INCOME TAX REFORM PLAN

July 2016

An Roinn Airgeadais
Department of Finance

Income Tax Reform Plan

July 2016

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Introduction

0.1 The Programme for a Partnership Government, published in May 2016, committed to the development of a medium-term income tax reform plan for consultation with the Oireachtas by July 2016. The purpose of the plan is to review Ireland's system of personal taxation as a whole, to consider the socio-economic impacts of personal taxation, and to examine options for future reform within the personal tax system.

0.2 In 2016, it is estimated that personal income taxes of over €19 billion will be raised for the Exchequer, representing over 40% of the total tax take. Of this, income tax is expected to comprise c.€14 billion, USC is expected to comprise c.€4 billion, and savings and investment withholding taxes c.€1 billion. Pay Related Social Insurance (PRSI) revenue accrues directly to the Social Insurance Fund, and as such is not included in figures for Exchequer tax receipts. PRSI revenue in 2015 amounted to €8.45 billion.

0.3 The second highest contributor to the overall tax take is VAT, which is estimated to yield over 27% of total Exchequer tax receipts in 2016. Excise duties are expected to yield approximately 12% of the total while corporation tax is estimated to yield slightly less. VAT is largely governed by EU Directives, which require unanimity among Member States before changes can be permitted. Excise duties similarly, are subject to certain EU Directives. Thus the largest contributor to the Exchequer, personal income taxes, is also the area of taxation over which Ireland retains most control.

0.4 The nature of work and the opportunities for income earning across an individual's lifespan are undergoing significant change. Few individuals entering the workforce today are likely to remain in the same employment, or possibly even in the same sector, for all of their working lives. Workers may move between employment and self-employment, and e-commerce and the sharing economy are giving rise to new and varied methods of income earning.

0.5 It is therefore appropriate that the system of personal taxation is reviewed regularly to ensure that it continues to meet the basic requirements of raising revenue in an efficient and equitable manner for the purposes of financing Government expenditures including social transfers, and contributing to the achievement of the Government's social and economic objectives.

0.6 It is important to acknowledge that this report looks at potential reforms of the personal tax system only and taxation measures, by definition, can only be of relevance to individuals within the scope of taxation. The annual Budget package is comprised of both taxation and expenditure measures, and it is the expenditure measures, in particular the social welfare supports, which are of primary relevance to low-income earners.

0.7 This paper sets out in Section 1 the current structure and recent evolution of the personal tax system. In Section 2 it provides comparisons of the tax burden in Ireland to selected competitor jurisdictions and to EU and OECD averages. Section 3 summarises the main economic considerations relevant to growth-friendly reform of a tax system. Section 4 provides detail on some of the facets of the current personal tax system in Ireland which have been the subject of proposals for reform, several of which are the subject of the reform commitments made in the Programme for a Partnership Government outlined in Section 5. Finally, Section 6 proposes a number of options for the potential reform of the income tax system, including a number of options for the continued phasing-out of the USC.

1. Current personal tax system – rates and recent developments

Income Tax

1.1 The 2016 rates and bands of income tax are as follows:

- 20% rate on income within standard rate band
- 40% on income in excess of standard rate band

Taxpayer	Standard Rate Band
Single	€33,800
Single Parent	€37,800
Married – one earner	€42,800
Married – two earners (max)*	€67,600

*Where each spouse earns a minimum of €24,800.

1.2 Spouses and civil partners may elect for joint assessment under the income tax system, whereby the combined income of the couple is assessed in the name of the higher earner, net of their combined reliefs and credits. This can allow for a reduction in the couple's overall tax liability as compared to separate assessment due to the transferability of the married tax credit and a portion of the standard rate band.

1.3 A limited number of income tax reliefs (which reduce a taxpayer's taxable income, thereby giving relief at the marginal rate of tax) are available, as the majority of tax reliefs were converted into standard-rated tax credits in 2001. The main deductible reliefs which remain are for pension contributions and nursing home fees. The liability calculated on taxable income is then reduced by tax credits which are available to the taxpayer, as determined by his or her personal circumstances. The most common of these include:

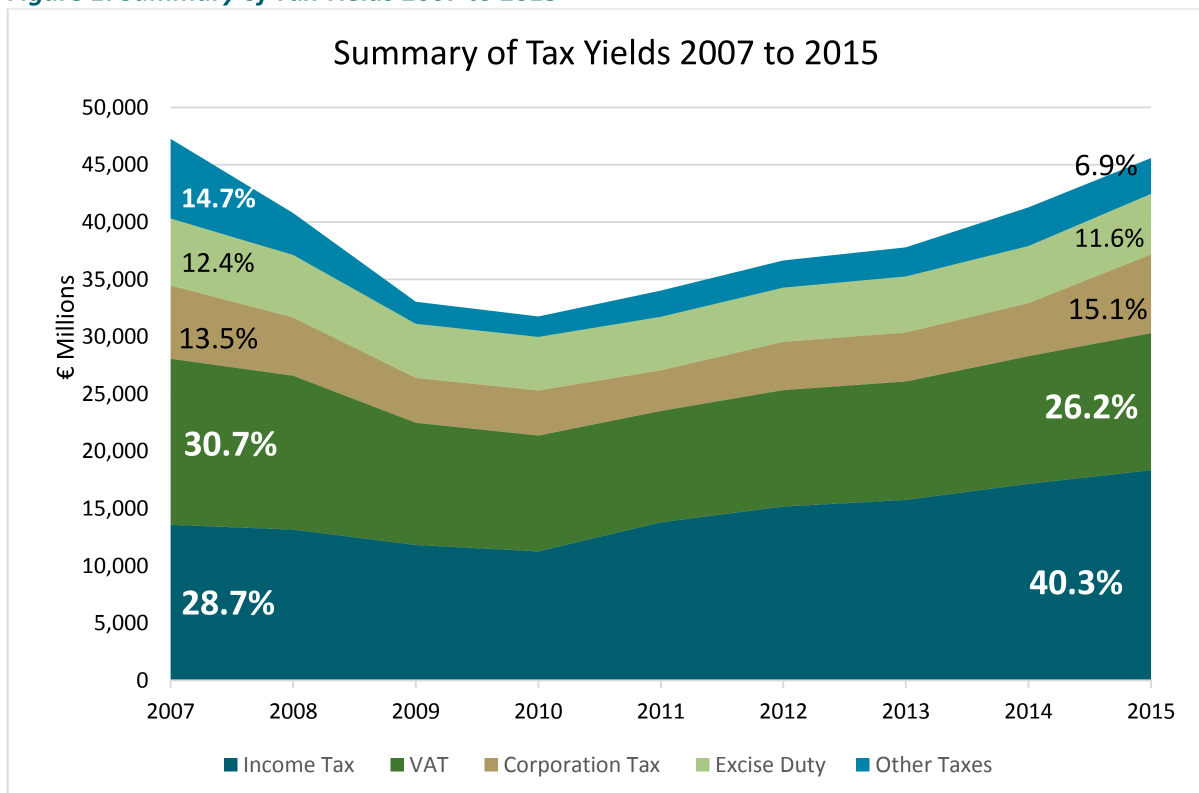
- Personal tax credit (single) €1,650
- Personal tax credit (married) €3,300
- Personal tax credit (widowed person) €2,190
- Single Person Child Carer €1,650
- Home Carer credit €1,000
- PAYE credit €1,650
- Earned income credit €550
- Age credit €245
- Health expenses 20% of qualifying expenses

1.4 The income tax system also contains two tax credits which operate by means of tax relief at source (TRS) – mortgage interest relief and medical insurance relief. TRS reduces the immediate cost to the taxpayer of their mortgage payment or insurance premium, and also allows individuals who do not have an income tax liability to benefit from the relief. Both reliefs incorporate caps on the maximum value of the interest or premium which qualifies for tax relief, and mortgage interest relief is currently scheduled to cease at end-2017.

1.5 The income tax system also provides for some sector-specific reliefs and incentives, which are introduced and adapted over time to facilitate specific socio-economic objectives of the Government of the time. Such reliefs currently available include, for example, the Home Renovation Incentive, the Employment and Investment Incentive, and the Living City Initiative.

1.6 It is estimated that Income Taxes (including USC) of over €19 billion will be raised in 2016 for the Exchequer, representing almost 40% of the total tax take. Income tax and USC therefore now comprise the single largest source of tax revenue to the Exchequer, having surpassed the proportion contributed by VAT in 2009.

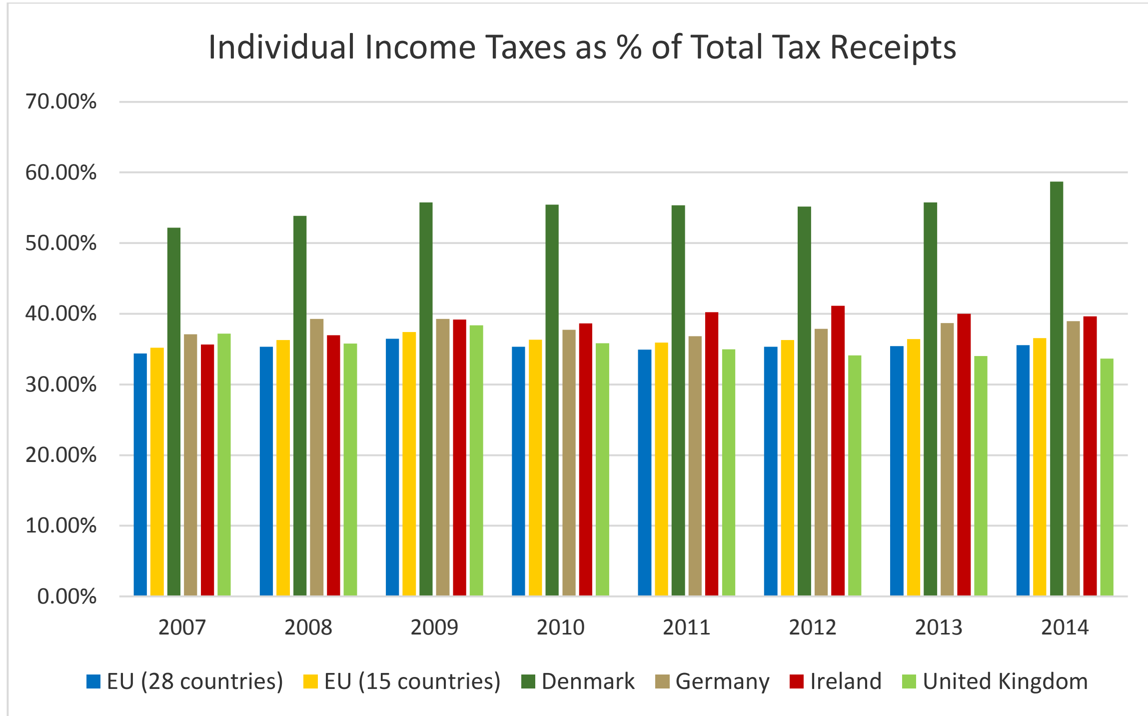
Figure 1: Summary of Tax Yields 2007 to 2015



Data source: Department of Finance

1.7 The proportion which income taxes bears to total tax receipts in Ireland has been slightly above the EU average in recent years, as illustrated in the chart below, but has begun a move back towards those averages in 2013 and 2014. Sourcing an above-average amount of tax receipts from income taxes should be reflected upon in the context of the OECD tax hierarchy, discussed later in this document, which ranks income taxes second only to corporation tax in terms of its negative impact on economic growth.

Figure 2: Individual Income Taxes as % of Total Tax Receipts



Data source: Eurostat

Note: This chart is based on Eurostat data and refers to income taxes only, not social insurance charges. The proportion for Denmark appears unusually high but it should be noted that their separate social security charge is proportionately much lower than other countries.

1.8 As illustrated in the 2007 to 2015 summary of Irish Tax Yields above, income tax revenues have taken on a more significant proportion of tax revenue raising since the financial crisis and property market collapse. Many factors have played a part in this transition:

- The property market crash caused an immediate fall in related tax receipts, such as VAT, capital gains tax and stamp duty on property sales.

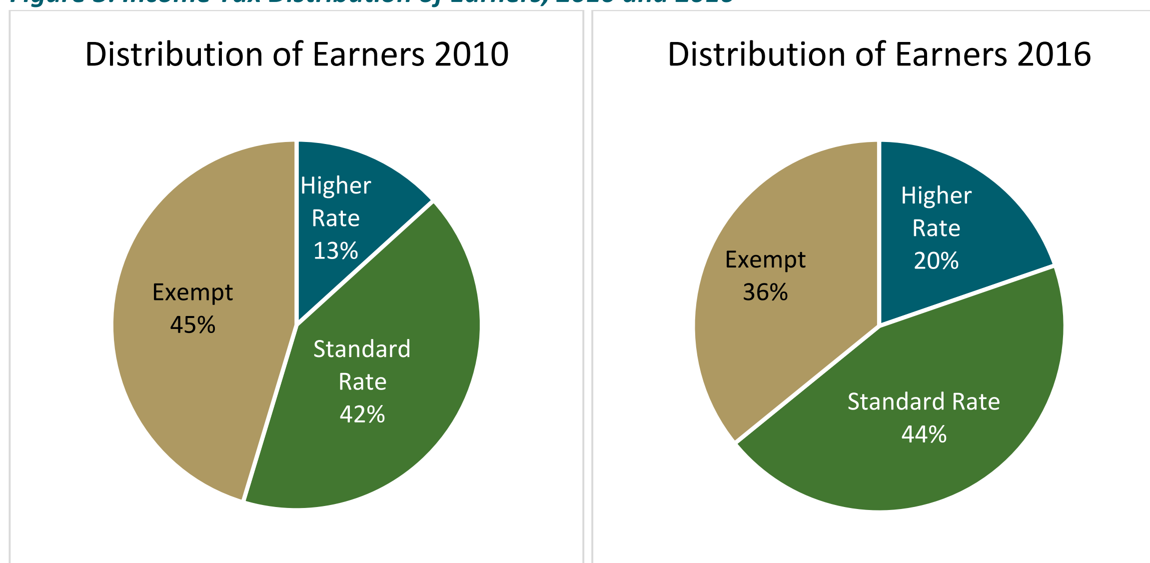
- Up to Budget 2008, Government policy with regard to income tax was to increase tax credits and bands to the point where 40% of income earners were exempt from income tax, and only 20% of earners were liable to the higher rate of income tax. This progressive narrowing of the income tax base in the years leading up to the crash, followed by falls in

income and rising unemployment as a result of the financial crisis, resulted in over 45% of income earners being exempt from income tax in 2010 and just over 13% being liable to the higher rate of income tax.

- A range of measures have been taken since 2009 to correct this narrowing of the income tax base, including reductions in tax credits and bands, the restriction or abolition of many reliefs, and the introduction of the broad-based Universal Social Charge. A list of these base broadening measures is attached in Appendix 1.

1.9 The effect of these base-broadening measures is illustrated in the charts below, which show the distribution of income earners for the purposes of income tax in the years 2010 and 2016.

Figure 3: Income Tax Distribution of Earners, 2010 and 2016



Data source: Revenue Commissioners

1.10 Notwithstanding these base-broadening measures, the entry point to income tax remains relatively high. Assuming standard tax credits only (personal, PAYE, Earned Income, Single Person Child Carer, Age), entry into liability to income tax occurs at approximately the following levels:

Taxpayer	Point of entry to income tax net
Single employee	€16,500
Single self-employed	€11,000
Single Parent - employee	€24,750
Married – one earner - employee	€24,750
Married – two earners - employees*	€33,000

*Where each spouse earns a minimum of €8,250.

