Report of the Working Group on the Amalgamation of USC and PRSI

September 2018

Prepared by the Working Group
for the Minister for Finance

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Executive Summary

Key Finding

Amalgamation of USC and PRSI is technically feasible and there are a number of options to achieve this. However, the Group concluded that it was not possible to identify a single approach which at once is simple in design and implementation, minimises the costs to the State and avoids losers at the individual income earner level. All possible options or variations thereof involve trade-offs between these three factors and raise significant parallel policy choices for Government as well as the resolution of practical implementation issues which arise.

1. Terms of Reference

As part of Budget 2018, the Minister for Finance and Public Expenditure and Reform announced that a Working Group would be established to examine options for "amalgamating USC and PRSI over the medium term".

The Working Group ("the Group") was established on 6 February 2018 and the terms of reference were noted by Government on 8 February 2018 as follows:

"To examine and present options for the amalgamation of PRSI and USC in a manner which seeks to address, inter alia:

- *(i) the need to preserve the tax base having regard to the need for certainty, equity, and ease of compliance and administration,*
- *(ii) current and future funding challenges facing the Social Insurance Fund,*
- *(iii) issues likely to arise from a phased implementation over a number of years of the new instrument,*
- *(iv) simplification of the personal tax and social insurance systems, and*
- *(v) any other relevant matters arising.*

The exercise will be chaired by the Department of Finance. It should have regard to the structure and rates of personal tax and social insurance in other countries and the macroeconomic and demographic contexts in Ireland, and should be completed no later than 30 June 2018."

The deadline for the completion of the Group's work was later extended.

2. Development of Options and Methodology

The Group was tasked with developing options for the amalgamation of USC and PRSI in a way that would seek to preserve the tax base[1] including the future funding challenges facing the Social Insurance Fund (SIF). The focus of the analysis was concentrated on those income earners/individuals who pay USC and PRSI. In the latter case, PRSI Class A and Class S contributors comprise the bulk of those (95%[2]) paying PRSI. However, it cannot be ruled out that Employers' PRSI might be a focus of any future reform of the PRSI system.

Note on costs

There are two distinct costs that are relevant for the amalgamation options:

1. There is an Exchequer cost arising from the reduction/abolition of the USC which means a loss of revenue for the Exchequer in favour of the SIF. The potential implications of this are discussed in Chapter 2.
2. There is also a potential loss of revenue to the State overall. This arises from the difference between the loss of USC receipts and the post-amalgamated increase in PRSI receipts. References in this chapter to "cost neutral" are in terms of overall loss of revenue to the State.

To provide an accurate picture of the potential overall loss of revenue to the State, the changes to PRSI and USC have been costed on a "like-for-like" basis using 2016 data provided by the Department of Employment Affairs and Social Protection and the Revenue Commissioners.

It should however be noted that if a decision to amalgamate USC and PRSI is taken in a future year, all costs would need to be revised to take account of changes in receipts and spending. This is particularly relevant for the Exchequer cost as USC receipts are estimated to reach over €5 billion by 2021.

Furthermore, it should be noted that the figures relating to losses to the State are accounted for by a number of factors including the costs involved in seeking to reduce losses at the level of individual PRSI contributors. They also reflect the fact that, arising from two key differences in the base of PRSI as compared with USC, those aged over 66 and self-employed persons earning over €100,000 would stand to benefit from a significant windfall gain (the aggregate value of which is somewhere of the order of €310 million per annum) in the absence of policy measures to mitigate such an impact.

[1] Note that preservation of the tax base has a specific meaning in the context of this report. It refers to the combined total income that is within the scope of both USC and PRSI and also the number of individuals who are liable for the charges.

[2] Excluding Class M contributors who do not pay PRSI.

In developing options, the Group found that all involved a series of trade-offs between simplicity in design and implementation, minimal loss of revenue to the State and losses at income earner/contributor level. In terms of implementation, the options developed could be implemented in a single move or phased over a number of stages.

The Group identified four headline options - full amalgamation, partial amalgamation, new charge and alternative amalgamation. However, the main focus was on full amalgamation to reflect the thrust of our terms of reference. The full amalgamation option was analysed by reference to an examination of advantages/disadvantages of a number of sub-options (five in all) and the distributional effects of these on sample income levels. In addition, each sub-option was evaluated against the following five criteria derived from our terms of reference:

- **Preservation of the tax base including stability and certainty:**
  This refers to the combined total income that is within the scope of both charges and also the number of individuals who are liable to the charges.
- **Equity:**
  This relates to the distribution of "winners and losers" at the income earner level – i.e. those who have to pay less when compared with those who have to pay more post-amalgamation. This also refers to the progressivity of the amalgamated charge.
- **Ease of Compliance and Administration:**
  This is important for both the Department of Employment Affairs and Social Protection and employers and for the Revenue Commissioners in collecting the charge. In addition, the effect on individuals such as the self-employed is also relevant.
- **Sustainability:**
  This refers to maintaining steady and stable revenue to the State overall (including the Exchequer and the SIF) as well as the future funding challenges for the SIF.
- **Simplicity:**
  This relates to the design of the amalgamated charge and the ease by which it can be understood by income earners.

3. Context

Respective roles of USC and PRSI

USC

When the Universal Social Charge (USC) was introduced in 2011, it replaced the Income Levy introduced in 2009 and the Health Levy. Its primary purpose was to widen the tax base and to provide a steady income to the Exchequer to provide funding for public services.

USC has the broadest base of the three charges on income in Ireland (income tax, USC and PRSI). This is because, in general, entry into the USC net starts at income of €13,000 per year (compared with €16,500 for income tax and €18,304 (€352 per week) for Employee PRSI. Also, there are no credits and very few reliefs.

Income tax revenues (including those from USC) represent a more significant proportion of overall tax revenue since the financial crisis and property market collapse. In 2017, USC contributed 18.3% of all income tax receipts and 7.3% of total tax receipts thereby supporting a range of Exchequer-funded public services.

Its broad base helps ensure that the USC is a stable source of revenue for the State. In 2016, joint Department of Finance/Economic and Social Research Institute (ESRI) research found that USC represented a more stable form of revenue than income tax[3]. The findings highlighted that USC revenues would fluctuate by less than income tax revenues whenever income is volatile, for example where the economy moves from a boom into a bust. Given the openness of the Irish economy and consequent susceptibility to economic shocks, the contribution that the USC makes to the stability of the State's revenue sources is considerable.

PRSI

The social insurance system is central to the provision of social security in Ireland. It plays a significant role in Irish life due to its financial and economic scale and in terms of the number of people who depend on it. PRSI contributors build up entitlements which will be paid to them as of right when they themselves need them, for example, when they experience a specified contingency or are no longer economically active. Income from PRSI contributions are ring-fenced to the Social Insurance Fund (SIF) and are redistributed to pay social insurance benefits such as pension payments to an earlier generation of contributors and benefits to people who are temporarily economically inactive through illness or short term unemployment. PRSI, therefore, is an important vehicle of income redistribution,

[3] https://www.finance.gov.ie/wp-content/uploads/2017/07/1703-Income-tax-elasticity-rep.pdf

social cohesion and solidarity between generations as well as between those in work and those who are not. In common with USC and income tax, it is levied on individuals' income.

Total income from PRSI in 2017 was nearly €10 billion of which 70% came from Employers' PRSI. Total PRSI expenditure in 2017 was just over €9 billion – the majority of which (70%) was on pensions followed by illness, disability and carers payments (15%).

SIF Deficit

As specified in legislation, the Exchequer acts as residual financier of the Social Insurance Fund (SIF). The SIF was established in the early 1950s and, with the exception of the eleven-year period 1997 to 2007, and the years from 2016 to date, annual Exchequer contributions have been the norm.

Projections from the 2015 Actuarial Review of the Social Insurance Fund suggests that, on a no-policy-change basis, the SIF is likely to return to a sustained deficit beginning in the next decade[4]. The most recent review, published in October 2017, sets out the position of the Fund as at 31 December 2015. This review indicates that the current surplus in the SIF is likely to be short-lived, with annual shortfalls being projected and increasing to €3.3 billion by 2030, to €17 billion by 2055 and to €22.2 billion by 2071 largely driven by non-discretionary demographic pressures. As such, the trend as projected by the 2015 Actuarial Review remains clear. The case for amalgamation includes the proposition that through such a move, additional funds would become available to the SIF to assist in offsetting these future deficits.

Central Role of USC in Public Finances

In 2016, the latest year for which final data are available, the Exchequer yield from USC was nearly €4 billion. For 2017, based on preliminary budgetary figures which are subject to revision, USC contributed 18.3% of all income tax receipts and 7.3% of total tax receipts thereby supporting a range of Exchequer funded public services. Given the scale of these figures, the full amalgamation options set out in this report would represent a major policy change with substantial implications for the public finances. A reduction in Exchequer revenues of the order of €4 billion or so per annum:

- could negatively impact on the General Government Balance (GGB) if there is an overall cost to the State[5]. In addition, in the event of such a cost to the State arising,

[4] More recent data from revised short-term forecasts undertaken by the Department of Employment Affairs and Social Protection suggest that entry into deficit of the Fund is likely to arise later than that projected in the Actuarial Review, i.e. not 2020 and may be later than 2021.

[5] Two of the amalgamation options examined in this report, Options A and E, would not involve an overall cost to the State. The former would be revenue-neutral at the level of the State and the latter would result in an increase in yield as compared with current arrangements.

the fiscal space available to Government in a budgetary context is reduced by the amount of that cost.

- would impact the Exchequer Borrowing Requirement (EBR) and thus lead to increased Government debt, unless there was a corresponding increase in taxation or reduction in overall voted[6] expenditure for Government funded services of the same order of magnitude or the Social Insurance Fund was examined as part of overall revised arrangements in circumstances where it receives substantial additional resources.

Impact on Exchequer Borrowing Requirement (EBR)

In the event that the USC proceeds were to be re-allocated from the Exchequer to the SIF, there would be a mechanical deterioration in the EBR in order to maintain the planned levels of overall voted expenditure. There would therefore be a knock-on increase in the stock of Exchequer debt. An increase in General Government Debt would have implications requiring further assessment, including on investor perception of the fiscal position of the State. A key fiscal priority for Government is to further reduce the debt ratio to help rebuild fiscal capacity in the event of future shocks. This is considered central to the prudent management of the State's public finances into the future.

The EBR impact could be avoided if there was to be a corresponding increase in taxation revenues of a sufficient scale or a reduction in overall voted expenditure which would require a significant reduction in the current level of Government services that are paid out of the Exchequer funds. Based on current USC forecasts, the scale of the sums involved would be of the order of 5.5% of total gross voted Government expenditure.

In order to avoid additional borrowing, the following action would be required:

a) an overall increase in taxation levels of the order of €4 billion; or
b) an equivalent loss of funds for current expenditure in critical areas such as health, education and housing and the roll out of capital investment plans; or
c) examine the Social Insurance Fund as part of overall revised arrangements in circumstances where it receives substantial additional resources.

[6] Voted expenditure refers to the ordinary services of Government Departments and Offices, both capital and non-capital, the money for which is voted by Dáil Éireann on an annual basis.

Impact on Government Expenditure Ceiling

The purpose of the Government Expenditure Ceiling (GEC) is to ensure that State expenditure is sustainable in the medium to long-term. Implementation of amalgamation of USC and PRSI would take place against the background of the existence of the GEC and the rules of the GEC would continue to apply.

4. Comparison of USC and PRSI

USC and PRSI have a number of similarities which may facilitate a technical basis for amalgamation. However, there are material differences in the value, scope and numbers availing of the exemptions to each charge. A central distinction is the week-to-week (or week 1) basis on which PRSI is charged when compared with the annual basis for USC. Another is the treatment of those aged over 66 years who are wholly exempt from PRSI but are subject to USC.

The key similarities between USC and Class A and Class S PRSI are:

- Both operate on an individualised basis.
- Both generally apply to:
    - Income from an "employment" i.e. earned income;
    - Share based remuneration;
    - Benefits-in-Kind.
- Both generally exempt:
    - Social welfare income;
    - Employer contributions to certain pensions.
- Both are collected by the Revenue Commissioners.

Some key differences are:

- The application of the particular rates:
    - PRSI has one rate applying across all levels of income, whereas there are four for USC.
    - PRSI is on a week-to-week basis (meaning as soon as income exceeds a certain level in a week it is subject to the charge), and USC is levied on an annual basis (meaning where annual income is over €13,000 per annum the charge is levied).
- Treatment of capital allowances.
- The treatment of over 66s – exempt from PRSI but subject to USC (reduced rate basis for over 70s).

- The treatment of certain medical card holders – medical card holders earning less than €60,000 have a reduced rate of charge to USC but no such exemption from PRSI.

Table 7 on page 44 of this report provides a summary comparison of the application of the charges paid by the majority of workers, namely USC with PRSI Class A and Class S.

5. Outcome

In total, some 9 options were considered by the Group, though the most detailed examination related to the full amalgamation sub-options under Heading 1 below, consistent with the Group's terms of reference. The detailed options focused on USC merging into the PRSI system and on Class A and Class S PRSI contributors only. They excluded Employers' PRSI. In the interest of ensuring a complete amalgamation, it would be necessary to look at including other PRSI classes.

Four headline options for the amalgamation of USC and PRSI were identified as follows:

1. **Full amalgamation**

   Under this option, USC would be abolished while increased rates of contribution within the PRSI system would seek to raise the same quantum of revenue (see sub-options below).

2. **Partial amalgamation**

   This option involves a partial reduction of USC by cutting a rate or rates and an increase in PRSI rates to seek to raise the USC revenue foregone. There are a variety of ways in which the option could be configured. Under this option, USC at a reduced level would continue to exist alongside PRSI and income tax.

3. **New charge**

   Under this option, both the USC and Employee/Self-employed PRSI would be abolished and replaced by a completely new charge. Employers' PRSI would remain in place and would continue to be paid into the existing Social Insurance Fund.

4. **Alternative amalgamation**

   Under this approach, USC would be merged with the income tax system; the PRSI system would not be affected by the move.

In terms of presenting a comprehensive range of alternatives within which the amalgamation of USC into PRSI might be considered, the Group considered that this option should be included in the report while acknowledging that it falls outside the formal terms of reference.

For comparison purposes, a benchmark scenario in which there is no change from present arrangements was also referenced i.e. USC and PRSI would continue in their present forms.

However, of the four options above, the Group's main focus of attention was on the full amalgamation option as described below.

Full Amalgamation Sub-options

The full amalgamation option was focused on because it most closely aligned with the terms of reference. Five further sub-options were identified in detail which were as follows:

A. Five Stage Full Amalgamation I
B. One Year Full Amalgamation I
C. One Year Full Amalgamation II
D. Three-stage Full Amalgamation
E. Five-stage Full Amalgamation II

The following tables present in summary form an assessment of the five detailed sub-options against the five criteria outlined earlier in this executive summary:

	A: Five-stage Full Amalgamation I	B: One-year Full Amalgamation I	C: One-year Full Amalgamation II	D: Three-stage Full Amalgamation	E: Five-stage Full Amalgamation II
Preserve Tax Base[1]	Tax base narrowed as the existing exemptions under PRSI (e.g. for those over 66 years of age) would apply for income that was previously taxed under USC. No loss of revenue to the State, but the changed source of revenue would be arguably less stable, given the remaining exemptions in the PRSI system.	Tax base narrowed as the existing exemptions under PRSI (e.g. for those over 66 years of age) would apply to income that was previously taxed under USC. Stability of the tax base would be reduced. The overall loss to the State is estimated to be €617 million per annum.	Tax base is narrowed as the existing exemptions under PRSI (e.g. for those over 66 years of age) would apply to income that was previously taxed under USC. Stability of the tax base reduced. The overall loss to the State would be €1,064 million per annum.	Tax base narrowed as the existing exemptions under PRSI (e.g. for those over 66 years of age) would now apply to income that was previously taxed under USC. Stability of the tax base would be reduced. The overall loss to the State is estimated to be €617 million per annum.	Tax base narrowed as the existing exemptions under PRSI (e.g. for those over 66 years of age) would now apply to income previously taxed under USC. No loss of revenue to the State and instead there would be a gain, though the changed source of revenue would be arguably less stable, given the remaining exemptions in the PRSI system.
Equity[2]	Very inequitable outcomes with high earners gaining while lower/middle earners lose. Not progressive.	More progressive than current PRSI system with those earning more paying more. There is an uneven distribution of gains across various income ranges.	Proposed new PRSI system would be highly progressive with those earning more paying more. Creates no employment traps, significant steps or work disincentives. Uneven distribution of gains.	More progressive than the current PRSI system, with those earning more paying more. Uneven distribution of gains.	Poor progressivity - rate that would apply at the various income ranges would not be very progressive, although those earning more have higher rates of PRSI. There would be significant poverty traps created at the lower income levels which would have possible work incentive implications.
Ease of Compliance/ Admin.[3]	No increase in the burden of compliance on employers, DEASP or Revenue Commissioners envisaged and no increase in the administrative burden after installation and bedding in of the new system.	No significant increase in the burden of compliance on employers, DEASP or Revenue Commissioners envisaged or increase in the administrative burden after installation and bedding in of the new system.	Increased compliance burden on employers, DEASP and Revenue Commissioners envisaged in the operation of systems with over 100 PRSI rates and bands. The administration of this new PRSI structure would present challenges from an implementation and administration perspective.	No significant increase in the burden of compliance on employers, DEASP or Revenue Commissioners envisaged or increase in the administrative burden after installation and bedding in of the new system.	Increased complexity in the PRSI system which would impact employers, DEASP and the Revenue Commissioners. There would be a number of implementation issues, particularly if alleviating measures to address the "step effects" were required.
Sustainability[4]	Significant loss of Exchequer revenue with difficult replacement choices (including increased borrowing, higher taxes or reduced public services).	Significant loss of Exchequer revenue with difficult replacement choices (including increased borrowing, higher taxes or reduced public services).	Significant loss of Exchequer revenue with difficult replacement choices (including increased borrowing, higher taxes or reduced public services).	Significant loss of Exchequer revenue with difficult replacement choices (including increased borrowing, higher taxes or reduced public services).	Significant loss of Exchequer revenue with difficult replacement choices (including increased borrowing, higher taxes or reduced public services).

	SIF financial position improved in the medium-term.	SIF financial position improved in the medium-term.	SIF financial position improved in the medium-term.	SIF financial position improved in the medium-term.	SIF financial position improved in the medium-term.
Simplicity[5]	No increase in complexity of PRSI system. Number of revenue raising instruments reduced from three to two.	No increase in complexity of the PRSI system. The multi-rate USC system replaced by multi-rate PRSI system. Number of revenue raising instruments reduced from three to two.	While the option is relatively straightforward to explain, complexity introduced to PRSI system as there would be over 100 rates and income bands. Represents a significant change to the PRSI system. Number of revenue raising instruments reduced from three to two.	No increase in complexity of the PRSI system, although slightly more challenging given phased implementation. Multi-rate USC system replaced by multi-rate PRSI system. Number of revenue raising instruments reduced from three to two.	Increased complexity in PRSI system. Number of revenue raising instruments reduced from three to two.
Impact on overall State revenue[6]	**Revenue neutral.**	**loss €617 million per annum.**	**loss €1,064 million per annum.**	**loss €617 million per annum.**	**yield €1,078 million per annum.**
Estimated quantum of USC currently collected from those paying modified rates of PRSI[7]	**€114 million per annum**	**€114 million per annum**	**€114 million per annum**	**€114 million per annum**	**€114 million per annum**

1. Preservation of the tax base including stability and certainty: This refers to the combined total income that is within the scope of both charges and also the number of individuals who are liable to the charges.
2. Equity: This relates to the distribution of "winners and losers" at the income earner level – i.e. those who have to pay less as compared with those who have to pay more post-amalgamation. This also refers to the progressivity of the amalgamated charge.
3. Ease of Compliance and Administration: This is important for the Department of Employment Affairs and Social Protection (DEASP) and employers, and for the Revenue Commissioners in collecting and administering the charge. In addition, the effect on individuals such as the self-employed is also relevant.
4. Sustainability: This refers to maintaining steady and stable revenue to the State overall and also to the future funding challenges for the SIF.
5. Simplicity: This relates to the design of the amalgamated charge and the ease by which it can be understood by income earners and employers.
6. Impact on overall State Revenue: Note that in all of the above full amalgamation sub-options, there is a loss of USC revenue to the Exchequer (broadly of the order of €4 billion per annum). However, there is an increase of PRSI receipts to the SIF, with the level of any increase varying with each option.
7. Estimated quantum of USC currently collected from those paying modified rates of PRSI: For analysis purposes, PRSI classes A and S only (which represent the bulk of those paying PRSI) were modelled during the development of the above options. The ***Impact on State Revenue*** figures above do not take account of PRSI revenue that would accrue from those who pay modified rates of PRSI. The €114 million in the subsequent row is intended to be broadly indicative of an amount that might potentially be collected from those paying modified rates of PRSI in a post-amalgamation scenario. However, as no analysis has been carried out by the Group on the new rates of PRSI that should apply to those who pay modified rates of social insurance currently under any of the above sub-options, it is not possible at this point to say that such a figure would be collected. Thus, the €114 million is shown in a separate row above.

