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Taxes and Income Related Taxes Since 2007

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ABSTRACT

The period 2007-2015 has been one of significant economic turmoil and change for the Republic of Ireland. This paper focuses on issues relating to taxation, and in particular the forms of taxation that applied to incomes, over those years. It first outlines overall trends in taxation during the period including a profile of revenues under the various categories of taxation. Subsequently, it focuses on changes to income related taxes introduced across a series of ten Budgets between 2007 and 2015 including the introduction of the Universal Social Charge (USC).

The onset of a much delayed period of economic stability, one slowly unfolding, offers an opportunity to reform and, ideally, improve the Republic of Ireland's current system of income related taxes. As these provide approximately 37% of total taxation revenues there is merit in doing this slowly and in the context of ensuring a sustainable and stable revenue source for the decades to come.

This paper offers a review of the current system, set in the context of changes over recent years and serves as a contribution to an ongoing NERI research project on reforms to taxation.

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* Paper is part of an ongoing NERI research project on taxation and taxation reforms. The usual disclaimer applies. All correspondents to mcollins@NERInstitute.net

TAXES AND INCOME RELATED TAXES SINCE 2007

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INTRODUCTION

The period 2007-2015 has been one of significant economic turmoil and change for the Republic of Ireland. From the peak of an unsustainable economic boom, to an international financial rescue and present emerging recovery, the nation's macroeconomic indicators illustrate a boom-bust transition that has few precedents. Similarly, the various microeconomic indicators echo this turmoil reflecting reductions in income and livings standards.

This paper focuses on issues relating to taxation, and in particular the forms of taxation that applied to incomes, over those years. It first outlines overall trends in taxation over the period including a profile of revenues under the various categories of taxation. Subsequently, it focuses on changes to income related taxes introduced across a series of ten Budgets between 2007 and 2015. The introduction of the Universal Social Charge (USC) represents one of the most significant structural changes to taxes in recent decades and this is examined in the penultimate section of the paper. Finally, the paper concludes.

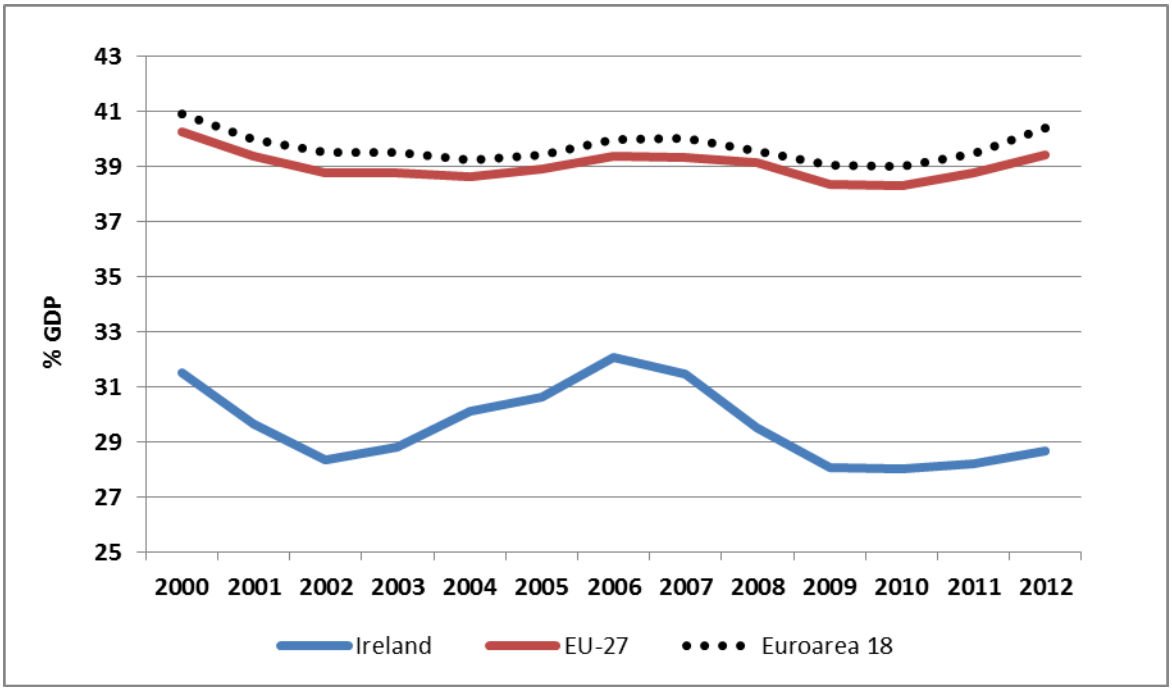
RECENT TAXATION TRENDS

In contrast to the experience in most other European countries, and in the EU/Euroarea as a whole, Ireland's overall level of taxation income has been volatile since the outset of this century (see Chart 1). The ups-and-downs in revenue, both nominally and as a proportion of national income, reflect instability both in the economy and in the taxation system itself throughout that period. As Chart 1 illustrates, the early 2000s were a period of tax reductions with the overall level of taxation falling to 28.3% of GDP in 2002.[1] On foot of a boom in construction and associated consumption, as well as significant increases in transactional taxes, the overall tax take increased subsequently, rising to a peak of 32.1% of GDP in 2006.

By 2007 taxation revenues had reached €60.3 billion but they subsequently declined rapidly as the economic crash unfolded (see Table 1a). Between 2007 and 2010 overall revenues fell by €15 billion equivalent to 25.4% of taxation revenues in 2007. The reductions included an 89% fall in capital gains taxes, a 69% decrease in stamp duties, a 30% fall in VAT receipts and a 38% reduction in corporation taxes; the latter reflective of a broader international economic slowdown.

[1] There are long-running discussions on the appropriateness of measuring the overall level of taxation for Ireland relative to different measures of national income (see Collins, 2014a). However, irrespective of the national income measure used, the trend reflected in Chart 1 remains the same.

Chart 1: Trends in Total Taxation as a % GDP, 2000-2012



Source: Eurostat (2014: 174)

Notes: EU data is for EU-27 and Euroarea data is for 18 members (prior to Lithuania joining in 2015). Full data is outlined in Table A1 of the appendix.

Table 1a: Nominal Trends in Taxation Revenue, Ireland 2007-2013 (€ millions)

	2007	2008	2009	2010	2011	2012	2013
Income Tax	15,872	15,668	14,681	14,326	15,271	16,464	16,661
VAT	14,355	13,084	10,324	10,067	9,755	10,219	10,371
PRSI*	7,745	7,932	7,168	6,702	7,268	6,799	7,299
Excise Duties	6,139	5,402	4,877	4,872	4,866	4,786	5,024
Corporation Taxes	6,393	5,071	3,889	3,944	3,751	3,964	4,272
Stamp Duties	3,219	1,768	972	989	933	959	776
Local Taxes**	1,267	1,353	1,471	1,504	1,527	1,701	1,882
CGT	3,097	1,424	545	345	416	413	369
CAT	405	349	258	235	242	282	278
Motor Taxes****	962	1,065	1,057	1,024	1,011	1,060	1,143
Pension levy	-	-	-	-	460	483	536
Others#	604	656	794	783	768	735	1,176
EU taxes	273	247	209	229	240	242	247
Total	**60,331**	**54,019**	**46,245**	**45,020**	**46,508**	**48,107**	**50,034**

Source: Calculated from CSO Databank table N1322.