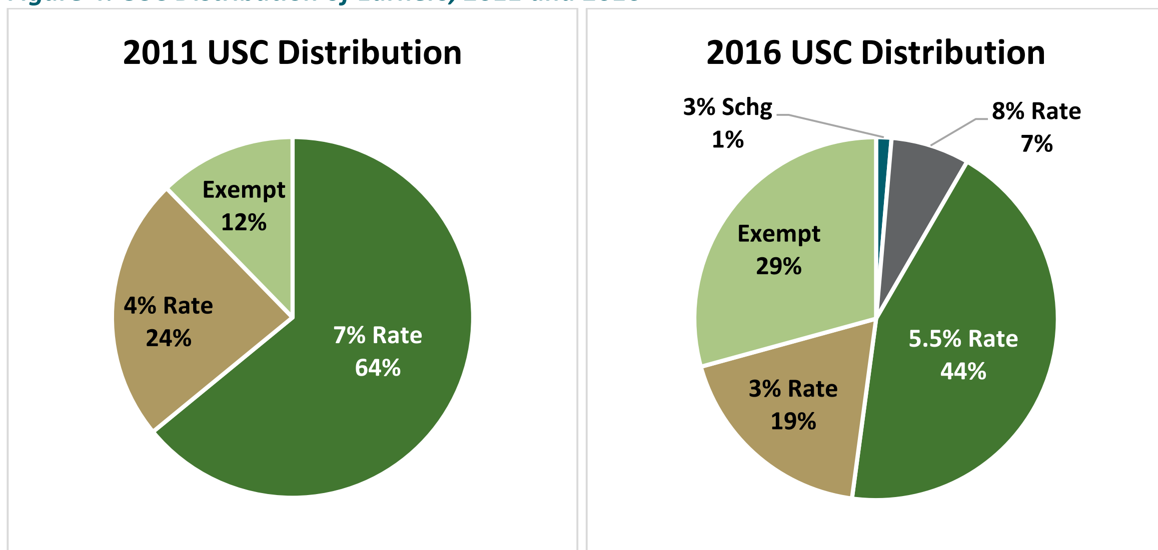
1.11 However, entry to the higher rate of income tax also occurs at a relatively low level - the standard rate band threshold for a single individual of €33,800 is now below the national average wage of €36,815 (Q1, 2016).

Universal Social Charge

1.12 The Universal Social Charge (USC) was introduced with effect from the tax year 2011. It replaced two existing levies – the Income Levy and the Health Levy – and was designed to raise €4 billion in 2011, an increase of €420 million over the annual revenue raised by the existing levies it replaced. USC applies on a broad base, with few reliefs and no credits. The primary relief from USC is the exemption for income received from the Department of Social Protection and for social welfare-type payments received from other countries – this is outlined in further detail below.

1.13 The USC threshold of €13,000 is currently the entry-point to personal taxation for most taxpayers (not including individuals in receipt of social welfare income who may be liable to income tax but not USC). For example, for single employees, entry into income tax occurs at approximately €16,500 and entry into PRSI occurs at €18,304. When initially introduced in 2011 the entry threshold to USC was €4,004, with the result that just over 12% of income earners were exempt from the charge. The threshold was increased to €10,036 in Budget 2012, then further increased to €12,012 in 2015 and €13,000 in 2016. It is estimated that, in 2016, 29% of income earners are exempt from liability to USC.

Figure 4: USC Distribution of Earners, 2011 and 2016



Data source: Revenue Commissioners
Note: Distribution of 3% USC surcharge income earners in 2011 was less than 1%

1.14 The current structure of the USC is as follows:

- A threshold of €13,000 applies, and
- Where income within the scope of USC is below that level, no liability to USC arises.
- Where income is above €13,000, USC applies on all income (with some limited exemptions) based on the following rate bands:

Income Band	Employee	Self-Employed
€0 - €12,012	1%	1%
€12,012 - €18,668	3%	3%
€18,668 - €70,044	5.5%	5.5%
€70,044+	8%	8%
€100,000+ (non-PAYE income only)	-	11%

1.15 The ceiling of the second rate-band ensures that a full-time worker on the minimum wage is not liable to the third rate of USC and thus pays a maximum USC rate of 3%. This band ceiling increased from €17,576 to €18,668 in Budget 2016 when the minimum wage rose from €8.65 to €9.15 per hour.

1.16 The third band ceiling of €70,044 and the fourth USC rate of 8% were introduced in Budget 2015 in order to cap the benefit of the reduction in the higher rate of income tax from 41% to 40% introduced in that year. The third USC rate at the time was 7%, so the addition of an extra 1% USC charge on income over €70,044 effectively offset the benefit of the 1% reduction in the higher rate of income tax on income above that level. The 8% USC rate band also allowed the Budget 2016 income tax reductions to be focussed on the first €70,044 of income only.

1.17 A USC surcharge of 3% applies to non-PAYE income (i.e. self-employed and investment income) in excess of €100,000. This surcharge results in a USC rate of 11% on relevant income above €100,000, and contributes to the State's top marginal personal tax rate of 55% (40% income tax, 4% PRSI and 11% USC).

1.18 The 3% surcharge forms part of the USC structure as a result of significant changes to PRSI which took place in Finance Bill 2011 in parallel with the introduction of the USC and the abolition of the Health and Income Levies. One of these changes was the removal of the earnings ceiling of €70,036 for Employee PRSI, which limited the amount of employment income on which an individual was liable to pay PRSI. For example, in 2010 an employee earning €100,000 was liable to pay PRSI of 4% on the first €70,036 of income, and had no

further PRSI liability on income above that level. The abolition of the ceiling therefore imposed a further 4% charge on employment income above €70,036 per annum, with no corresponding PRSI increase on self-employment or investment income. This would have resulted in a significant benefit to self-assessed high income earners as compared to their PAYE counterparts from the tax package introduced in Budget 2011. The 3% USC surcharge on non-PAYE income over €100,000 was therefore introduced as a counter-balancing measure to the increased PRSI charge on employment income.

1.19 Social welfare income, including social welfare income received from a foreign jurisdiction, is exempt from USC. As this income is exempt it is also not counted in determining if the general exemption threshold has been reached – e.g. an individual with a State pension of €12,000 and an occupational pension of €11,000, total income €23,000, would have no liability to USC as their income within the scope of USC (€11,000) is below the exemption threshold of €13,000.

1.20 A cap on the rate of USC payable applies to medical card holders and persons aged over 70 whose income does not exceed €60,000 - their liability is capped at the second USC rate of 3%.

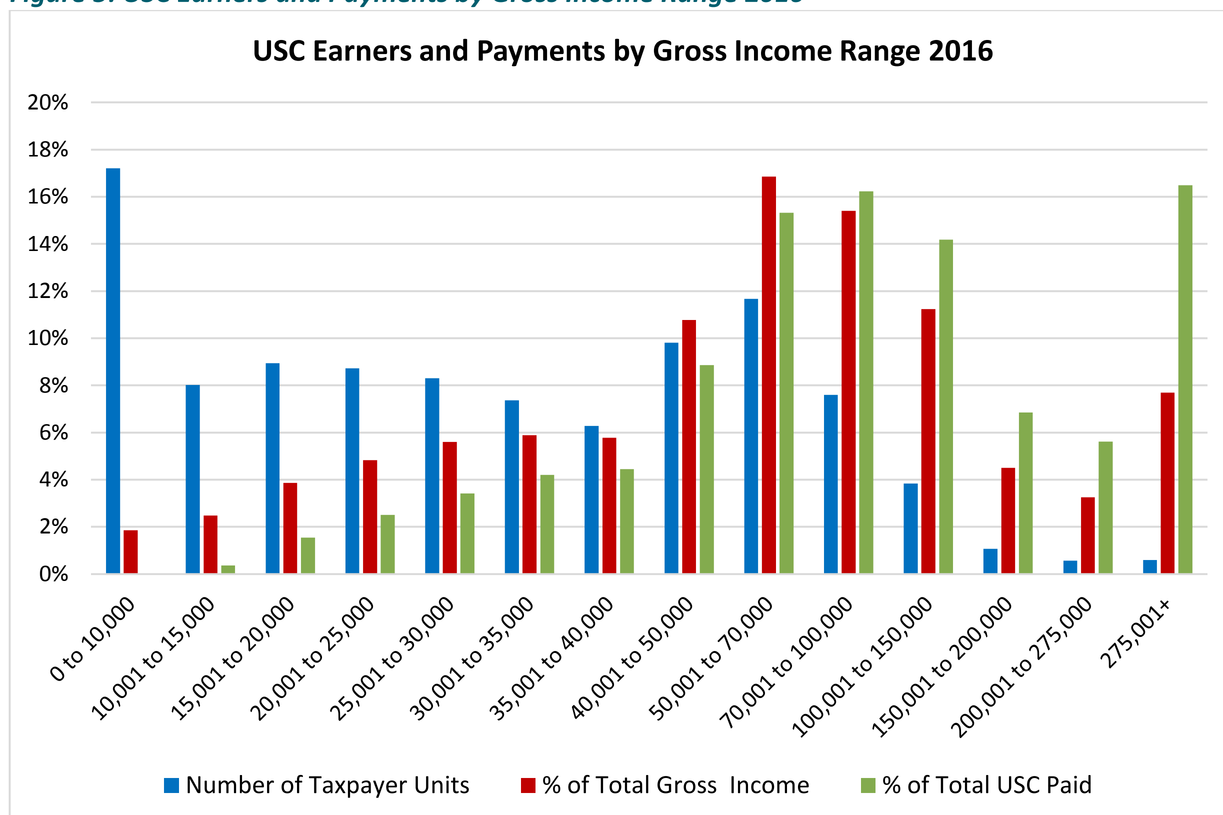
1.21 In addition to the general USC structure outlined above, two further sector-specific USC surcharges also exist:

i. A property relief surcharge of 5% applies on taxable income sheltered by property-based or area-based incentive reliefs. It applies in respect of allowances available from the tax year 2012 forward, and only to individuals earning €100,000 or more in the relevant tax year. The amount raised by this surcharge is estimated to be in the order of €9 million in 2014, the most recent year for which full data is available.

ii. A 45% USC surcharge applies in respect of performance-related bonuses paid by banks which received financial support from the State, where the cumulative amount of any bonus payments exceeds €20,000 in a single tax year. This charge generated revenue of €1.29 million in 2011, the only year to date in which relevant payments were made.

1.22 As a result of the multiple rate-band structure, the USC is a highly progressive tax. The effect of this in terms of the distribution of USC revenue collected is illustrated in the chart below, with the blue bars representing the percentage of taxpayers at each income range, the red bars representing the percentage of total income earned by those taxpayers, and the green bars representing the percentage of total USC revenues paid by those taxpayers.

Figure 5: USC Earners and Payments by Gross Income Range 2016



Data Source: Revenue Commissioners

1.23 In percentage terms, the top 1.2% of income earners (earning €200,000 or more) earn 10.9% of total income and pay 22.1% of total USC revenue collected. By contrast, the lower 58.6% of income earners (those earning up to €35,000 per year) earn 24.5% of total income and pay 12% of total USC revenue collected.

Comparison of Income Tax and USC Tax Bases

1.24 The income tax base has been significantly broadened in recent years as a result of the measures listed in Appendix 2, the winding down of most property reliefs, and the operation of the High Earners Restriction (HER). The improved growth in employment and incomes

coupled with taxation measures including the base broadening measures referred to above have taken income tax (including USC) yields from a low of €11.3bn in 2011 to a projected €19.2bn in 2016. As noted above, 45% of income earners were exempt from income tax in 2010, and this percentage has now reduced to 36%, and 29% being exempt from both income tax and USC.

1.25 The HER was introduced with effect from 2007 and further strengthened in 2010, and its purpose is to ensure that high earners cannot use certain tax reliefs to reduce their effective tax rate below a set level – originally 20%, increased to 30% in 2010. The HER applies where reliefs subject to the restriction of at least €80,000 are claimed, and comes into effect on a tapered basis where income exceeds €125,000, becoming fully effective when income reaches €400,000. Broadly speaking, the reliefs that are restricted include the (now abolished) sectoral and area-based property tax incentives, certain exemptions such as the artists' exemption and certain other reliefs. The yield from the restriction has been reducing as more and more of the abolished reliefs have been working through the system. Normal business-related expenses, deductions for capital allowances on plant and machinery, genuine business-related trading losses and genuine losses from a rental activity that do not arise from the use of specified reliefs, are not restricted. In addition, personal tax credits are not affected by the restriction.

1.26 Notwithstanding this fact, the income tax base remains narrower and more complex than the USC base, as income tax reliefs and incentives are often used as social and/or economic policy tools. As a result of these factors, and the generally higher entry point to income tax as compared to USC, some 36% of income earners are currently exempt from income tax whereas approximately 29% are exempt from USC. A full abolition of USC or a raising of the entry threshold to USC could have the potential to increase to 36% the number of earners exempt from personal taxes, as entry into the PRSI charge also generally occurs at a higher income level, e.g. annual income of €18,304 for employees. Should the entry threshold to USC be increased as part of the continued phasing out of the USC, consideration could be given to amendments to the income tax and/or PRSI entry threshold (as set out in the PRSI paper) and / or a reduction in real terms (after the impact of wage inflation) in the value of the personal and PAYE credits in order to maintain the existing width of the personal tax base.

1.27 The table below provides a high-level comparison between the USC and income tax bases.

Table 1: Comparison of USC and Income Tax Bases

Income / Relief	Income Tax	USC
Entry point	€11,000 – self-employed €16,500 – employee €24,750 – single parent/single-income couple €33,000 – two-income couple	€13,000
Exemptions	Individuals aged 65 where income is below €18,000 (single) or €36,000 (couple) Artists' income – first €50,000 (subject to High Earners Restriction) Rent-a-room relief (max €12,000) Childcare service relief (max €15,000) Child benefit and certain means-tested social welfare payments	All social welfare income Income subject to DIRT
Pension contributions	Relief at marginal rate, subject to limits	No relief
Medical expenses	Relief at standard rate	No relief
Medical insurance	Relief at standard rate, subject to limits	No relief
Mortgage interest relief	Relief at standard rate, subject to limits, for qualifying 2004-2012 loans	No relief
Employment & Investment Incentive	Relief for investments up to €150,000 Not currently subject to High Earners Restriction	No relief
Foreign Earnings Deduction	Relief for income earned while working abroad in a qualifying State Subject to High Earners Restriction	No relief
Home Renovation Incentive	Tax credit for 13.5% of qualifying renovation works Not subject to High Earners Restriction	No relief
Living City Initiative	Relief for refurbishment cost of older buildings in qualifying cities Not subject to High Earners Restriction	No relief
Special Assignee Relief Programme	Relief for a proportion of income earned by high-income employees assigned to work in Ireland Not subject to High Earners Restriction	No relief
Start Your Own Business Relief	Exemption for profits of up to €40,000p.a. for 2 years for previously unemployed person who sets up a qualifying business Not subject to High Earners Restriction	No relief
Taxsaver Commuter Tickets	Relief at marginal rate	Relief from USC

Pay Related Social Insurance

1.28 PRSI is a social insurance charge payable on employment, self-employment and most investment income. The majority of employments are insurable under Class A PRSI, while the self-employed, including proprietary directors of companies, are insurable under Class S.

1.29 Both employees and the self-employed pay a personal contribution rate of 4%. Employees have no liability to PRSI if income is below €352 per week (annual equivalent €18,304), but the self-employed are liable to a minimum contribution of €500 per year where their income is at least €5,000. If a self-employed person's income is below the €5,000 threshold, they may have the option to pay the €500 contribution on a voluntary basis in order to maintain their contribution record for benefit purposes. Investment income, such as rental income, dividends and deposit interest, is also liable to 4% PRSI subject to certain *de-minimus* exemptions.

1.30 A separate employer contribution of 10.75% of the employee's earnings is also payable in respect of employment income, resulting in a total Exchequer contribution of 14.75%. The employer contribution is reduced to 8.5% where the employee's income is below €376 per week (annual equivalent €19,552 per annum), a threshold which allows the lower rate of employer contribution to apply in respect of the salary of a full-time minimum-wage employee. There is no equivalent to the employer contribution in respect of self-employed or investment income, meaning that the total PRSI contribution to the Exchequer on income from these sources is 4%.