The loss figures in the preceding tables are accounted for by a number of factors including the costs involved in seeking to reduce losses at the level of individual PRSI contributors. They also reflect the fact that, arising from two key differences in the base of PRSI as compared with USC, those aged over 66 and self-employed persons earning over €100,000 would stand to benefit from a significant windfall gain (the aggregate value of which is somewhere of the order of €310 million per annum) in the absence of policy measures to mitigate such an impact.

5. Implementation

Implementation of any of the options set out in this report would need to be considered in the context of:

i. Implementation of revised PRSI charging system,
ii. Implementation of revised deduction and collection processes by employers,
iii. Systems changes required by the Department of Employment Affairs and Social Protection and the Revenue Commissioners to deal with the revised PRSI structure, and
iv. Communication to individuals who may be affected by the changes.

While all of the options considered by the Group are technically and theoretically feasible (from a revenue generating perspective), the practicalities of implementing any proposed new PRSI charging systems would need to be further considered.

1. Introduction

As part of Budget 2018, the Minister for Finance and Public Expenditure and Reform announced that a Working Group would be established to examine options for "*amalgamating USC and PRSI over the medium term*"[7].

The Working Group

The Working Group (hereafter referred to as 'the Group') was established on 6 February 2018 and the terms of reference were noted by Government on 8 February.

Terms of Reference of the Working Group

To examine and present options for the amalgamation of PRSI and USC in a manner which seeks to address, *inter alia*:

(i) the need to preserve the tax base having regard to the need for certainty, equity, and ease of compliance and administration,

(ii) current and future funding challenges facing the Social Insurance Fund,

(iii) issues likely to arise from a phased implementation over a number of years of the new instrument,

(iv) simplification of the personal tax and social insurance systems, and

(v) any other relevant matters arising.

The exercise will be chaired by the Department of Finance. It should have regard to the structure and rates of personal tax and social insurance in other countries and the macroeconomic and demographic contexts in Ireland, and should be completed no later than 30 June 2018.

The deadline for the completion of the Group's work was later extended.

Membership of the Working Group

The Group was chaired by the Department of Finance and comprised of officials from:

Department of Finance

Revenue Commissioners

Department of Employment Affairs and Social Protection

Department of Public Expenditure and Reform

[7] http://budget.gov.ie/Budgets/2018/Documents/Budget_2018_Financial_Statement.pdf

Department of the Taoiseach

External Expert, Dr. Micheál Collins (UCD), was appointed to the Group on 27 February 2018.

Work of the Group

The Group held 19 meetings in the period February – August 2018.

A technical sub-group was established to examine in detail the relevant comparisons of the two charges and the complexities involved. The results of these discussions are set out in Chapter 5 of the report.

Various technical papers were prepared by Group members and discussed in some detail over the period. The Group also accepted the offer from members of PublicPolicy.ie[8] who had conducted some research on this area to present a paper to the Group which was also discussed and fed into the Group's deliberations.

The following report includes a summary of the various factors that were taken into account by the Group reflecting its terms of reference in identifying and developing the various options identified and set out in Chapter 6.

[8] Donal de Buitléir and Mary Walsh

2. Economic Considerations

The terms of reference required the Group to have regard to the macroeconomic and demographic context in Ireland. This chapter gives a brief overview of some of the principal economic considerations relevant to the work of the Group and also to the context in which any decision about the amalgamation of the USC and PRSI would take place. This includes the macroeconomic context, the demographic context and the overriding Government financial position.

Key Points:

- Steady growth is forecast for the Irish economy across the medium-term with USC and PRSI revenue expected to increase in that period.
- Prudent management of the public finances will be necessary to mitigate any overheating risks.
- While Ireland currently has a favourable demographic profile relative to other EU member states, impending demographic change driven by population ageing will create significant pressures on the public finances. The Pensioner Support Ratio is set to halve from approximately 4.9 in 2016 to 2.1 in 2071.
- The ageing population will impact on social insurance as pensions expenditure will increase from the current 70% of spending to approximately 80% by 2071.
- The most recent actuarial review, published in October 2017, sets out the position of the Social Insurance Fund (SIF) as at 31 December 2015. The report indicates that the current surplus in the SIF is likely to be short-lived, with annual shortfalls being projected and increasing to €3.3 billion by 2030, to €17 billion by 2055 and to €22.2 billion by 2071.
- Analysis in this chapter indicates that any of the amalgamation options we have identified, if implemented, could negatively impact the State's overall financial position in a number of ways unless there are compensatory measures to address the loss.

General Economic Developments

Steady growth is forecast for the Irish economy across the medium-term. Net exports and domestic demand are expected to be the primary growth factors in 2018, forecasted to increase by 6.9% and 3.9% in 2018 respectively.[9] A similar pattern is expected in 2019. Household incomes are expected to rise as employment growth is forecast to remain strong. As a result, personal spending, one of the main components of domestic demand, is expected to grow by 2.6% percent in 2018.[10] Investment,

[9] Department of Finance, Draft Stability Programme Update - April 2018, page 54.
[10] Department of Finance, Draft Stability Programme Update - April 2018, page 54.

the other main component of domestic demand, is also anticipated to accelerate during this time, with broad-based growth anticipated across all components of investment spending. Real GDP (Gross Domestic Product) is expected to surpass its pre-crisis (2007) level, as it has since 2014, with 5.6% growth in 2018, and 4% in 2019.[11] Inflation is set to reach approximately 0.8% in 2018, having remained well below 1% in each of the last five years.[12]

Labour Market Developments

Given the complexities of measuring GDP and GNP (Gross National Product) in a small open economy like Ireland, the labour market provides additional valuable information on current and projected economic conditions. The unemployment rate is continuing to decline. According to the CSO Labour Force Survey, the definitive measure of unemployment, the seasonally adjusted unemployment rate fell to 5.8% in Q2 2018[13] with a monthly unemployment rate of 5.9% for July, indicating that the economy is approaching a position of 'full employment'. At an aggregate level, this has been accompanied by modest wage pressures forecasted at a 2.1% increase in hourly pay for 2018[14].

Public Finances

Taxes are also a tangible indicator of economic performance, and overall taxation revenues are expected to grow at approximately 5.7% for 2018, and by approximately 5% over the medium-term, broadly similar to growth in 2017.[15] As a result of the positive labour market outlook, income tax revenues are expected to increase by 5.7% in 2018 and broadly similarly over the medium-term. USC and PRSI revenues are anticipated to increase over the medium-term also. Spending is projected to grow at a lower rate than revenue growth.

Over the medium-term (2019-2021), it is expected that tax receipts will grow at 5%, broadly tracking nominal economic growth forecasts of 4.8% while non-taxation revenues decline[16]. Voted current expenditure is expected to increase due to demands arising from, among other things, demographic developments.[17] Given projected demand conditions, it is essential that budgetary policy does not contribute to overheating or repeat the pro-cyclical mistakes of the past. Prudent management of the public finances will mitigate the risks of overheating in the economy and will ensure a buffer is in place for any future adverse shocks.

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[11] Department of Finance, Draft Stability Programme Update - April 2018, page 54.
[12] Department of Finance, Draft Stability Programme Update - April 2018, page 54.
[13] CSO, Labour Force Survey q2 2018, August 2018.
[14] Department of Finance, Draft Stability Programme Update - April 2018, pp. 10 – 11.
[15] Department of Finance, Draft Stability Programme Update - April 2018, pp. 14 – 16.
[16] Department of Finance, Draft Stability Programme Update - April 2018, page 16.
[17] Department of Finance, Draft Stability Programme Update - April 2018, page 18.

Risks

Despite the relatively positive outlook for the economy, a number of domestic and external risks exist. Domestically, imbalances remain in the housing market, with pressures emerging in parts of the labour market, particularly as we approach full employment levels, while the concentrated nature of Ireland's enterprise base has been identified on a number of occasions. Internationally, there are probably greater levels of uncertainty than there has been in a long time, with Brexit the most obvious, along with uncertainty regarding the global trading environment.[18]

Demographic Context

Background

This section provides an overview of demographic projections from the 2015 Actuarial Review of the Social Insurance Fund published in October 2017[19] (2015 Actuarial Review). This Review was undertaken in compliance with Social Welfare legislation which requires actuarial reviews of the Social Insurance Fund (SIF) at five year intervals. This Review covers a 55 year period from 2016-2071 and, given the complex nature of long-term forecasts, it is only intended to provide overall trends to help guide policymakers.

Differences between projections in the 2015 Actuarial Review and the 2018 Ageing Report (AR18)[20] primarily relate to different assumptions around mortality rates.

Difficulties of demographic forecasting

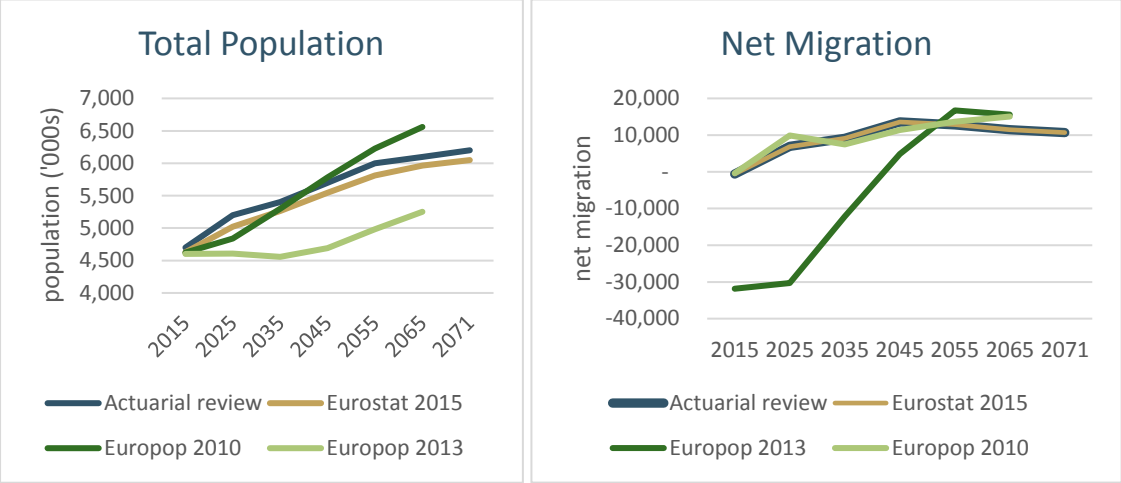
Similar to the 2018 Ageing Report, the 2015 Actuarial Review used the latest Eurostat 2015-based demographic projections. The 2015 Actuarial Review made minor adjustments based on demographic assumptions from the 2016 Census. Thus, as is evident from the figures below, the two series are closely in line with each other. These projections provide both a longer and a more positive migration profile than the EUROPOP 2013 projections, which were used in the 2015 Ageing Report (AR15).

Figure 1 shows the total population in 2060 at approximately 6 million according to the 2015 Actuarial Review and Eurostat's latest projections. This is nearly 750,000 or 14% higher than the EUROPOP2013 projections but is over 560,000 or 9% lower than the population in the EUROPOP2010 projections. Net

[18] Department of Finance, Draft Stability Programme Update - April 2018, pp. 31 - 48.
[19] http://www.welfare.ie/en/Pages/Actuarial-Review-of-The-Social-Insurance-Fund-31-December-2015.aspx
[20] The Ageing Report is a European Commission exercise undertaken every three years. The latest report was published in May 2018.

migration figures also differ considerably, depending on the year of forecast. This clearly illustrates the difficulties in demographic forecasting in an Irish context.

Figure 1: Comparison of population projection exercises

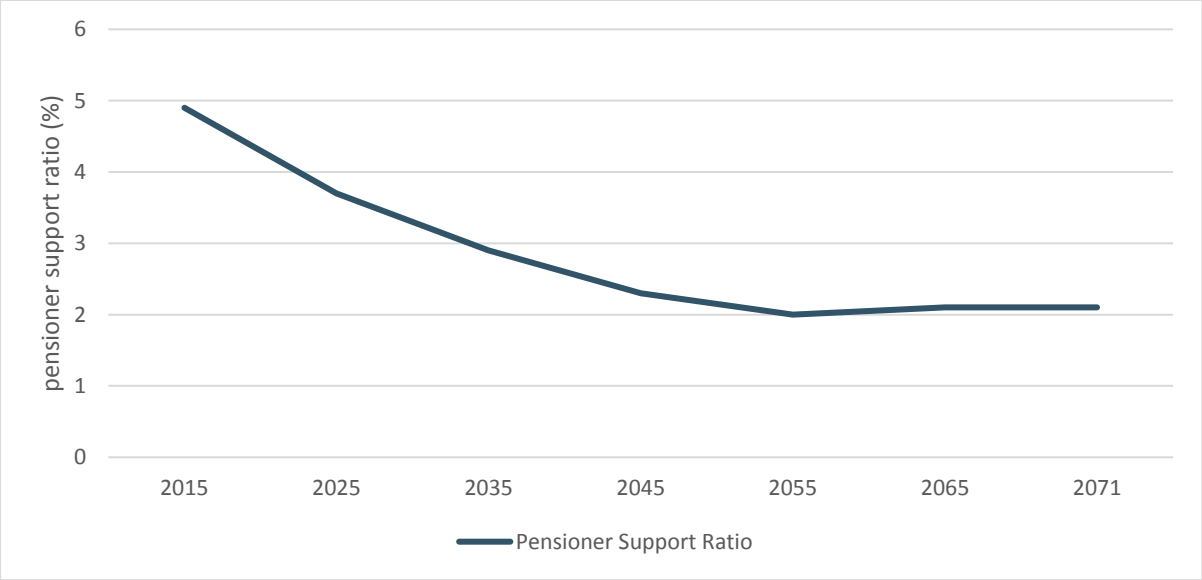


Source: 2015 Actuarial Review of the Social Insurance Fund.

Key results – demographic projections

While Ireland currently has a favourable demographic profile relative to other EU member states, impending demographic change, driven by population ageing, will create significant pressures on the public finances.

Figure 2: Evolution of Pensioner Support Ratio (pop 20-64/pop 65+)



Source: 2015 Actuarial Review of the Social Insurance Fund.

Table 1 gives an overview of the assumed evolution of key population variables consistent with the EUROSTAT 2015 based demographic projections from the 2015 Actuarial Review. On this basis,

Ireland's demographic profile is set to change significantly over the forecast period. The share of the population aged 66 and over is set to more than double from 12% in 2016 to a peak of 24.6% in 2071. Additionally, male and female life expectancies at 66 years of age are set to increase by approximately seven and six years respectively.

In contrast, the share of the Working Age Population (WAP, defined for these purposes as those aged 20-65) is projected to gradually decline during the period, from approximately 60% in 2016 to 53% in 2071. As a result, the Pensioner Support Ratio (WAP and people over pension age) is set to more than halve from approximately 4.9 workers for every individual over pension age in 2016, to 2.1 workers in 2071.

Table 1: Evolution of the main demographic variables

Demographics	2016	2025	2035	2045	2055	2065	2071
Population ('000)	4,700	5,200	5,400	5,700	6,000	6,100	6,200
Share of old age population	12%	15%	19%	23%	25%	25%	25%
Share of Working Age Population (pop 20-65/total population)	60%	57%	56%	54%	51%	52%	53%
Share of population aged less than 19 (pop 0-19/total population)	28%	27%	24%	23%	23%	23%	23%
Net migration ('000)	-0.6	6.9	9.1	13.6	12.8	11.5	10.7
Pensioner Support Ratio	4.9:1	3.7:1	2.9:1	2.3:1	2:1	2.1:1	2.1:1
Men - life expectancy at 66 years (no. of years)	17.6	19.5	21	22.1	23.1	24	24.6
Women - life expectancy at 66 years (no. of years)	20.1	21.7	22.9	23.9	24.7	25.6	26

Source: 2015 Actuarial Review of the Social Insurance Fund.

Financial Position of the State

In assessing the impacts of options for the amalgamation of USC and PRSI, the Group discussed the implications for the overall financial position of the State. The positive impact that an amalgamation would have in increasing funds into the SIF cannot be considered in isolation from the corresponding negative consequence for the Exchequer and the State overall of the loss of funding for, among other things, current and capital expenditure. The purpose of this section is to highlight the broader implications of options for such an amalgamation, including the impact on overall revenue to the State and the State's net financial position.

Background

Article 11 of Bunreacht na hÉireann lays down the general principle that, unless otherwise provided by law, all revenues of the State must be paid into one fund (known as the Central Fund or Exchequer[21]), on which the Government then draws for expenditure on State services.

As a tax, Universal Social Charge (USC) receipts form part of the Exchequer.

As illustrated in the Exchequer Statement which is published monthly by the Department of Finance in the Fiscal Monitor[22], Exchequer revenue items include tax receipts, non-tax revenues and capital receipts while expenditure is composed of net departmental spending and non-voted expenditures such as debt servicing costs. The Exchequer covers around 75% of total General Government Revenue and Expenditure and is therefore the main source of funding and expenditure for the majority of services covering all Government Departments and most State agencies. This includes (but is not limited to) health, education and non-contributory social welfare expenditure.

Gross voted expenditure has grown by 15% over the past four years and is set to reach €61.8 billion in 2018. In the coming years there will be significant pressures on the Exchequer in a number of areas including:

- Demographic pressures are a key driver of expenditure growth in the areas of social protection, health and education. Over the next three years demographic costs, on a no policy change basis, are estimated at €430 million per annum.
- Health expenditure has been increasing at an average of 4.7% per annum since 2014.

[21] The terms are treated as synonymous and interchangeable, though the usage in legislation has generally provided for receipts to be paid into the Exchequer, whereas payments are usually drawn from the Central Fund.
[22] https://www.finance.gov.ie/what-we-do/public-finances/exchequer-returns/fiscal-monitor/

- It is estimated that expenditure on housing will need to increase by €150 million per annum over the next three years on a no policy change basis.
- In the social protection area, aside from demographic costs there are significant upward pressures in areas such as disability and carers supports as well as treatment benefits and any further increase to State Pension payments.
- Capital expenditure is expected to increase by 45% between 2018 and 2021, from €5.8 billion to €8.4 billion, while total capital investment over the next 10 years is set to reach €113 billion.

There are clear risks associated with erosion of the revenue to the Exchequer (i.e. the general tax base) given that additional, known expenditure pressures have to be paid for over the medium-term. Furthermore, the stability of the Exchequer revenue stream is important as any unforeseen shocks to the economy have the potential to both undermine tax revenue and lead to additional cost pressures.

Residual Financier of the SIF

The Social Insurance Fund (SIF) is an exception to the general rule of Article 11 that is provided for in legislation – operating at present under the terms of the Social Welfare (Consolidation) Act 2005.[23]

The SIF comprises a current account managed by the Minister for Employment Affairs and Social Protection, and an investment account, managed by the Minister for Finance (assigned to the NTMA (National Treasury Management Agency) on his behalf). Sums payable out of the SIF come from the current account and any surplus is contained in the investment account.[24]

If there is a shortfall in the current account, the balance must be made up first from the investment account and otherwise from funds provided by the Exchequer as residual financier. This is done via a subvention provided from the Social Protection Vote. The SIF is expected to remain in surplus until at least 2021. However, following the very strong trends that were highlighted in the 2015 Actuarial Review, this surplus scenario may not be sustainable in the medium to long-term.

The 2015 Actuarial Review's projections suggest that, on a no-policy-change basis, the total expenditure will increase approximately five-fold over the over forecast horizon, reaching €44.7 billion in 2071– see further detail in Chapter 4.

[23] The Social Welfare Act 1952 created a unified fund to be administered by the then Minister for Social Welfare which came into operation in 1953 as the SIF.

[24] The administrative costs associated with both PRSI collection and the payment of PRSI entitlements are recoverable from the SIF.

Potential Impact on Government Financial Metrics

Impact on General Government Balance

The SIF is an extra-budgetary fund that sits outside the Exchequer, so is not included in the monthly Exchequer Statements.

The Exchequer encompasses the majority of the total Government financial position but not the full fiscal situation. As a result, the annual budgetary arithmetic and Excessive Deficit Procedure reports are compiled on a General Government basis. The General Government classification is a standardised EU accounting aggregate compiled in accordance with the European System of Accounts (ESA) 2010. The financial position of the SIF (whether in surplus or deficit) is accounted for within this classification and is therefore included in the General Government Balance (GGB) metric.

An amalgamation could involve a reduction or elimination of the amount of USC collected (with less tax recorded on the Exchequer Statement) but an increase in PRSI receipts recorded in the SIF. So long as there is no loss in revenue to the State overall, as the SIF is included in the calculation of the GGB, there would no impact at this level[25] and thus no implications under the balanced budget rules. In the event that there was an overall loss of revenue to the State, where there is less allocated to the SIF post-amalgamation, that would have a negative impact on the GGB.

Impact on Exchequer Borrowing Requirement

In the event that the USC proceeds were to be re-allocated from the Exchequer to the SIF there would be a mechanical deterioration in the Exchequer Borrowing Requirement (EBR) in order to maintain the planned levels of overall voted expenditure. An increase in general Government debt would have implications requiring further assessment including on investor perception of the fiscal position of the State. A key fiscal priority for Government is to further reduce the debt ratio to help rebuild fiscal capacity in the event of future shocks. This is considered central to the prudent management of the State's public finances into the future.

[25] Two of the amalgamation options examined in this report, Options A and E, would not involve an overall cost to the State. The former would be revenue-neutral at the level of the State and the latter would result in an increase in yield as compared with current arrangements.