Notes: * includes both employer and employee PRSI. ** includes revenue from rates and local property taxes. ***Motor Taxes includes those paid by both households and business. CGT is Capital Gains Tax. CAT is Capital Acquisitions Tax. # Others include the training and employment levy, the risk equalisation levy, agricultural and NORA levies, the broadcasting/TV licence fee and some other smaller source of taxation revenue. Income tax includes the USC.

Table 1b: Structure of Taxation Revenue, Ireland 2007-2013

	2007	2008	2009	2010	2011	2012	2013
Income Tax	26.3%	29.0%	31.7%	31.8%	32.8%	34.2%	33.3%
VAT	23.8%	24.2%	22.3%	22.4%	21.0%	21.2%	20.7%
PRSI*	12.8%	14.7%	15.5%	14.9%	15.6%	14.1%	14.6%
Excise Duties	10.2%	10.0%	10.5%	10.8%	10.5%	9.9%	10.0%
Corporation Taxes	10.6%	9.4%	8.4%	8.8%	8.1%	8.2%	8.5%
Stamp Duties	5.3%	3.3%	2.1%	2.2%	2.0%	2.0%	1.6%
Local Taxes**	2.1%	2.5%	3.2%	3.3%	3.3%	3.5%	3.8%
CGT	5.1%	2.6%	1.2%	0.8%	0.9%	0.9%	0.7%
CAT	0.7%	0.6%	0.6%	0.5%	0.5%	0.6%	0.6%
Motor Taxes****	1.6%	2.0%	2.3%	2.3%	2.2%	2.2%	2.3%
Pension levy	0.0%	0.0%	0.0%	0.0%	1.0%	1.0%	1.1%
Others#	1.0%	1.2%	1.7%	1.7%	1.7%	1.5%	2.4%
EU taxes	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Calculated from CSO Databank table N1322.

Notes: See notes to Table 1a.

As boom time tax revenues dissipated, the structure of the taxation system also shifted (see Table 1b). Income taxes rapidly moved from being one-quarter to almost one-third of revenues, a transition driven by both policy measures (see later) and the declines in other tax heads. Between 2007-2013 incomes taxation revenues increased from €15.8 billion to €16.7 billion; the latter equivalent to 33.3% of all revenues in 2013. Comparing 2007 to 2013, overall taxation revenues were €10 billion lower with only four tax categories recording increases: incomes taxes (+€789m 5%), local taxes (+€615m 48%), motor taxes (+€181m 19%) and the pension levy which in 2013 raised €536m. In all cases, policy initiatives to broaden the tax base, create new sources of revenue or incentivise behavioural change explain a large part of these increases.

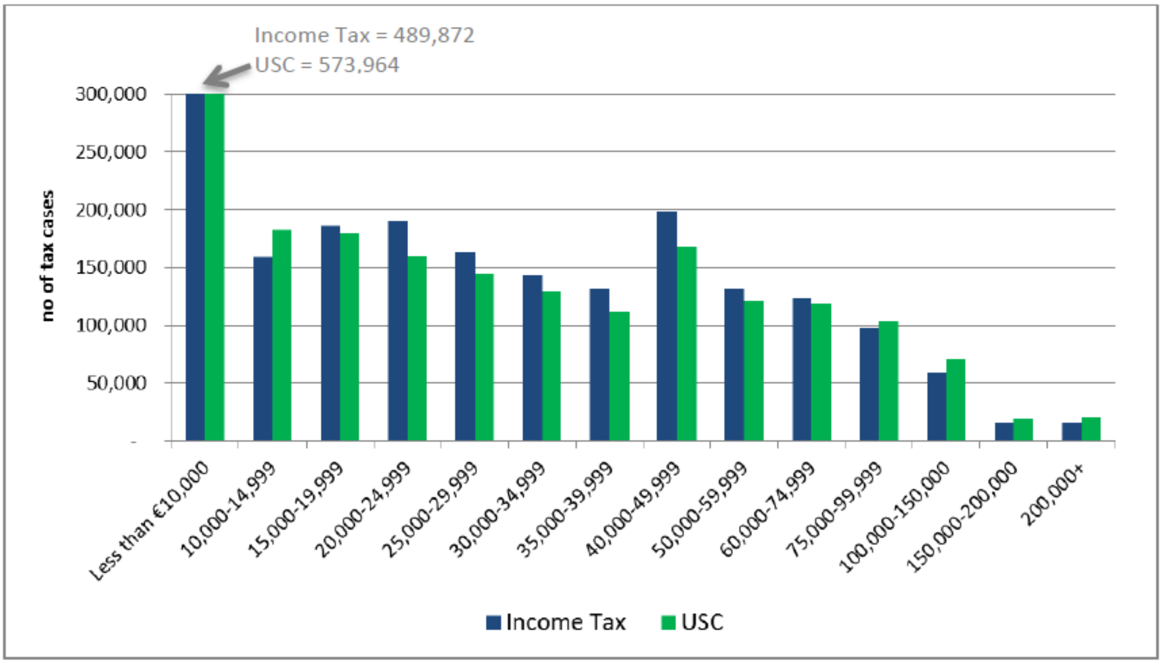
While the remainder of this paper focuses on recent changes to both income taxes and employee Pay Related Social Insurance (PRSI) it should be noted that the taxation system is about a lot more sources of revenue. Indeed as Collins (2014b) showed, the substantial majority of households (between 60% and 70%) principally contribute to the exchequer via indirect taxes. Consequently, considerations of reforms to taxation, be it better and fairer ways of raising or reducing revenue, should be judged in the context of the overall taxation system rather than just narrowly on income related taxes.

INCOME RELATED TAXES

When it comes to income related taxes, there are three concurrent taxation bases – each with different inclusions and exclusions of income sources. These are the income tax base, the USC tax base and the PRSI tax base. Increasingly, driven by incremental policy reforms, the latter two bases have become much closer and are both more comprehensive than the income tax base with continues to accommodate a myriad of credits, allowances, exemptions and tax expenditures.[2] Throughout this section, income taxes refer to the system of bands, rates and credits (20%, 40% etc) while the USC is considered separately with its different base and rates/bands structure.