1.31 As is the case with USC, social welfare income is exempt from PRSI. (Most social welfare payments are liable to income tax, although in general the available tax credits would be sufficient to shelter social welfare income from tax where it is a person's only source of income). In addition, from the age of 66 an individual is no longer liable to pay PRSI regardless of the source of their income – employment, self-employment or investment income. A consequence of this exemption is that, should an individual not have sufficient PRSI contributions by age 66 to qualify for a full State pension, they cannot make further contributions from the age of 66 regardless of whether they continue to earn income after that date. As a result of these two exemptions, the PRSI base is narrower than both the USC and income tax bases.

Recent Developments in PRSI

1.32 The PRSI system has undergone a number of base-broadening measures in recent years. In particular a significant reform of PRSI took place in parallel with the introduction of USC in Budget 2011. Measures introduced in that year included:

- An increase in the rate of self-employed PRSI from 3% to 4%, to align it with the rate of employee PRSI.
- Removal of PRSI relief in respect of pension contributions.
- Extension of the employee PRSI charge to share-based remuneration.
- Abolition of the employee PRSI ceiling, thereby extending the employee PRSI charge to employment income above €75,036 per annum.

1.33 Other recent changes to PRSI include:

- Removal from 2013 of the weekly PRSI-free allowance of €127 (full rate contributors) or €26 (modified rate contributors) which was available to employees.
- An increase in the minimum annual PRSI contribution for self-employed individuals from €253 to €500.
- The introduction of a PRSI credit in Budget 2016 in order to ameliorate the 'step effect' experienced by employees whose income is just over the threshold for liability to PRSI.
- An increase in the threshold at which employer PRSI increases from 8.5% to 10.75%, in order to ensure that the salary of a full-time minimum-wage worker remains within the lower band.

1.34 The Programme for a Partnership Government contains a commitment to seek to introduce a PRSI scheme for the self-employed as part of a supportive tax regime for entrepreneurs and the self-employed. This is further referenced in Section 4 below, under "Self-employed: taxation and social insurance".

2. International Comparisons

2.1 A progressive income tax system means that those on higher incomes pay proportionately higher rates of tax than those on lower incomes – this is in accordance with the concept of vertical equity. Ireland has one of the most progressive income tax systems in the developed world – the most progressive within the EU members of the OECD, and the second most progressive within all OECD countries. The tax revenues are used, among other purposes, to fund social transfers, such as welfare supports, to those on lower incomes.

2.2 However high marginal rates of taxation as a result of progressive taxation can have a negative impact on incentives to work for income earners, and lead to increased labour costs for employers who may have to offer a certain level of net income in order to attract employees in a competitive labour market. Marginal tax rates which are high by comparison to competitor jurisdictions can therefore have a negative impact on domestic businesses seeking to attract mobile highly-skilled workers. They can also be a negative factor in the location choices of foreign direct investment, a particularly important issue for the Irish economy. It is therefore important to compare the personal tax burden in Ireland against the burden an equivalent individual would bear in other competitor jurisdictions.

2.3 The charts on the following pages, using data from the 2015 edition of the OECD's annual *Taxing Wages* publication, provide a comparative illustration of the tax burden in Ireland and selected EU countries, along with comparison to averages for all OECD countries and for all 21 EU Member States who are members of the OECD (EU:OECD) . The countries selected were: the UK, having a strong history of labour mobility from Ireland; Germany, a large central-European economy; and Denmark, a small open Scandinavian economy.

2.4 The tax burden for each jurisdiction includes both income taxes and personal social security contributions (in Ireland's case: income tax, USC and employee PRSI), being the taxes and charges collected directly from the income earner. This differs from another commonly used measure of employment taxation referred to as the 'tax wedge' which also includes the cost of employer social insurance contributions. The report analyses the tax burden with respect to multiples of the average wage in each individual country in each year.

2.5 A selection of the average wage rates used is included for reference in the table below, with non-Euro currencies converted to Euro equivalent based on the average mid-market rate of exchange for the relevant year.

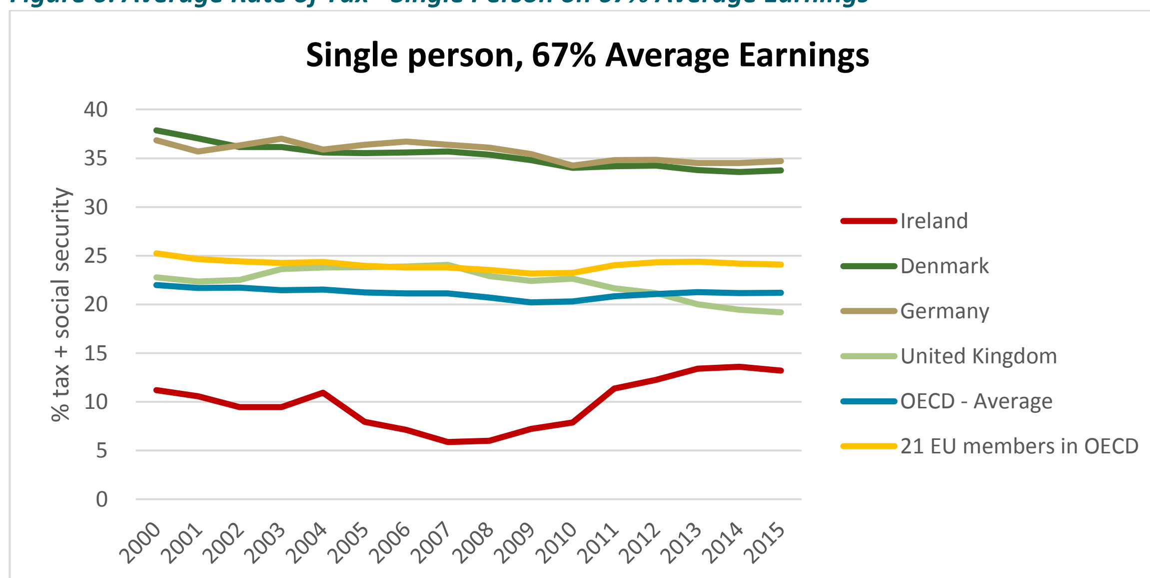
Country	Unit	2000	2003	2006	2009	2012	2015
Ireland	Euro	22,008	26,546	29,931	31,802	33,819	34,847
Denmark	Danish Krone	281,700	311,300	330,900	367,051	391,951	405,876
	Euro equivalent	*37,768*	*41,894*	*44,362*	*49,294*	*52,655*	*54,416*
Germany	Euro	34,400	37,200	39,149	40,600	44,300	47,042
UK	Pound Sterling	24,910	28,019	31,419	33,391	34,864	36,017
	Euro equivalent	*40,545*	*40,496*	*46,089*	*37,480*	*42,996*	*49,620*

Data source: OECD, Taxing Wages 2014-2015

2.6 The data illustrates that Ireland has a comparatively low tax burden on labour, particularly at low and middle income levels. The tax burden for a single individual on 67% and on 100% of average earnings has consistently been significantly below both the selected comparator jurisdictions and the EU:OECD and OECD averages over the period 2000 to 2015, notwithstanding the increases in the tax burden in Ireland the years 2008 to 2014.

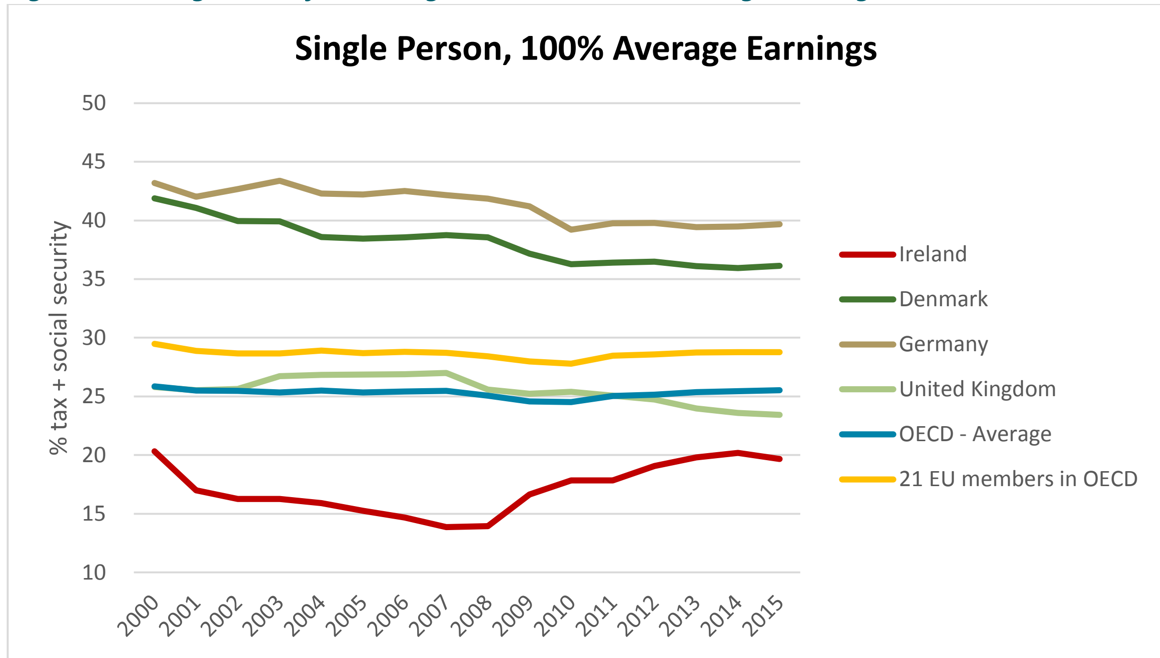
Average Rates of Income Tax and Employee Social Security Contributions

Figure 6: Average Rate of Tax - Single Person on 67% Average Earnings



Data source: OECD, Taxing Wages 2014-2015

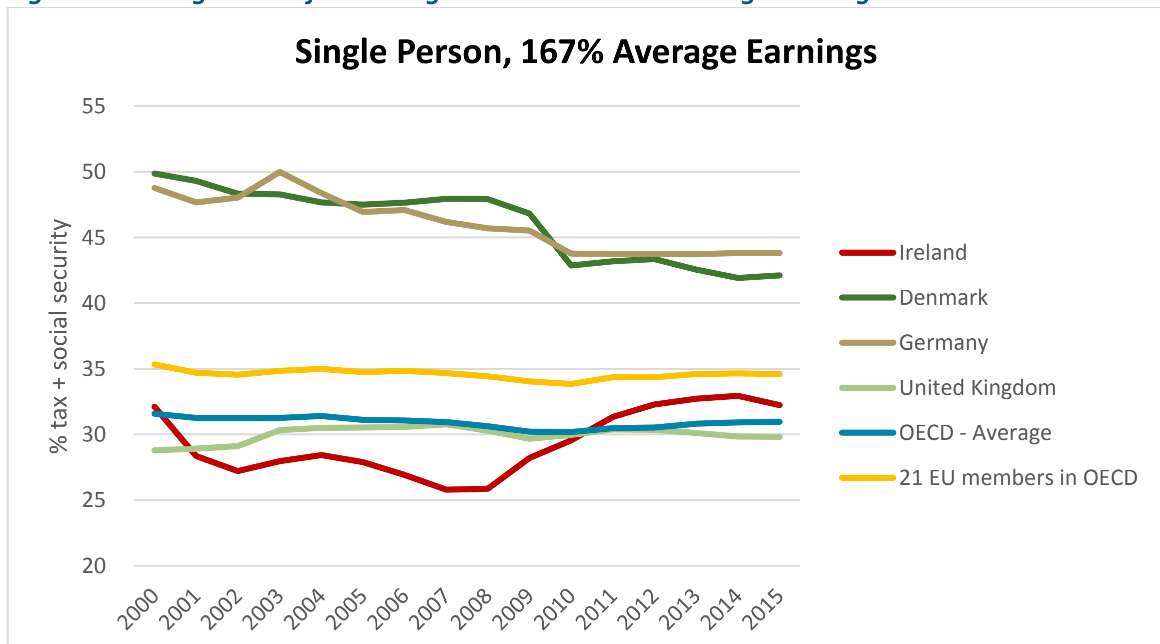
Figure 7: Average Rate of Tax - Single Person on 100% Average Earnings



Data source: OECD, Taxing Wages 2014-2015

2.7 At 167% of average earnings (e.g. €58,195 in Ireland in 2015) the average tax burden in Ireland increases above the comparative tax burden in the UK and above the OECD average, but it is still below both the average for the 21 EU Member States within the OECD (EU:OECD) and countries such as Denmark and Germany.

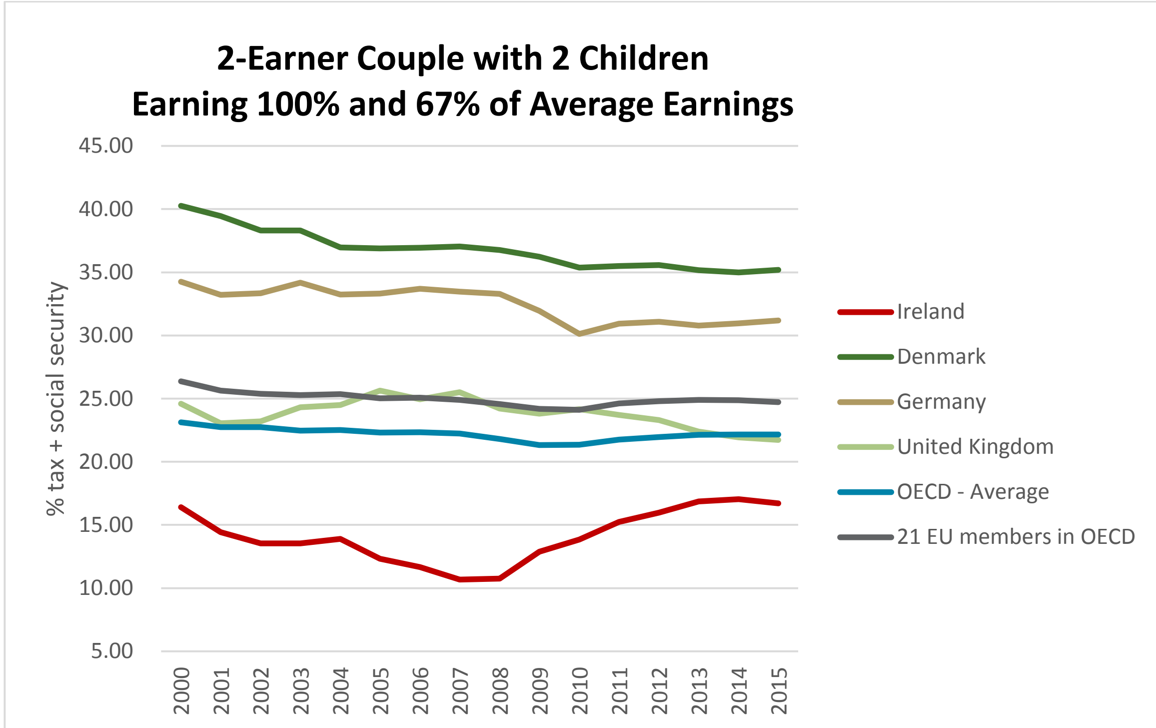
Figure 8: Average Rate of Tax - Single Person on 167% Average Earnings



Data source: OECD, Taxing Wages 2014-2015

2.8 The *Taxing Wages* publication also provides comparative data for a selection of family units. The following chart illustrates the comparative tax burden for a two-income family with two children, where the first earner's income is 100% of the average wage and the second earner's income is 67% of the average wage.