In order to avoid additional borrowing, compensatory measures would be required:

a) an overall increase in taxation levels of the order of €4 billion; **or**

b) an equivalent loss of funds for current expenditure in critical areas such as health, education and housing and the roll-out of capital investment plans; **or**

c) examine the Social Insurance Fund as part of overall revised arrangements in circumstances where it receives substantial additional resources.

Based on current USC forecasts, the scale of the sums involved would be of the order of 5.5% of total gross voted Government expenditure.

Impact of Government Expenditure Ceiling

The purpose of the Government Expenditure Ceiling (GEC) is to ensure that State expenditure is sustainable in the medium to long-term. Implementation of amalgamation of USC and PRSI would take place against the background of the existence of the GEC and the rules of the GEC would continue to apply.

As set out above, the extent of the impact on the State's overall financial position depends on the approach taken:

- If there is no loss of revenue to the State, there would be no impact on the GGB (options A & E). Options B, D and E, which perform much more strongly on equity, but at the annual costs indicated in this report, would negatively impact on the GGB.
- All options identified would impact the EBR and thus lead to increased Government debt, unless there was a corresponding increase in taxation or reduction in overall voted expenditure for Government funded services of the order of €4 billion, or if the Social Insurance Fund was examined as part of overall revised arrangements in circumstances where it receives substantial additional resources.
- It would erode the revenue to the Exchequer (i.e. the general tax base) when there are known expenditure pressures emerging over the medium-term.

3. Overview of USC

Key Points:

- **Revenue raising:** In 2017, USC contributed 18.3% of all income tax receipts and 7.3% of total tax receipts thereby funding a range of Exchequer funded public services.
- **Broad base:** Of the three charges on income (income tax, USC and PRSI), USC currently has the broadest base because of the €13,000 entry threshold, no credits and few exemptions. In 2017, around 71% of income earners were liable to USC.
- **Stable**: USC is a comparatively stable source of revenue for the State, particularly in times of economic volatility.
- **Progressive:** USC is a progressive charge on income – the system of rates and bands imposes an increasing liability to tax as incomes rise.
- **Simple:** As there are no USC credits and few exemptions it is a relatively uncomplicated tax on income that is straightforward for taxpayers to understand and for Revenue to administer.
- **Effective taxation policy lever:** The few exemptions in the USC system and reduced rates that apply in specific circumstances are targeted. Changes to USC can be made in conjunction with income tax changes to target particular income levels – most recently to ensure that higher taxes apply to those with higher incomes.

Introduction of USC

In his Budget 2010 statement, the then Minister for Finance acknowledged that the income tax system had become imbalanced and suggested that a means of addressing it would be to introduce a Universal Social Charge (USC) that would apply to everyone at a low rate and replace Employee PRSI and the Income and Health Levies.[26] A Steering Group was established to examine the design of the USC and considered two options:

- USC1- Merger of the Income/Health Levies; and
- USC2- Merger of the Income/Health Levies and PRSI.

The Group noted however that broader social policy/benefits, complexities and practical implications meant that USC2 could not be delivered in 2011 but that USC1 could be a stepping stone to the second option at a later point.[27]

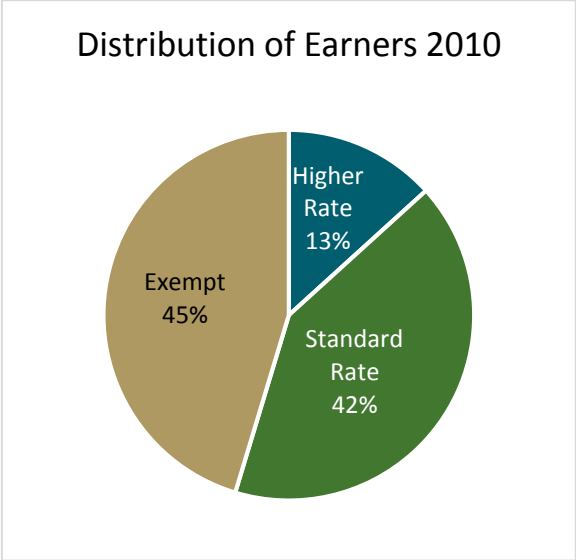
[26] Department of Finance 2010 Tax Strategy Group Paper Income tax and Universal Social Charge p. 5.
[27] Ibid, p. 6.

When the USC was introduced in 2011 it followed option USC1 and replaced the Income and Health Levies. Its primary purpose was to widen the tax base and to provide a steady income to the Exchequer to provide funding for public services.

Impact on Tax Base

Prior to the introduction of the USC, in 2010, the Irish income tax base had narrowed to a point where over 45% of income earners in the State were exempt from income tax and just over 13% were liable to the higher rate of income tax. The overall distribution of income tax at the time can be seen in Figure 3:

Figure 3: Income tax distribution of earners 2010



Data Source: Revenue Commissioners

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 a charge on their income.

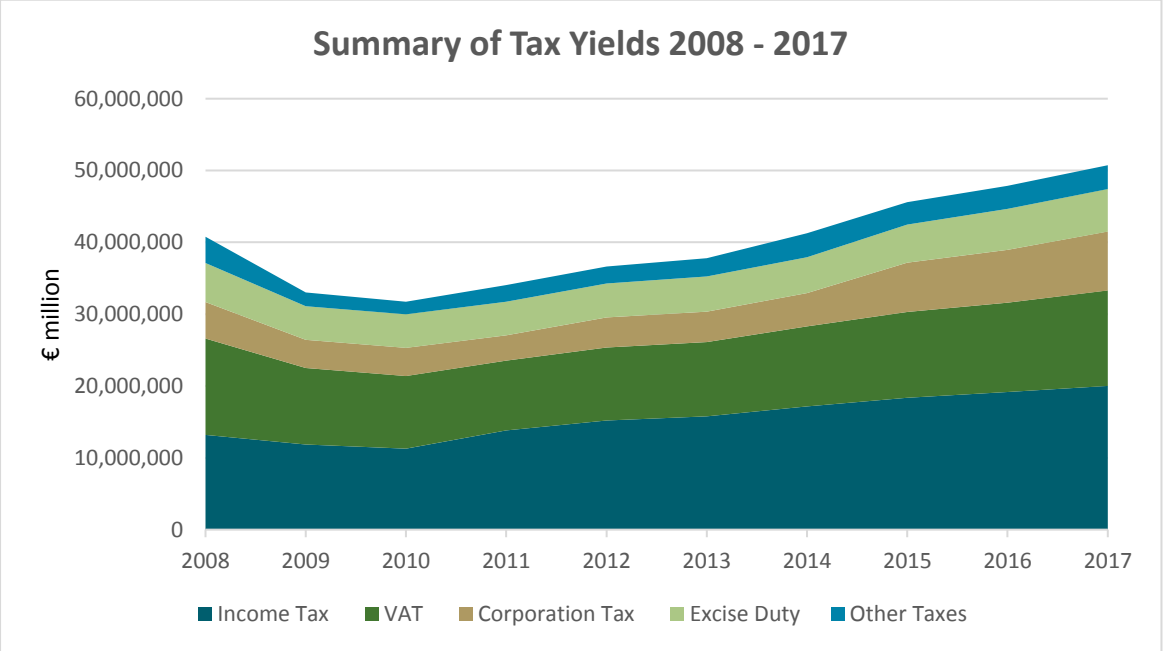
Notwithstanding the subsequent increase in the entry threshold from €4,004 to €13,000 (outlined in more detail below), of the three Irish charges on income (income tax, USC and PRSI), USC currently has the broadest base. This is because, in general, entry into the USC net starts at income of €13,000 per year (compared with €16,500 for income tax and €18,304 (€352 per week) for PRSI) and the base is broad because there are no credits and very few reliefs.

Impact on Exchequer Revenue

The USC replaced the Income Levy introduced in 2009 and the Health Levy (which already raised €1.4 billion and €1.9 billion respectively giving a combined yield of €3.3 billion) and was projected to raise an additional €420 million per annum[28]. Since then, the annual Exchequer yield from the USC has been steadily between €3-4 billion per annum.

The following graph (Figure 4) shows the total tax yields over the past 10 years broken down by tax head:

Figure 4: Summary of total tax yields 2008-2017



Data Source: Department of Finance

As illustrated above, income tax revenues (including USC) have taken on a more significant proportion of overall tax revenue since the financial crisis and property market collapse. In 2017, USC contributed 18.3% of all income tax receipts and 7.3% of total tax receipts which in turn fund ongoing Government expenditure.

Stability

The broad base helps ensure that the USC is a stable source of revenue for the State.

[28] Department of Finance. Budget Book 2011. Available at: http://www.budget.gov.ie/Budgets/2011/Documents/Summary%20of%20Measures%20Combined.pdf

In 2016, the Department of Finance conducted joint research with the ESRI which found that USC represented a more stable form of revenue than income tax[29]. The findings highlighted that USC revenues would fluctuate by less than income tax revenues whenever income growth is volatile, for example when the economy moves from a boom into a bust.

Given the openness of the Irish economy and consequent susceptibility to economic shocks, the contribution that the USC makes to the stability of the State's revenue sources is notable.

Current USC Yield

The yield from USC since its introduction is in the below table:

Table 2: USC yield 2011-2017

Year	Yield
2011	€3,114m
2012	€3,790m
2013	€3,930m
2014	€3,647m
2015	€4,174m
2016	€3,968m[30]
2017*	€3,724m

*provisional

The yield is based on the net amounts of USC collected by the Revenue Commissioners in each year.

Based on current rates and rate bands, the estimated future yield from USC for 2018 is in Table 3 below:

Table 3: Projected USC yield 2018-2021

Year	Yield
2018	€3,707m
2019	€4,400m
2020	€4,790m
2021	€5,190m

[29] https://www.finance.gov.ie/wp-content/uploads/2017/07/1703-Income-tax-elasticity-rep.pdf
[30] This figure will likely be revised following publication of the 2016 data by the Revenue Commissioners.

Evolution of USC

Following a review[31], the Government decided to increase the entry threshold point to the USC from €4,004 to €10,036 per annum with effect from 1 January 2012. This removed almost 330,000 individuals from liability to the charge entirely. The cost of this change was offset by switching the collection of the USC from a week 1 basis[32] to a cumulative basis from 1 January 2012. This change was also implemented to reduce the risks of the over or underpayment of USC which was especially relevant to part-time seasonal workers.

With the improved fiscal environment and Government priority to reduce the tax burden on low to middle income earners, further changes have been made to the USC since 2015. As a result of further increases to the threshold it is estimated that, in 2018, 28% of income earners will be exempt from liability to USC.

Current Structure of USC

The current USC threshold of €13,000 is the entry-point to personal taxation for most income earners (not including individuals in receipt of social welfare income who may be liable to income tax but not USC on that income). For single PAYE employees, entry into income tax occurs at approximately €16,500 and they become liable to PRSI at €18,304 (€352 per week).

The current structure of the USC is as follows:

- A threshold of €13,000 applies which means that no liability arises below that threshold.
- 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	0.5%	0.5%
€12,013-€19,372	2%	2%
€19,373-€70,044	4.75%	4.75%
€70,045+	8%	8%
€100,000+ (non-PAYE income only)	-	11%

[31] Department of Finance, Review of the Universal Social Charge http://taxpolicy.gov.ie/wp-content/uploads/2012/01/Universal-Social-Charge-Review.pdf

[32] Week 1 basis (also known as the 'non-cumulative basis') means that employers will deduct tax from employees' pay on a week-to-week basis. Yearly tax credits and rate bands are not backdated to 1 January and do not accumulate for each pay period.

Progressive

The USC is a progressive tax – the system of rates and bands imposes an increasing liability to tax as incomes rise. 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 2%. This band ceiling was increased, most recently in January 2018, from €18,772 to €19,372 as the minimum wage rose from €9.25 to €9.55 per hour. As a result, a person on the minimum wage pays €244 per annum in USC whereas an employee earning €150,000 pays approximately €9,050.

Taxation Policy Lever

The USC is an effective policy lever which can be used alongside income tax to target particular income levels – most recently utilised to ensure that higher income taxes are charged at those with higher incomes.

For example, the third band ceiling of €70,044 and the fourth USC rate, which was originally set at 8%, were introduced in January 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 focused on the first €70,044 of income only.

Another example is the USC surcharge of 3% which 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 results in the State's top marginal personal tax rate of 55% (40% income tax, 4% PRSI and 11% USC). The 3% surcharge forms part of the USC structure as a result of significant changes to PRSI which took place in 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. The ceiling had 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.

Simple

The USC is a straightforward tax on income with no credits and few exemptions. This means that the tax is easy for income earners to understand and relatively straightforward for the Revenue Commissioners to administer. The few exemptions in the USC system and reduced rates that apply in specific circumstances are targeted. For example, income consisting of payments made under the Social Welfare Acts and payments similar in nature to such income are exempt from USC.

Bespoke provisions of the USC

Property Relief Surcharge

An additional rate of USC (Property Relief Surcharge) of 5% applies on that part of an individual's taxable income which is sheltered by any of the property or area-based incentive reliefs. This includes all of the property-based capital allowances and the relief for residential lessors, commonly known as section 23-type relief. It applies to capital allowances made in or carried forward into the tax year 2012 and any subsequent tax year, or to any losses carried forward into 2012 or a subsequent year, which are attributable to section 23-type relief.

The Property Relief Surcharge does not apply in a year in which the individual's aggregate income is less than €100,000.

Excess Bank Remuneration Charge

A special USC rate of 45% applies to certain bank bonuses (i.e. in excess of €20,000) paid to employees of those financial institutions that have received financial support from the State. No amounts have been collected under this heading in recent years (from 2012 onwards) as no such bonuses have been paid.

Encashment Option (Pension)

A special rate of 2% applies where an encashment under section 787TA of the TCA (Taxes Consolidation Act, 1997) occurs. This is applied separate from and without reference to the normal USC liability arising on aggregate income.

4. Overview of PRSI

Key Points:

- PRSI is an important vehicle of income redistribution, social cohesion and solidarity between generations as well as between those in work and those who are not.
- Total income from PRSI in 2017 was €9.864 billion of which 70% came from Employers' PRSI.
- Most employees pay Class A PRSI at 4% while the self-employed pay Class S at a rate of 4% subject to a minimum annual contribution of €500.
- Most employers pay PRSI at 10.85% for Class A employees (which includes a contribution of 0.8% in respect of the National Training Fund levy).
- PRSI contributors build up entitlements which will be paid to them as of right, without having to undergo a means test, when they themselves need them, for example when they are no longer economically active.
- PRSI contributions are ring-fenced to the Social Insurance Fund (SIF) which is then redistributed to pay certain social insurance benefits such as pension payments to an earlier generation of contributors and benefits to people who are temporarily economically inactive through illness or short-term unemployment.
- Total PRSI expenditure in 2017 was €9.087 billion – the majority of expenditure in 2017 (70%) was on pensions followed by illness, disability and carers payments (15%).
- While the SIF is expected to remain in surplus in the coming years, the results of the 2015 Actuarial Review suggest that, on a no-policy-change basis, it will return to a deficit position in the medium-term largely driven by pension-related demographic changes. This will bring significant challenges for the State to maintain social insurance benefits.
- The current surplus in the SIF is likely to be short-lived, with annual deficits being projected and increasing to €3.3 billion by 2030, to €17 billion by 2055 and to €22.2 billion by 2071.

History of PRSI

While the social insurance system in Ireland dates back to 1911, the Social Welfare Act, 1952, paved the way for the introduction in 1953 of the unified system of social insurance which now operates. Further significant changes were made in 1979 with the introduction of pay related social insurance (PRSI). Prior to 1979, social insurance contributions were flat rate rather than earnings-related.

The social welfare system has developed considerably since the establishment of the State. Over the last 40 years, the policy orientation of successive Governments has been directed towards the development of the social insurance system. The Commission on Social Welfare (1986) had a major influence on this approach through the implementation of its recommendations on the extension of social insurance to the self-employed (1988), part-time workers (1991) and full rate contributions for public servants (1995). This necessitated the development of a more complex system as a response to the need to provide a comprehensive social insurance system which caters for a diversity of individuals and income.

Since then, the development of social insurance has focused primarily on broadening the base on which PRSI is charged and on the extension of the range of benefits provided, such as the introduction of Paternity Benefit in 2016, and the extension of benefits to groups of contributors with more limited access, such as the extension of Invalidity Pension to self-employed contributors.

Principles of Social Insurance

The social insurance system is central to the provision of social security in Ireland. It plays an important role in Irish life due to its financial and economic scale and, in terms of the number of people who depend on it.

The basic principle underlying the social insurance system is the "contributory principle" in that people, while they are economically active, make social insurance contributions in accordance with their income, in order to provide coverage for certain contingencies. It is an important vehicle of income redistribution, social cohesion and solidarity between generations as well as between those in work and those who are not. Contributions finance pension payments to an earlier generation of contributors and also pay for benefits to people who are temporarily economically inactive through, for example, illness or short-term unemployment. In return, contributors build up entitlements which will be paid to them as of right, without having to undergo a means test, when they themselves need them, for example when they are no longer economically active.

Similar to other developed economies the social insurance system in Ireland is also based on the principle of "solidarity" - a long-standing social contract between employers, employees, the self-employed and the Government. Social insurance contributions are collected from income and then redistributed to provide income support for contributors facing particular contingencies such as unemployment, illness, caring responsibilities or reaching pension age.

The Social Insurance Fund

The SIF derives income from Pay Related Social Insurance (PRSI) contributions paid by employees, their employers, self-employed persons and voluntary contributions with some additional income from investments. A small portion of the charge collected as PRSI[33] contributes to the National Training Fund, which is administered by the Department of Education and Skills.

For the majority of the life of the SIF it has been in deficit. For much of the early decades of its existence, the State subvention (paid from the Exchequer) was just under 40% of the total amount of spend. However, by the 1990s, the State contribution required had reduced to less than 10% and in 1997 the SIF posted its first surplus. It remained in surplus for 11 years and, by the end of 2007, the cumulated surplus was €3.6 billion. Following the economic crisis, from 2008 the fund returned to deficit and, once the accumulated proceeds of the annual surplus contained in the investment account were exhausted, required an Exchequer subvention again from 2010 until 2016 when the SIF posted a surplus of €453 million. This is outlined in Table 4 below:

Table 4: Social Insurance Fund Income, Expenditure and Surplus/Deficit

Year	Income	Expenditure	Surplus / Deficit
	€m	€m	€m
2007	7,834	7,251	583
2008	8,144	8,400	-255
2009	7,280	9,784	-2,505
2010	6,710	9,461	-2,751
2011	7,544	9,004	-1,460
2012	6,781	8,870	-2,088
2013	7,318	8,632	-1,314
2014	7,891	8,431	-540
2015	8,498	8,617	-119
2016	9,217	8,764	453
2017[34]	9,864	9,087	777
2018[35]	10,357	9,287	1,070

Source: Department of Employment Affairs and Social Protection

[33] 0.8% rate paid as Class A and H Employers' PRSI.
[34] Provisional outturn
[35] REV estimate

The short-term forecast of the SIF position that is undertaken and revised regularly by the Department of Employment Affairs and Social Protection and shown in Table 5[36] would indicate a more positive funding position over the next three years:

Table 5: Provisional estimate of SIF Income and Expenditure 2019 to 2021 (July 2018)

Year	Income	Expenditure	Operating Surplus / Deficit
	€m	€m	€m
2019	10,848	9,647	1,201
2020	11,416	9,872	1,544
2021	11,970	10,097	1,873

Source: Department of Employment Affairs and Social Protection

While the SIF is expected to remain in surplus until at least 2021, the very strong trends that were highlighted in the 2015 Actuarial Review indicate that this surplus scenario is unlikely to be sustainable in the medium to long-term.

Future Funding Challenges

The issue of funding social insurance into the future is addressed in the 2015 Actuarial Review following a statutory process undertaken every five years. The four Reviews carried out to date all highlight the prospect of deficits into the future and in particular recognise that financing State Pension entitlements, which are largely driven by non-discretionary demographic pressures, will, in particular, pose a major funding challenge. The prospect of deficits in the funding of future pension entitlements is one which is faced by all developed economies, whether pension expenditure is funded through a system of social insurance or through direct taxation.

The most recent review, published in October 2017, sets out the position of the Fund as at 31 December 2015. The report indicates that the current surplus in the SIF is likely to be short-lived, with annual shortfalls being projected and increasing to €3.3 billion by 2030, to €17 billion by 2055 and to €22.2 billion by 2071. In the longer term, there will be sizeable shortfalls in the Fund, in the absence of reductions in expenditure levels or increases in PRSI income:

[36] These projections do not take account of 2019 expenditure for State Pension Contributory in relation to post 2012 pensioners, implementation of a Total Contribution Approach to calculating State Pension entitlements in 2020 or other Budgetary policy or rate changes.

Table 6: Social Insurance Fund: projected income, expenditure (€ billions) and deficit as a % of GDP for various years

Income and Expenditure Projections (€ billions)				
Year	**Receipts**	**Expenditure**	**Surplus / (Shortfall)**	**(Shortfall) as a % of GDP**
2015	8.5	8.6	(0.1)	0.0%
2020	10.0	10.3	(0.2)	(0.1%)
2025	10.7	12.4	(1.7)	(0.5%)
2030	11.3	14.6	(3.3)	(0.9%)

Source: Table 1.1 of Report of the Actuarial Review of the Social Insurance Fund as at 31 December 2015.