Chart 2 compares the distribution of tax cases by liability to both income tax and the USC.[3] While tax cases are not the ideal method for assessing the USC, as it is a tax applied to the individual rather than to couples who may be jointly assessed as a tax case, the nature of the distribution is informative. In particular, given that the USC has considerably fewer exemptions than that available under income taxation and as it counts a broader range of income sources, a tax case may be classified as having an income of, say, between €30,000 to €35,000 for income tax purposes and €35,000 to €40,000 for USC purposes.[4] This impact, which is throughout the distribution, is most visible at the higher ranges of tax case incomes (€75,000 plus) where there are greater numbers of cases recorded in these categories than in the equivalent income tax categories. At the other extreme, the USC captures more tax cases with lower incomes (below €15,000) than income tax.

Chart 2: Distribution of Tax Cases by Liability to Income Tax and USC, 2012



Source: Calculated from Revenue online database

Notes: Full data is outlined in Table A2 of the appendix. Note, columns for those with incomes of less than €10,000 have been shortened. This data can also be used to assess the distribution of earners (see NERI, 2015).

[2] See http://www.revenue.ie/en/about/statistics/index.html for the latest data on these measures. The Commission on Taxation (2009) also published a list of all the tax relieving measures in the Irish system in 2007/08 including those it classified as tax expenditures.
[3] The Revenue Commissioners do not publish details of the PRSI tax base.
[4] For example, a single private sector employee with a work related PRSA pension into which their employer contributes will have the both the employee and employer pension contribution disregarded for the purposes of calculating income taxation but counted for the purposes of calculating USC.

Over a series of ten Budgets from 2007 to 2015, including one supplementary or emergency Budget in 2009, there have been significant changes to income related taxes. Over that time, there have been variations to income tax bands, income tax rates, income tax credits, the arrival and departure of the income levy, the abolition of the health levy, the establishment of the USC and a series of changes to PRSI rates, bands, exemptions and thresholds. Table 2 brings together all of these changes across each of the ten Budgets.[5] In doing so it illustrates a transition from sizeable tax reductions (2007 and 2008) to sizeable tax increases (2009, 2009s, 2011 and 2013) and a subsequent return to tax reductions in 2015.

As changes to income related taxes were only one part of the fiscal adjustments made during the period, they offer an insight into only part of the impact on the incomes and living standards of households. Missing are changes to other taxes including indirect taxes (VAT, excises, levies etc), new measures such as the household charge, non-principal private residents charge, the local property tax, reforms to tax reliefs, the introduction of pension levies, changes to social protection payments (including child benefit and the early childhood supplement) and changes to earnings/salaries.

As an attempt to establish the cumulative impact of these income related taxation changes on earners, Table 3 calculates Budget-by-Budget the net income effect for three sample household types. These are a single worker with a gross income of €40,000, a couple with one earner on a gross income of €40,000 and a couple with two earners on a gross income of €50,000. All workers are assumed to be PAYE earners.

Across the entire period, 2007-2015, all earners experienced an increase in the total of income related taxes that they paid. However, given the extent of the taxation reductions in 2007 and 2008, the cumulative effect is a small overall increase in the amount of taxes paid; ranging from 0.2% to 3% of gross income. Judged only from 2009 onwards, when the first of a series of crisis related Budgets were delivered, the changes are more notable with increases in income related taxes of between 4% and 5% of gross income; equivalent to each of the three households examined paying approximately €2,000 extra per year in income related taxes compared to 2009.

[5] The Budgets occurred on the following dates: Budget 2007 - Dec 6th 2006; Budget 2008 - Dec 5th 2007; Budget 2009 - October 14th 2008; Budget 2009 supplementary - April 7th 2009; Budget 2010 - Dec 9th 2009; Budget 2011 - Dec 7th 2010; Budget 2012 - Dec 6th 2011; Budget 2013 - Dec 5th 2012; Budget 2014 - October 15th 2013; and Budget 2015 - October 14th 2014.

Table 2: Income Taxation Measures in Budgets 2007-2015 (10 Budgets)

Budget 2007

Personal tax credits increased by €130 for single person / €260 for married couple
Employee tax credit increased by €270*
Standard rate band increased
 Single earner + €2,000
 Married one income + €2,000
 Married two incomes + €4,000
Higher tax rate reduce by 1% (to 41%)
Age exemption limits increased
 Single earner + €2,000
 Married + €4,000
Health Levy threshold increased by €40 per week
Health Levy rate increased by +0.5% (to 2.5%) for earners above €100,100 per annum
PRSI threshold increased by +€39 (from €300 to €339 per week)

Budget 2008

Personal tax credits increased by €70 for single person / €140 for married couple
Employee tax credit increased by €130*
Standard rate band increased
 Single earner + €1,400
 Married one income + €1,400
 Married two incomes + €2,800
Age exemption limits increased
 Single earner + €1,000
 Married + €2,000
Health Levy threshold increased by €20 per week
PRSI threshold increased by +€13 (from €339 to €352 per week)

Budget 2009

Standard rate band increased
 Single earner + €1,000
 Married one income + €1,000
 Married two incomes + €2,000
Income Levy of 1% on income up to €100,100, 2% on income in excess of €100,100 and 3% on income in excess of €250,120**

Budget 2009 – Supplementary

Income Levy rates: 2% on income up to €75,036, 4% on income in excess of €75,036 and 6% on income in excess of €174,980**
Health Levy rates doubled to 4% and 5% with entry to top rate at €75,036
PRSI ceiling increased from €52,000 to €75,036

Budget 2010

none

Budget 2011

Personal tax credits decreased by €180 for single person / €360 for married couple

Employee tax credit decreased by €180*

Standard rate band decreased

Single earner - €3,600

Married one income - €3,600

Married two incomes - €7,200

Age exemption limits reduced

Single earner - €2,000

Married - €4,000

Income levy and health levy abolished

Universal Social Charge (USC) introduced with rates of 0% where income is less than €4,004, 2% on income from €0 to €10,036, 4% on income from €10,036 to €16,016 and 7% on income in excess of €16,016. Surcharge of 3% on individuals whose non-PAYE income exceeds €100,000.**

PRSI ceiling abolished

Class S PRSI rate (self-employed) increased from 3% to 4%

PRSI introduced on employee contributions to pensions

Budget 2012

USC modified so that 0% rate applies where income is less than €10,036.

Budget 2013

PRSI weekly allowance abolished

Increase in minimum PRSI contribution for self-employed (from €253 to €500)

USC amended so that standard rates apply to those aged 70+yrs with income in excess of €60,000

Budget 2014

One parent family tax credit replaced by a single person child carer tax credit

Budget 2015

Standard rate band increased

Single earner + €1,000

Married one income + €1,000

Married two incomes + €2,000

Higher tax rate reduce by 1% (to 40%)

USC modified so that 0% rate applies where income is less than €12,012, and new rates of: 1.5% on income from €0 to €12,012, 3.5% on income from €12,013 to €17,576, 7% on income from €17,576 to €70,044 and 8% (new band) on income in excess of €70,044. PAYE income in excess of €100,000 at 8% and non-PAYE income in excess of €100,000 at 11%.