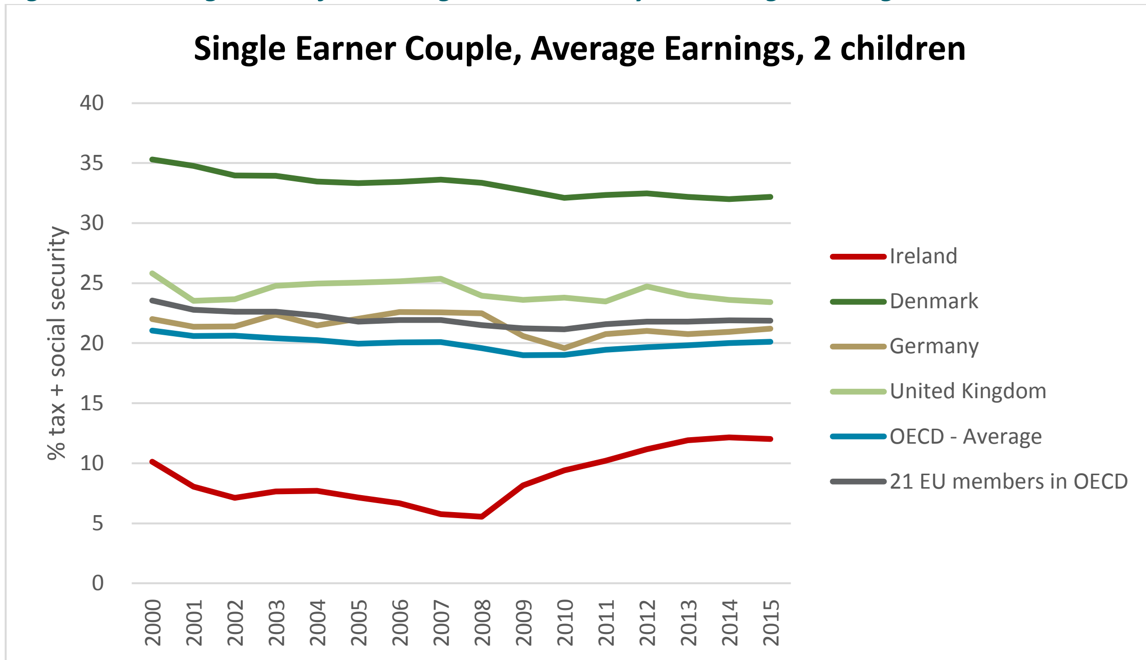
Figure 9: Average Rate of Tax - 2 Income 2 Child Family on 100% and 67% Average Earnings



Data source: OECD, Taxing Wages 2014-2015

2.9 The chart in Figure 10 provides comparative illustration of the tax burden on a single-income family with two children on the average wage. The tax burden in Ireland has remained significantly below the comparator jurisdictions throughout the period 2000 to 2015, notwithstanding the increase in the Irish tax burden since 2009.

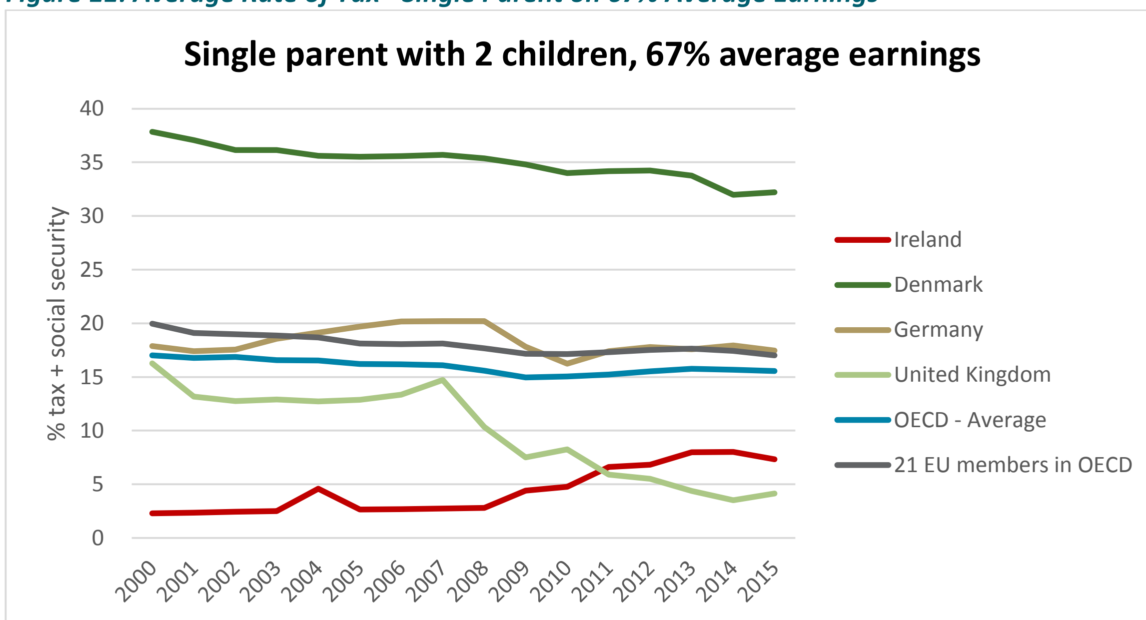
Figure 10: Average Rate of Tax - Single Earner Family on Average Earnings



Data source: OECD, Taxing Wages 2014-2015

2.10 Figure 11 provides comparative illustration of the tax burden on a single parent with two children on 67% of the average wage. Again the tax burden in Ireland has remained significantly below most comparator jurisdictions throughout the period 2000 to 2015, with the exception of the UK, whose tax burden on a comparable family dropped significantly from 2008 on, falling below that of Ireland in 2011.

Figure 11: Average Rate of Tax - Single Parent on 67% Average Earnings

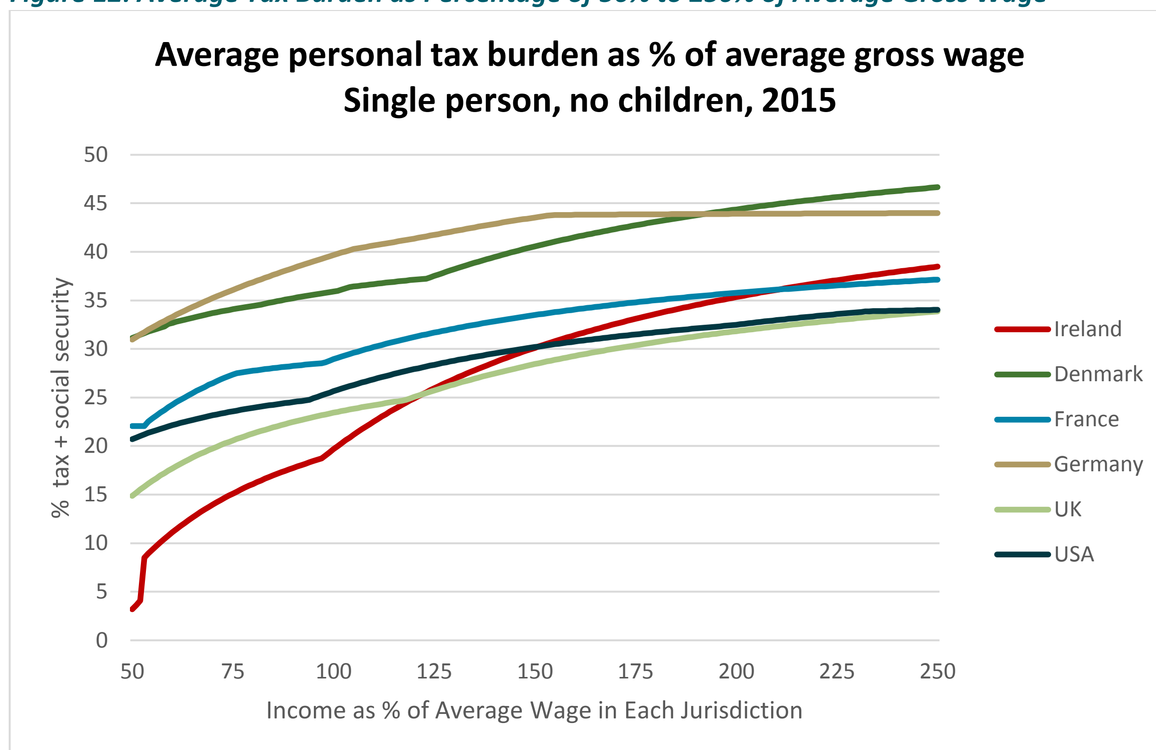


Data source: OECD, Taxing Wages 2014-2015

2.11 The *Taxing Wages* report does not produce a comparative multi-annual table for income levels above 167% of average wage, but the data does allow for a single year comparison of the personal tax burden (including employee social security) across a range of incomes from 50% to 250% of average wage (i.e. for Ireland in 2015 this equates to an income range from €17,424 to €87,118). The report data does not include OECD and EU:OECD average figures for this metric, and so the selection of individual countries compared on the chart below has been expanded to include the USA (another jurisdiction with a strong tradition of labour mobility from Ireland) and France (another nearby EU competitor economy).

2.12 As can be seen Figure 12 below, and as compared to the equivalent tax burdens in the listed jurisdictions, the tax burden in Ireland is comparatively low at income of up to 125% of average earnings. It then surpasses the UK and USA at c.125% and 150% respectively and surpasses the comparative French tax burden at c.210% of average earnings, but still remains below the personal tax burden in Denmark and Germany at that point.

Figure 12: Average Tax Burden as Percentage of 50% to 250% of Average Gross Wage



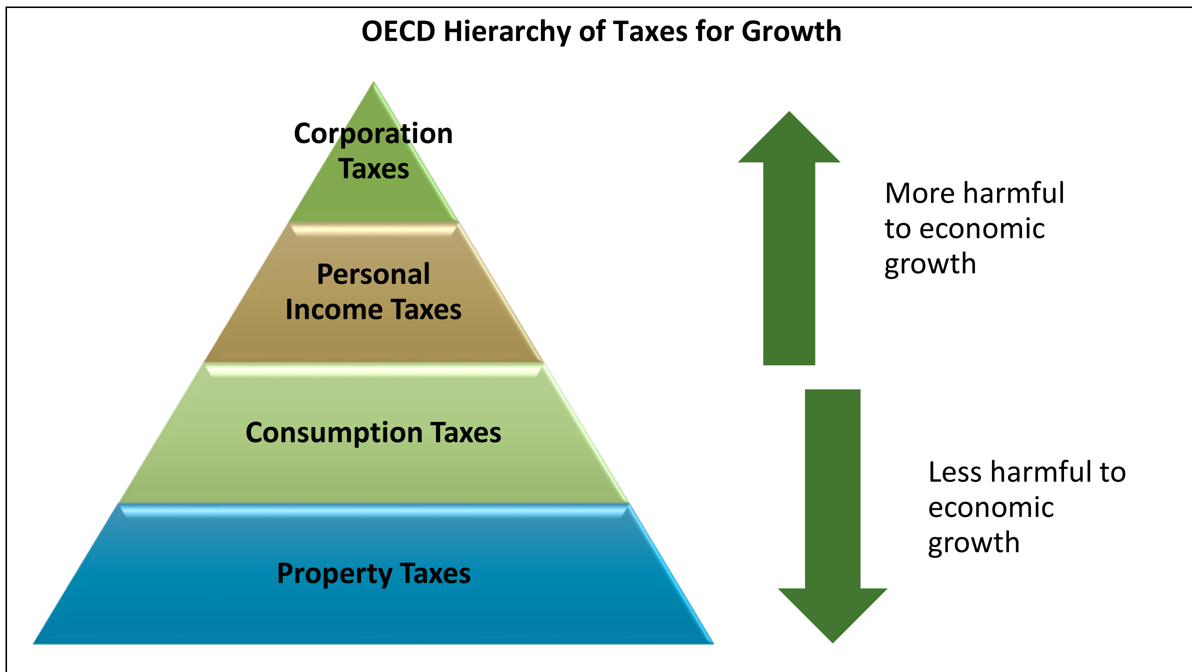
Data source: OECD, Taxing Wages 2014-2015

2.13 This comparison suggests that Irish employers could face difficulties in seeking to attract mobile international talent from certain competitor jurisdictions, all other factors being equal.

3. Economic Considerations for Reform

Taxation and Growth

3.1 In a 2010 report *Tax Policy Reform and Economic Growth*, the OECD developed a hierarchy that ranks taxes on the basis of impacts on economic growth. This suggests that corporate income taxes are the most growth-harmful type of tax, followed by personal income taxes and then consumption taxes, with recurrent taxes on immovable property the least harmful to economic growth.



3.2 The channels through which reduced labour taxes could increase labour utilisation are:

i. By raising labour force participation (referred to as the extensive margin, i.e. the number of people in work) as a result of reducing average labour taxes, and

ii. By increasing hours worked per individual (the intensive margin) as a result of lowering marginal rates of tax, i.e. the taxes payable on the last euro of income earned.

3.3 The OECD report also finds that "a reduction in the top marginal tax rate is found to raise productivity in industries with potentially high rates of enterprise creation", presumably by encouraging entrepreneurship. Finally, to the extent that lower labour taxes help to attract Foreign Direct Investment (FDI), this can raise the productivity of industry in Ireland through composition and knowledge transfer effects. Therefore the trade-off between growth enhancing tax reform and equity is an important consideration.

Equity

3.4 Equity is normally separated into two concepts, horizontal equity and vertical equity. Horizontal equity implies that the tax system should afford similar treatment to similar people. This is comparable to the principle of tax neutrality, whereby a tax system should strive to be neutral so that decisions are made on their economic merits and not for tax reasons. Vertical equity indicates that those with a greater ability to pay should pay proportionately more tax than those with less capacity.

3.5 A practicable application of horizontal equity is that individuals with similar incomes should have similar direct tax liabilities. In this regard, the USC would appear to fulfil the criteria of horizontal equity to a greater extent than income tax. As there are few reliefs and exemptions from USC, there should be greater uniformity of USC liabilities than income tax liabilities among those with similar incomes. The main exception would be expected in the case of incomes liable to income tax and USC where comparable social welfare payments are exempt from USC. In all cases, deviations from horizontal equity will need to be weighed against the intended social or economic benefits of the policy causing the deviation.

3.6 Vertical equity is tied to the idea of progressive (or at least proportional) taxation. A progressive income tax system means that those on higher incomes pay proportionately higher rates of tax on their income than those on lower incomes. The European Commission compares progressivity of taxation by taking the OECD tax wedge for an individual earning 167% of the average wage and dividing it by the tax wedge for an individual earning 67% of the average wage. By this measure, Ireland has the second most progressive income tax system in the OECD and the most progressive system in the EU. This progressivity comes as result of the increase in direct taxes paid as income increases. The largest part of this progressivity is driven by the income tax system, followed by the Universal Social Charge.

3.7 A progressive system ensures that the burden of taxation falls most heavily on those with a higher ability to pay. The low effective tax rates for low-income workers ensure that work pays, and are a growth-friendly aspect of Ireland's tax system. However high marginal income tax rates can act as a disincentive to labour supply and may be harmful to overall economic growth, so it is necessary to maintain a balance between progressivity and relative competitiveness with other jurisdictions. Furthermore, progressivity should be viewed not just in the context of the tax system but should take into account the combined impact of the

tax and welfare system, as well as the distribution of the benefits of public expenditure more generally.

Economics of Tax Reform

3.8 An important element of making the tax system more growth friendly involves improving the design of individual taxes by broadening the tax base and lowering the rate and, where relevant, improving how the tax influences behaviour. In standard economic theory the efficiency costs of taxation (i.e. the distortions to market behaviour caused by taxation) increase by the square of the tax rate e.g. a doubling of the tax rate would be expected to be associated with a quadrupling of the efficiency costs of taxation.

3.9 The revenue from a tax, in simple terms, is the tax rate multiplied by the total value of the economic activity taxed (i.e. the tax base). Thus, in order to raise a given amount of tax revenue while minimising the inherent lost production and economic welfare losses, it is better to have a lower tax rate and a wider tax base (e.g. less reliefs and less reduced rates) than to have a higher tax rate and a narrower tax base. This is because a narrower tax base, where more activities are exempt or subject to reduced rates, means that the remaining tax base must be taxed at a higher rate to achieve the same revenue. The higher tax rate results in a more than proportional increase in the efficiency costs of taxation.

Application to Ireland

3.10 As a personal income tax, the phasing out of the USC in favour of taxes less harmful to growth would be consistent with the OECD hierarchy. Indeed a Department of Finance Staff Working Paper[1], using the HERMES macroeconomic model of the Irish economy, estimated that a revenue neutral shift of €1 billion from labour taxes to property taxes would result in GDP being 0.38% higher and employment 0.43% higher after 5 years.