Accordingly, the projected shortfalls which social insurance faces on the "no-policy change"[37] basis set out in the 2015 Actuarial Review represent significant challenges in the medium to long-term for both the Fund and for the Exchequer as the residual financier.

Furthermore, the 2015 Actuarial Review base case projections do not take account of additional future expenditure requirements arising from Programme for Government commitments, in relation to additional social insurance benefits for the self-employed, or of reforms of the State Pension as envisaged in the recently published Pensions Roadmap. Further recognition is given to the funding challenges facing the SIF in the Roadmap for Pensions Reform published in February 2018, which includes actions relating to a consultation on and review of the Social Insurance Fund.

Current Structure of PRSI

PRSI is the system by which the social insurance contributions that provide income support cover to insured workers (i.e. in the event of a variety of life contingencies arising) are collected. An individual can pay social insurance contributions:

- as an employed contributor;
- as a self-employed contributor, or;
- as a voluntary contributor.

[37] These projections do not take account of changes in current trends in recipients or policy changes arising from the annual Budgetary process which could increase expenditure from the Fund.

Insured persons are required to pay social insurance contributions based on their level of income.

PRSI contributions paid by workers are categorised into different PRSI classes. The PRSI class applying to individual workers depends on the nature of their employment. Individual PRSI classes may be divided into subclasses where different rates of contribution apply.

Employed Contributors

Most private sector and public sector employees in Ireland pay Class A PRSI. This class of contribution confers an entitlement to the full range of social insurance payments that are available, subject to meeting the qualifying criteria. The other classes of social insurance paid by employees are Classes B, C, D, E, H and J. Employees insured in one of these classes pay PRSI at a lower rate than Class A contributors and consequently, are entitled to a more limited range of social insurance benefits.

PRSI contributions are paid by both the employee and their employer. Most employees pay 4% (Class A) while most employers pay 10.85% (including 0.8% in respect of the National Training Fund levy for Class A and H only).

Self-employed Contributors

PRSI contributions paid by self-employed workers are recorded under PRSI Class S, who pay a single PRSI charge – there is no "employer" element. Employees may also pay Class S contributions on their non-employment income, which is recorded under Class S or Class K. A very small number of share-fishermen can opt to pay Class P, in addition to their Class S PRSI charge.

Class K is also paid by Public Office Holders.

Most self-employed contributors pay PRSI at a rate of 4% subject to a minimum annual contribution of €500 (implying a self-employed income of €12,500 per annum).

Voluntary Contributors

Individuals who are no longer compulsorily insured for social insurance purposes can opt to pay voluntary contributions to protect their contributory pension entitlements.

Class M is recorded where no PRSI charge applies.

International Comparisons

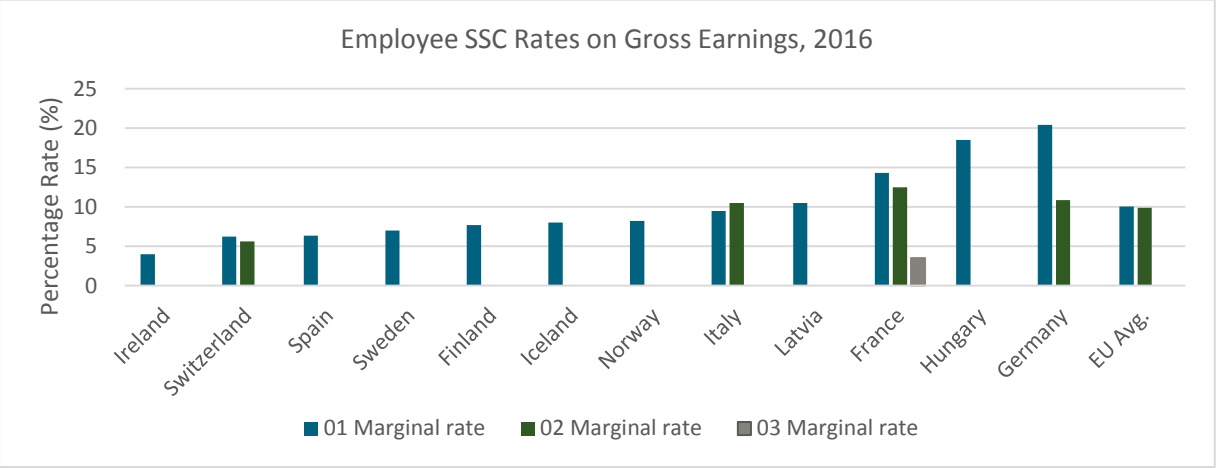
The following charts highlight Ireland's level of social security contributions (SSC) in comparison to other EU and OECD (Organisation for Economic Co-operation and Development) countries based on the latest OECD data (2016).

Key Points:

- In the OECD, Ireland has the lowest level of employee and self-employed social security contributions (SSC) marginal rates at 4%. This is considerably below the EU average of 10% for employees and 21% for the self-employed.
- Employer SSC in Ireland is 9.7% of labour costs as compared to an OECD average of 14.2% of labour costs.
- Within the OECD, Ireland has one of the lowest levels of SSC collected as a percentage of tax revenue at an average level of 15% since the 2000s –well below the EU average of 29%.
- Ireland's average tax wedge for a single earner with no children is 27%, also below the OECD average of 36%. The main reasons for this disparity are Ireland's lower employer and employee social security contributions.

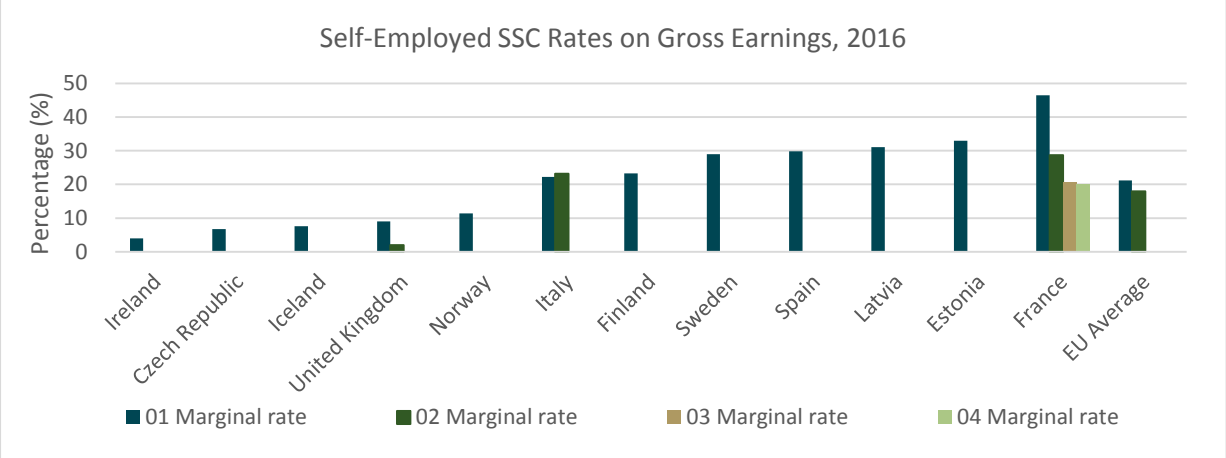
Figure 5 and Figure 6 show the marginal social security contribution (SSC) rates of employees and self-employed workers within EU and OECD countries for which detailed data are available.

Figure 5: Employee 2016 social security rates on gross earnings in EU and OECD countries



Source: Department of Finance calculations of OECD Tax Database (2017).

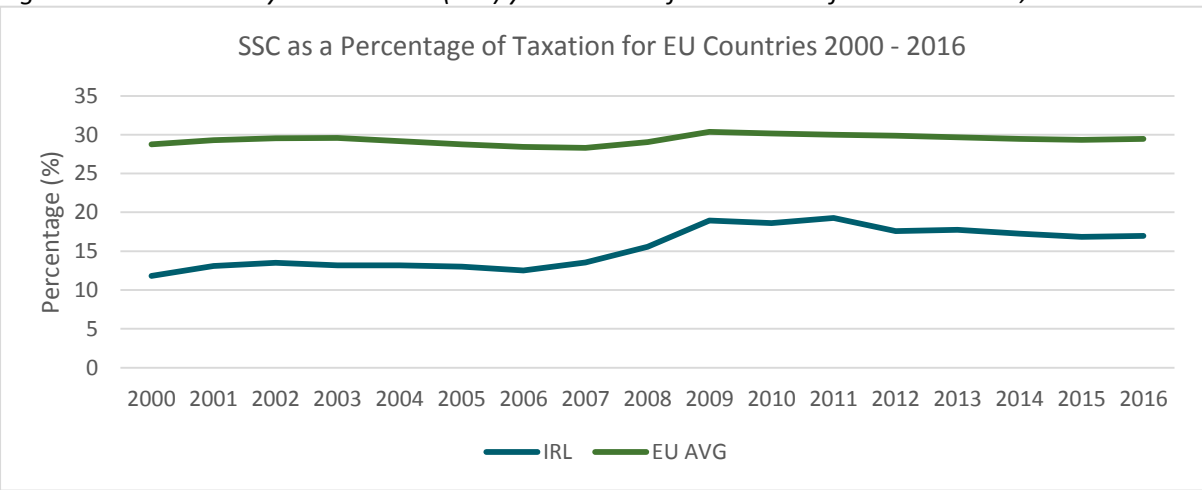
Figure 6: Self-employed 2016 social security rates on gross earnings in EU and OECD countries



Source: Department of Finance calculations of OECD Tax Database (2017).

In the OECD, Ireland has the lowest level of employee and self-employed SSC marginal rates at 4%. This is significantly below the EU average first marginal rate of 10% for employees and 21% for the self-employed.

Figure 7: Social Security Contribution (SSC) yield as a % of tax revenue for EU countries, 2000-2016

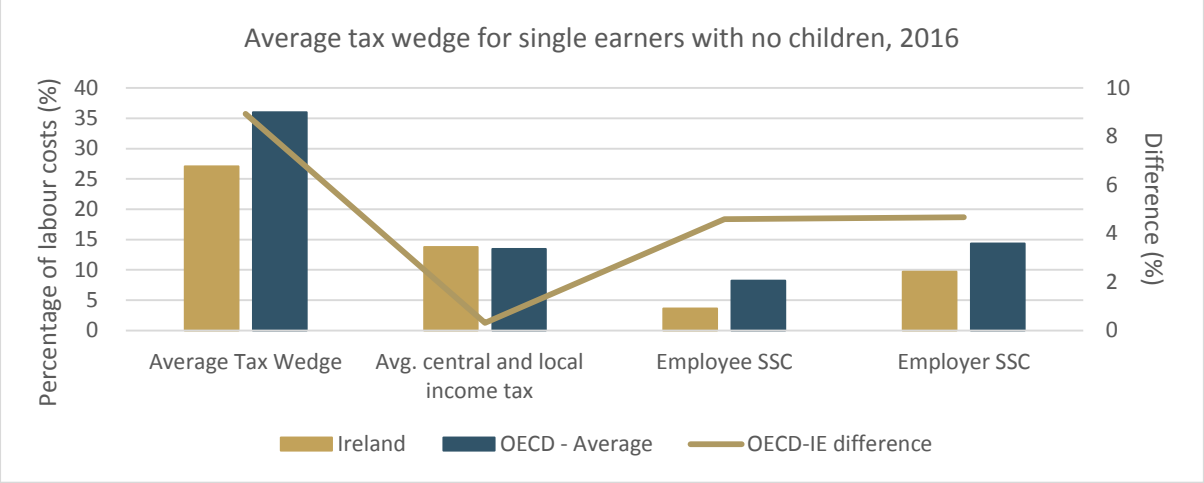


Source: Department of Finance calculations of OECD Tax Database (2017).

Figure 7 compares the EU average of total SSC yields as a percentage of tax revenue with Ireland from 2000 to 2016. Ireland has the third lowest level of SSC collected as a percentage of tax at an average level of 15% since the 2000s – performing considerably below the EU average of 29%.

A small increase is observed for Irish SSC following the recession of 2007/8. However, this increase is most likely a result of declining taxation revenue, as opposed to rising SSC levels.

Figure 8: Average tax wedge for single earners with no children, 2016



Source: Department of Finance calculations of OECD Taxing Wages (2017).

Figure 8 shows the OECD-average and Ireland's average tax wedge and its constituent parts (calculated at average income in 2016 for single earners with no children[38]).

The tax wedge on labour shows the difference between labour costs to the employer and net take-home pay, and is generally acknowledged to be a key factor impacting on working and hiring incentives.

Ireland's average tax wedge level at 27% is below the OECD average of 36%. The main reasons for this disparity are Ireland's lower employer and employee social security contributions. This analysis holds true for all other categories of single earner, whereby SSC is the main driver of the relatively low Irish tax wedge (i.e. single parent and married one earner).

Given the scale of the gap between Ireland and the OECD, increased SSC contributions in an amalgamation are unlikely to result in Ireland's average tax wedge exceeding the OECD average (but care should nonetheless be taken in design given potential competitiveness impacts).

[38] As such, the second to fourth set of bars will sum to the same level as the first pair of bars.

5. Comparison of USC and PRSI – Differential Analysis

As set out in the preceding chapters, USC and PRSI are distinct charges. The purpose of this chapter is to produce an accessible comparison of the bases for USC and PRSI with a view to ascertaining commonalities that could be built upon to produce options for the amalgamation of the charges. This section therefore does not address the differences in the benefits that arise from the payment of each charge.

Key Points:

- USC and PRSI have a number of similarities which may facilitate a technical basis for amalgamation.
- However, there are material differences in the value, scope and numbers availing of the exemptions to each charge.
- A central distinction is the week-to-week basis for PRSI when compared with the cumulative basis for USC.
- Another is the treatment of those aged over 66 years who are wholly exempt from PRSI but are subject to USC.

Charge to Employers

In the interest of providing a high-level comparison of the USC and PRSI bases, one of the biggest differences relates to the approach taken to contributions of employers.

Under the PRSI system, employers are obliged to contribute a percentage of employment income provided weekly earnings are €38 or more (in the case of Class A the rates are either 10.85% or 8.6%). A portion of Employers' PRSI (0.8%) paid under Class A and H is also designated as the National Training Fund levy. There is no such employer charge for the self-employed. Employers' PRSI contributions make up a very substantial majority of PRSI paid in each year (at around 70% in 2016).

Employers are not subject to USC on any basis.

Accordingly, as USC is levied entirely on the income of workers, the Group excluded consideration of the employer element of PRSI and focused on the PRSI charges paid by individuals.

USC compared with PRSI: Class A and Class S

Focusing on the personal level of charges, as referenced in earlier chapters, each distinct charge to the different classes of PRSI is dependent on the source of income.

However, the majority of workers are chargeable to Class A PRSI (74% in 2016) and Class S (9.5% in 2016). In 2016, both these classes combined account for over 83% of workers paying PRSI.

There is no such distinction made for the USC charge so a useful means of comparison is to compare the combined bases of Class A and Class S PRSI with the USC.

The key similarities between the USC and Class A and Class S PRSI are:

- Both operate on an individualised basis;
- Both generally apply to:
  - Income from an "employment" i.e. earned income;
  - Share based remuneration;
  - Benefits-in-Kind (BIK)[39];
- Both generally exempt:
  - Social welfare income;
  - Employer contributions to certain pensions;
- Both are collected by the Revenue Commissioners.

Some key differences are:

- The application of the particular rates:
  - PRSI has one rate applying across all levels of income, whereas there are four for USC;
  - PRSI is on a week one basis (meaning as soon as income exceeds a certain level in a week it is subject to the charge), and USC is levied on a cumulative basis (meaning where annual income is over €13,000 per annum the charge is levied);
- The treatment of capital allowances;
- The treatment of over 66s – exempt from PRSI but subject to USC (reduced rate basis for over 70s);
- The treatment of certain medical card holders – medical card holders earning less than €60,000 have a reduced rate of charge to USC but no such exemption from PRSI.

[39] Whereby the employer makes certain payments on behalf of the employee.

The below table provides a summary comparison of the application of the charges paid by the majority of workers, namely USC with PRSI Class A and Class S:

Table 7: Class A and Class S of PRSI compared to USC

	PRSI		USC
Rates and bands	4% on all income		0.5% from €0 to €12,012 2% from €12,013 to €19,372 4.75% from €19,373 to €70,044 8% from €70,044+
Basis for rate	Class A	Class S	Cumulative per annum
	Week One	Cumulative	
General income subject to charge	Earnings/income, share based remuneration, BIK, SARP income		Earnings/income, share based remuneration, BIK, SARP income
Threshold of income subject to charge	Class A	Class S	€13,000 per annum (€250 per week)
	Over €352 per week (€18,304 p/a), tapered[40]	€5,000 p/a	
Individual subject to charge	Individual		Individual
Cap on income subject to charge	Class A	Class S	No cap Surcharge payable on self-employed on earnings over €100,000
	No cap	No cap – but a minimum charge of €500 per annum	
Exempt income	Social Welfare payments, KEEP[41] income, employer contributions to pension[42]		Social Welfare payments, KEEP income, employer contributions to pension[43]
Exempt/excluded individuals	Over 66 years of age exempt and certain other exemptions apply (i.e. certain pension income)		The following have a reduced rate of charge: - Over 70 years of age - medical card holders earning less than 60k
Deductions allowed	Capital allowances		
Deductions not allowed	Employee pension contribution		Employee pension contribution, capital allowances
Collection	Revenue[44]		Revenue
Destination / use of receipts	Ring-fenced to the Social Insurance Fund[45]		Exchequer

[40] Between €352 and €424 only.
[41] KEEP (Key Employee Engagement Programme) is a focused share option programme, intended to help SMEs attract and retain talent in a highly competitive labour market.
[42] Revenue approved superannuation scheme or PRSA.
[43] Revenue approved superannuation scheme or PRSA.
[44] The Department of Employment Affairs and Social Protection collects PRSI in certain circumstances.
[45] Contributions are recorded on social insurance contribution records which have a link with entitlement to certain benefits at a particular point in time.

Remaining PRSI Classes

It should be strongly emphasised that although the majority of workers are subject to Class A and Class S PRSI, there is a significant minority who are not. The contribution that each class of PRSI makes to the overall SIF is below:

Table 8: 2016 summary data on PRSI yields

PRSI Class	Employee Yield (€ millions)	Employer Yield (€ millions)	Total Yield (€ millions)	Yield as a % of Total Yield
A	2,287.7	6,524.4[46]	8,812.1	92.6
B	12.0	20.3	32.3	0.3
C	0.3	0.5	0.8	0.0
D	32.7	64.7	97.4	1.0
E	0.2	0.5	0.7	0.0
H	11.3	28.9[47]	40.2	0.4
J		13.0	13.0	0.1
K			39.8	0.4
M			0.0	0.0
S			474.5	5.0
P			0.0	0.0
V			1.8	0.0
Total	2,344.2	6,652.2	9,514.2	100.0

Source: Department of Employment Affairs and Social Protection

The main differences and similarities between the other PRSI classes and USC are similar to those set out in Table 8 above, but for completeness a summary of the comparison with each Class is set out in Appendix II.

These comparisons were used by the Group in developing the various options at a technical level.

[46] Includes the National Training Fund levy.
[47] Ibid.

6. Options Chapter

Key Points:

- 9 options were considered by the Group, though the most detailed options relate to the full amalgamation of USC and PRSI, as provided for in the terms of reference.
- All of the options analysed involve a trade-off between:
    - simplicity in design and implementation;
    - minimal loss of revenue to the State overall and;
    - losers at the taxpayer level.
- The detailed options focused on USC merging into the PRSI system, on Class A and Class S PRSI contributors only and excluded Employers' PRSI.
- It is technically possible that the options could be implemented in one Budget or over a number of years – and the options identified could also be broken down into an alternative number of stages / phases if desired.

The Group identified **four** headline options for the amalgamation of USC and PRSI as follows:

Full amalgamation - Under this option, USC would be abolished while increased rates of contribution within the PRSI system would seek to raise the same quantum of revenue (see sub-options below).

Partial amalgamation - This option involves a partial reduction of a USC rate or rates and an increase in PRSI rates to seek to raise the USC revenue foregone and there are a variety of ways in which the option could be configured.

New charge - Under this option, both the USC and Employee/Self-employed PRSI would be abolished and replaced by a completely new charge. Employers' PRSI would remain in place and would continue to be paid into the existing Social Insurance Fund.

Alternative amalgamation - Under this approach, USC would be merged with the income tax system; the PRSI system would not be affected by the move.

For comparison purposes, a benchmark scenario in which there is no change from present arrangements, i.e. USC and PRSI continue in their present forms, is also referenced.

Over the course of the work of the Group it became apparent that there are potentially a wide range of variations that might be feasible. While consideration was given to all the above, the work of the

Group was focused on the options that were most closely aligned with the terms of reference. As a result, the most detailed proposals set out in this Chapter relate to full amalgamation options. There are a further five sub-options relating to full amalgamation which are labelled as follows:

A. Five Stage Full Amalgamation I
B. One Year Full Amalgamation I
C. One Year Full Amalgamation II
D. Three-stage Full Amalgamation
E. Five-stage Full Amalgamation II

In developing options, the Group concluded that it was not possible to identify a single approach which at once is simple in design and implementation, minimises the costs to the State and avoids losers at the individual income earner level. All possible options or variations thereof involve trade-offs between these three factors, and in particular between overall loss of revenue to the State and the minimisation of those who stand to lose from the amalgamation.