Source: Department of Finance (various Budgets)

Notes: The table only summarises changes to direct income taxes. Other indirect taxation measures, local property taxes, reforms to income tax reliefs, changes to DIRT, changes to motor taxes, increases in insurance levies, pension levies for public sector workers alongside changes to welfare payments (including child benefit and early childhood supplement) and earnings will also have impacted on gross incomes, disposable incomes and the buying power of income.
*plus commensurate changes in other credits. **exemptions for low income, medical card holders etc were also part of the design of the income levy and USC.

Table 3: Impact of Budget Income Taxation Measures on the Post-Tax Income of Three Sample Household Types, 2007-2015 (10 Budgets)

	Single Earner €40,000	Couple One Earner €40,000	Couple Two Earners €50,000
Budget 2007	+900	+530	+1,736
Budget 2008	+434	+210	+280
Budget 2009	-190	-400	-500
Budget 2009 S*	-1,200	-1,200	-1,325
Budget 2010	0	0	0
Budget 2011	-834	-258	-363
Budget 2012	0	0	0
Budget 2013	-264	-264	-264
Budget 2014	0	0	0
Budget 2015	+446	+174	+346
Change 2007-2015			
Total €	-708	-1,208	-90
% Gross Income	-1.8%	-3%	-0.2%
Change 2009-2015			
Total €	-2,042	-1,948	-2,106
% Gross Income	-5.1%	-4.9%	-4.2%

Source: Department of Finance Budget documentation and authors calculations

Notes: * Supplementary Budget delivered in April 2009. Calculations assume PAYE workers on full rate PRSI and for couples gross income splits 65%/35%.

A further insight into the nature and scale of changes to income related taxes since 2007 is offered by Table 4. It presents effective or average taxation rates for three categories of PAYE earners (single earners, couples with one earner and couples with two earners). An effective taxation rate offers the most informative summary measure of income taxes, as it calculates the percentage of gross income that is paid in various income taxes taking account of all the different bands, rates, thresholds, exemptions and levies. Simply, an employee with a gross income of €30,000 who pays €6,000 in total income taxes (PRSI, USC, income tax) has an effective taxation rate of 20%.

The data in Table 4 is for the period since 1997; an overview which offers an insight into significant changes in effective income taxation rates for that period. A few caveats accompany the table. First, the gross income amount is not adjusted for any changes in prices across the period, although €30,000 in 2005 is not the same as €30,000 in 2015; adjusting for prices would alter the shaped of the changes somewhat though not dramatically.[6] For the purposes of the calculations (in particular establishing the PRSI liability) as assumption of an income split (65%/35%) has been made for the couple with two earners. Finally, the established effective taxation rates are the (benchmark) taxation rates that an employee would face if they availed of no tax expenditures such as those for health expenses, education fees, public transport tickets

[6] A future paper will present effective rates adjusted for changes in price levels.

etc. Where employees avail of such measures, or receive tax exempt income (child benefit etc), their effective taxation rates will be below these rates.[7]

Table 4: Trends in Effective Income Taxation Rates, 1997-2015

	1997	2000	2005	2007	2011	2014	2015
Single Earner							
€15,000	23.0%	13.9%	3.2%	0.0%	2.7%	2.7%	1.9%
€20,000	28.5%	19.1%	8.4%	5.1%	9.8%	11.1%	10.2%
€25,000	33.7%	24.0%	13.5%	10.9%	14.0%	15.1%	14.4%
€30,000	37.1%	28.4%	16.0%	13.4%	16.8%	17.7%	17.1%
€40,000	40.6%	33.3%	24.0%	19.7%	24.2%	24.8%	23.7%
€60,000	43.9%	37.7%	31.1%	28.1%	33.4%	33.9%	32.8%
€100,000	46.5%	41.1%	36.3%	34.2%	40.9%	41.1%	40.4%
€120,000	47.1%	41.9%	37.6%	35.7%	42.7%	42.9%	42.3%
Couple 1 Earner							
€15,000	15.0%	2.5%	2.2%	0.0%	2.7%	2.7%	1.9%
€20,000	20.7%	8.3%	2.7%	2.7%	6.3%	7.6%	6.7%
€25,000	23.1%	12.3%	4.9%	4.9%	7.2%	8.3%	7.6%
€30,000	24.6%	15.0%	7.8%	5.1%	8.6%	9.5%	8.9%
€40,000	29.2%	20.2%	13.2%	10.2%	14.2%	14.9%	14.5%
€60,000	36.3%	29.0%	23.9%	20.8%	26.2%	26.6%	25.7%
€100,000	42.0%	35.9%	32.0%	29.7%	36.5%	36.8%	36.1%
€120,000	43.3%	37.6%	34.0%	32.0%	39.1%	39.3%	38.8%
Couple 2 Earners							
€15,000	11.1%	0.8%	0.0%	0.0%	2.0%	0.0%	0.0%
€20,000	15.9%	6.1%	0.0%	0.0%	2.3%	1.6%	1.1%
€25,000	20.3%	11.0%	1.5%	0.0%	2.5%	1.8%	1.3%
€30,000	22.2%	14.6%	2.7%	1.7%	4.7%	5.6%	4.3%
€40,000	28.5%	17.5%	9.0%	5.6%	9.2%	9.8%	9.1%
€60,000	36.6%	28.0%	16.0%	12.7%	16.8%	17.7%	17.2%
€100,000	42.6%	35.9%	28.8%	24.6%	29.7%	30.3%	29.4%
€120,000	43.9%	37.7%	31.0%	27.9%	33.4%	33.9%	33.0%

Source: Budget 2007, Budget 2012, Budget 2015, Social Justice Ireland Socio-Economic Reviews (various editions) and author's calculations.

Notes: Effective income taxation rates measure the percentage of gross income paid in income taxes (including USC, Health and income levies) and employee PRSI.

A summary of the changes to effective rates is presented in Table 5. Rates fell across the entire period 1997-2015 for all earner types and most notably for those on lower earnings. All experienced an increase in effective rates between 2007-2015 and the shape of those increases has been progressive (higher earners experienced greater increases in their effective rates).

[7] See Collins (2013) who estimated these rates (after the various exemptions) for households and individuals using CSO SILC data and data from the Revenue Commissioners Statistical Reports.