[1] O'Connor B., 2013. "The Structure of Ireland's Tax System and Options for Growth Enhancing Reform", The Economic and Social Review, Vol. 44, No 4, Winter 2013, pp. 511-540

3.11 The outputs of this HERMES modelling exercise result from evidence of the wage bargaining process between employees and employers over the real term after-tax wage[2]. Informed by empirical research on the Irish labour market, labour supply is estimated to be highly elastic but labour demand relatively inelastic. The implication is that "the long-run incidence of taxes on labour will fall predominantly on the employer rather than on the employees"[3]. Additionally, as Irish exporters tend to be price-takers (prices are primarily determined in the world market place and cannot be easily adjusted to respond to changes in the Irish cost base), these exporters do not have the ability to pass on higher input costs on the world market. That is to say that increases in labour taxes, after sufficient time for adjustment is allowed, result in higher nominal labour costs, lower competitiveness for Irish firms and less output and employment than would otherwise be the case. Correspondingly, decreases in labour taxes, after an adjustment period, result in lower nominal labour costs, higher competitiveness and more output and employment for Irish firms.

3.12 By comparison, equivalent increases in indirect taxes (rather than direct taxes), affect a wider population than direct taxes, such that some of the incidence remains with the household sector resulting in a lower consequential impact on competitiveness[4] though with greater impacts on ability to-pay type equity considerations.

The Stability and Breadth of the Tax Base in Ireland

3.13 As in almost all developed countries, the vast bulk of the tax base in Ireland is comprised of GDP and its components. Put simply, charges on economic activity where there is a market value on the transaction and money changes hands are easier to tax, such as income taxes on wages or VAT on consumption expenditure.

3.14 The impact of the housing bubble on the public finances has pointed-up the danger of excessive dependence on relatively narrow and volatile tax bases such as Stamp Duties and Capital Gains Taxes. However, it is widely recognised that Ireland's status as a small open

[2] Bergin A, Conefrey T, FitzGerald J, Kearney I and Žnuderl N, 2013, The HERMES-13 macroeconomic model of the Irish economy, ESRI Working Paper No. 460, July 2013

[3] IGEES, 2014. Quantification of the Economic Impacts of Selected Structural Reforms in Ireland, Working Paper July 2014, Department of Finance.

[4] O'Connor B., 2013. "The Structure of Ireland's Tax System and Options for Growth Enhancing Reform", The Economic and Social Review, Vol. 44, No 4, Winter 2013, pp. 511-540

economy means that economic activity generally is relatively volatile. The resulting implication is that, in order to achieve the same degree of tax revenue stability that applies in other countries while minimising the efficiency costs of taxation, Ireland needs a relatively broader and more diverse tax base. Given the importance of income tax and USC in terms of the overall tax take, their tax bases will be a major contributor to the stability and breadth of the overall tax base.

3.15 As regards the stability of the income tax and USC tax bases, the fact that the taxable unit for the USC is the individual means that the USC base is less sensitive to the distribution of income within jointly filing couples. As described previously, the income tax system contains many more tax credits, allowances and reliefs than USC, resulting in a narrower income tax base. However the USC base is narrowed by the exclusion of social welfare payments, which are in general within the scope of income tax. These differences in application illustrate the risks to the breadth of the tax base which must be considered in reforming the system of personal income taxation.

4. Tax Policy Considerations for Reform

Simplification

4.1 Compliance with a complex tax system imposes economic and administrative costs on businesses and individuals. Complex rules and reporting requirements can result in individuals relying on specialist advisers to act as intermediaries on their behalf with Revenue, and can increase payroll operation costs for employers. Compliance costs are relevant for businesses in deciding whether to set up a business in a jurisdiction – for example they are one of the factors assessed in the World Bank's annual assessment of the ease of doing business in different countries. A complex system also increases costs to the State in terms of the staffing required to operate the system in the Revenue Commissioners.

4.2 The three separate charges – income tax, USC and PRSI – levied on different bases are undoubtedly a complicating factor in the Irish system of personal taxation. It must be noted however that significant simplification of the tax system has been achieved in recent years – the USC replaced the Income and Health Levies, reducing the number of charges on income from four to three while simultaneously smoothing out step effects in the tax system. The base-broadening measures undertaken since 2009, outlined in Appendix 1, have also simplified the tax system through the removal of many tax reliefs.

4.3 However, notwithstanding the potential benefits to simplification, it is important to recognise that tax incentives and reliefs are generally viewed as an important tool which is available to Governments in order to stimulate desired economic or social activities. In addition, prevailing tax rates and bands can be useful levers for Governments when it is deemed desirable to target particular cohorts within the distributional spread of incomes. An example of this is the additional 8% USC rate band applying on incomes of €70,044 and above, which has been used to limit the benefits of the Budget 2015 and 2016 tax reduction packages to incomes up to that level only.

Individualisation vs Joint Assessment

4.4 In addition to the different income bases which apply to income tax, USC and PRSI, a difference also exists as to the personal basis on which liabilities are calculated. Both USC and PRSI are individualised, meaning that a person's liability to the tax / social insurance charge is

determined on the basis of their own individual income and personal circumstances. By contrast, income tax allows for a system of joint assessment, whereby one spouse is assessed to the joint income of both individuals and tax credits and bands may be (partially) transferred between spouses.

4.5 Prior to 2000, the income tax standard-rate bands were fully transferable between spouses. In Budget 2000, the intention to commence a three year policy of individualisation of the standard rate tax bands was announced. The intention was to gradually increase the single person's standard rate band to the same level as that of a married-one-earner couple, thereby allowing a single individual to earn the same amount of income at the standard rate of tax as a married-one-earner couple before entering into the higher rate of tax. Each individual spouse in a married couple would have the same non-transferable standard rate band in their own right.

4.6 The stated purpose of individualisation was, essentially, to ease the burden on single persons (65% of the work force) and to improve incentives to labour force participation for second earners, who may previously have faced taxation at the top rate from the first euro of earnings where their standard rate band was fully allocated to their spouse.

4.7 Individualisation was progressed to some extent in later years but never completed. The result is that we now have a hybrid income tax system, with the band partially transferable between spouses. The second earner in a married two-earner couple has their own non-transferable standard rate band of €24,800, and the remaining €9,000 of their standard rate band may be transferred to their spouse. The married personal tax credit (equal to the value of two individual personal tax credits) can also be allocated wholly to one spouse under joint assessment.

4.8 The married two-earner band is double the value of the single band. This is a Constitutional requirement deriving from the Supreme Court decision in *Murphy v the Attorney General (1980)* which held that it was contrary to the Constitution for a married couple to pay more tax than two single people living together and having the same income.

4.9 Individualisation is beneficial to single earners and has economic objectives in terms of labour force participation, but it is less favourable to single-income families whose income is in excess

of the married-one-earner tax band (currently €42,800). The Home Carer Credit (HCC) was therefore introduced in order to benefit families where one spouse works primarily in the home in order to care for dependants. The HCC, which was increased from €810 to €1,000 in Budget 2016, may be claimed in full where the home carer's income is below €7,200 per year, and on a reduced tapered basis where the home carer earns up to €9,200 per year.

Self-employed – Taxation and Social Insurance

4.10 A number of differences exist in relation to the taxation of self-employed individuals, as compared to employees taxable under the PAYE system. These differences have their roots in the different way in which the self-employed assess and pay their tax liabilities. There have been calls for the tax treatment of employees and the self-employed to be equalised, on the basis that the self-employed are currently disadvantaged by factors such as the following:

- The self-employed do not qualify for the PAYE tax credit which, at €1,650, effectively shelters income of €8,250 from tax. A new Earned Income Credit (EIC) of €550 was introduced in Budget 2016 to partially address this gap, and the Programme for a Partnership Government contains a commitment to increase the EIC to €1,650 by 2018.
- A USC surcharge of 3% applies on non-PAYE income in excess of €100,000, including investment income and self-employment income. As outlined in paragraph 1.18 above, this surcharge was introduced in tandem with the abolition of the income ceiling for Employee PRSI contributions in 2011.

4.11 However it should be noted that there are differences in the current tax treatment which are beneficial to the self-employed, including the following:

- A more beneficial expense deduction regime applies for the self-employed, which in effect can allow a self-employed person to have a lower taxable income than an employee with comparable expenses.
- There can be significant timing benefits with regard to the payment of income tax liabilities, depending on the accounting year chosen by the self-employed individual. Employees receive their income net of tax and PRSI, effectively paying tax immediately on their income. By contrast, the self-employed account for tax on the profits of an accounting year ending any time within the tax year, and (broadly speaking) pay their tax liabilities annually in October/November of the tax year.

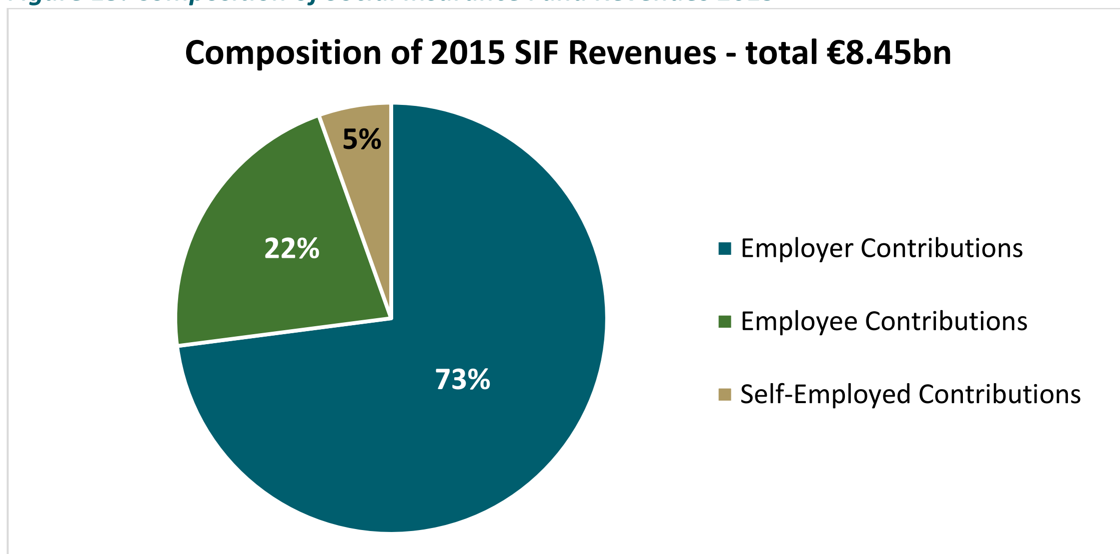
Social Insurance

4.12 There are also differences in the PRSI treatment of the self-employed as compared to employees. The self-employed pay Class S PRSI which generates the same entitlement to the State Pension, Widow's Pension, Guardian's Payment, and Maternity and Adoptive Benefits as an employee's Class A contributions. They also have access to means-tested supports such as Jobseeker's Allowance. Both employees and the self-employed will also be entitled to the new Paternity Benefit to be introduced later this year.

4.13 Entitlements to which employees have access which are not available to the self-employed are Jobseeker's Benefit, Illness Benefit, Partial Capacity Benefit, Invalidity Pension, Carer's Benefit, Treatment Benefit, Health & Safety Benefit and Occupational Injuries Benefits including Disablement Benefit.

4.14 Both cohorts of individuals pay 4% PRSI in their own right, subject to an exemption for employees earning below €18,304 per annum and to a minimum €500 annual contribution by the self-employed. However in the case of employees, a further Employer PRSI charge of 8.5% or 10.75% is also payable, resulting in a significantly higher contribution to the Social Insurance Fund in respect of an employee's earnings. Taking payments to all qualifying claimants, both employed and self-employed, into account, the schemes to which the self-employed have access at present account for approximately 75% of all SIF expenditure.

Figure 13: Composition of Social Insurance Fund Revenues 2015



Data source: Department of Social Protection

4.15 In 2013, the most recent year for which detailed figures are available, there were 2.17m Class A employments and c.337,000 individuals were insured under Class S. It should be noted that some contributors pay PRSI both as an employee and as a self-employed contributor.

4.16 The Government has committed in the Programme for a Partnership Government to introducing an improved scheme of social insurance for the self-employed, and development work on this scheme is ongoing in the Department of Social Protection.

4.17 The issue of the cost of extending certain short-term social insurance benefits to the self-employed was examined in the most recent Actuarial review of the Social Insurance Fund, as at 31 December 2010, which was undertaken by independent consultants KPMG.

4.18 Overall the report determined that the self-employed are obtaining better value for the level of their current social insurance contributions than employees. The report found that:

i. The effective annual rate of contribution required to provide the core full-rate State Pension (contributory), currently available to the self-employed, is approximately 15%. This compares favourably with the 4% currently paid by self-employed contributors.
ii. An incremental increase in contribution rates from 4% to 16% would be required if Jobseeker's Benefit in addition core State Pension (contributory) is provided.
iii. The average contribution rate required for the core State Pension (contributory) plus the Invalidity Pension is estimated to be in the region of 17%.

4.19 In September 2013, the third report of the Advisory Group on Tax and Social Welfare on Extending Social Insurance Coverage for the self-employed was published. The Group found that the current system of means tested jobseeker's allowance payments adequately provides cover to self-employed people for the risks associated with unemployment, but recommended that Class S benefits should be extended to provide cover for people who are permanently incapable of work because of a long-term illness or incapacity.

4.20 The Group further recommended that the extension of social insurance in this regard should be on a compulsory basis and that the rate of contribution for class S should be increased by at least 1.5 percentage points. The Group concluded that "extension on a voluntary basis, through either an "opt in" or "opt out" basis, could lead to the selection of

bad risks and would undermine the social solidarity and contributory principles that underline the social insurance system."

4.21 Accordingly, any extension of cover needs to have regard to the current favourable treatment the self-employed experience and the need to finance, through an increased rate of contribution, any additional benefits.

Mortgage Interest Relief

4.22 The Programme for a Partnership Government contains a commitment to retain Mortgage Interest Relief (MIR) beyond the current 2017 end date on a tapered basis.

4.23 MIR is effectively a demand-side support to the residential housing market, as it facilitates the recipient in affording a higher mortgage repayment, and therefore capital borrowing, than would otherwise be the case. The policy intention of MIR was to support individuals in attaining home-ownership, particularly in the early years of a mortgage when the interest portion of mortgage repayments is at its highest. However where supply in a market is constrained, the effect of a demand-side tax incentive such as MIR is to drive up market price, effectively transferring the benefit of MIR to the property vendor or developer, and to property-owners generally as a result of the increased value of their asset.

4.24 For this reason the gradual phasing out of MIR has been under way since 2009. No new mortgages taken out since January 2013 have qualified for MIR, and the relief has expired for qualifying mortgages taken out prior to 2004. The cohort who remain in receipt of the relief include those who purchased at the peak of the property market (c.2007) and those who bought at the subsequent trough in the market (c.2012).

4.25 The remaining recipients receive relief at a rate of between 15% and 30% of qualifying interest paid – the highest rate of 30% applies to those who purchased between 2004 and 2008 when house prices were at their peak. A ceiling on qualifying interest applies of €10,000 per individual (€20,000 per couple) in the first seven years of the mortgage, and €3,000 per individual (€6,000 per couple) in subsequent years.

4.26 MIR for all remaining recipients is due to expire at the end of 2017. Existing MIR recipients therefore face a 'cliff' in 2018 when their monthly mortgage payments may increase when the

tax relief at source is withdrawn (all other factors being equal). The cost of MIR in 2015 was €232 million with 310,400 mortgage accounts, equating to an average benefit per claimant of about €750 per annum, or €62 per month.

4.27 The following three options for extending MIR on a tapered basis could be considered:

Option 1: Phase out MIR by reducing the rate of relief

4.28 MIR is currently due to expire in December 2017, when the current relief will be withdrawn in full. It would be possible to extend MIR into a phase-out period in order to ease the transition for current recipients. For example, in place of the complete cessation of relief at end-2017, MIR for current recipients could be tapered out by reducing it to 75% of the current level in 2018, to 50% in 2019, to 25% in 2020, and Nil thereafter.