Note on costs

There are two distinct costs that are relevant for the amalgamation options:

1. There is an Exchequer cost arising from the reduction/abolition of the USC which means a loss of revenue for the Exchequer in favour of the SIF. The potential implications of this have already been discussed in Chapter 2.
2. There is also a potential loss of revenue to the State overall. This arises from the difference between the loss of USC receipts and the post-amalgamated increase in PRSI receipts. References in this chapter to "cost neutral" are in terms of overall loss of revenue to the State.

To provide an accurate picture of the potential overall loss of revenue to the State, the changes to PRSI and USC have been costed on a "like-for-like" basis using 2016 data provided by the Department of Employment Affairs and Social Protection and the Revenue Commissioners.

It should however be noted that if a decision to amalgamate USC and PRSI is taken in a future year, all costs would need to be revised to take account of changes in receipts and spending. This is particularly relevant for the Exchequer cost as USC receipts are estimated to reach over €5 billion by 2021.

Furthermore, it should be noted that the figures relating to losses to the State are accounted for by a number of factors including the costs involved in seeking to reduce losses at the level of individual PRSI contributors. They also reflect the fact that, arising from two key differences in the base of PRSI as compared with USC, those aged over 66 and self-employed persons earning over €100,000 would stand to benefit from a significant windfall gain (the aggregate value of which is somewhere of the order of €310 million per annum) in the absence of policy measures to mitigate such an impact.

Approach to amalgamation

Individual charge

The amalgamation considered by the Group relates to the PRSI paid at an individual level by employees and by the self-employed. PRSI contributions paid by employers account for approximately 70% of annual PRSI income but this was not considered as part of the development of the options, as discussed in Chapter 5.

Accordingly, under all of the scenarios examined, Employers' PRSI would continue to be charged as at present. However, it cannot be ruled out that Employers' PRSI might be a focus of any future reform of the PRSI system.

Class A and Class S PRSI

As discussed in Chapter 5, the latest data available (2016) indicate that Class A and Class S workers represent over 83% of all contributors. The various options presented below therefore focus on those categories of PRSI which have the largest number of contributors.

In the interest of ensuring a complete amalgamation, it would be necessary to look at including other PRSI classes.

USC into PRSI

Consideration was given to amalgamation both from the perspective of merging USC into PRSI and from the perspective whereby PRSI would be merged into the existing USC structure. The Group concluded that the latter would present significant challenges which would be very difficult to address and overcome in practice.

A reason for this is that USC is charged on the basis of income bands without regard to the source of the income and is designed purely as a revenue collection mechanism. In relation to PRSI, the source of the income, and in turn the level of social insurance charged (combined employer and employee charges are paid in respect of employees whereas the self-employed pay a single charge), is fundamental to determining the level of benefits accessed.

In addition, the system of charging PRSI is complex to facilitate the provision of a comprehensive social insurance system which caters for a diversity of individuals and income. PRSI exemptions/inclusions are designed to address specific social insurance-related objectives. For example, the exclusion from

social insurance of those who are non-resident for tax purposes where their income is not earned from a profession or trade, is designed to protect against "pension tourism" (USC is charged on this income). Without the PRSI exclusion, non-residents (who may never have lived in Ireland), with rental income could pay PRSI as a self-employed contributor and establish entitlement to the Contributory State Pension. On the other hand, those working abroad temporarily may not be liable to USC in Ireland but can pay PRSI to maintain their social insurance record here while abroad.

As mentioned in Chapter 5, one of the fundamental differences between the current structure of USC and that of PRSI is that USC is charged on an annual cumulative basis, whereas PRSI is charged on a week-to-week basis. If a minimum threshold was set for access to social insurance, in order to assess PRSI liability on a cumulative basis, it would exclude a significant number of part-time/low-paid workers who currently have access to social insurance. For example, if an annual threshold for PRSI was set at the current annual USC threshold of €13,000 per annum, a minimum of 356,000 part-time workers would immediately lose access to social insurance and associated benefits. These workers currently have access to all short-term benefits and their contributions count towards establishing entitlement to the Contributory State Pension.

Having regard to the above considerations, it was determined that an amalgamation would most feasibly be achieved by proceeding on the basis of USC merging into PRSI rather than the other way around.

Timing: one-Budget reform or a more gradual approach

From a purely technical perspective, full amalgamation could be implemented in one Budget or over a number of years. All the options presented below could be further analysed and be broken down into a number of stages if that was ultimately desired.

There are advantages and disadvantages of each approach and, in choosing between a one year or multi-year approach, consideration would need to be given to factors such as:

- The scale of the fiscal adjustment that would be required - a multi-year approach would allow for a more gradual modification of the fiscal arrangements arising from a reduced revenue stream for the Exchequer.
- The scale of the consequential changes that would be required to be made to legislation and collection systems - a multi-year approach would give a greater amount of time to deal with any unforeseen implementation issues that could arise. Implementation issues (as discussed

further in Chapter 7) would have to be considered, in particular where an option is theoretically feasible but not practical to implement so a longer roll-out period may allow time to rectify any implementation issues identified.

- The desired speed of implementation - a one-Budget approach would mean the reform could be completed quickly.

In addition, the communication of the change to income earners and investors as a change of such a scale would need to be signalled and explained well in advance (ideally in a previous year's Budget). Given the financial scale involved in the policy change (depending on the year, over €4 billion – broadly equivalent to 7.5% of tax revenue), markets and investors would need to have full information and reassurance in advance about the implications for the national finances.

Analysis of Options

Evaluation Criteria

To assist in the presentation and structured evaluation of the options, the following criteria were agreed, which are rooted in the terms of reference:

Preservation of the tax base including stability and certainty

This refers to the combined total income that is within the scope of both charges and also the number of individuals who are liable to the charges.

Equity

This relates to the distribution of "winners and losers" at the individual earner level – i.e. those who have to pay less as compared with those who have to pay more post-amalgamation. This also refers to the progressivity of the amalgamated charge.

Ease of Compliance and Administration

This is important for the Department of Employment Affairs and Social Protection and employers and for the Revenue Commissioners in collecting the charge. In addition, the effect on individuals is also relevant.

Sustainability

This refers to maintaining steady and stable revenue to the State overall (including the Exchequer and the SIF) as well as the future funding challenges for the SIF.

Simplicity

This relates to the design of the amalgamated charge and the ease by which it can be understood by individual earners.

Winners and losers

As already indicated, in any decisions taken about implementation options there is a tension between costs to the State and the extent to which "winners and losers" arise at the individual earner level. This refers to the extent that individuals subject to the amalgamated charge may have to pay less or more than they did pre-amalgamation.

The design of the options presented below seeks to smooth out winners and losers and ensure that individuals are obliged to pay as close to the same amount post-amalgamation as they did pre-amalgamation. However, as set out in Chapter 5, the current bases of USC and PRSI are different. It is therefore challenging to ensure a smooth impact at the individual earner level because the charges are already inherently different in the first place.

The analysis of the options concludes that while it may be possible to minimise losses at individual level, there may be an unequal distribution of winners. Addressing losses for individual earners affected will inevitably involve extra cost to the State. An alternative approach may therefore be more appropriate. For comparison purposes, on page 52 a relatively simple amalgamation model which is revenue neutral from the State's perspective is presented.

Option 1 - Full Amalgamation

A. Five-stage Full Amalgamation I

Single rate PRSI structure remains.

Losses for low/middle earners and gains for higher earners.

No loss of revenue to the State overall.

This option would be cost-neutral (or almost cost-neutral) in terms of no overall loss of revenue to the State and illustrates the complexity involved in attempting to achieve this simple objective. The focus of this option is to collect the same quantum of revenue through the PRSI system post-amalgamation as is currently collected for the Exchequer. This option was taken as a starting point for further refinement to develop further options.

USC rates would be reduced while simultaneously Employee and Self-employed PRSI rates would be increased over a five-year timeframe until USC is abolished. This is shown in Table 9:

Table 9: Description of USC rates and Class A and Class S PRSI rates for Option A: Five-stage Full Amalgamation (I)

	Annual change to current charges		
Year	**Value of adjustment**	**USC**	**PRSI**
1	€856m	Reduce 4.75% rate to 2.1% rate	1% increase in both Employee Class A and Class S
2	€888m	Remove 0.5% rate and the 2% rate (no USC applies on 1st €19,372 of income) AND Reduce the "new" 2.1% rate to 0.75%	1% increase in both Employee Class A and Class S
3	€908m	Remove "new" 0.75% rate (no USC applies to 1st €70,044 of income) AND 8% rate to 6%	1% increase in both Employee Class A and Class S
4	€684m	"New" 6% rate moves to 2%	1% increase in both Employee Class A and Class S
5	€597m	USC fully gone ("new" 2% rate goes and surcharge goes too)	1% increase in both Employee Class A and Class S

Main Features

- Rates of USC gradually reduced in order to achieve the USC revenue reductions shown.
- On the PRSI side, Class A and Class S rates increased incrementally by 1% per year over five years to 9% in order to broadly raise the same amount of revenue under the PRSI system as is lost each year from the USC side.

Income Earner Level Impact:

Tables showing the distributional impact on PAYE workers and the self-employed across various income ranges are set out in Appendix I. These tables illustrate that there are losers across all income earner levels by the end of the process including:

- Significant losses for PAYE earners in the income bracket from €384 per week to €1,442 per week (€22,000 to €75,000 per year) of between €14 and €15 per week.
- Significant losses also for self-employed earners with income of between €250 per week and €1,442 per week (€12,000 to €75,000 per year) of between €11 and €17 per week.
- Substantial gains for higher earners both PAYE and self-employed, particularly those earning at or over €2,884 per week (€150,000 per year) of between €29 and €87 per week.

Impact on State Revenue

The estimated additional Class A and Class S PRSI yields match the corresponding reduction to USC costs at each stage. This option would be revenue neutral for the State.

Advantages/Disadvantages

Pros

- No loss of revenue to the State overall.
- Relatively straightforward amalgamation – whereby USC would be abolished and the revenue would be raised through the PRSI system which would remain unchanged.

Cons

- Uneven distribution of effects across individuals at different income levels - very high earners gain while lower and middle earners lose.
- Tax base narrowed.

Evaluation against the five criteria

Preservation of the tax base including stability and certainty

- Tax base narrowed as the existing exemptions under PRSI (e.g. for those over 66 years of age) would apply for income that was previously taxed under USC.
- No loss of revenue to the State overall, but the changed source of revenue would be arguably less stable, given the remaining exemptions in the PRSI system.

Equity

- Very inequitable outcomes with high earners gaining while lower/middle earners lose.
- Not progressive.

Ease of Compliance and Administration

- No significant increase in the burden of compliance on employers, DEASP or the Revenue Commissioners envisaged or increase in the administrative burden after installation and bedding in of the new system.

Sustainability

- Significant loss of Exchequer revenue with difficult replacement choices (increased borrowing, higher taxes or reduced public services).
- SIF financial position improved in the medium-term.

Simplicity

- No increase in complexity of PRSI system.
- Number of revenue raising instruments reduced from three to two.

B. One-year Full Amalgamation I

Four-tier PRSI charging structure.

No losses for income earners, uneven distribution of gains.

Annual cost to the State overall: €617 million.

Under this option, USC would be abolished and replaced by a progressive four-tier PRSI regime in a single year as set out in the below table:

Table 10: Rates of PRSI for Class A and Class S for Option B: One-year Full Amalgamation I

Employee (Class A)

Weekly Earnings (€)	Charging Bands (€)	Rate of Charge
0 - 250		0%
250 - 352		0.6% (all earnings)
352[48] - 1,347	0 - 352	4.85%
	352 - 1347	8.55%
1,347+	0 - 1347	7.7%
	1347+	12%

Self-Employed (Class S)

Annual Income (€)	Charging Bands (€)	Rate of Charge
5,000 – 13,000		4%[49]
13,000 - 18,304		4.6%
18,304 - 70,044	0 - 18,304	4.85%
	18,304 - 70,044	8.55%
70,044 +	0 - 70,044	7.7%
	70,044+	12%

A version of this that may be implemented on a phased basis over a number of years (Option D) is presented at page 61.

[48] €12 PRSI credit which applies from €352.01 - €424 continues to apply.

[49] €500 minimum charge as applies under existing system.

Main Features:

- No PRSI charged on earnings under €250 per week (annual equivalent of €13,000 for Class S).
- For Class A, at earnings of €250.01 per week PRSI at 0.6% charged on all earnings.
- For Class S, income from €13,000 to €18,304 (€352 weekly) charged at a 4.6% rate.
- Once earnings exceed €352 (annual equivalent €18,304), PRSI at the rate of 4.85% charged on earnings between €0 and €352, with an 8.55% rate applied to the portion of earnings over €352.
- For those earning in excess of €1,347 (annual equivalent €70,044), PRSI of 7.7% charged on earnings up to €1,347 with a 12% rate applied on earnings over that threshold.

Note: A small adjustment of €1 would be required to the current PRSI Credit.

Income Earner Level Impact

Tables showing the distributional impact on PAYE workers and the self-employed across various income ranges are set out in Appendix I. These tables illustrate that there would be no losers at the income earner level, although there would be an uneven distribution of gains across the various income ranges. These gains are modest for employees, ranging from €0.08 to €1.38 per week. For the self-employed they range from €0.08 to €43.70 per week (within this, for self-employed persons earning €100,000 or less per annum, the gains range from €0.08 to €2.01 per week).

Impact on State Revenue

The combined Class A and Class S additional PRSI yield is estimated to be €3,315 million annually. The amount of USC foregone is estimated to be €3,932 million.

The total cost to the State overall in terms of lost revenue is therefore estimated to be €617 million per annum.

Advantages/Disadvantages

Pros

- No losers at the income earner level.
- USC abolished and revenue raised through a more progressive PRSI system.

Cons

- Overall lost revenue to the State is estimated to be approximately €617 million annually.
- There would be an uneven distribution of gains across the various income ranges:
    - Those earning €18,000 gain €1.38 while those on €20,000 gain €0.08 per week.
    - Those earning between €50,000 and €55,000 gain €1.24 per week.

Evaluation against the five criteria

Preservation of the tax base including stability and certainty

- Tax base narrowed as the existing exemptions under PRSI (e.g. for those over 66 years of age) would apply to income that was previously taxed under USC and the 3% surcharge on self-employed income of €100,000 or over (former USC) would not apply.
- Stability of the tax base would be reduced.
- The overall loss to the State would be €617 million.

Equity

- More progressive than current PRSI system with those earning more paying more.
- There is an uneven distribution of gains across various income ranges.

Ease of Compliance and Administration

- No significant increase in the burden of compliance on employers, DEASP or the Revenue Commissioners envisaged or increase in the administrative burden after installation and bedding in of the new system.

Sustainability

- Significant loss of Exchequer revenue with difficult replacement choices (increased borrowing, higher taxes or reduced public services).
- SIF financial position improved in the medium-term.

Simplicity

- No increase in complexity. The multi-rate USC system replaced by multi-rate PRSI system.
- Number of revenue raising instruments reduced from three to two.

C. One-year Full Amalgamation II

One PRSI base rate which increases with income.

No losses for income earners, uneven distribution of gains.

Annual cost to the State overall: €1,064 million.

Under this option, USC would be abolished in a single Budget and replaced by a progressive PRSI system as set out in the following tables:

Table 11: Description of PRSI rates for Option C: One-year Full Amalgamation II

- PRSI base rate charged at 5.5% and applied from €425 per week.
- Below €425 per week, a tapered credit applied from €250 per week (€13,000 annually) to smooth entry to the 5.5% rate.
- Rate would increase by 0.05% for every €25 increase in earnings per week (i.e. the rate at €450 per week would be 5.55% and so on).
- At €2,525 per week (approx. €130,000 per year) rate flattens to 9.7%.
- At €2,900 per week (approx. €150,000 per year) the rate goes to 10%.
- At €3,875 per week (approx. €250,000 per year) the rate reaches its maximum at 10.5%.

Table 12: Rates of PRSI for Class A and Class S for Option C: One-year Full Amalgamation II

Employees (Class A)	
Weekly Earnings (€)	**Rate of Charge (on all income)**
0-250	0%
250-352	0.5%
352-424	5.5% (with new PRSI taper)
425+	5.5% which increases by 0.05% for every €25 increase in weekly earnings
2525-2900	9.7%
2,900-3875	10%
3875+	10.5%

Self-Employed (Class S)	
Annual Income (€)	**Rate of Charge (on all income)**
0-5,000	0%
5,000-13,000	4% (minimum €500)
13,000-21,000	4%
21,000-22,100	5%
22,100+	Same rates as Class A employees

Main Features:

- For income between €18,304 and €130,000 per annum[50] the charge is very progressive, increasing by 0.05% for every €1,300 earned per annum.
- Flat rates apply at various points on incomes over €130,000 per annum.

Income Earner Level Impact:

Tables showing the distributional impact on PAYE workers and the self-employed across various income ranges are set out in Appendix I. These tables illustrate that there would be no losers at the income earner level, although there would be an uneven distribution of small gains across the various income ranges. For employees, these gains range from €0.17 to €9.82 per week. For the self-employed, they range from €1.43 to €53.09 per week (within this, for the self-employed earning €100,000 or less per annum these gains range from €1.43 to €9.82 per week).

Impact on State Revenue

The additional Class A and Class S PRSI yield is estimated to be €2,868 million annually. The amount of USC foregone is estimated to be €3,932 million.

The total cost to the State in terms of lost revenue is therefore estimated to be €1,064 million per annum.

Advantages/Disadvantages

Pros

- No losers at the income earner level.
- Highly progressive.

[50] €352 to €2,500 per week.

Cons

- Overall lost revenue to the State is estimated to be approximately €1,064 million annually.
- There would be an unequal distribution of winners across the various income ranges. These range from 0.04% to 0.8% of annual gross income, resulting in:
    - Those earning €18,000 gain €1.73 per week while those on €20,000 gain €0.20 per week.
    - €8.86 per week for those earning €150,000.

Evaluation against the five criteria

Preservation of the tax base including stability and certainty

- Tax base narrowed as the existing exemptions under PRSI (e.g. for those over 66 years of age) would apply to income that was previously taxed under USC and the 3% surcharge on self-employed income of €100,000 or over (former USC) would not apply.
- Stability of the tax base reduced.
- The overall loss to the State would be €1,064 million.

Equity

- Proposed new PRSI system would be highly progressive with those earning more paying more.
- Creates no employment traps, significant steps or work disincentives.
- Uneven distribution of small gains.

Ease of Compliance and Administration

- Anticipated increased compliance burden on employers or Revenue Commissioners envisaged in the operation of a system with over 100 PRSI rates and bands.
- The administration of this new PRSI structure would present challenges from an implementation and administration perspective.
- In relation to self-employed individuals, there would be some increased complexity in determining the preliminary tax payable.

Sustainability

- Significant loss of Exchequer revenue with difficult replacement choices (increased borrowing, higher taxes or reduced public services).
- SIF financial position improved in the medium-term.

Simplicity

- While the option is relatively straightforward to explain, complexity introduced as there would be over 100 rates and income bands.
- Number of revenue raising instruments reduced from three to two.

D. Three-stage Full Amalgamation

Towards a four-tier PRSI charging structure.

No losses for income earners, uneven distribution of gains.

Annual cost to the state: €617 million

As referenced above, this option is essentially Option B: One-year Full Amalgamation I introduced on a phased basis over three years.

Within this option, the Class S changes outlined earlier for Option B would be implemented in Year 3 of the exercise. The phases would be implemented as indicated in Table 13:

- **Stage 1**: Increase Class A and S PRSI rates by 0.5% and reduce all USC rates by 0.5%.
- **Stage 2**: Reduce the now 7.5% USC rate to 4.25% and introduce a new PRSI rate of 7.75% on income over €1,347 per week (€70,044 per year Class S).
- **Stage 3**: Drop all remaining rates of USC to zero and apply the PRSI rates outlined in the below table.

Table 13: Description of Class A PRSI rates and USC rates for Option D: Three-stage Full Amalgamation

Employee (Class A)

Weekly Earnings (€)	Charging Bands (€)	Rate of Charge
0 - 250		0%
250 - 352		0.6% (all earnings)
352* - 1,347	0 - 352	4.85%
	352 – 1,347	8.55%
1347+	0 – 1,347	7.7%
	1,347+	12%

Self-Employed (Class S)

Annual Income (€)	Charging Bands (€)	Rate of Charge
5,000 – 13,000		4%[51]
13,000 - 18,304		4.6%
18,304 - 70,044	0 - 18,304	4.85%
	18,304 - 70,044	8.55%
70,044 +	0 - 70,044	7.7%
	70,044+	12%

[51] €500 minimum charge as applies under existing system.

Main Features

- Stages 1 and 2 would involve PRSI rate changes without disruption to the current PRSI system.
- Stage 3 (or elements thereof implemented in further stages) would require fundamental changes to the structure of charging PRSI.

Note: A small adjustment of €1 would be required to the current PRSI Credit.