Table 5: Changes to Effective Income Taxation Rates, 1997-2015

	1997-2015	2000-2015	2007-2015
Single Earner			
€15,000	-21.1%	-12.0%	+1.9%
€20,000	-18.3%	-8.9%	+5.1%
€25,000	-19.3%	-9.6%	+3.5%
€30,000	-20.0%	-11.3%	+3.7%
€40,000	-16.9%	-9.6%	+4.0%
€60,000	-11.1%	-4.9%	+4.7%
€100,000	-6.1%	-0.7%	+6.2%
€120,000	-4.8%	+0.4%	+6.6%
Couple 1 Earner			
€15,000	-13.1%	-0.6%	+1.9%
€20,000	-14.0%	-1.6%	+4.0%
€25,000	-15.5%	-4.7%	+2.7%
€30,000	-15.7%	-6.1%	+3.8%
€40,000	-14.7%	-5.7%	+4.3%
€60,000	-10.6%	-3.3%	+4.9%
€100,000	-5.9%	+0.2%	+6.4%
€120,000	-4.5%	+1.2%	+6.8%
Couple 2 Earners			
€15,000	-11.1%	-0.8%	+0.0%
€20,000	-14.8%	-5.0%	+1.1%
€25,000	-19.0%	-9.7%	+1.3%
€30,000	-17.9%	-10.3%	+2.6%
€40,000	-19.3%	-8.4%	+3.5%
€60,000	-19.4%	-10.9%	+4.5%
€100,000	-13.2%	-6.5%	+4.8%
€120,000	-10.9%	-4.7%	+5.1%

Source: See Table 4.

Notes: See Table 4.

THE UNIVERSAL SOCIAL CHARGE

One of the most notable changes to income relates taxes over the period 2007-2015 has been the introduction of the Universal Social Charge (USC). Although introduced in Budget 2011, to replace the income levy and health levy, the concept was first outlined by the then Minister for Finance, Brian Lenihan, in his 2010 Budget speech. Then he stated:

> *"It is my objective to introduce in 2011 a new system of just two charges on income.*
>
> > *A new universal social contribution will replace employee PRSI, the Health Levy and the Income Levy. It will be paid by everyone at a low rate on a wide base as a collective contribution to public services.*
> >
> > *Income Tax will apply on a progressive basis to those with higher incomes reflecting their capacity to make a greater contribution.*
>
> *These changes pose a challenge but we cannot continue with the current system. I look forward to working with my colleagues in Government on this reform and the closer integration of the tax and social welfare system"* (Budget 2010: A8).

What followed in Budget 2011, and subsequently, was not as ambitious as the Minister's Budget 2010 objectives. PRSI remained as a stand alone tax/contribution, while the income levy and health levy merged into the renamed USC (with 'charge' replacing 'contribution'). However, as outlined earlier, the USC did achieve its goal of levying tax across a broader base than income taxes.

Given the breath of its base, the USC has consequently become a significant source of exchequer revenue. Table 6 outlines the yield from the USC since 2011. Estimates for both 2014 and 2015 suggest that the total USC yield will be in excess of €4 billion – approximately 7.5% of all taxation revenues.[8]

Table 6: Revenue from Universal Social Charge, 2011-2014

Year	USC revenue €bn
2011	3.114
2012	3.790
2013	3.930
2014*	4.000

Source: Revenue Commissioners (2015a) and Budget 2015 (C:19)

Notes: *Estimate from Parliamentary Question reply by Minister for Finance (48176/14 – December 16th 2014).

Table 7 outlines the distribution of USC revenues across the tax case distribution in 2012. The design of the USC exempts those with very low incomes (below €10,036) in 2012 so that over 570,000 tax cases with income below €10,000 are exempt. As detailed in Table 2, Budget 2012 raised this low income exemption from €4,004 to €10,036 at a cost of €47 million (Budget

[8] Final figures for 2014 are dependent on the returns from self-employed tax payers. Although these taxpayers pre-paid most of their 2014 taxes in October/November 2014 any outstanding balances will not be finalised until October/November 2015.

2012: B5). In 2011, the USC collected an average of €90 per annum (€1.73 per week) from earners in this income category.

On the basis of the 2012 figures (see Table 7), 12% of all USC revenues come from those tax cases with incomes of less than €30,000 per annum; 30% comes from those with incomes between €30,000 and €60,000; 25% comes from those with incomes between €60,000 and €100,000; and 33% comes from those tax cases with incomes in excess of €100,000.

Table 7: Source of USC Revenue, by the gross income of tax cases, 2012

	No of income cases	USC deducted	% of total USC collected	Effective rate
Under 10,000	573,964	0.0	0.00	0.0%
10,000 to 12,000	76,045	18.2	0.48	2.2%
12,000 to 15,000	106,434	36.1	0.95	2.5%
15,000 to 17,000	71,668	31.9	0.84	2.8%
17,000 to 20,000	108,494	64.7	1.70	3.2%
20,000 to 25,000	160,406	136.2	3.57	3.8%
25,000 to 27,000	59,268	63.8	1.67	4.1%
27,000 to 30,000	85,890	106.0	2.78	4.3%
30,000 to 35,000	130,074	193.3	5.07	4.6%
35,000 to 40,000	111,485	201.4	5.28	4.8%
40,000 to 50,000	167,989	381.8	10.02	5.1%
50,000 to 60,000	121,355	354.5	9.30	5.3%
60,000 to 75,000	119,440	438.6	11.51	5.5%
75,000 to 100,000	103,587	507.3	13.31	5.7%
100,000 to 150,000	70,973	508.8	13.35	6.0%
150,000 to 200,000	19,734	213.6	5.60	6.3%
200,000 to 275,000	10,305	158.1	4.15	6.6%
275,000 and over	10,097	397.6	10.43	7.4%
All ranges of income	**2,107,208**	**3,811.7**	**100.00**	