4.29 An extension of the relief on this basis may be unpopular with post-2012 purchasers who have not benefitted from MIR, particularly those who have purchased more recently as house prices have risen again. Data from the Banking & Payments Federation Ireland indicate that over 59,000 owner-occupier mortgages have been drawn down between January 2013 and March 2016, of which over 35,000 were first-time-buyer purchases.

4.30 An extension of relief by means of a taper in the rate of relief may also be more difficult for mortgage providers to implement than other methods, such as a taper in the interest ceiling, and this would need to be investigated further to ensure feasibility.

4.31 The exchequer cost of extending the relief by tapering down the existing rate of relief in this manner would be approximately €123m in 2018, €72m in 2019 and €32m in 2020.

Option 2: Phase out by reducing ceiling on allowable interest

4.32 An alternative method to taper out relief for all existing recipients would be to taper the ceiling on allowable interest, rather than the rate of the relief.

4.33 By end-2017 most remaining qualifying mortgages will be in the eighth or subsequent year (only loans taken out in 2011 and 2012 will be in the higher ceiling category), so the applicable ceilings for all recipients would be €3,000 for an individual and €6,000 for a couple. (For illustrative purposes, interest of €6,000 on a couple's family home would equate to borrowings

of c.€150,000 on a 4% rate such as a standard variable rate, or to borrowings of c.€400,000 in the case of a 1.5% rate such as a tracker mortgage.) MIR for remaining recipients could be tapered out by reducing the allowable ceiling over three years, i.e. to €2,250/€4,500 in 2018, €1,500/€3,000 in 2019, €750/€1,500 in 2020, and Nil from 2021.

4.34 Tapering out the relief in this way would maintain a certain level of relief for all current recipients. It would however be less favourable to those whose interest payable already exceeds the current interest ceilings. This would include wealthier individuals who purchased more expensive properties, but would also include individuals who bought at the market peak and those on higher mortgage interest rates. It could therefore potentially be seen as disproportionately beneficial to individuals who are already benefitting from low tracker mortgage rates or from the lower property prices in 2010 – 2012, where their interest payable is below the current ceilings and who may therefore continue to receive full interest relief in the early part of a taper period. As a result, this method of tapering has a slightly higher cost over a comparable period to tapering by means of reducing the rate of relief.

4.35 It is estimated that the exchequer cost of extending the relief by tapering the qualifying interest ceiling over three years would be approximately €138m in 2018, €107m in 2019 and €61m in 2020. Alternatively, a shorter two-year taper of the relief ceilings would have costs of €128m in 2018, €79m in 2019 and Nil thereafter.

Option 3: Continue MIR for first time buyers who bought between 2004 and 2008 only.

4.36 It would also be possible to focus the tapered extension of MIR on those individuals who were first-time buyers during the peak of the property boom only, as this cohort is already separately identified through entitlement to the higher 30% rate of relief. In 2016 approximately 156,000 mortgages are in receipt of relief at the 30% rate, with an estimated exchequer cost of €115m. (This equates to c.55% of the total projected MIR cost for 2016 of €208m.)

4.37 This option would continue MIR on a tapered basis for those who purchased between 2004 and 2008 only, while allowing MIR for other non-first-time buyers in those years and for borrowers who purchased when prices had fallen to cease as scheduled at end-2017. MIR for the 2004-2008 cohort could be tapered out by reducing it to 75% of the current level in 2018, to 50% in 2019 and to 25% in 2020. Thereafter, the rate of relief would be nil.

4.38 This option would have the benefit of extending relief to the individuals who are most likely to be still affected by negative equity, while reducing the overall Exchequer cost of extending the relief. The remaining c.44% of current recipients – comprising non-first-time-buyers in the 2004-2008 period and all qualifying mortgages from the 2009-2012 period – would still face a 'cliff' when their MIR ceases as scheduled at the end of 2017.

4.39 It is projected that extending MIR in this manner to 2004-2008 purchasers would have an Exchequer cost of approximately €67m in 2018, €39m in 2019 and €17m in 2020.

Home Carer Tax Credit

4.40 The Programme for a Partnership Government contains a commitment to support parents who stay at home and care for their children, through an increase in the Home Carer Credit.

4.41 The Home Carer Allowance (as it was then) was introduced in Finance Act 2000, in the context of the commencement of a move to the full individualisation of the tax system as outlined in the 'Individualisation vs Joint Assessment' section above. Such a system would have resulted in a two-parent, single-earner family having the same net income as a single individual from a gross wage – i.e. it would no longer be possible for the tax bands and allowances of the non-earning spouse to be used by the earning spouse.

4.42 In order to ensure a balance was maintained between those going out to work and carers in the home, a IR£3,000 per annum tax allowance at the standard rate of tax (then 22%) was introduced in respect of spouses of married one-income families who worked in the home caring for children, the aged or handicapped persons.

4.43 The Home Carer Allowance converted into the Home Carer Credit (HCC) in 2001, and in Budget 2016 the tax credit was increased from €810 to €1,000. The Exchequer cost of the HCC in 2014, the most recent year for which full information is available, was €60.9 million referring to approximately 80,900 claimants.

4.44 It should be noted that there are two further aspects to the operation of the Home Carer Credit, an income limit and an interaction with the standard rate band.

A. Income Limit

4.45 The home carer may earn some income and still qualify for the credit, but the credit is progressively withdrawn once income exceeds a fixed limit – the credit is reduced by 50% of the amount of income earned in excess of the limit. The income threshold was increased from €5,080 to €7,200 in Budget 2016 - €7,200 being approximately equivalent to the income of a person working 15 hours a week at the increased minimum wage of €9.15 per hour. Therefore, at present, a home carer earning €7,200 or less is entitled to the full credit; a home carer earning between €7,200 and €9,200 may be entitled to a partial credit; and no credit is available when income exceeds €9,200.

B. Interaction with Increased Standard Rate Band

4.46 A second condition attaching to the HCC is that a couple may choose to claim either the HCC or the increased standard-rate band for two-income couples, but they cannot claim both. At present, the maximum standard-rate band available to a married one-income couple is €42,800, comprised of a single rate-band of €33,800 plus a transfer of €9,000 from the non-working spouse or partner. Where the primary earner uses this rate band in full and the second spouse/partner also earns income in their own right, the second earner can use the remainder of their own standard rate band (€24,800), and this is referred to as the increased standard rate-band for two-income couples.

4.47 The effect of this second condition is that, where the primary earner's income exceeds €42,800, the home carer spouse/partner will only benefit from the HCC if their income is less than €5,000. Once income exceeds that amount it would be more beneficial to claim the increased rate band and have the income taxed at the standard rate, rather than have the income taxed at the marginal rate and claim the HCC.

e.g. Income of €5,100.

Option a: Taxed at 40% plus claim HCC - €2,040 tax less €1,000 credit = €1,040 tax due

Option b: Taxed at 20%, no HCC - €1,020 tax due - €20 less than if the HCC is claimed.

4.48 This interaction with the standard rate band will be relevant only where the primary earner's income is sufficiently high as to fully use the maximum available rate band. Where the primary earner's income is €35,600 or less the home carer could earn the maximum €7,200 at the standard rate of tax and still benefit from the full €1,000 credit, as the joint income of the couple would not exceed the initial €42,800 standard rate band limit.

Considerations Relevant to Increasing the Home Carer Credit

4.49 A number of options for increasing the value of the HCC are set out in section 6 below. It should be noted that an increase in the value of the credit would also result in an increase in the income band over which a partial benefit may be claimed under the taper rules. For example, an increase of €100 in the value of the credit would increase the income range over which the credit tapers by €200.

4.50 An alternative, or additional, option to increase the HCC would be to increase the income limit applicable to the home carer. As the economy begins to approach full employment, this may be effective as a workplace activation measure for second earners, allowing the second earner to work additional hours while retaining some or all of the benefit of the HCC.

4.51 An increase in the income limit would, by default, be of principal benefit to lower-income families, as for families where the primary earner's income exceeds €42,800 it is more beneficial to claim the increased standard rate band than the HCC once the home carer's income exceeds €5,000.

Tapered Withdrawal of Tax Credits

4.52 The current system of tax credits has been in operation since the tax year 2001. Prior to that tax year a system of tax-free allowances had been in place, which allowed each taxpayer to earn a set amount tax-free depending on their personal circumstances, effectively allowing tax relief at the individual's marginal rate. Tax-free allowances were converted into standard-rated tax credits in 2001 in order to ensure that each taxpayer with sufficient income to utilise the credit receives the same value benefit, regardless of whether they are a standard-rate or higher-rate taxpayer.

4.53 The PPG contains a commitment to remove the PAYE credit for high earners, and it is assumed that this would also extend to removal of the Earned Income Credit on the same basis. There are a number of technical issues and policy issues which will need to be addressed in order to achieve such a withdrawal, particularly for PAYE employees.

4.54 Tax credits and rate bands operate on a cumulative basis. For an employee, this operates by allocating one-twelfth (monthly paid) or one-fifty-second (weekly paid) of the available

band to each monthly or weekly salary payment. This is done by means of a certificate of tax credits which is issued by Revenue to employers at the beginning of each tax year.

4.55 On each payday, income for that pay period is added to the income earned in that year to date, and tax is deducted based on the bands and credits available for the year to date. Where it was known from the beginning of the year that an employee's income would exceed the chosen threshold, the PAYE credit could be removed from the outset, thereby spreading the tax burden equally over the year. However where an employee's income increases above the chosen threshold for the first time within a tax year Revenue will not be aware of this fact until the employer's annual payroll return is submitted post-year end, and the credit will have to be clawed-back from the employee through the issuing of a tax assessment.

4.56 Similarly, where the income of a person who has been denied the PAYE credit based on their earnings in a prior year falls below the chosen threshold in the current year, they may not be able to claim the benefit of the PAYE credit until after the tax year-end.

4.57 The UK tax system incorporates a personal tax allowance which is subject to a tapered withdrawal for individuals whose income is in excess of stg£100,000 per annum. (In this context it is worth noting that a tax allowance allows relief at a taxpayer's marginal rate, whereas the PAYE and Earned Income Credits are standard rated tax credits.) The allowance is reduced by £1 for every £2 earned above this limit, tapering out (in the 2016/2017 tax year) once income reaches £122,000. The £100,000 threshold was chosen as all individuals with income above that level were already obliged to file a tax return each year and this facilitated the operation of the taper. The level of personal allowance granted to an individual from the start of each year is determined on the basis of income in the previous year, and a balancing exercise occurs post-year-end when the tax return is filed. By contrast, there is no similar liability to file a tax return based on income level in Ireland. Liability to file a tax return in Ireland is determined, in most cases, by the type of income earned, and an individual whose total income is taxed through the PAYE system is not, in general, obliged to file a tax return.

4.58 Tapering the tax credits could affect the relative position of different categories of taxpayer. For example, consideration would need to be given to how the taper would work in the case of jointly-assessed individuals – such as whether the value of a single personal tax

credit or that of a married personal tax credit be subject to the taper, and what income threshold would apply to a single-income couple.

4.59 The tapering out of a tax credit would also result in a higher marginal tax rate within the taper zone than would apply at higher income levels. For example, were the personal tax credit of €1,650 to be tapered out at a rate of 5% per €1,000 (i.e. a loss of just over 8 cent per additional euro of income), the marginal rate within the taper zone would be just over 60%. Once the taper period has expired, at income over €120,000 in this example, the marginal rate would revert back to 52%.

Equality Proofing

4.60 The PPG contains a commitment to task the Budget and Finance Committee with looking at gender and equality proofing Budget submissions and proposals. In the context of equality, it is important to note that it is the impact of the Budget as a whole which should be assessed, and not the impact of the taxation or expenditure measures in isolation.

4.61 Redistribution of income takes place through the taxation and social welfare systems. Using OECD data, the extent to which each element contributes to the redistribution of income, measured by the reduction in the initial market Gini coefficient can be seen. The Gini coefficient is a measure of the distribution of income where 0 represents a situation where all households have an equal income and 1 indicates that one household has all national income.

4.62 The latest data from the OECD (for 2012), shows that Ireland had the largest reduction in the Gini coefficient between market and disposable income for the OECD countries for which data are available. A reduction in the Gini coefficient means that the distribution of income has become more equal. The Irish tax and welfare system combined reduced the initial market Gini coefficient from 0.58 to a disposable income Gini of 0.30. Over one-quarter of the reduction was attributable to the tax system, and this proportion was only larger for Australia and the United States. The data also indicates that the reduction in Ireland's Gini coefficient due to the welfare system was the largest in the OECD. It shows that, compared to other countries, the Irish tax system is strongly progressive and that the tax and welfare systems combined contribute substantially to the redistribution of income and to the reduction of income inequality.

4.63 When looked at over a slightly longer time period and taking a more limited sample of countries for which data are available, it is evident that Ireland's tax system has consistently reduced the Gini coefficient (i.e. increased the equality of income distribution) to greater extent than is the case with tax systems in other OECD countries. Of interest is the finding that – both for Ireland and the OECD as a whole - the contribution of the tax system to reducing market income inequality has been increasing since 2004.

4.64 With regard to gender proofing, the system of tax rates, bands and credits applies equally to both genders. Liability to tax and entitlement to credits and reliefs is determined by factors such as the type and source of income earned and the nature of deductible expenses incurred. For a married couple under joint assessment, the assessable spouse is determined not by gender but by reference to the higher earner of the couple. The ESRI conducted and published a gender analysis of Budgets 2009-2013, which found that the gender impacts have so far been very small.

4.65 The tax system does contain a number of provisions which discriminate in favour of certain individuals, in view of additional challenges which they face. These include, for example: the Age Credit and income tax exemption limits for individuals aged 66 and over; reduced USC liability for those aged 70 and over and medical card holders whose income does not exceed €60,000; additional tax credit and standard rate band for single parents; additional tax credits for parents of disabled children, for the blind, for widows/widowers, and for carers of a dependant relative. While these measures are deviations from the principle of horizontal equity, under which each person with the same income should have the same tax liability, they have been introduced into the tax code as a result of social policy decisions to provide additional supports to individuals in these specific circumstances.

5. Programme for a Partnership Government Commitments

5.1 The Programme for a Partnership Government (PPG) expresses a number of commitments with regard to public finances and taxation. It recognises the need to keep the tax and revenue base broad, while reducing the rate of tax on work and some other activities in order to achieve specific social and economic objectives. The PPG commits to meeting the required domestic and EU fiscal rules, and sets out a planned 2:1 split of available resources between public spending and tax reductions.

5.2 The PPG also contains a number of specific undertakings with regard to personal taxation, including the following:

- To ask the Oireachtas to continue to phase out the USC as part of a medium-term income tax reform plan.
- To increase the Earned Income Credit from €550 to €1,650 to match the PAYE credit by 2018, and to provide a supportive tax regime for entrepreneurs and the self-employed.
- To retain mortgage interest relief on a tapered basis beyond the current end date of December 2017.
- To support stay-at-home parents through an increase in the Home Carers' Credit.
- To explore mechanisms through which SMEs can reward key employees through share-based remuneration.

Potential offsetting measures

5.3 The PPG states that the reductions in personal tax rates, such as the continued phasing out of the USC, will be funded largely through:

- Extra revenues from not indexing personal tax credits and bands.
- The removal of the PAYE tax credit for high earners and other measures to ensure the tax system remains fair and progressive.
- Higher excise duties on cigarettes.
- Increased enforcement and sanctions on fuel laundering and the illegal importation and sale of cigarettes.
- A new tax on sugar sweetened drinks.
- Improvements in tax compliance.

6. Potential Budget Options & Analysis of Economic Impacts

6.1 This section of the report is split into two parts. The first sets out a range of options for a number of standalone measures contained in the PPG, such as increases in or withdrawal of certain credits and/or reliefs. The second part focuses on the USC, and outlines three potential approaches to reducing the USC.