Income Earner Level Impact:

Tables showing the distributional impact on PAYE workers and the self-employed across various income ranges are set out in Appendix I. The tables illustrate that there would be no losers at the income earner level overall by the end of the process, although there would be an uneven distribution of gains across the various income ranges overall. There would also be an uneven distribution of winners and losers at certain stages of the process. For example, after Stage 1 there would be gains in income (€28.85 and €43.27 per week) for self-employed workers earning €150,000 and €175,000 per annum. A very small amount of this benefit would be clawed back at Stage 2 (-€0.77 and -€1.01 per week) but, at Stage 3, the clawback would be more than restored (€1.20 and €1.44 per week).

Impact on State Revenue

The estimated additional Class A and Class S PRSI yields and corresponding reduction in USC yield at each stage are set out in Table 14:

Table 14: Additional Class A and Class S PRSI yields and reduction in USC yield for Option D Three-stage Full Amalgamation

	Reduction USC	Increase in PRSI	Net Cost/Yield
	€m	**€m**	**€m**
Stage 1	-€516.78	+€454	-€62.78
Stage 2	-€555.75	+€484.41	-€71.34
Stage 3	-€2,859.46	+€2,376.4	-€483.06
Net total:	-€3,932	+€3,314.8	-€617.2

The total cost to the State overall in terms of lost revenue is therefore estimated to be €617 million per annum.

Advantages/Disadvantages

Pros

- No losers at the income earner level overall once fully implemented.

- USC abolished and revenue raised through a more progressive PRSI system.

Cons

- Overall lost revenue to the State estimated to be approximately €617 million annually.
- On full implementation there would be an uneven distribution of winners across the various income ranges:
  - €0.08 per week at the €20,000 income range to €1.38 per week for those earning €18,000;
  - €1.24 for those earning between €50,000 and €75,000.
- There would also be an uneven distribution of winners across the various stages.

Evaluation against the five criteria

Preservation of the tax base including stability and certainty

- Tax base narrowed as the existing exemptions under PRSI (e.g. for those over 66 years of age) would apply to income that was previously taxed under USC and the 3% surcharge on self-employed income of €100,000 or over (former USC) would not apply.
- Stability of the tax base would be reduced.
- The overall loss to the State is €527 million per annum.

Equity

- More progressive than the current PRSI system, with those earning more paying more.
- Uneven distribution of gains.

Ease of Compliance and Administration

- No significant increase in the burden of compliance on employers, DEASP or the Revenue Commissioners envisaged or increase in the administrative burden after installation and bedding in of the new system.

Sustainability

- Significant loss of Exchequer revenue with difficult replacement choices (increased borrowing, higher taxes or reduced public services).
- SIF financial position improved in the medium-term.

Simplicity

- No increase in complexity, although slightly more complex given phased implementation.
- Multi-rate USC system replaced by multi-rate PRSI system.
- Number of revenue raising instruments reduced from three to two.

E. Five-stage Full Amalgamation II

Towards a ten-band PRSI charging structure.
Losses for some levels of income earner, uneven distribution of gains. No loss of revenue; gain to the State of €1 billion per annum.

USC would be abolished over five stages/years and replaced by a progressive multi-rate employee PRSI regime as set out in the following table:

Table 15: Description of USC and PRSI rates for Option E: Five-stage Full Amalgamation

<table>
<tr><th>Year</th><th>USC</th><th>PRSI</th></tr>
<tr><td>1</td><td>Reduce 4.75% rate to 2.1% rate</td><td>Additional PRSI bands and rates:
<table>
<tr><th>Rate</th><th>Bands (Weekly Earnings) €</th></tr>
<tr><td>5%</td><td>424 - 673</td></tr>
<tr><td>5.5%</td><td>674 - 865</td></tr>
<tr><td>7%</td><td>866 – 1,923</td></tr>
<tr><td>8.5%</td><td>1,924+</td></tr>
</table></td></tr>
<tr><td>2</td><td>Remove 0.5% rate and the 2% rate (no USC applies on 1st €19,372 of income)
AND
Reduce the “new” 2.1% rate to 0.75%</td><td>Additional PRSI bands and rates:
<table>
<tr><th>Year 2 Rate</th><th>Bands (Weekly Earnings) €</th></tr>
<tr><td>0.6%</td><td>232 - 269</td></tr>
<tr><td>1.5%</td><td>269 - 347</td></tr>
<tr><td>5%</td><td>347 - 424</td></tr>
</table>
Changes to existing PRSI bands (introduced in year 1):
<table>
<tr><th>Year 2 Rate</th><th>Bands (p/w) €</th></tr>
<tr><td>6%</td><td>424 - 673</td></tr>
<tr><td>7.1%</td><td>674 - 865</td></tr>
<tr><td>9%</td><td>866 – 1,923</td></tr>
<tr><td>10%</td><td>1,924+</td></tr>
</table></td></tr>
</table>

<table>
<tr><td>3</td><td>Remove “new” 0.75% rate (no USC applies to 1st €70,044 of income)
AND
8% rate to 6%</td><td>Changes to existing PRSI bands (including increase in rate to additional bands):
<table><tr><th>Year 3 Rate</th><th>Bands (Weekly Earnings) €</th></tr><tr><td>6.3%</td><td>424 - 673</td></tr><tr><td>7.7%</td><td>674 - 865</td></tr><tr><td>8.4%</td><td>866 – 1,923</td></tr><tr><td>12.4%</td><td>1,924+</td></tr></table></td></tr>
<tr><td>4</td><td>“New” 6% rate moves to 2%</td><td>Additional PRSI bands and rates:
<table><tr><th>Year 4 Rate</th><th>Bands (Weekly Earnings) €</th></tr><tr><td>14.1%</td><td>1,924 – 2,885</td></tr><tr><td>15.8%</td><td>2,886 – 3,365</td></tr><tr><td>16.3%</td><td>3,366+</td></tr></table></td></tr>
<tr><td>5</td><td>USC fully gone (“new” 2% rate goes and surcharge goes too)</td><td>Increase to rate of additional PRSI bands:
<table><tr><th>Year 5 Rate</th><th>Bands (Weekly Earnings) €</th></tr><tr><td>14.9%</td><td>1,924 – 2,885</td></tr><tr><td>17.4%</td><td>2,886 – 3,365</td></tr><tr><td>18.2%</td><td>3,366+</td></tr></table></td></tr>
</table>

Upon full implementation, the new charging structure for PRSI would have 10 rate bands as follows:

Table 16: New charging structure for PRSI for Option E: Five-stage Full Amalgamation

Threshold #	Rate	Bands (Weekly Earnings) €	Bands (Annual Earnings) €
0	0%	0 – 232	0 – 12,000
1	0.6%	232- 269	12,000 – 14,000
2	1.5%	269 - 347	14,000 – 18,000

3	5%[52]	269 – 424	18,000 – 22,000
4	6.3%	424 - 673	22,000 – 35,000
5	7.7%	673 - 865	35,000 – 50,000
6	8.4%	865 – 1,923	50,000 – 100,000
7	14.9%	1,923 – 2,885	100,000 – 150,000
8	17.4%	2,885 – 3,365	150,000 – 175,000
9	18.2%	3,366+	175,000+

Main Features

- Ten-band PRSI structure applying to both Class A and Class S.
- Implemented gradually over five stages/years.
- "Step effects" or "cliffs" created at each of the new thresholds which means that a worker will experience significant losses for a small increase in earnings.
- Only one tapered credit included at the value of €612 per annum (€11.80 per week) to mitigate the step effects of moving from Band 2 to Band 3.

Income Earner Level Impact:

Tables showing the distributional impact on PAYE workers and the self-employed across various income ranges are set out in Appendix I. These tables illustrate that there are losers across all income earner levels by the end of the process including:

- Losses for employees:
  - those at lowest income levels of between €2 and €3 per week;
  - those earning €673 per week or over (€35,000 per year or over) of between €5 to €10 per week;
  - those earning €1,923 per week (€100,000 or over) of between €113 and €266 per week.
- Self-employed persons on low wages gain between €6 and €12 per week.

Impact on State Revenue

The estimated additional Class A and Class S PRSI yields and corresponding reduction in USC yield at each stage are set out in the following table:

Table 17: Additional Class A and Class S PRSI yields and reduction in USC yield for Option E: Five-stage Full Amalgamation II

	Reduction in USC	Increase in PRSI	Net Cost/Yield
	€m	**€m**	**€m**
Year 1	-€856	+€2,265	+€1,409
Year 2	-€888	+€1,405	+€517

[52] With credit of €612.

Year 3	-€908	+€415	-€493
Year 4	-€684	+€625	-€59
Year 5	-€597	+€301	-€296
Net total:	-€3,932	+€5,012	+€1,078

The total increased revenue to the State would be €1 billion per annum. This option raises additional revenue for the State going beyond a revenue neutral option and could therefore be further refined to introduce a more revenue neutral result.

Advantages/Disadvantages

Pros

- Significant revenue gain to the State.
- More progressive tiered PRSI charging system than the current single flat rate PRSI structure.

Cons

- Losers across all income levels for both employees and self-employed.
- Multiple "step effects" would likely require measures to alleviate this which would reduce the gains of revenue and raise implementation issues.
- Introduces increased levels of complexity into the existing PRSI system. With a 10 band charging structure, poverty traps are created as workers' incomes increase and they move up the bands to a higher rate of charge.

Evaluation against the five criteria

Preservation of the tax base including stability and certainty

- Tax base narrowed as the existing exemptions under PRSI (e.g. for those over 66 years of age) would apply to income that was previously taxed under USC and the 3% surcharge on self-employed income of €100,000 or over (former USC) would not apply.
- No loss of revenue to the State and instead there would be a gain, though the changed source of revenue would be arguably less stable, given the remaining exemptions in the PRSI system.

Equity

- Poor progressivity - rate that would apply at the various income ranges is not very progressive, although those earning more have higher rates of tax.
- There would be significant poverty traps created at the lower income levels which would have possible work incentive implications.

Ease of Compliance and Administration

- Increased complexity in the PRSI system which would impact employers, DEASP and the Revenue Commissioners as collection agent.

- There would be a number of implementation issues, particularly if alleviating measures to address the “step effects” were required.
- In relation to self-employed individuals, there would be more complexity in determining the preliminary tax payable.

Sustainability

- Significant loss of Exchequer revenue with difficult replacement choices (increased borrowing, higher taxes or reduced public services).
- SIF financial position improved in the medium-term.

Simplicity

- Increased complexity in PRSI system.
- Number of revenue raising instruments reduced from three to two.

Other Options aside from Full Amalgamation of USC and PRSI

Option 2 - Partial Amalgamation

The option involves a partial reduction of a USC rate or rates and an increase in PRSI rates to seek to raise the USC revenue foregone and there are a variety of ways in which the option could be configured.

For example, as in the Year 1 measure in Table 9 (page 52), the 4.75% rate might be reduced to 2.1% rate while, on the PRSI side, Class A and Class S rates could be increased by one percentage point from 4% to 5%. The precise nature of the measure would be informed by policy choices regarding which income earners might be impacted and the extent of such an impact. Also, in revenue terms, the move could be designed to broadly ensure that an equivalent quantum of contributions would be collected on the PRSI side as lost from the USC side[53].

Under this option, USC would continue to exist alongside PRSI and income tax. While this would facilitate flexibility of choice in subsequent years, e.g. about further diminution of USC, or indeed increases in USC rates, we do not see it as a satisfactory stand-alone option. It would be inconsistent with the terms of reference and would achieve very little in terms of sustainability for the Social Insurance Fund. The number of revenue-raising instruments would remain at three as at present – income tax, USC and PRSI.

Option 3 – New Charge

Under this option, both the USC and Employee/Self-employed PRSI would be abolished and replaced by a completely new charge. Employers' PRSI would remain in place and would continue to be paid into the existing Social Insurance Fund.

A completely new single charge would be set up which would seek to raise the same combined income (c. €7 billion) payable into a separate fund which would then be apportioned to the Exchequer and/or the Social Insurance Fund in accordance with the current PRSI/USC ratio. The rate of charge and the

[53] However, because of differences in the bases between USC and PRSI, it might not be possible to match fully the reduction in revenue from the USC side with an increase in revenue on the PRSI side.

apportionment ratio could be revised subsequently to address future Social Insurance Fund challenges.

All the options that were put forward in this report would be complex in their execution.

However, this option is considered particularly difficult to implement given the fundamental difference in purposes between USC and PRSI and the need to address both of these aims in a new instrument.

Having regard to other options outlined above under the full amalgamation heading, and which would be relatively less challenging to implement, we concluded that the Group should not give more detailed consideration to this option. Put simply, there are easier ways of getting the amalgamation result.

Option 4 – Alternative Amalgamation: USC and Income Tax

In terms of presenting a comprehensive range of alternatives within which the amalgamation of USC into PRSI might be considered, the Group considered that this option should be included in the report while acknowledging that it falls outside the formal terms of reference set for the Group.

Under this approach, USC would be merged with the income tax system; the PRSI system would not be affected by the move. Such a reform would provide the opportunity to incorporate into the personal income tax system one or more of the positive/desirable characteristics of USC e.g. the multiple rate structure or the lower threshold for liability (the former would give greater flexibility to more precisely target policy changes while the latter would help broaden the base). This option would reduce the number of revenue collecting instruments from three to two.

It was noted that, over the course of the work carried out by the Group, this approach was proposed for consideration by a number of sources outside of our group including the IMF (International Monetary Fund) and PublicPolicy.ie.

A further variation of this approach would be to amalgamate USC into both the income tax system and PRSI by abolishing the former and increasing the quantum of revenue/contributions raised by the latter two charges.

Such a proposal could lessen the potential exposure of the Exchequer relative to a full-amalgamation into PRSI alone and, as above, it would afford the opportunity to import into income tax some of the desirable characteristics of USC (these might be different for the two charges). On the other hand, it would not provide the same degree of sustainability to the Social Insurance Fund. The measure would also reduce the number of revenue collecting instruments from three to two.

No Change to USC or PRSI Policy (Benchmark)

As mentioned, the "no policy change" has been included as a benchmark against which to compare the other options identified. This would imply no change to the USC which would continue to be collected as at present and contribute around €4 billion to the Exchequer. It has the advantage of ensuring that the general tax base is not eroded for the purposes of public expenditure in the medium to longer term and in the context of potential future shocks to the economy which have the potential to undermine tax revenue and increase cost pressures. On the other hand, it would do nothing to address the Social Insurance Fund deficit that is likely to emerge in the next decade.

7. Implementation

Implementation of any of the options set out in this report will need to be considered in the context of:

i. Implementation of revised PRSI charging system;
ii. Implementation of revised deduction and collection processes by employers;
iii. Systems changes required by the Department of Employment Affairs and Social Protection and the Revenue Commissioners to deal with the revised PRSI structure, and;
iv. Communication to individuals who may be affected by the changes.

Implementation of revised PRSI charging system

While some of the options considered by the Group are technically and theoretically feasible (from a revenue generating perspective) the practicalities of implementing the proposed new PRSI charging systems, because of their inherent complexity or added complexity from measures necessary to alleviate their negative impact at income earner/contributor level, would be very challenging and need to be further considered.

Complexity also presents transparency issues which run the risk of non-compliance and consequential loss of revenues primarily because of failure to comprehend an evolving PRSI charging system. The negative impacts of a new charging structure, particularly where small increases in income result in a proportionately larger loss in net income for individual income earners/contributors may lead to a risk of under-reporting of PRSI.

Further detailed examination of any preferred option, from an implementation and administration perspective, would be required.

Implementation of revised deduction and collection processes by employers

The implementation of any of the options set out in this report will result in a fundamental change to the way in which PRSI is computed on employment income. In general, the employee contribution will change from a flat rate contribution of 4%, where it is due, to a variable rate or rates.

Employers will have to implement changes to their systems to deal with the revised charging structure and a communication process will have to be developed and delivered with a view to providing that the correct contributions are made from employees.

Many employers use payroll software, either commercially sourced or developed in-house, and this should assist in eliminating computational issues for those employers. However, there is a lead-in time required for software delivery to allow for proper delivery and testing and, in the case of a fundamental redesign of relevant software, a substantial period is required.

By way of example, the Revenue Commissioners are introducing changes to the PAYE system (PAYE Modernisation) which is resulting in a move to real-time reporting and is the most significant change to the PAYE system since its introduction nearly 60 years ago. The modernisation programme will bring improved accuracy and transparency for all stakeholders, including employers, employees and the Revenue Commissioners, while also significantly streamlining the entire administration process.

PAYE Modernisation was announced by the Minister for Finance in his Budget 2017 speech on 11 October 2016 and is due to come into effect on 1 January 2019. The Revenue Commissioners have worked with employers, payroll software developers, practitioners, etc. in the intervening period to ensure delivery of this project on time and in line with expected outcomes.

In the case of the implementation of any of the options set out in this report, a fundamental redesign of payroll systems will be required. In this regard, it is generally expected that a period of approximately 18 months is required to deliver the necessary changes. Therefore, for example, if an announcement was made in Budget 2019 outlining a partial or complete amalgamation of USC into PRSI, the earliest feasible implementation date is estimated to be 1 January 2020.

Systems changes required by the Revenue Commissioners and Department of Employment Affairs and Social Protection to deal with the revised PRSI structure

The vast bulk of PRSI is collected by the Revenue Commissioners on behalf of the Department of Employment Affairs and Social Protection. Any fundamental redesign of the PRSI system will require changes to the Revenue Commissioners' pay and file self-assessment system to ensure that the calculations of self-employed contributions are correct.

In relation to employee contributions paid to Revenue by employers under the PAYE system, changes may be needed to gather additional information in connection with the more complex calculation of PRSI.

The Department of Employment Affairs and Social Protection may also need to make changes to their systems to capture additional information in connection with the more complex calculation of PRSI.

Communication to individuals who may be affected by the changes

The PRSI system, as currently structured, has been in place–

(a) since 1979 in respect of employment contributions, and

(b) since 1988 in respect of self-employment contributions.

In relation to employment contributions, these consist of separate contributions by employees and employers which are processed through payroll and are generally remitted by employers to the Revenue Commissioners monthly under the PAYE system along with income tax, USC and LPT (Local Property Tax).

Self-employment contributions are paid annually by individuals using Revenue's pay and file self-assessment system along with income tax and USC. In relation to a year of assessment, a payment on account must be made by 31 October in the year and a return, together with any balance of tax due, must be submitted by 31 October in the following year.

As the options set out in this report consist generally of an increase in PRSI contributions aligned with a reduction in USC liabilities, it is envisaged that a significant communications engagement will be required to ensure that individuals affected by the changes are prepared for and understand the consequences and implications of change.

8. Model

In preparation for amalgamation, an analytical model has been compiled based on representative national survey data for the purposes of analysing potential income impacts on income earners.

Data Source:

The model utilises the EU Survey on Income and Living Conditions (SILC) 2016 for Ireland within the statistical software programme STATA. SILC is the same data source that is used by both the Department of Finance and the Department of Employment Affairs and Social Protection for official annual budgetary analyses such as the Social Impact Assessment. This is also the same survey that the Economic and Social Research Institute's (ESRI) microsimulation model SWITCH is based on.

While the SWITCH programme only allows examination of policy reforms that alter the rate or thresholds of an existing charge, it does not permit any analysis involving an amalgamation or alteration to the base of the existing charges.

In this regard, the model being developed by the Economics Division of the Department of Finance acts as a type of bespoke SWITCH model, with the added ability to alter or combine bases for the two charges.

Overview of Model

The model has been developed for USC and PRSI parameters and analysis.

Firstly, it creates aggregate income variables for each individual based on income sources relevant to the USC and PRSI bases. For example, earned and investment income, social welfare income, and various types of pensions.

Secondly, wage growth macros are applied to make the 2016 dataset representative of 2018 incomes. Base scenario USC and PRSI thresholds and parameters have then been applied to each individual's income (i.e. existing Budget 2018 parameters). From this, it is possible to obtain the total USC and PRSI liability for each individual within the survey.

This is then weighted using SILC population weights provided by the CSO in order to produce an annual USC/PRSI State revenue figure.

The model also allows for reform scenario parameters whereby the thresholds, rates or bases can be altered to more readily obtain reform liability and revenue figures and compare this to the base scenario (similar to the way the SWITCH model operates).

The model has been validated on Revenue USC/DEASP PRSI yields and DEASP 2016 employment class distributions, in addition to confirming SILC's representativeness across employment classes in line with the CSO's National Labour Force Survey.

The model can produce four main outputs, as follows; 1) total individual USC/PRSI liability; 2) change in equivalised disposable incomes; 3) revenue to the State; 4) change in the tax bases across the two charges. These outputs allow distributional analyses to be undertaken to identify winner and losers for each of the scenarios, in addition to broadly examining changes to the tax base and State yields. Depending on the availability of forecast parameters for wage growth and employment/demographics for the medium-term, the model would be able to incorporate forecasts for the expansion of income or the number of people employed in future years in order to more accurately model options pertaining to phased implementation.