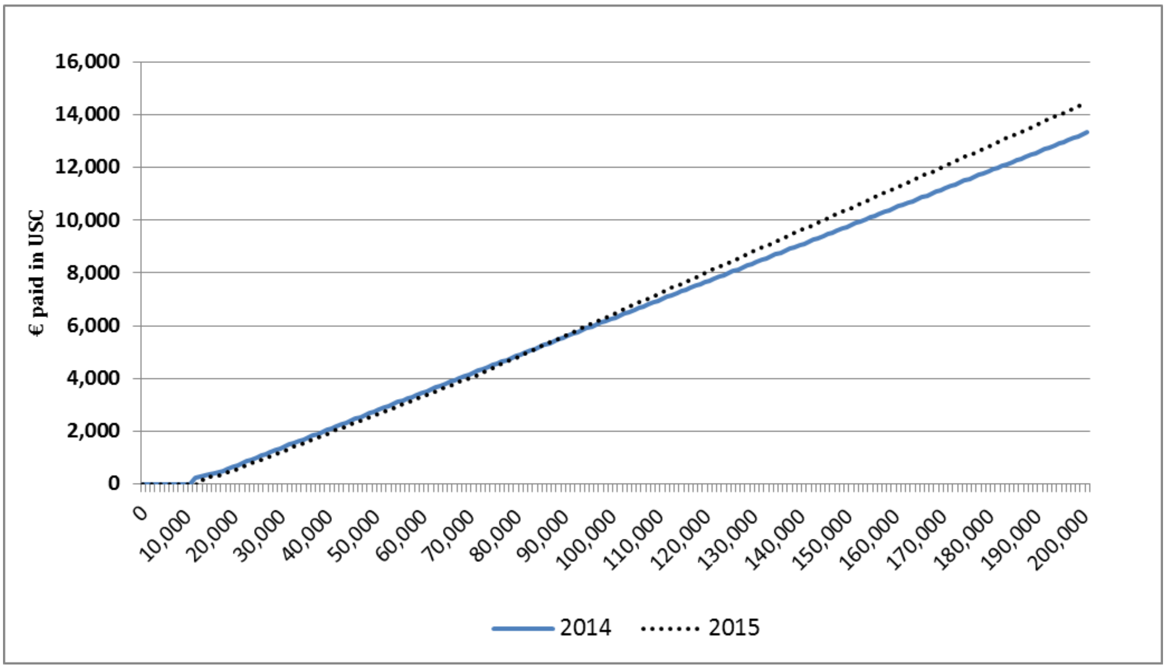
Source: Calculated from Revenue Commissioners online database

Note: There is a small discrepancy between the total USC revenue reported in table 6 and table 7 for 2012. This is likely to be due to revisions by the Revenue Commissioners as self-employment tax returns are finalised.

The design of the USC, whether in its original format in 2011 or given subsequent amendments, leads to it being a progressive tax collected across a broad base. Charts 3 and 4 illustrate the shape of the USC in 2014 and following Budget 2015. In Budget 2015 the USC was used by Government as a method to limit the gains to single taxpayers on incomes in excess of €70,044 from a reduction in the higher rate of income tax (see Table 2).[9] Chart 3 first presents the nominal amount of USC a taxpayers pays on their liable income while Chart 4 presents this as a percentage of gross income.

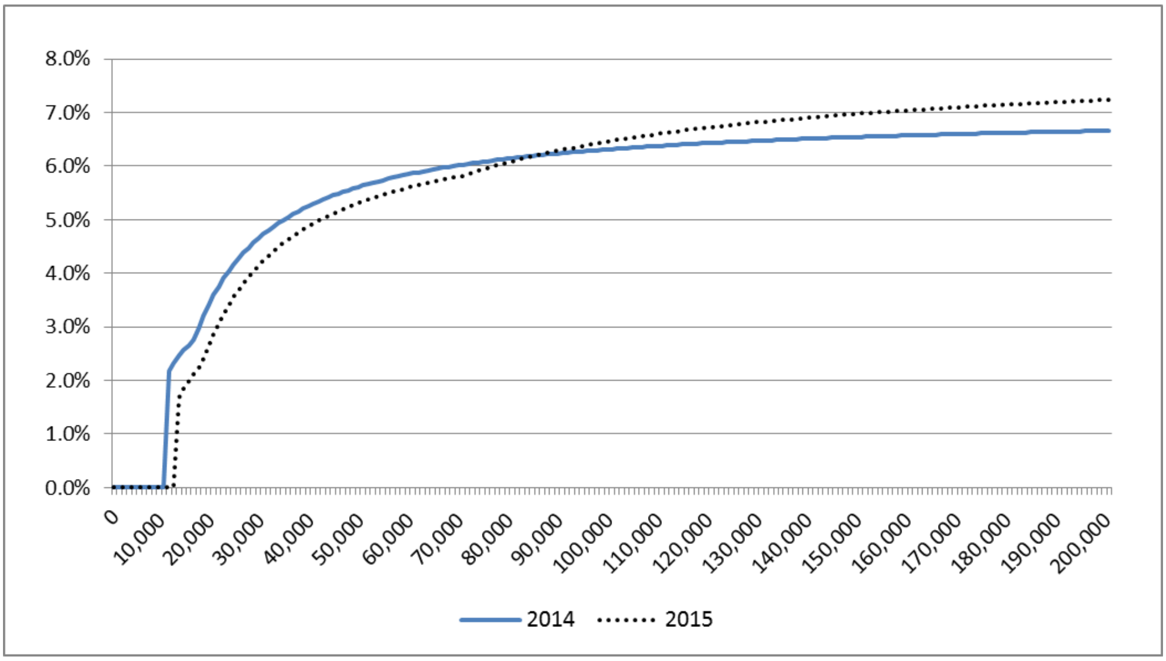
[9] The design also limited gains to couples.

Chart 3: Amount of USC paid by individuals, 2014 and 2015



Note: USC amounts for 2015 are presented in table A3 of the appendix.

Chart 4: Amount of USC paid as a % of Gross Income liable to USC, 2014 and 2015



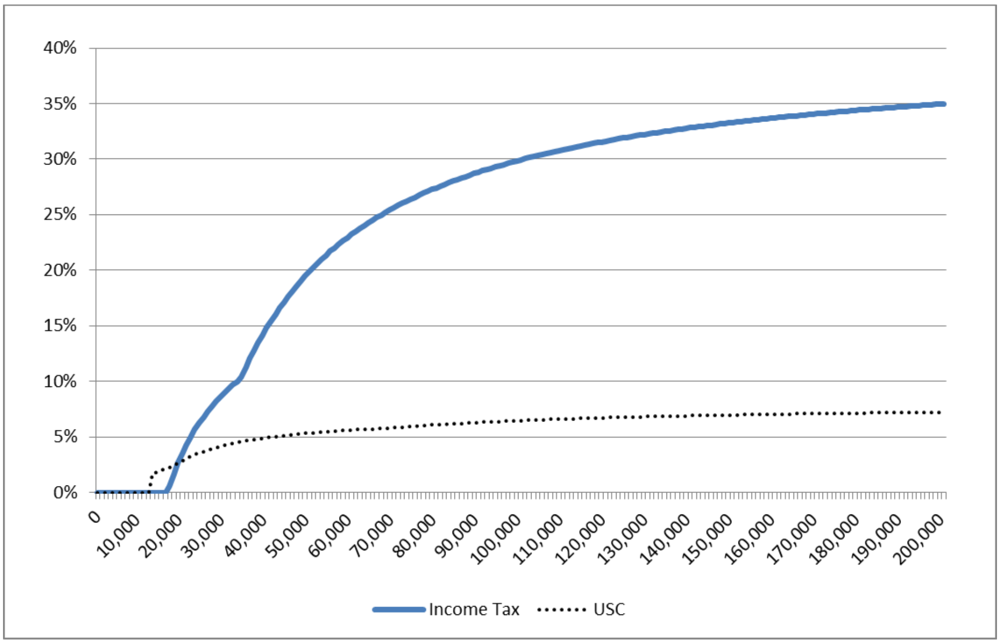
Note: USC amounts for 2015 are presented in table A3 of the appendix.