Points to Note Regarding Costing Methodology and Assumptions Underlying Hypothetical USC Reduction Options

- While the costings in this section refer to the years 2017 to 2020, it should be noted that these are estimated by reference to 2017 incomes and therefore are indicative costs only for the years 2018 to 2020.

- It should be noted that the potential Budget measures and hypothetical USC reform Options have been prepared for illustrative purposes only, and decisions on any such policies are a matter for Government decision as part of the annual Budget process.

- The three Options for the continued phasing out of USC should not be construed as an indication of the actual fiscal space available for USC measures in the relevant Budgets. The three Options have been costed based on a hypothetical fiscal space for USC measures of approximately €300m in 2017, €500m in 2018 and €900m in 2019. It should be noted that adjustments of this scale would assume the allocation of all the fiscal space available for tax measures to USC reform, in addition to the generation of additional revenue in 2018-2019 by the potential revenue-raising measures detailed in the PPG.

- For illustrative purposes, the distributional analysis for each of the three Options in Appendix 2 incorporates the potential impact of the following potential Budget measures, in addition to the relevant changes to USC:
    - An increase in the Earned Income Credit to €1,100 in 2017 and to €1,650 in 2018.
    - A €200 increase in the Home Carer Credit in 2017, to €1,200.
    - Tapering of PAYE and Earned Income credits from 2018, at a rate of 5% per €1,000 from income of €100,000.

Tax Modeller Forecasting Model

6.2 The costings in this section are estimates from the Revenue Tax Modeller forecasting model. Tax Modeller uses base data for the most recent year for which a full set of returns is available, and applies a series of growth factors calculated by the Department of Finance (relating to income, employment and GNP growth) to grow that base to be representative of incomes in the required reference year.

6.3 Each year the tax forecasting model is updated to a new base year, as a more recent set of tax returns become available and new growth forecasts for the upcoming year are prepared. In July 2016, the Tax Modeller application was updated from Base year 2013 to Base Year 2014, and the reference year for which costs / yields are estimated was updated to 2017.

6.4 Each measure has both a first year cost in the year it is introduced and a carry-over cost in the following year, which together account for the 'full year' cost of a measure. In addition to this regular annual updating of the model, in advance of the updating of the model this year an analysis of the First Year / Full Year apportionment of costs was undertaken.

6.5 While tax changes, for the most part, take effect from the commencement of a tax year, the full cost/yield of a measure does not fall within the first calendar year. For example in the case of PAYE employees, payroll returns and payments for the last period of the year (usually November/December) are submitted to Revenue in January of the following year. The self-employed generally pay preliminary tax in October/November of the current year, and pay the balance of tax due when their tax return is filed in October/November of the following year.

6.6 In recent years the first and full year costs of a measure have been apportioned as follows: PAYE - 78% first year; self-employed – 30% first year. However following analysis of recent trends, it is now considered appropriate to increase the first year costs to the following: PAYE – 89%; and self-employed – 56%. It should be noted that this revision does not impact on the total cost/yield of a measure, it only changes the apportionment of the Exchequer impact over the first and second years in which it comes into effect.

Budget Options – Tax Credits & Reliefs

6.7 The PPG contains a commitment to increase the Earned Income Credit to €1,650 by 2018. The estimated costs of such an increase, assuming an equal increase of €550 in each of 2017 and 2018, are outlined below. A number of options for increases in the Home Carer Credit, the extension of Mortgage Interest Relief and the withdrawal of the PAYE/Earned Income credits are also costed.

Table 2: Possible Tax Measure Costings

	2017 (€ million)	2018 (€ million)	2019 (€ million)	2020 (carry over)
	Exchequer cost / *yield*			
Earned Income Credit				
Increase by €550 to €1,100 in 2017	-45	-36	-	-
Increase by €550 to €1,650 in 2018	-	-45	-36	-
Home Carer Credit				
Increase by €100 to €1,100 in 2017	-6.5	-1	-	-
Increase by €200 to €1,200 in 2017	-12.9	-2	-	-
Increase by €250 to €1,250 in 2017	-16.2	-2.7	-	-
Extended Mortgage Interest Relief tapered withdrawal				
Taper rate of relief evenly over 3 years 2018-2020	-	-123	-72	-32
Taper interest ceilings over 3 years 2018-2020		-138	-107	-61
Taper interest ceilings over 2 years 2018-2019	-	-128	-79	-
Extend and taper over 3 years for 04-08 buyers only	-	-67	-39	-17
Withdrawal of PAYE and Earned Income credits (current €550 EIC)				
by 5% per €1k income > €80,000	-	*+365*	*+48*	-
by 5% per €1k income > €100,000	-	*+212*	*+28*	-

Continued Phasing-Out of USC

6.8 Three options for approaches to the continued phasing-out of the USC are set out below. In each case, these have been costed based on a hypothetical fiscal space available for USC reductions of approximately €300m in 2017, €500m in 2018 and €900m in 2019. This takes into account the current projections for available fiscal space in those years, and also assumes

that in years 2 and 3 additional fiscal space will be generated by the potential revenue-raising measures detailed in the PPG.

6.9 The options presented illustrate three separate methods by which the USC could be reduced, in order to illustrate indicative costs and distributional impacts of each separate approach. It is not intended to be an exhaustive list of options, and a hybrid approach combining elements of different options could also be taken in future Budgets.

USC Option 1 – Reducing Rates

6.10 This option focuses on a gradual reduction in USC rates, while maintaining the existing band structure. In order to retain the breadth of the USC base it retains some level of charge at each of the existing bands, with the result that all individuals with USC-liable income of over €13,000 would remain within the charge to USC.

Table 3: USC Option 1 - Illustrative Costing

	2017 (€ million)	2018 (€ million)	2019 (€ million)	2020 (carry over)
USC				
Reduce 1% rate to 0.5%	-106	-18	-	-
Reduce 3% rate to 2.5%	-67	-11	-	
Reduce 2.5% rate to 2%	-	-67	-11	
Reduce 2% rate to 1.5%	-	-	-67	-11
Reduce 5.5% rate to 5%	-158	-27	-	
Reduce 5% rate to 4%	-	-316	-54	
Reduce 4% rate to 2.25%	-	-	-553	-95
Reduce 8% rate to 7.5%	-	-46	-7	-
Reduce 7.5% rate to 6.5%	-	-	-92	-14
Reduce 3% surcharge to 1.5%	-	-	-34	-27
Total	**-€331m**	**-€485m**	**-€818m**	**-€147m**
Cumulative cost	**€1,781m**			

6.11 This option would be of benefit to all taxpayers with USC-liable income in each year, as all earners with USC-liable income above the €13,000 threshold pay USC at both the 1% and 3% rates. Tables illustrating the distributional impact of the above option are included for reference in Appendix 2. These incorporate the above USC changes, the proposed increase to the EIC, a €200 increase to the Home Carer Credit in 2017, and a tapering-out of the PAYE and EIC credits at incomes of over €100,000 with effect from 2018.

USC Option 2 – Increasing Band Ceilings

6.12 This option focuses on a reduction in USC through increases in band ceilings and a phased abolition of the 3% surcharge. The current rates of USC (with the exception of the surcharge) are maintained, but the point of entry to each rate is progressively increased. Rate band increases are initially focussed on the lower two bands to target the benefit at lower earners.

6.13 This option also assumes retention of the current USC threshold of €13,000. This has the dual benefit of preserving the breadth of the USC tax base while also preventing an increase in the 'step effect' on entry to the USC charge. At present the 'step effect' on entry to USC at income of €13,000 is just under €150 per annum.

Table 4: USC Option 2 - Illustrative Costing

	2017 (€ million)	2018 (€ million)	2019 (€ million)	2020 (carry over)
2017 Bands				
0 – 18,000 @ 1%				
18,000 – 21,000 @ 3%	-296	-63	-	-
21,000 – 70,044 @ 5.5%				
70,044+ @ 8%				
non-PAYE >100,000 @ 2% surcharge				
2018 Bands				
0 – 25,000 @ 1%				
25,000 – 27,000 @ 3%	-	-440	-88	-
27,000 – 85,020 @ 5.5%				
85,020+ @ 8%				
non-PAYE >100,000 @ 1% surcharge				
2019 Bands				
0 – 35,000 @ 1%				
35,000 – 65,000 @ 3%	-	-	-783	-143
65,000 – 100,100 @ 5.5%				
100,100+ @ 8%				
Total	**-€296m**	**-€503m**	**-€871m**	**-€143m**
Cumulative cost	**€1,813m**			

6.14 As with Option 1, this option would retain a charge to USC at lower incomes, retaining the current lowest rate of 1%. It would benefit all taxpayers within the scope of USC in 2017 as the current first rate-band ceiling is at €12,012, meaning that all taxpayers with income above the USC threshold of €13,000 currently pay USC at both the 1% and 3% rates. In 2018 and 2019 it would be of benefit to taxpayers with USC-liable income in excess of €18,000 and €23,000 respectively.

6.15 Tables illustrating the distributional impact of the above option are included for reference in Appendix 2. These incorporate the above USC changes, the proposed increase to the EIC, a €200 increase to the Home Carer Credit in 2017, and a tapering-out of the PAYE and EIC credits at incomes of over €100,000 with effect from 2018.

USC Option 3 – Increasing Exemption Threshold

6.16 This option focuses on a gradual reduction in USC through increasing the exemption threshold within available fiscal space. It assumes that the current band and rate structure is maintained for income above the threshold level, but is costed on the basis of exempting income below the threshold for all income earners. At present once a taxpayer's income exceeds the threshold of €13,000 all of their income comes within the charge to USC. Based on the current rates and bands, this results in a 'step effect' of €149.76 per annum when a person's income exceeds €13,000. If a threshold operating on this basis were to be increased under the current band structure, much more significant step effects would begin to occur as the threshold increased – for example a 'step' of €943.06 would occur on exceeding a threshold of €30,000 (€12,012 at 1%, €6,656 at 3% and €11,332 at 5.5%).

6.17 In order to avoid this step effect, the phased abolition of USC as set out below has been costed on the basis of exempting all income under the relevant threshold each year – i.e. at a threshold of €23,000, a person earning €25,000 would be liable to USC on €2,000 of their income at a rate of 5.5%, assuming the current rate structure is retained for USC-liable income during the phase-out period.

Table 5: USC Option 3 - Illustrative Costing

	2017 (€ million)	2018 (€ million)	2019 (€ million)	2020 (carry over)
USC Exemption Threshold				
Increase €13,000 to €13,600	-297	-49	-	-
Increase €13,600 to €21,300	-	-442	-72	-
Increase €21,300 to €36,000	-	-	-832	-168
Total	**-€297m**	**-€491m**	**-€904m**	**€168m**
Cumulative cost	**€1,860m**			
% Paying no USC	**31%**	**44%**	**66%**	

6.18 As the USC is currently the lowest point of entry to the personal tax system, this option would result in a significant narrowing of the overall tax base. It would increase the numbers exempt from USC to 66%, and result by 2018 in over 36% of income taxpayers having no liability to either income tax or USC, approaching closer to the boom-time policy of removing 40% of income earners from the income tax net, which excessively narrowed the personal tax base.

6.19 It should also be noted that, due to the necessity of raising the threshold by means of an exemption in order to prevent step effects, as explained above, the first year impact of this approach to phasing out USC would largely be to exempt the first €13,000 of income for earners at all levels of income, providing a benefit of equal nominal value to all earners with taxable income above €13,000.

6.20 Tables illustrating the distributional impact of the above option are included for reference in Appendix 2. These incorporate the above USC changes, the proposed increase to the EIC, a €200 increase to the Home Carer Credit in 2017, and a tapering-out of the PAYE and EIC credits at incomes of over €100,000 with effect from 2018.

Appendix 1: Base-broadening measures 2009 - 2014

Supplementary Budget 2009

Income Levy, Health Levy and PRSI

- Income Levy rates doubled to 2%, 4% and 6% from 1 May 2009. Exemption threshold reduced from €18,304 to €15,028. The second (now 4%) rate threshold reduced from €100,100 to €75,036 and the third (now 6%) rate threshold reduced from €250,120 to €174,980.
- The health levy rates doubled to 4% and 5% from 1 May 2009. The entry point for the higher rate decreased from €100,100 to €75,036.
- Employees' PRSI ceiling (being the ceiling beyond which PRSI is not payable on employment income) increased from €52,000 to €75,036.

Income Tax

- Mortgage interest relief restricted to the first 7 years of a qualifying mortgage, with effect from 1 May 2009 (see further amendments in Budget 2010).
- The deduction for mortgage interest payments against rental income from residential property reduced from 100% to 75%. (Note: Interest deductibility in respect of commercial rental property not reduced.)

Budget 2010

Income Tax

- Mortgage Interest Relief (MIR) abolished for new loans taken out on or after 1 January 2013.

Note: MIR extended for some recipients:

  - MIR for existing qualifying loans extended to end 2017. Those whose entitlement to relief would, in the absence of this change, have expired in 2010 or after, will continue to qualify for relief at the applicable rate up until end 2017, at which point all remaining MIR is to end.
  - Increased MIR provided for first-time buyers who bought at market peak 2004-2008.

Budget 2011

Income Tax

- Reduction in the value of income tax standard-rate bands, credits and age exemption limits by c.10%.

Universal Social Charge

- Income Levy and Health Levy abolished and replaced by a new Universal Social Charge, intended to broaden the income tax base and bring some lower earners back into the tax net, and to generate a net revenue increase of c.€420m. The following rates and thresholds were introduced:

  0%< €4,004
  2% €0 to €10,036
  4% €10,037 to €16,016
  7%> €16,016
  11%>€100,000 (Self-Assessed Income)

Abolition / Restriction of Reliefs (from 1 January 2011 unless otherwise stated)

- From 1 January 2011, abolition of relief from PRSI in respect of the pension related deduction (PRD) payable by public service employees. (PRSI change legislated for in Social Welfare Act).
- Abolition of tax relief on loans to acquire an interest in certain companies.
- Abolition of Approved Share Options Scheme, effective from launch of the National Recovery Plan on 24 November 2010.
- Abolition of tax relief for new shares purchased by employees.
- Restriction on the relief from the Health and Income Levy (and subsequently USC), and introduction of a charge to Employees' PRSI, on:
    - Approved Profit Sharing Schemes;
    - Approved Save-As-You-Earn Schemes;
    - Unapproved Share Options; and
    - Share Awards.
- Restriction of the tax-free element of ex-gratia termination payments to €200,000 so that payments above this amount will be subject to tax at the marginal rate.
- Introduction of a charge to Employees' PRSI on employee contributions to occupational pension schemes and other pension arrangements, and 50% reduction in the Employers' PRSI exemption on such contributions. (PRSI changes legislated for in Social Welfare Act).
- Abolition of the PRSI ceiling of €75,036 (i.e. employees now liable to pay PRSI on annual earnings above that amount).
- Class S (Self-Employed) PRSI rate increased from 3% to 4%.
- Modified PRSI rates (for certain public servants) increased to 4% on incomes in excess of €75,036.
- Introduction of a 4% PRSI charge for certain Office Holders.

Budget 2012

USC

- Universal Social Charge moved to a cumulative system (Note: this was a revenue-raising measure, allowing for an overall net yield notwithstanding the increase in the USC entry threshold from €4,004 to €10,036 in that year).

Income tax reliefs and exemptions

- Removal of the 36 day tax exemption for illness benefit.
- Abolition of remaining 50% relief from Employers' PRSI in respect of employee contributions to occupational pension schemes and other pension arrangements (legislated for in the Social Welfare Act).

Budget 2013

Income Tax

- Maternity Benefit to be taxable for all claimants with effect from 1 July 2013.
- Top Slicing Relief restricted from 1 January 2013 on ex-gratia lump sums in respect of termination and severance payments where the non-statutory payment is €200,000 or above.

USC

- Introduction of liability to standard rates of USC for medical card holders and those aged 70 years of age and over earning €60,000 and above, with effect from 1 January 2013.