Summary of Model

The model outputs can be quantified in equation form, as follows;

$\Delta = change\ in$
$t_i = time\ in\ period\ (year)i$
$\rho = wage\ growth\ parameter$
$\varphi = population\ weighting\ factor$
$\alpha = employment\ growth\ parameter$
$\beta = base\ scenario\ structure$
$R = reform\ scenario\ structure$
$USCtaxableY = \ income\ USC\ is\ calculated\ upon$
$PRSItaxableY = \ income\ PRSI\ is\ calculated\ upon$
$USC = USC\ liability\ per\ individual$
$PRSI = PRSI\ liability\ per\ individual$
$USCbase = \ USC\ tax\ base\ per\ individual$
$PRSIbase = PRSI\ tax\ base\ per\ individual$

1 – Change in individuals' liabilities:

The change in the USC/PRSI liabilities for individuals is the base (i.e. existing) scenario liabilities minus the reform scenario liabilities. The liabilities are calculated upon each scenario's taxable income per individual, while also accounting for wage growth in each time period. This can be used to obtain winners and losers scenarios arising from potential reforms.

$$\Delta\, indivliab \;=\; \left[\, \left(\beta_i . USC_{t_i} + \beta_i . PRSI_{t_i}\right) - \left(R_i . USC_{t_i} + R_i . PRSI_{t_i}\right) \right]$$

$$as\ a\ function\ of\ (1+\rho_i).(USCtaxableY)\ and\ (1+\rho_i).(PRSItaxableY)$$

2 – Change in equivalised disposable income:

Equivalised disposable income for each individual is supplied within SILC.[54] This is uprated for the wage growth factor for each year, and the change in the individual's liability is subtracted in order to obtain the change in the equivalised disposable income in the reform scenario.

$$\Delta EqDispY = [\ (1+\rho_i).EqDispyY\ ] - (\Delta\, indivliability)$$

3 – Revenue to the State:

The individual liabilities are weighted by the population weighting factor,[55] then summed together to obtain the aggregated revenue to the State. Where available, this can be uprated by forecasts for employment growth.

$$ExcheqY = (1+\alpha_i).\left[\sum_{i=}^{n} \varphi.\left(R_i . USC_{t_i} + R_i . PRSI_{t_i}\right)\right]$$

$$\sum_{i=0}^{n} = sum\ for\ all\ periods\ i\ from\ 0\ (current) onwards$$

4 – Change in tax base[56]:

The change in the tax base on an aggregate (population) level can be calculated by calculating base and reform tax bases (i.e. taxable income). For both the base and reform scenarios, the sum of the USC and PRSI tax bases[57] will be weighted for the population. This will be summed to obtain the

[54] As per OECD methodology for equivalence scales.
[55] Euroweight, as provided within SILC.
[56] Changes with regards to the existing aggregate tax base for USC and PRSI only.
[57] In the event of one charge existing between USC and PRSI, there will only be one 'amalgamated' tax base.

population tax base. The difference between these aggregate measures will provide the change in the aggregate tax base for the charges on a national basis.

$$\Delta taxbase = \sum_{i=0}^{i} \varphi.\left(\beta_i.USCtaxableY_{t_i} + \beta_i.PRSItaxableY_{t_i}\right) - \sum_{i=0}^{i} \varphi.\left(R_i.USCtaxableY_{t_i} + R_i.PRSItaxable_{t_i}\right)$$

For phased implementation, the cumulative effect for each output would be the sum of changes of individual year changes.

Appendix I –Distributional Impact

A. Five-stage Full Amalgamation I: Year 1 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0	0.0%	0.0%	0.0%
15,000	0	0	0.0%	0.8%	0.8%
18,000	0	0	0.0%	2.7%	2.7%
20,000	-183	-4	-1.0%	7.0%	7.9%
22,000	-150	-3	-0.8%	10.5%	11.2%
25,000	-101	-2	-0.5%	12.7%	13.1%
30,000	-18	0	-0.1%	15.4%	15.4%
35,000	64	1	0.2%	17.5%	17.4%
45,000	229	4	0.7%	24.5%	24.0%
55,000	394	8	1.0%	28.9%	28.2%
75,000	593	11	1.2%	34.4%	33.6%
100,000	343	7	0.6%	38.8%	38.5%
150,000	-157	-3	-0.2%	43.2%	43.3%
175,000	-407	-8	-0.4%	44.5%	44.7%

Variations can arise due to rounding

A. Five-stage Full Amalgamation I: Year 1 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	-100	-2	-0.9%	4.2%	5.0%
14,000	-140	-3	-1.0%	4.7%	5.7%
18,000	-180	-3	-1.1%	9.4%	10.4%
20,000	-183	-4	-1.0%	11.2%	12.1%
22,000	-150	-3	-0.8%	12.8%	13.5%
25,000	-101	-2	-0.5%	14.7%	15.1%
30,000	-18	0	-0.1%	17.0%	17.1%
35,000	64	1	0.2%	19.0%	18.8%
45,000	229	4	0.7%	25.6%	25.1%
55,000	394	8	1.0%	29.8%	29.1%
70,000	642	12	1.4%	33.9%	32.9%
100,000	343	7	0.6%	39.3%	39.0%
150,000	-157	-3	-0.2%	44.5%	44.6%
175,000	-407	-8	-0.4%	46.0%	46.3%

Variations can arise due to rounding

A: Five-stage Full Amalgamation I: Year 2 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0	0.0%	0.0%	0.0%
15,000	120	2	0.8%	0.8%	0.0%
18,000	180	3	1.0%	2.7%	1.7%
20,000	16	0	0.1%	7.9%	7.8%
22,000	23	0	0.1%	11.2%	11.1%
25,000	33	1	0.2%	13.1%	13.0%
30,000	51	1	0.2%	15.4%	15.3%
35,000	68	1	0.2%	17.4%	17.2%
45,000	103	2	0.3%	24.0%	23.7%
55,000	138	3	0.3%	28.2%	27.9%
75,000	141	3	0.3%	33.6%	33.4%
100,000	-109	-2	-0.2%	38.5%	38.6%
150,000	-609	-12	-0.7%	43.3%	43.7%
175,000	-859	-17	-0.9%	44.7%	45.2%

Variations can arise due to rounding

A: Five-stage Full Amalgamation I: Year 2 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	-120	-2	-1.1%	5.0%	6.0%
14,000	-40	-1	-0.3%	5.7%	6.0%
18,000	0	0	0.0%	10.4%	10.4%
20,000	16	0	0.1%	12.1%	12.0%
22,000	23	0	0.1%	13.5%	13.4%
25,000	33	1	0.2%	15.1%	15.0%
30,000	51	1	0.2%	17.1%	16.9%
35,000	68	1	0.2%	18.8%	18.6%
45,000	103	2	0.3%	25.1%	24.8%
55,000	138	3	0.4%	29.1%	28.8%
70,000	191	4	0.4%	32.9%	32.7%
100,000	-109	-2	-0.2%	39.0%	39.1%
150,000	-609	-12	-0.7%	44.6%	45.0%
175,000	-859	-17	-0.9%	46.3%	46.8%

Variations can arise due to rounding

A: Five-stage Full Amalgamation I: Year 3 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0	0.0%	0.0%	0.0%
15,000	0	0	0.0%	0.0%	0.0%
18,000	0	0	0.0%	1.7%	1.7%
20,000	-195	-4	-1.1%	7.8%	8.8%
22,000	-200	-4	-1.0%	11.1%	12.0%
25,000	-208	-4	-1.0%	13.0%	13.8%
30,000	-220	-4	-0.9%	15.3%	16.0%
35,000	-233	-4	-0.8%	17.2%	17.8%
45,000	-258	-5	-0.8%	23.7%	24.3%
55,000	-283	-5	-0.7%	27.9%	28.4%
75,000	-271	-5	-0.5%	33.4%	33.8%
100,000	-21	0	0.0%	38.6%	38.6%
150,000	479	9	0.6%	43.7%	43.4%
175,000	729	14	0.8%	45.2%	44.8%

Variations can arise due to rounding

A: Five-stage Full Amalgamation I: Year 3 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	-120	-2	-1.1%	6.0%	7.0%
14,000	-140	-3	-1.1%	6.0%	7.0%
18,000	-180	-3	-1.1%	10.4%	11.4%
20,000	-195	-4	-1.1%	12.0%	13.0%
22,000	-200	-4	-1.1%	13.4%	14.3%
25,000	-208	-4	-1.0%	15.0%	15.8%
30,000	-220	-4	-0.9%	16.9%	17.7%
35,000	-233	-4	-0.8%	18.6%	19.3%
45,000	-258	-5	-0.8%	24.8%	25.4%
55,000	-283	-5	-0.7%	28.8%	29.3%
70,000	-320	-6	-0.7%	32.7%	33.1%
100,000	-21	0	0.0%	39.1%	39.1%
150,000	479	9	0.6%	45.0%	44.7%
175,000	729	14	0.8%	46.8%	46.3%

Variations can arise due to rounding

A: Five-stage Full Amalgamation I: Year 4 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
Existing	**Per Year**	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0	0.0%	0.0%	0.0%
15,000	0	0	0.0%	0.0%	0.0%
18,000	0	0	0.0%	1.7%	1.7%
20,000	-200	-4	-1.1%	8.8%	9.8%
22,000	-220	-4	-1.1%	12.0%	13.0%
25,000	-250	-5	-1.2%	13.8%	14.8%
30,000	-300	-6	-1.2%	16.0%	17.0%
35,000	-350	-7	-1.2%	17.8%	18.8%
45,000	-450	-9	-1.3%	24.3%	25.3%
55,000	-550	-11	-1.4%	28.4%	29.4%
75,000	-552	-11	-1.1%	33.8%	34.5%
100,000	198	4	0.3%	38.6%	38.4%
150,000	1,698	33	2.0%	43.4%	42.3%
175,000	2,448	47	2.5%	44.8%	43.4%

Variations can arise due to rounding

A: Five-stage Full Amalgamation I: Year 4 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	-120	-2	-1.1%	7.0%	8.0%
14,000	-140	-3	-1.1%	7.0%	8.0%
18,000	-180	-3	-1.1%	11.4%	12.4%
20,000	-200	-4	-1.1%	13.0%	14.0%
22,000	-220	-4	-1.2%	14.3%	15.3%
25,000	-250	-5	-1.2%	15.8%	16.8%
30,000	-300	-6	-1.2%	17.7%	18.7%
35,000	-350	-7	-1.2%	19.3%	20.3%
45,000	-450	-9	-1.3%	25.4%	26.4%
55,000	-550	-11	-1.4%	29.3%	30.3%
70,000	-700	-13	-1.5%	33.1%	34.1%
100,000	198	4	0.3%	39.1%	38.9%
150,000	1,698	33	2.0%	44.7%	43.6%
175,000	2,448	47	2.6%	46.3%	44.9%

Variations can arise due to rounding

A: Five-stage Full Amalgamation I: Year 5 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
Existing	**Per Year**	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0	0.0%	0.0%	0.0%
15,000	0	0	0.0%	0.0%	0.0%
18,000	0	0	0.0%	1.7%	1.7%
20,000	-200	-4	-1.1%	9.8%	10.8%
22,000	-220	-4	-1.1%	13.0%	14.0%
25,000	-250	-5	-1.2%	14.8%	15.8%
30,000	-300	-6	-1.2%	17.0%	18.0%
35,000	-350	-7	-1.2%	18.8%	19.8%
45,000	-450	-9	-1.3%	25.3%	26.3%
55,000	-550	-11	-1.4%	29.4%	30.4%
75,000	-651	-13	-1.3%	34.5%	35.4%
100,000	-401	-8	-0.7%	38.4%	38.8%
150,000	99	2	0.1%	42.3%	42.2%
175,000	349	7	0.4%	43.4%	43.2%

Variations can arise due to rounding

A: Five-stage Full Amalgamation I: Year 5 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	-120	-2	-1.1%	8.0%	9.0%
14,000	-140	-3	-1.1%	8.0%	9.0%
18,000	-180	-3	-1.1%	12.4%	13.4%
20,000	-200	-4	-1.2%	14.0%	15.0%
22,000	-220	-4	-1.2%	15.3%	16.3%
25,000	-250	-5	-1.2%	16.8%	17.8%
30,000	-300	-6	-1.2%	18.7%	19.7%
35,000	-350	-7	-1.3%	20.3%	21.3%
45,000	-450	-9	-1.4%	26.4%	27.4%
55,000	-550	-11	-1.4%	30.3%	31.3%
70,000	-700	-13	-1.5%	34.1%	35.1%
100,000	-401	-8	-0.7%	38.9%	39.3%
150,000	1,599	31	1.9%	43.6%	42.5%
175,000	2,599	50	2.7%	44.9%	43.5%

Variations can arise due to rounding

A: Five-stage Full Amalgamation I: Year 1 to Year 5 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0	0.0%	0.0%	0.0%
15,000	120	2	0.8%	0.8%	0.0%
18,000	180	3	1.0%	2.7%	1.7%
20,000	-763	-15	-4.1%	7.0%	10.8%
22,000	-768	-15	-3.9%	10.5%	14.0%
25,000	-775	-15	-3.6%	12.7%	15.8%
30,000	-788	-15	-3.1%	15.4%	18.0%
35,000	-800	-15	-2.8%	17.5%	19.8%
45,000	-825	-16	-2.4%	24.5%	26.3%
55,000	-850	-16	-2.2%	28.9%	30.4%
75,000	-739	-14	-1.5%	34.4%	35.4%
100,000	11	0	0.0%	38.8%	38.8%
150,000	1,511	29	1.8%	43.2%	42.2%
175,000	2,261	43	2.3%	44.5%	43.2%

Variations can arise due to rounding

A: Five-stage Full Amalgamation I: Year 1 to Year 5 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	-580	-11	-5.0%	4.2%	9.0%
14,000	-600	-12	-4.5%	4.7%	9.0%
18,000	-720	-14	-4.4%	9.4%	13.4%
20,000	-763	-15	-4.3%	11.2%	15.0%
22,000	-768	-15	-4.0%	12.8%	16.3%
25,000	-775	-15	-3.6%	14.7%	17.8%
30,000	-788	-15	-3.2%	17.0%	19.7%
35,000	-800	-15	-2.8%	19.0%	21.3%
45,000	-825	-16	-2.5%	25.6%	27.4%
55,000	-850	-16	-2.2%	29.8%	31.3%
70,000	-888	-17	-1.9%	33.9%	35.1%
100,000	11	0	0.0%	39.3%	39.3%
150,000	3,011	58	3.6%	44.5%	42.5%
175,000	4,511	87	4.8%	46.0%	43.5%

Variations can arise due to rounding

B. One-year Full Amalgamation I: Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0.00	0.0%	0.0%	0.0%
15,000	30	0.57	0.2%	0.8%	0.6%
18,000	72	1.38	0.4%	2.7%	2.3%
20,000	4	0.08	0.0%	7.0%	7.0%
22,000	8	0.16	0.0%	10.5%	10.4%
25,000	14	0.28	0.1%	12.7%	12.6%
30,000	24	0.47	0.1%	15.4%	15.3%
35,000	34	0.66	0.1%	17.5%	17.4%
45,000	54	1.04	0.2%	24.5%	24.4%
55,000	64	1.24	0.2%	26.9%	26.8%
75,000	23	0.43	0.0%	34.4%	34.4%
100,000	23	0.43	0.0%	38.8%	38.8%
150,000	23	0.43	0.0%	43.2%	43.2%
175,000	23	0.43	0.0%	44.5%	44.4%

Variations can arise due to rounding

B. One-year Full Amalgamation I: Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0.00	0.0%	4.2%	4.2%
14,000	16	0.30	0.1%	4.7%	4.6%
18,000	72	1.38	0.4%	9.4%	9.0%
20,000	4	0.08	0.0%	11.2%	11.2%
22,000	8	0.16	0.0%	12.8%	12.7%
25,000	14	0.28	0.1%	14.7%	14.6%
30,000	24	0.47	0.1%	17.0%	17.0%
35,000	34	0.66	0.1%	19.0%	18.9%
45,000	54	1.04	0.2%	25.6%	25.5%
55,000	74	1.43	0.2%	29.8%	29.7%
70,000	104	2.01	0.2%	33.9%	33.7%
100,000	23	0.43	0.0%	39.3%	39.3%
150,000	1,523	29.28	1.8%	44.5%	43.5%
175,000	2,273	43.70	2.4%	46.0%	44.7%

Variations can arise due to rounding

C. One-year Full Amalgamation II: Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0.00	0.0%	0.0%	0.0%
14,000	30	0.57	0.2%	0.7%	0.5%
15,000	45	0.86	0.3%	0.8%	0.5%
18,000	90	1.73	0.5%	2.7%	2.2%
20,000	11	0.20	0.1%	7.0%	6.9%
22,000	9	0.17	0.0%	10.5%	10.4%
25,000	75	1.43	0.3%	12.7%	12.4%
30,000	172	3.31	0.7%	15.4%	14.8%
35,000	250	4.80	0.9%	17.5%	16.8%
45,000	345	6.63	1.0%	24.5%	23.7%
55,000	387	7.44	1.0%	28.9%	28.2%
75,000	348	6.70	0.7%	34.4%	33.9%
100,000	511	9.82	0.8%	38.8%	38.3%
150,000	461	8.86	0.5%	43.2%	42.9%
175,000	511	9.82	0.5%	44.5%	44.2%

Variations can arise due to rounding

C. One-year Full Amalgamation II: Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0.00	0.0%	4.2%	4.2%
14,000	100	1.92	0.7%	4.7%	4.0%
15,000	120	2.30	0.9%	6.1%	5.3%
18,000	180	3.46	1.1%	9.4%	8.4%
20,000	237	4.56	1.3%	11.2%	10.0%
22,000	112	2.16	0.6%	12.8%	12.3%
25,000	75	1.43	0.3%	14.7%	14.4%
30,000	172	3.31	0.7%	17.0%	16.5%
35,000	250	4.80	0.9%	19.0%	18.3%
45,000	345	6.63	1.0%	25.6%	24.8%
55,000	387	7.44	1.0%	29.8%	29.1%
75,000	348	6.70	0.7%	35.1%	34.6%
100,000	511	9.82	0.8%	39.3%	38.8%
150,000	1,961	37.71	2.4%	44.5%	43.2%
175,000	2,761	53.09	2.9%	46.0%	44.5%

Variations can arise due to rounding

D. Three-stage Full Amalgamation: Stage 1 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0.00	0.0%	0.0%	0.0%
15,000	-15	-0.29	-0.1%	0.8%	0.9%
18,000	-18	-0.35	-0.1%	2.7%	2.8%
20,000	0	0.00	0.0%	7.0%	7.0%
22,000	0	0.00	0.0%	10.5%	10.5%
25,000	0	0.00	0.0%	12.7%	12.7%
30,000	0	0.00	0.0%	15.4%	15.4%
35,000	0	0.00	0.0%	17.5%	17.5%
45,000	0	0.00	0.0%	24.5%	24.5%
55,000	0	0.00	0.0%	28.9%	28.9%
75,000	0	0.00	0.0%	34.4%	34.4%
100,000	0	0.00	0.0%	38.8%	38.8%
150,000	0	0.00	0.0%	43.2%	43.2%
175,000	0	0.00	0.0%	44.5%	44.5%

Variations can arise due to rounding

D. Three-stage Full Amalgamation: Stage 1 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	500	9.62	4.3%	4.2%	0.0%
14,000	546	10.50	4.1%	4.7%	0.8%
18,000	702	13.50	4.3%	9.4%	5.5%
20,000	341	6.56	1.9%	11.2%	9.5%
22,000	8	0.15	0.0%	12.8%	12.7%
25,000	0	0.00	0.0%	14.7%	14.7%
30,000	0	0.00	0.0%	17.0%	17.0%
35,000	0	0.00	0.0%	19.0%	19.0%
45,000	0	0.00	0.0%	25.6%	25.6%
55,000	0	0.00	0.0%	29.8%	29.8%
70,000	0	0.00	0.0%	33.9%	33.9%
100,000	0	0.00	0.0%	39.3%	39.3%
150,000	1,500	28.85	1.8%	44.5%	43.5%
175,000	2,250	43.27	2.4%	46.0%	44.7%

Variations can arise due to rounding

D. Three-stage Full Amalgamation: Stage 2 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0.00	0.0%	0.0%	0.0%
15,000	45	0.86	0.3%	0.9%	0.6%
18,000	90	1.73	0.5%	2.8%	2.3%
20,000	0	0.00	0.0%	7.0%	7.0%
22,000	0	0.00	0.0%	10.5%	10.5%
25,000	0	0.00	0.0%	12.7%	12.7%
30,000	0	0.00	0.0%	15.4%	15.4%
35,000	0	0.00	0.0%	17.5%	17.5%
45,000	0	0.00	0.0%	24.5%	24.5%
55,000	0	0.00	0.0%	28.9%	28.9%
75,000	-2	-0.05	0.0%	34.4%	34.4%
100,000	-15	-0.29	0.0%	38.8%	38.8%
150,000	-40	-0.77	0.0%	43.2%	43.2%
175,000	-52	-1.01	-0.1%	44.5%	44.5%

Variations can arise due to rounding

D. Three-stage Full Amalgamation: Stage 2 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0.00	0.0%	0.0%	0.0%
14,000	30	0.57	0.2%	0.8%	0.6%
18,000	90	1.73	0.5%	5.5%	5.0%
20,000	0	0.00	0.0%	9.5%	9.5%
22,000	0	0.00	0.0%	12.7%	12.7%
25,000	0	0.00	0.0%	14.7%	14.7%
30,000	0	0.00	0.0%	17.0%	17.0%
35,000	0	0.00	0.0%	19.0%	19.0%
45,000	0	0.00	0.0%	25.6%	25.6%
55,000	0	0.00	0.0%	29.8%	29.8%
70,000	0	0.00	0.0%	33.9%	33.9%
100,000	-15	-0.29	0.0%	39.3%	39.3%
150,000	-40	-0.77	0.0%	43.5%	43.6%
175,000	-52	-1.01	-0.1%	44.7%	44.8%

Variations can arise due to rounding

D. Three-stage Full Amalgamation: Stage 3 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0.00	0.0%	0.0%	0.0%
15,000	0	0.00	0.0%	0.6%	0.6%
18,000	0	0.00	0.0%	2.3%	2.3%
20,000	67	1.29	0.4%	7.0%	6.6%
22,000	145	2.79	0.7%	10.5%	9.8%
25,000	14	0.28	0.1%	12.7%	12.6%
30,000	24	0.47	0.1%	15.4%	15.3%
35,000	34	0.66	0.1%	17.5%	17.4%
45,000	54	1.04	0.2%	24.5%	24.4%
55,000	74	1.43	0.2%	28.9%	28.8%
75,000	25	0.48	0.1%	34.4%	34.4%
100,000	38	0.72	0.1%	38.8%	38.8%
150,000	63	1.20	0.1%	43.2%	43.2%
175,000	75	1.44	0.1%	44.5%	44.4%

Variations can arise due to rounding

Note: The overall distributional impact of Option D: Three-stage Full Amalgamation when completed is the same as that which applies in the case of Option B (One-Year Full Amalgamation I) which is set out on pages 91 and 92.