The progressivity of a particular tax, or change to a tax, is generally measured by assessing it relative to gross income. Chart 4 demonstrates that the USC is progressive, as incomes increase, so does the USC. However, its shape also points towards the fact that the tax could be more progressive. In low income ranges (€12,000-€18,000) there are a series of step-effects in the design of the USC which lift individuals on to higher rates (see Table 8). Subsequently, these steps are few (if absent) a feature which reduces the progressivity of the tax. A further comparison of the progressivity of income taxes and the USC further illustrates the limits to this progressivity (see Chart 5). Were further enhancements to the progressivity of the USC an objective, the potential for additional rates between €17,576 and €70,044 and others above this threshold is an obvious starting point (2015 structure).[10]

Table 8: Universal Social Charge Rates and Thresholds 2014 and 2015

2014 Structure	
Income up to €10,036.00	2%
Income from €10,036.01 to €16,016.00	4%
Income above €16,016.00	7%
Non-PAYE Income above €100,000	11%
2015 Structure	
Income up to €12,012.00	1.5%
Income from €12,012.01 to €17,576.00	3.5%
Income from€17,576.01 to €70,044.00	7%
Income above €70,044.00	8%
Non-PAYE Income above €100,000	11%

Chart 5: A Comparison of the Progressivity of Income Tax and USC in 2015 (single PAYE earner), as % of Gross Income



[10] TASC (2014:38) note that in the past, there were five and six rates of income tax demonstrating the feasibility of inserting further rates and bands into the current Irish system.

Alongside inserting further rates and bands into the USC, a further option may be to revisit the original USC proposal from 2010 by abolishing employee PRSI and merging it into the USC – perhaps with 'charge' once again becoming 'contribution'. Revenue from the measure could also be further tied (partially or fully hypothecated) to social insurance and public services along the lines of the aforementioned original 2010 proposal. Based on the 2013 Department of Social Protection Statistical Report, the yield from both employee and self-employed PRSI in 2013 was almost €2 billion; meaning that merging this into the USC would also greatly increase the potential revenue from any revised USC (DSP, 2013: 13). The process is further simplified by the recent alignment of the USC and PRSI bases, which through different are much nearer to each other than they were in 2010.[11]

The converse of such a reform, where the USC is fully or partially abolished/reduced and merged into PRSI, could also be an option; although this carries challenges as the comprehensiveness of the USC base means it captures revenue from all sources of income not just employment or self-employment.

The full-year costs of making changes to the 2015 structure of the USC are outlined in table 9. While the entire elimination of the taxation source would cost approximately €4 billion, an amount that would most likely have to be replaced by changes to other taxation measures, costs for smaller changes to the current system of rates and bands are also detailed.

Table 9: Cost of Changes to USC, post-Budget 2015 basis

Change	Cost (full year)
Abolish*	€4.0 billion
Change to Rates	
Decrease 1.5% rate to 0.5%	€235m
Decrease 3.5% rate to 2.5%	€101m
Decrease 7% rate to 6%	€368m
Decrease 8% rate to 7%	€113m
Change to Bands	
Increase 1.5% band by €1,000 to €13,012	€48m
Increase 3.5% band by €1,000 to €13,012-€18,576	€108m
Increase 7% band by €1,000 to €18,576-€71,044	€60m
Increase 8% band by €1,000 to €72,044+	€1.9m

Source: Revenue Commissioners (2015b) and *estimate from Parliamentary Question reply by Minister for Finance (48176/14 – December 16th 2014).

[11] In 2013 employee PRSI yielded €1,579,545 million while PRSI from the self-employed yielded €397,079 million (DSP, 2013:13)

CONCLUSION

The economic turmoil of the last number of years has impacted in numerous ways on the living standards and incomes of individuals and households across Irish society. Within the area of income related taxes, changes have been dramatic and often rapid, driven by the decline in overall Government taxation revenues between 2007 and 2010. The onset of a much delayed period of economic stability, one slowly unfolding, offers an opportunity to reform and, ideally, improve our current system of income related taxes. As these provide approximately 37% of state taxation revenues (including employee PRSI) there is merit in doing this slowly and in the context of ensuring a sustainable and stable revenue source for the decades to come.

This paper offers a review of the current system, set in the context of changes over recent years and serves as a contribution to an ongoing NERI research project on reforms to taxation.

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APPENDICES

Table A1: Tends in Total Taxation as a % GDP, 2000-2012

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Ireland	31.5	29.7	28.3	28.8	30.1	30.6	32.1	31.5	29.5	28.1	28.0	28.2	28.7
EU-28	n/a	n/a	38.8	38.8	38.6	38.9	39.4	39.3	39.2	38.3	38.3	38.8	39.4
EU-27	40.3	39.4	38.8	38.8	38.6	38.9	39.4	39.3	39.2	38.3	38.3	38.8	39.4
Euro18	40.9	40.0	39.5	39.5	39.2	39.4	40.0	40.0	39.6	39.1	39.0	39.5	40.4
Euro17	40.9	40.0	39.5	39.5	39.2	39.4	40.0	40.0	39.6	39.1	39.0	39.5	40.4

Source: Eurostat (2014: 174)

Table A2: Distribution of Tax Cases by liability to Income Tax and USC, 2012

	Income Tax	USC	Income Tax %	USC %
Less than €10,000	489,872	573,964	23.3	27.2
10,000-14,999	159,542	182,479	7.6	8.7
15,000-19,999	186,029	180,162	8.8	8.6
20,000-24,999	190,506	160,406	9.0	7.6
25,000-29,999	163,697	145,158	7.8	6.9
30,000-34,999	142,925	130,074	6.8	6.2
35,000-39,999	131,902	111,485	6.3	5.3
40,000-49,999	198,955	167,989	9.4	8.0
50,000-59,999	131,531	121,355	6.2	5.8
60,000-74,999	123,873	119,440	5.9	5.7
75,000-99,999	97,592	103,587	4.6	4.9
100,000-150,000	59,130	70,973	2.8	3.4
150,000-200,000	15,569	19,734	0.7	0.9
200,000+	16,085	20,402	0.8	1.0
Total	**2,107,208**	**2,107,208**	**100.0**	**100.0**