PRSI (legislated for in the Social Welfare Act)

- Removal of weekly PRSI allowance from full rate and modified rate PRSI contributors.
- Increase in the minimum annual PRSI contribution for self-employed earners from €253 to €500.
- Abolition of PRSI block exemption in respect of income from a trade or profession with effect from 1 January 2013 for modified rate contributors. Removal of remaining block exemption from 1 January 2014.

Budget 2014

Income Tax

- One-Parent Family Tax Credit was replaced with the Single Person Child Carer Credit from 1 January 2014. The new credit is to the same value but will be available only to the principal carer of the child.
- From 16 October 2013, tax relief for Medical Insurance Premiums restricted to the first €1,000 per adult insured and the first €500 per child insured.
- Top Slicing Relief abolished from 1 January 2014 in respect of all ex-gratia lump sum payments.
- Tax Relief on Loans to Acquire an Interest in a Partnership to be withdrawn on a phased basis over 4 years. Relief is not allowed for new loans taken out from 15 October 2013. Existing claimants retain the relief on a reducing rate basis until 1 January 2017.

Appendix 2: Distributional Tables – USC Option 1

2017	Cumulative 2017 - 2019
Universal Social Charge • Reduce 1% USC rate to 0.5% • Reduce 3% USC rate to 2.5%. • Reduce 5.5% USC rate to 5% Income Tax • Increase Earned Income Credit from €550 to €1,100. • Increase Home Carer Credit from €1,000 to €1,200.	Universal Social Charge • Reduce 1% USC rate to 0.5% • Reduce 3% rate to 1.5% • Reduce 5.55 rate to 2.25%. • Reduce 8% rate to 6.5%. • Reduce 3% surcharge to 1.5% Income Tax • Increase Earned Income Credit from €550 to €1,650 • Increase Home Carer Credit from €1,000 to €1,200. • Withdrawal of PAYE and EIC credits by 5% for each €1,000 over €100,000.

Option 1 – A: Single PAYE employee, no children, full rate PRSI contributor

Table 6: Option 1A - Single Employee - 2017 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	85	65	1	0.5%
17,542	208	208	0	0	286	198	88	2	0.5%
35,000	3,940	3,940	1,400	1,400	1,218	1,043	175	3	0.6%
45,000	7,940	7,940	1,800	1,800	1,768	1,543	225	4	0.7%
55,000	11,940	11,940	2,200	2,200	2,318	2,043	275	5	0.7%
70,000	17,940	17,940	2,800	2,800	3,143	2,793	350	7	0.8%
150,000	49,940	49,940	6,000	6,000	9,542	9,192	350	7	0.4%

Variations can arise due to rounding

Table 7: Option 1A - Single Employee - Cumulative 2017-2019 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	75	75	1	0.6%
17,542	208	208	0	0	286	143	143	3	0.8%
35,000	3,940	3,940	1,400	1,400	1,218	527	691	13	2.4%
45,000	7,940	7,940	1,800	1,800	1,768	752	1,016	20	3.0%
55,000	11,940	11,940	2,200	2,200	2,318	977	1,341	26	3.5%
70,000	17,940	17,940	2,800	2,800	3,143	1,315	1,828	35	4.0%
150,000	49,940	51,590	6,000	6,000	9,542	6,513	1,379	27	1.6%

Variations can arise due to rounding

Option 1 – B: Single self-employed person, no children, Class S PRSI contributor

Table 8: Option 1B - Self-employed - 2017 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	400	0	520	520	150	85	465	9	3.9%
17,542	1,308	758	702	702	286	198	638	12	4.2%
35,000	5,040	4,490	1,400	1,400	1,218	1,043	725	14	2.7%
45,000	9,040	8,490	1,800	1,800	1,768	1,543	775	15	2.4%
55,000	13,040	12,490	2,200	2,200	2,318	2,043	825	16	2.2%
70,000	19,040	18,490	2,800	2,800	3,143	2,793	900	17	2.0%
150,000	51,040	50,490	6,000	6,000	11,042	10,692	900	17	1.1%

Variations can arise due to rounding

Table 9: Option 1B - Self-employed - Cumulative 2017-2019 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	400	0	520	520	150	75	475	9	4.0%
17,542	1,308	208	702	702	286	143	1,243	24	8.2%
35,000	5,040	3,940	1,400	1,400	1,218	527	1,791	34	6.5%
45,000	9,040	7,940	1,800	1,800	1,768	752	2,116	41	6.5%
55,000	13,040	11,940	2,200	2,200	2,318	977	2,441	47	6.5%
70,000	19,040	17,940	2,800	2,800	3,143	1,315	2,928	56	6.5%
150,000	51,040	51,590	6,000	6,000	11,042	7,263	3,229	62	3.9%

Variations can arise due to rounding

Option 1 – C: Married couple, one income, two children, full rate PRSI contributor

Table 10: Option 1C - Married Family - 2017 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	85	65	1	0.5%
17,542	0	0	0	0	286	198	88	2	0.5%
35,000	1,050	850	1,400	1,400	1,218	1,043	375	7	1.2%
45,000	3,490	3,290	1,800	1,800	1,768	1,543	425	8	1.1%
55,000	7,490	7,290	2,200	2,200	2,318	2,043	475	9	1.1%
70,000	13,490	13,290	2,800	2,800	3,143	2,793	550	11	1.1%
150,000	45,490	45,290	6,000	6,000	9,542	9,192	550	11	0.6%

Variations can arise due to rounding
Disregarding Child Benefit and Family Income Supplement

Table 11: Option 1C - Married Family - Cumulative 2017-2019 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	75	75	1	0.6%
17,542	0	0	0	0	286	143	143	3	0.8%
35,000	1,050	850	1,400	1,400	1,218	527	891	17	2.8%
45,000	3,490	3,290	1,800	1,800	1,768	752	1,216	23	3.2%
55,000	7,490	7,290	2,200	2,200	2,318	977	1,541	30	3.6%
70,000	13,490	13,290	2,800	2,800	3,143	1,315	2,028	39	4.0%
150,000	45,490	46,940	6,000	6,000	9,542	6,513	1,579	30	1.7%

Variations can arise due to rounding
Disregarding Child Benefit and Family Income Supplement

Appendix 3: Distributional Tables – USC Option 2

<table>
<tr><th>2017</th><th>Cumulative 2017 - 2019</th></tr>
<tr><td>Universal Social Charge
• Increase 1% USC rate band ceiling from €12,012 to €18,000.
• Increase 3% USC rate band ceiling from €18,668 to €21,000.
• Reduce 3% surcharge to 2%

Income Tax
• Increase Earned Income Credit from €550 to €1,100.
• Increase Home Carer Credit from €1,000 to €1,200.</td><td>Universal Social Charge
• Increase 1% band ceiling from €12,012 to €35,000.
• Increase 3% band ceiling from €18,668 to €65,000.
• Increase 5.5% band ceiling from €70,044 to €100,100.
• Reduce 3% surcharge to 0%
Income Tax
• Increase Earned Income Credit from €550 to €1,650
• Increase Home Carer Credit from €1,000 to €1,200.
• Withdrawal of PAYE and EIC credits by 5% for each €1,000 over €100,000.</td></tr>
</table>

Option 2 – A: Single PAYE employee, no children, full rate PRSI contributor

Table 12: Option 2A - Single Employee - 2017 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	130	20	0.4	0.2%
17,542	208	208	0	0	286	175	111	2	0.7%
35,000	3,940	3,940	1,400	1,400	1,218	1,040	178	3	0.6%
45,000	7,940	7,940	1,800	1,800	1,768	1,590	178	3	0.5%
55,000	11,940	11,940	2,200	2,200	2,318	2,140	178	3	0.5%
70,000	17,940	17,940	2,800	2,800	3,143	2,965	178	3	0.4%
150,000	49,940	49,940	6,000	6,000	9,542	9,364	178	3	0.2%

Variations can arise due to rounding

Table 13: Option 2A - Single Employee - Cumulative 2017-2019 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	130	20	0.4	0.2%
17,542	208	208	0	0	286	175	111	2	0.7%
35,000	3,940	3,940	1,400	1,400	1,218	350	868	17	3.1%
45,000	7,940	7,940	1,800	1,800	1,768	650	1,118	22	3.3%
55,000	11,940	11,940	2,200	2,200	2,318	950	1,368	26	3.5%
70,000	17,940	17,940	2,800	2,800	3,143	1,525	1,618	31	3.5%
150,000	49,940	51,590	6,000	6,000	9,542	7,173	719	14	0.9%

Variations can arise due to rounding

Option 2 – B: Single self-employed person, no children, Class S PRSI contributor

Table 14: Option 2B - Self-employed - 2017 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	400	0	520	520	150	130	420	8	3.5%
17,542	1,308	758	702	702	286	175	661	13	4.3%
35,000	5,040	4,490	1,400	1,400	1,218	1,040	728	14	2.7%
45,000	9,040	8,490	1,800	1,800	1,768	1,590	728	14	2.2%
55,000	13,040	12,490	2,200	2,200	2,318	2,140	728	14	1.9%
70,000	19,040	18,490	2,800	2,800	3,143	2,965	728	14	1.6%
150,000	51,040	50,490	6,000	6,000	11,042	10,364	1,228	24	1.5%

Variations can arise due to rounding

Table 15: Option 2B - Self-employed - Cumulative 2017-2019 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	400	0	520	520	150	130	420	8	3.5%
17,542	1,308	208	702	702	286	175	1,211	23	7.9%
35,000	5,040	3,940	1,400	1,400	1,218	350	1,968	38	7.2%
45,000	9,040	7,940	1,800	1,800	1,768	650	2,218	43	6.8%
55,000	13,040	11,940	2,200	2,200	2,318	950	2,468	47	6.6%
70,000	19,040	17,940	2,800	2,800	3,143	1,525	2,718	52	6.0%
150,000	51,040	51,590	6,000	6,000	11,042	7,173	3,319	64	4.1%

Variations can arise due to rounding

Option 2 – C: Married couple, one income, two children, full rate PRSI contributor

Table 16: Option 2C - Married Family - 2017 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	130	20	0.4	0.2%
17,542	0	0	0	0	286	175	111	2	1.0%
35,000	1,050	850	1,400	1,400	1,218	1,040	378	7	1.2%
45,000	3,490	3,290	1,800	1,800	1,768	1,590	378	7	1.0%
55,000	7,490	7,290	2,200	2,200	2,318	2,140	378	7	0.9%
70,000	13,490	13,290	2,800	2,800	3,143	2,965	378	7	0.7%
150,000	45,490	45,290	6,000	6,000	9,542	9,364	378	7	0.4%

Variations can arise due to rounding
Disregarding Child Benefit and Family Income Supplement

Table 17: Option 2C - Married Family - Cumulative 2017-2019 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	130	20	0.4	0.2%
17,542	0	0	0	0	286	175	111	2	1.0%
35,000	1,050	850	1,400	1,400	1,218	350	1,068	21	3.4%
45,000	3,490	3,290	1,800	1,800	1,768	650	1,318	25	3.5%
55,000	7,490	7,290	2,200	2,200	2,318	950	1,568	30	3.6%
70,000	13,490	13,290	2,800	2,800	3,143	1,525	1,818	35	3.6%
150,000	45,490	46,940	6,000	6,000	9,542	7,173	919	18	1.0%

Variations can arise due to rounding
Disregarding Child Benefit and Family Income Supplement

Appendix 4: Distributional Tables – USC Option 3

2017	Cumulative 2017 - 2019
Universal Social Charge • Exempt income below €13,600 from USC for all income earners Income Tax • Increase Earned Income Credit from €550 to €1,100. • Increase Home Carer Credit from €1,000 to €1,200.	Universal Social Charge • Exempt income below €36,000 from USC for all income earners Income Tax • Increase Earned Income Credit from €550 to €1,650 • Increase Home Carer Credit from €1,000 to €1,200. • Withdrawal of PAYE and EIC credits by 5% for each €1,000 over €100,000.

Option 3 – A: Single PAYE employee, no children, full rate PRSI contributor

Table 18: Option 3A - Single Employee - 2017 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	0	150	3	1.2%
17,542	208	208	0	0	286	118	168	3	1.0%
35,000	3,940	3,940	1,400	1,400	1,218	1,050	168	3	0.6%
45,000	7,940	7,940	1,800	1,800	1,768	1,600	168	3	0.5%
55,000	11,940	11,940	2,200	2,200	2,318	2,150	168	3	0.4%
70,000	17,940	17,940	2,800	2,800	3,143	2,975	168	3	0.4%
150,000	49,940	49,940	6,000	6,000	9,542	9,374	168	3	0.2%

Variations can arise due to rounding

Table 19: Option 3A - Single Employee - Cumulative 2017-2019 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	0	150	3	1.2%
17,542	208	208	0	0	286	0	286	6	1.7%
35,000	3,940	3,940	1,400	1,400	1,218	0	1,218	23	4.3%
45,000	7,940	7,940	1,800	1,800	1,768	495	1,273	24	3.8%
55,000	11,940	11,940	2,200	2,200	2,318	1,045	1,273	24	3.3%
70,000	17,940	17,940	2,800	2,800	3,143	1,870	1,273	24	2.8%
150,000	49,940	51,590	6,000	6,000	9,542	8,269	-377	-7	-0.4%

Variations can arise due to rounding

Option 3 – B: Single self-employed person, no children, Class S PRSI contributor

Table 20: Option 3B - Self-employed - 2017 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	400	0	520	520	150	0	550	11	4.6%
17,542	1,308	758	702	702	286	118	718	14	4.7%
35,000	5,040	4,490	1,400	1,400	1,218	1,050	718	14	2.6%
45,000	9,040	8,490	1,800	1,800	1,768	1,600	718	14	2.2%
55,000	13,040	12,490	2,200	2,200	2,318	2,150	718	14	1.9%
70,000	19,040	18,490	2,800	2,800	3,143	2,975	718	14	1.6%
150,000	51,040	50,490	6,000	6,000	11,042	10,874	718	14	0.9%

Variations can arise due to rounding

Table 21: Option 3B - Self-employed - Cumulative 2017-2019 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	400	0	520	520	150	0	550	11	4.6%
17,542	1,308	208	702	702	286	0	1,386	27	9.1%
35,000	5,040	3,940	1,400	1,400	1,218	0	2,318	45	8.5%
45,000	9,040	7,940	1,800	1,800	1,768	495	2,373	46	7.3%
55,000	13,040	11,940	2,200	2,200	2,318	1,045	2,373	46	6.3%
70,000	19,040	17,940	2,800	2,800	3,143	1,870	2,373	46	5.3%
150,000	51,040	51,590	6,000	6,000	11,042	9,769	723	14	0.9%

Variations can arise due to rounding

Option 3 – C: Married couple, one income, two children, full rate PRSI contributor

Table 22: Option 3C - Married Family - 2017 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	0	150	3	1.2%
17,542	0	0	0	0	286	118	168	3	1.0%
35,000	1,050	850	1,400	1,400	1,218	1,050	368	7	1.2%
45,000	3,490	3,290	1,800	1,800	1,768	1,600	368	7	1.0%
55,000	7,490	7,290	2,200	2,200	2,318	2,150	368	7	0.9%
70,000	13,490	13,290	2,800	2,800	3,143	2,975	368	7	0.7%
150,000	45,490	45,290	6,000	6,000	9,542	9,374	368	7	0.4%

Variations can arise due to rounding
Disregarding Child Benefit and Family Income Supplement

Table 23: Option 3C - Married Family - Cumulative 2017-2019 Distribution

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	
13,000	0	0	0	0	150	0	150	3	1.2%
17,542	0	0	0	0	286	0	286	6	1.7%
35,000	1,050	850	1,400	1,400	1,218	0	1,418	27	4.5%
45,000	3,490	3,290	1,800	1,800	1,768	495	1,473	28	3.9%
55,000	7,490	7,290	2,200	2,200	2,318	1,045	1,473	28	3.4%
70,000	13,490	13,290	2,800	2,800	3,143	1,870	1,473	28	2.9%
150,000	45,490	46,940	6,000	6,000	9,542	8,269	-177	-3	-0.2%

Variations can arise due to rounding
Disregarding Child Benefit and Family Income Supplement