2
Sweden	10.3	11.9	2.7	25.0
Republic of Ireland				
Eurostat (<i>Tax Trends</i>)	11.5	4.3	0.2	16.0

Sources: See Table 1.

Notes: Non-employed income comprises all taxes and SSCs raised on transfer income of non-employed persons. This transfer income includes social transfers that are paid by the state (e.g. unemployment, invalidity and health care benefits) and benefits from old-age pension schemes (both state and occupational pension schemes). Where no statistics were available, the share paid by the non-employed was assumed to be negligible. In practice, this means it is difficult to make cross-country comparisons.

The Republic's low overall revenue yield relative to the EU average is an outcome of the 'under-taxation' of *labour* income (income tax and social security contributions). The under-taxation of labour as a percentage of economic output amounts to €10 billion. Table 3 decomposes labour taxation into its various bases. Tax revenue from employees exceeds the EU average, whereas employers are 'under-taxed', on a percentage of output basis, by €8.3 billion.

Implicit Tax Rates

The implicit tax rate (ITR) is the tax yield divided by the tax base. We can think of it as an economy-wide average effective tax rate on a particular type of economic activity (either consumption, income from labour or income from capital). The Republic has a relatively high ITR on consumption of 19.4% (see Table 4), in particular, the Republic is an outlier in its very high receipts from excise taxes. The EU average is 17.4% with a low of 13.8% in Spain and a high of 24% in Denmark. The Republic's ITR on capital income of 14.1% is 8th lowest of 25 EU countries. The ITR on capital ranges widely from 9.7% in Cyprus to 54.2% in France.

Table 4: Implicit Tax Rates (ITRs) in selected countries, 2019

Country	Labour	Consumption	Capital
EU27	38.1	17.4	-
Germany	38.1	15.8	31.2
Denmark	34.6	24.0	41.9
France	39.9	18.3	54.2
Netherlands	32.5	19.7	15.9
Belgium	40.4	17.7	35.1
Poland	33.7	18.6	23.4
United Kingdom	25.7	15.2	31.5
Italy	43.8	16.2	30.4
Sweden	39.0	21.6	27.0
Republic of Ireland	33.5	19.4	14.1

Sources: European Commission (2021) Taxation and Customs Union, Data on Taxation

Finally, the Republic's ITR on labour income, at 33.5%, is below the EU average of 38.1%. Malta has the lowest ITR at 24.6%, while Italy has the highest at 43.8%. However, Table 5 shows that the ITR paid by employees in the Republic, at 24.3%, actually exceeds the EU average of 21.1%. Instead, we can see that the Republic's low overall ITR on labour arises because employers in the Republic have an ITR off just 9.2% compared to 17% for the EU as a whole. In other words, employers in the Republic have an overall average effective tax rate on employment that is just 54% of the EU average.

Table 5: Decomposition of the ITR on labour in selected countries, 2019

Country	Employee PIT	Employee SSC	Employee Total	Employer SSC & PT	Total
EU27	12.6	8.6	21.1	17.0	38.1
Germany	13.3	11.9	25.2	12.9	38.1
Denmark	33.2	0.1	33.3	1.3	34.6
France	9.7	6.8	16.5	23.4	39.9
Netherlands	10.7	10.4	21.1	11.4	32.5
Belgium	16.0	8.3	24.3	16.1	40.4
Poland	6.1	14.0	20.1	13.5	33.7
United Kingdom	12.6	5.2	17.8	8.0	25.7
Italy	14.4	5.9	20.3	23.5	43.8
Sweden	18.1	0.0	18.1	20.9	39.0
Republic of Ireland	19.7	4.6	24.3	9.2	33.5

Sources: See Table 4

Notes: PIT is Personal Income Tax. SSC is Social Security contribution. PT is Payroll Tax.

Conclusions: The cumulative weight of taxes and social contributions is below the EU average when measured as a percentage of outputs. In particular, the Republic of Ireland appears to 'under-tax' capital stocks, income from self-employment, and especially employer social contributions. On the other hand, the Republic has an extremely high yield from corporate income, as well as relatively high average effective tax rates on consumption and on employees. The headline data seems to suggest that the Republic under-taxes non-employment income, although cross country comparisons are difficult due to data availability and comparability reasons.

References:

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