Source: Calculated from Revenue online database

Table A3: USC Liabilities in Nominal and as a % Gross Income term for 2015

Gross Income	USC €	USC %	Gross Income	USC €	USC %	Gross Income	USC €	USC %
0	0	0	67,000	3862.42	5.8%	134,000	9191.98	6.9%
1,000	0.00	0.0%	68,000	3932.42	5.8%	135,000	9271.98	6.9%
2,000	0.00	0.0%	69,000	4002.42	5.8%	136,000	9351.98	6.9%
3,000	0.00	0.0%	70,000	4072.42	5.8%	137,000	9431.98	6.9%
4,000	0.00	0.0%	71,000	4151.98	5.8%	138,000	9511.98	6.9%
5,000	0.00	0.0%	72,000	4231.98	5.9%	139,000	9591.98	6.9%
6,000	0.00	0.0%	73,000	4311.98	5.9%	140,000	9671.98	6.9%
7,000	0.00	0.0%	74,000	4391.98	5.9%	141,000	9751.98	6.9%
8,000	0.00	0.0%	75,000	4471.98	6.0%	142,000	9831.98	6.9%
9,000	0.00	0.0%	76,000	4551.98	6.0%	143,000	9911.98	6.9%
10,000	0.00	0.0%	77,000	4631.98	6.0%	144,000	9991.98	6.9%
11,000	0.00	0.0%	78,000	4711.98	6.0%	145,000	10071.98	6.9%
12,000	0.00	0.0%	79,000	4791.98	6.1%	146,000	10151.98	7.0%
13,000	219.70	1.7%	80,000	4871.98	6.1%	147,000	10231.98	7.0%
14,000	259.70	1.9%	81,000	4951.98	6.1%	148,000	10311.98	7.0%
15,000	299.70	2.0%	82,000	5031.98	6.1%	149,000	10391.98	7.0%
16,000	339.70	2.1%	83,000	5111.98	6.2%	150,000	10471.98	7.0%
17,000	379.70	2.2%	84,000	5191.98	6.2%	151,000	10551.98	7.0%
18,000	432.42	2.4%	85,000	5271.98	6.2%	152,000	10631.98	7.0%
19,000	502.42	2.6%	86,000	5351.98	6.2%	153,000	10711.98	7.0%
20,000	572.42	2.9%	87,000	5431.98	6.2%	154,000	10791.98	7.0%
21,000	642.42	3.1%	88,000	5511.98	6.3%	155,000	10871.98	7.0%
22,000	712.42	3.2%	89,000	5591.98	6.3%	156,000	10951.98	7.0%
23,000	782.42	3.4%	90,000	5671.98	6.3%	157,000	11031.98	7.0%
24,000	852.42	3.6%	91,000	5751.98	6.3%	158,000	11111.98	7.0%
25,000	922.42	3.7%	92,000	5831.98	6.3%	159,000	11191.98	7.0%
26,000	992.42	3.8%	93,000	5911.98	6.4%	160,000	11271.98	7.0%
27,000	1062.42	3.9%	94,000	5991.98	6.4%	161,000	11351.98	7.1%
28,000	1132.42	4.0%	95,000	6071.98	6.4%	162,000	11431.98	7.1%
29,000	1202.42	4.1%	96,000	6151.98	6.4%	163,000	11511.98	7.1%
30,000	1272.42	4.2%	97,000	6231.98	6.4%	164,000	11591.98	7.1%
31,000	1342.42	4.3%	98,000	6311.98	6.4%	165,000	11671.98	7.1%
32,000	1412.42	4.4%	99,000	6391.98	6.5%	166,000	11751.98	7.1%
33,000	1482.42	4.5%	100,000	6471.98	6.5%	167,000	11831.98	7.1%
34,000	1552.42	4.6%	101,000	6551.98	6.5%	168,000	11911.98	7.1%
35,000	1622.42	4.6%	102,000	6631.98	6.5%	169,000	11991.98	7.1%
36,000	1692.42	4.7%	103,000	6711.98	6.5%	170,000	12071.98	7.1%
37,000	1762.42	4.8%	104,000	6791.98	6.5%	171,000	12151.98	7.1%
38,000	1832.42	4.8%	105,000	6871.98	6.5%	172,000	12231.98	7.1%
39,000	1902.42	4.9%	106,000	6951.98	6.6%	173,000	12311.98	7.1%
40,000	1972.42	4.9%	107,000	7031.98	6.6%	174,000	12391.98	7.1%
41,000	2042.42	5.0%	108,000	7111.98	6.6%	175,000	12471.98	7.1%
42,000	2112.42	5.0%	109,000	7191.98	6.6%	176,000	12551.98	7.1%
43,000	2182.42	5.1%	110,000	7271.98	6.6%	177,000	12631.98	7.1%
44,000	2252.42	5.1%	111,000	7351.98	6.6%	178,000	12711.98	7.1%
45,000	2322.42	5.2%	112,000	7431.98	6.6%	179,000	12791.98	7.1%
46,000	2392.42	5.2%	113,000	7511.98	6.6%	180,000	12871.98	7.2%
47,000	2462.42	5.2%	114,000	7591.98	6.7%	181,000	12951.98	7.2%
48,000	2532.42	5.3%	115,000	7671.98	6.7%	182,000	13031.98	7.2%
49,000	2602.42	5.3%	116,000	7751.98	6.7%	183,000	13111.98	7.2%
50,000	2672.42	5.3%	117,000	7831.98	6.7%	184,000	13191.98	7.2%
51,000	2742.42	5.4%	118,000	7911.98	6.7%	185,000	13271.98	7.2%
52,000	2812.42	5.4%	119,000	7991.98	6.7%	186,000	13351.98	7.2%
53,000	2882.42	5.4%	120,000	8071.98	6.7%	187,000	13431.98	7.2%
54,000	2952.42	5.5%	121,000	8151.98	6.7%	188,000	13511.98	7.2%
55,000	3022.42	5.5%	122,000	8231.98	6.7%	189,000	13591.98	7.2%
56,000	3092.42	5.5%	123,000	8311.98	6.8%	190,000	13671.98	7.2%
57,000	3162.42	5.5%	124,000	8391.98	6.8%	191,000	13751.98	7.2%
58,000	3232.42	5.6%	125,000	8471.98	6.8%	192,000	13831.98	7.2%
59,000	3302.42	5.6%	126,000	8551.98	6.8%	193,000	13911.98	7.2%
60,000	3372.42	5.6%	127,000	8631.98	6.8%	194,000	13991.98	7.2%
61,000	3442.42	5.6%	128,000	8711.98	6.8%	195,000	14071.98	7.2%
62,000	3512.42	5.7%	129,000	8791.98	6.8%	196,000	14151.98	7.2%
63,000	3582.42	5.7%	130,000	8871.98	6.8%	197,000	14231.98	7.2%
64,000	3652.42	5.7%	131,000	8951.98	6.8%	198,000	14311.98	7.2%
65,000	3722.42	5.7%	132,000	9031.98	6.8%	199,000	14391.98	7.2%
66,000	3792.42	5.7%	133,000	9111.98	6.9%	200,000	14471.98	7.2%