D. Three-stage Full Amalgamation: Stage 3 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0.00	0.0%	0.0%	0.0%
14,000	0	0.00	0.0%	0.6%	0.6%
18,000	0	0.00	0.0%	5.0%	5.0%
20,000	67	1.29	0.4%	9.5%	9.1%
22,000	145	2.79	0.8%	12.7%	12.1%
25,000	14	0.28	0.1%	14.7%	14.6%
30,000	24	0.47	0.1%	17.0%	17.0%
35,000	34	0.66	0.1%	19.0%	18.9%
45,000	54	1.04	0.2%	25.6%	25.5%
55,000	74	1.43	0.2%	29.8%	29.7%
70,000	104	2.01	0.2%	33.9%	33.7%
100,000	38	0.72	0.1%	39.3%	39.3%
150,000	63	1.20	0.1%	43.6%	43.5%
175,000	75	1.44	0.1%	44.8%	44.7%

Variations can arise due to rounding

Note: The overall distributional impact of Option D: Three-stage Full Amalgamation when completed is the same as that which applies in the case of Option B (One-Year Full Amalgamation I) which is set out on pages 91 and 92.

E. Five-stage Full Amalgamation II Year I: Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
13,000	0	0	0.0%	0.0%	0.0%
14,000	0	0	0.0%	0.7%	0.7%
18,000	0	0	0.0%	2.7%	2.7%
20,000	17	0	0.1%	7.0%	6.9%
22,000	70	1	0.4%	10.5%	10.2%
25,000	-101	-2	-0.5%	12.7%	13.1%
30,000	-18	0	-0.1%	15.4%	15.4%
35,000	-111	-2	-0.4%	17.5%	17.9%
45,000	4	0	0.0%	24.5%	24.5%
55,000	-706	-14	-1.8%	28.9%	30.2%
70,000	-758	-15	-1.6%	33.1%	34.2%
100,000	-3,157	-61	-5.2%	38.8%	42.0%
150,000	-5,407	-104	-6.3%	43.2%	46.8%
175,000	-6,532	-126	-6.7%	44.5%	48.2%

Variations can arise due to rounding

E. Five-stage Full Amalgamation II: Year 1 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	500	10	4.3%	4.2%	0.0%
14,000	560	11	4.2%	4.7%	0.7%
18,000	720	14	4.4%	9.4%	5.4%
20,000	358	7	2.0%	11.2%	9.4%
22,000	78	-2	0.4%	12.8%	15.1%
25,000	-101	-2	-0.5%	14.7%	15.1%
30,000	-18	0	-0.1%	17.0%	17.1%
35,000	-111	-2	-0.4%	19.0%	19.3%
45,000	4	0	0.0%	25.6%	25.6%
55,000	-706	-14	-1.8%	29.8%	31.1%
70,000	-758	-15	-1.6%	33.9%	34.9%
100,000	-3,157	-61	-5.2%	39.3%	42.5%
150,000	-5,407	-104	-6.5%	44.5%	48.1%
175,000	-6,532	-126	-6.9%	46.0%	49.8%

Variations can arise due to rounding

E. Five-stage Full Amalgamation II: Year 2 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	-78	-2	-0.6%	0.0%	0.6%
15,000	-110	-2	-0.8%	0.7%	1.5%
18,000	-108	-2	-0.6%	2.7%	3.3%
20,000	-47	-1	-0.3%	6.9%	7.1%
22,000	-205	-4	-1.0%	10.2%	11.1%
25,000	33	1	0.2%	13.1%	13.0%
30,000	51	1	0.2%	15.4%	15.3%
35,000	-142	-3	-0.5%	17.9%	18.3%
45,000	-167	-3	-0.5%	24.5%	24.8%
55,000	-412	-8	-1.1%	30.2%	30.9%
75,000	-509	-10	-1.1%	34.2%	35.0%
100,000	-609	-12	-1.0%	42.0%	42.6%
150,000	-1,359	-26	-1.7%	46.8%	47.7%
175,000	-1,734	-33	-1.9%	48.2%	49.2%

Variations can arise due to rounding

E. Five-stage Full Amalgamation II: Year 2 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	-72	-1	-0.6%	0.0%	0.6%
14,000	-110	-2	-0.8%	0.7%	1.5%
18,000	-108	-2	-0.6%	5.4%	6.0%
20,000	294	6	1.7%	11.1%	9.6%
22,000	15	0	0.1%	13.4%	13.4%
25,000	33	1	0.2%	15.1%	15.0%
30,000	51	1	0.2%	17.1%	16.9%
35,000	-142	-3	-0.5%	19.3%	19.7%
45,000	-167	-3	-0.5%	25.6%	25.9%
55,000	-412	-8	-1.1%	31.1%	31.8%
70,000	-509	-10	-1.1%	34.9%	35.7%
100,000	-609	-12	-1.1%	42.5%	43.1%
150,000	-1,359	-26	-1.7%	48.1%	49.0%
175,000	-1,734	-33	-2.0%	49.8%	50.8%

Variations can arise due to rounding

E. Five-stage Full Amalgamation II: Year 3 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
Existing	**Per Year**	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
13,000	0	0	0.0%	0.6%	0.6%
14,000	0	0	0.0%	1.5%	1.5%
18,000	0	0	0.0%	3.3%	3.3%
20,000	5	0	0.0%	7.1%	7.1%
25,000	-33	-1	-0.2%	13.0%	13.1%
30,000	-10	0	0.0%	15.3%	15.3%
35,000	-93	-2	-0.3%	18.3%	18.5%
45,000	-78	-1	-0.2%	24.8%	25.0%
55,000	597	11	1.6%	30.9%	29.8%
70,000	800	15	1.8%	35.0%	33.8%
100,000	-1,421	-27	-2.5%	42.6%	44.0%
150,000	-1,621	-31	-2.1%	47.7%	48.8%
175,000	-1,721	-33	-1.9%	49.2%	50.2%

Variations can arise due to rounding

E. Five-stage Full Amalgamation II: Year 3 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
13,000	0	0	0.0%	0.6%	0.6%
14,000	0	0	0.0%	1.5%	1.5%
18,000	0	0	0.0%	6.0%	6.0%
20,000	5	0	0.0%	9.6%	9.6%
22,000	-46	-1	-0.2%	13.4%	13.6%
25,000	-33	-1	-0.2%	15.0%	15.1%
30,000	-10	0	0.0%	16.9%	17.0%
35,000	-93	-2	-0.3%	19.7%	20.0%
45,000	-78	-1	-0.2%	25.9%	26.1%
55,000	597	11	1.6%	31.8%	30.7%
70,000	800	15	1.8%	35.7%	34.5%
100,000	-1,421	-27	-2.5%	43.1%	44.5%
150,000	-1,621	-31	-2.1%	49.0%	50.1%
175,000	-1,721	-33	-2.0%	50.8%	51.7%

Variations can arise due to rounding

E. Five-stage Full Amalgamation II: Year 4 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0	0.0%	0.6%	0.6%
15,000	0	0	0.0%	1.5%	1.5%
18,000	0	0	0.0%	3.3%	3.3%
20,000	0	0	0.0%	7.1%	7.1%
22,000	0	0	0.0%	11.3%	11.3%
25,000	0	0	0.0%	13.1%	13.1%
30,000	0	0	0.0%	15.3%	15.3%
35,000	0	0	0.0%	18.5%	18.5%
45,000	0	0	0.0%	25.0%	25.0%
55,000	0	0	0.0%	29.8%	29.8%
75,000	0	0	0.0%	33.8%	33.8%
100,000	-502	-10	-0.9%	44.0%	44.5%
150,000	-1,902	-37	-2.5%	48.8%	50.1%
175,000	-2,627	-51	-3.0%	50.2%	51.7%

Variations can arise due to rounding

E. Five-stage Full Amalgamation II: Year 4 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0	0.0%	0.6%	0.6%
14,000	0	0	0.0%	1.5%	1.5%
18,000	0	0	0.0%	6.0%	6.0%
20,000	0	0	0.0%	9.6%	9.6%
22,000	0	0	0.0%	13.6%	13.6%
25,000	0	0	0.0%	15.1%	15.1%
30,000	0	0	0.0%	17.0%	17.0%
35,000	0	0	0.0%	20.0%	20.0%
45,000	0	0	0.0%	26.1%	26.1%
55,000	0	0	0.0%	30.7%	30.7%
70,000	0	0	0.0%	34.5%	34.5%
100,000	-502	-10	-0.9%	44.5%	45.0%
150,000	-1,902	-37	-2.5%	50.1%	51.4%
175,000	-2,627	-51	-3.1%	51.7%	53.2%

Variations can arise due to rounding

E. Five-stage Full Amalgamation II: Year 5 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0	0.0%	0.6%	0.6%
15,000	0	0	0.0%	1.5%	1.5%
18,000	0	0	0.0%	3.3%	3.3%
20,000	0	0	0.0%	7.1%	7.1%
22,000	0	0	0.0%	11.3%	11.3%
25,000	0	0	0.0%	13.1%	13.1%
30,000	0	0	0.0%	15.3%	15.3%
35,000	0	0	0.0%	18.5%	18.5%
45,000	0	0	0.0%	25.0%	25.0%
55,000	0	0	0.0%	29.8%	29.8%
75,000	0	0	0.0%	33.8%	33.8%
100,000	-201	-4	-0.4%	44.5%	44.7%
150,000	-801	-15	-1.1%	50.1%	50.6%
175,000	-1,226	-24	-1.4%	51.7%	52.4%

Variations can arise due to rounding

E. Five-stage Full Amalgamation II: Year 5 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	0	0	0.0%	0.6%	0.6%
14,000	0	0	0.0%	1.5%	1.5%
18,000	0	0	0.0%	6.0%	6.0%
20,000	0	0	0.0%	9.6%	9.6%
22,000	0	0	0.0%	13.6%	13.6%
25,000	0	0	0.0%	15.1%	15.1%
30,000	0	0	0.0%	17.0%	17.0%
35,000	0	0	0.0%	20.0%	20.0%
45,000	0	0	0.0%	26.1%	26.1%
55,000	0	0	0.0%	30.7%	30.7%
70,000	0	0	0.0%	34.5%	34.5%
100,000	-201	-4	-0.4%	45.0%	45.2%
150,000	699	13	1.0%	51.4%	50.9%
175,000	1,024	20	1.3%	53.2%	52.7%

Variations can arise due to rounding

E. Five-stage Full Amalgamation II: Year 0 to Year 5 Single PAYE Employee

Single person, no children, private sector employee taxed under PAYE					
Full rate PRSI contributor					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	-78	-2	-0.6%	0.0%	0.6%
15,000	-110	-2	-0.8%	0.7%	1.5%
18,000	-108	-2	-0.6%	2.7%	3.3%
20,000	-26	0	-0.1%	7.0%	7.1%
22,000	-182	-3	-0.9%	10.5%	11.3%
25,000	-100	-2	-0.5%	12.7%	13.1%
30,000	22	0	0.1%	15.4%	15.3%
35,000	-345	-7	-1.2%	17.5%	18.5%
45,000	-240	-5	-0.7%	24.5%	25.0%
55,000	-520	-10	-1.3%	28.9%	29.8%
75,000	-468	-9	-1.0%	33.1%	33.8%
100,000	-5,889	-113	-9.6%	38.8%	44.7%
150,000	-11,089	-213	-13.0%	43.2%	50.6%
175,000	-13,839	-266	-14.2%	44.5%	52.4%

Variations can arise due to rounding

E. Five-stage Full Amalgamation II: Year 0 to Year 5 Single Self-employed Person

Single person, no children, taxed under Schedule D (self-employed)					
Gross Income	**Total Change**		**Change as % of Net Income**	**Effective Tax Rate**	
	Per Year	**Per Week**		**Existing**	**Proposed**
€	**€**	**€**		**%**	**%**
12,000	428	8	3.7%	4.2%	0.6%
14,000	450	9	3.4%	4.7%	1.5%
18,000	612	12	3.8%	9.4%	6.0%
20,000	316	6	1.8%	11.2%	9.6%
22,000	-174	-3	-0.9%	12.8%	13.6%
25,000	-100	-2	-0.5%	14.7%	15.1%
30,000	22	0	0.1%	17.0%	17.0%
35,000	-345	-7	-1.2%	19.0%	20.0%
45,000	-240	-5	-0.7%	25.6%	26.1%
55,000	-520	-10	-1.3%	29.8%	30.7%
70,000	-468	-9	-1.0%	33.9%	34.5%
100,000	-5,889	-113	-9.7%	39.3%	45.2%
150,000	-9,589	-184	-11.5%	44.5%	50.9%
175,000	-11,589	-223	-12.3%	46.0%	52.7%

Variations can arise due to rounding

Appendix II– Comparison of certain Classes of PRSI with USC

USC compared with Class B, C and D of PRSI

Class B, C and D of PRSI apply to Public Sector employments. These Classes have been grouped together because they give access to only a limited set of benefits (with some slight differences between the two classes) and the same rates of PRSI apply to them.

Class B covers permanent and pensionable civil servants and Gardaí recruited before 6 April 1995, (and registered doctors and dentists employed in the civil service).

In 2015, Class B contributors made up 0.8% of all PRSI contributors.

Class C applies to commissioned officers of the Defence Forces and members of the Army Nursing Service recruited before 6 April 1995.

In 2015, Class C contributors made up less than 0.1% of all PRSI contributors.

Class D applies to permanent and pensionable employees in the public service, other than those mentioned in Classes B and C above, recruited before 6 April 1995. In 2015, Class D contributors made up 1.8% of all PRSI contributors.

The key similarities between the USC and Class B, C and D of PRSI are:

- Both operate on an individualised basis
- Both generally apply to:
  - Income from an "employment" i.e. earned income
  - share based remuneration
  - income that is deemed to be a Benefit-in-Kind (BIK)[58]
- Both generally exempt:
  - Social welfare income
  - Employer contributions to certain pensions
- Both are collected by Revenue

Some key differences are:

- The application of the particular rates:
  - These classes of PRSI have 1 or 2 rates applying across certain levels of income, whereas there are 4 for USC
  - PRSI is on a week one basis (meaning as soon as income is above certain levels in a week it is subject to the charge), and USC is levied on a cumulative basis (meaning where annual income is over €13,000 per annum the charge is levied).

[58] Whereby the employer makes certain payments on behalf of the employee.

Table 18: Class B, C and D compared to USC

	PRSI – Class B, Class C, Class D	USC
Rates and bands	Depending on income different rates apply – 0%, 0.9% and/or 4%	0.5% from €0 to €12,012 2% from €12,013 to €19,372 4.75% from €19,373 to €70,044 8% from €70,044+
Basis for rate	Week One	Cumulative per annum
General income subject to charge	Earnings, share based remuneration, BIK, SARP income	Earnings, share based remuneration, BIK, SARP income
Threshold of income subject to charge	No charge applies below earnings of €352 a week (€18,304 p/a). For earnings of between €352 and €500 per week (€18,304 - €26,000 per annum) a 0.9% charge applies. For earnings of >€500 per week (>€26,000 a year) then a 0.9% charge applies on the first €1,443 a week (€75,036 a year) and a 4% charge applies on the balance.	€13,000 per annum (€250 per week)
Individual subject to charge	Individual	Individual
Cap on income subject to charge	No cap	No cap Surcharge payable on self-employed on earnings over €100,000
Exempt income	Social Welfare payments, KEEP income, employer contributions to pension[59]	Social Welfare payments, KEEP income, employer contributions to pension[60]
Exempt individuals	Over 66 and other categories of employees	The following have a reduced rate of charge: - Over 70 - medical card holders earning less than 60k
Deductions allowed	N/A	
Deductions not allowed	Employee pension contribution	Employee pension contribution
Collection	Revenue[61]	Revenue
Destination / use of receipts	Ring-fenced to the Social Insurance Fund. Payments are recorded on social insurance contribution records which have a link with entitlement to certain benefits at a particular point in time.	General Exchequer

[59] Revenue approved superannuation scheme or PRSA.
[60] Revenue approved superannuation scheme or PRSA.
[61] The Department of Employment Affairs and Social Protection collects PRSI in certain circumstances.

USC compared with Class E and H of PRSI

Class E and H of PRSI have been grouped together because they give access to a limited set of benefits (with some slight differences between the two classes) and similar rates of PRSI apply to them.

Class E applies to ministers of religion employed by the Church of Ireland Representative Body. In 2015, Class E contributors made up < 0.1% of all PRSI contributors.

Class H applies to NCOs (Non-Commissioned Officers) and enlisted personnel of the Defence Forces. In 2015, Class H contributors made up 0.3% of all PRSI contributors.

The key similarities between the USC and Class E and H of PRSI are:

- Both operate on an individualised basis
- Both generally apply to:
  - Income from an "employment" i.e. earned income
  - share based remuneration
  - income that is deemed to be a Benefit-in-Kind (BIK)[62]
- Both generally exempt:
  - Social welfare income
  - Employer contributions to certain pensions
- Both are collected by Revenue

Some key differences are:

- The application of the particular rates:
  - These classes of PRSI have 1 or 2 rates applying across certain levels of income, whereas there are 4 for USC
  - PRSI is on a week one basis (meaning as soon as income is above certain levels in a week it is subject to the charge), and USC is levied on a cumulative basis (meaning where annual income is over €13,000 per annum the charge is levied)

[62] Whereby the employer makes certain payments on behalf of the employee.

Table 19: Class E and Class H compared to USC

	PRSI – Class E, Class H		USC
Rates and bands	Depending on income different rates apply – 0% and 3.33% for Class E and 0% and 3.9% for Class H		0.5% from €0 to €12,012 2% from €12,013 to €19,372 4.75% from €19,373 to €70,044 8% from €70,044+
Basis for rate	Week One		Cumulative per annum
General income subject to charge	Earnings, share based remuneration, BIK, SARP income		Earnings, share based remuneration, BIK, SARP income
Threshold of income subject to charge	For both classes, no charge applies below earnings of €352 a week (€18,304 p/a)		€13,000 per annum (€250 per week)
	Class E	Class H	
	A **3.33%** charge applies for income above €352 a week (€18,304 p/a)	A **3.9%** charge applies to income above €352 a week (€18,304 p/a)	
Individual subject to charge	Individual		Individual
Cap on income subject to charge	No cap		No cap Surcharge payable on self-employed on earnings over €100,000
Exempt income	Social Welfare payments, KEEP income, employer contributions to pension[63]		Social Welfare payments, KEEP income, employer contributions to pension[64]
Exempt individuals	Over 66 exempt and other categories of employees		The following have a reduced rate of charge: - Over 70 - medical card holders earning less than 60k
Deductions allowed	N/A		
Deductions not allowed	Employee pension contribution		Employee pension contribution
Collection	Revenue[65]		Revenue
Destination / use of receipts	Ring-fenced to the Social Insurance Fund Payments are recorded on social insurance contribution records which have a link with entitlement to certain benefits at a particular point in time.		General Exchequer

[63] Revenue approved superannuation scheme or PRSA.
[64] Revenue approved superannuation scheme or PRSA.
[65] The Department of Employment Affairs and Social Protection collects PRSI in certain circumstances.

USC compared with Class K of PRSI

Class K applies to certain office holders (i.e. TDs, members of the Judiciary etc.) whose annual office holder income exceeds €5,200; the self-employed employed (earned and unearned) income of civil and public servants recruited prior to 1995; and unearned income received by employees and early retirees, where that unearned income is their only non-employment income. Class K PRSI is charged at a rate of 4% and does not give access to social insurance entitlements. These employees and pre-1995 civil and public servants generate social insurance entitlements based on PRSI paid on their employment income.

In 2015, Class K contributors made up 0.3% of all PRSI contributors.

The key similarities between the USC and Class K of PRSI are:

- Both operate on an individualised basis.

Some key differences are:

- The application of the particular rates:
  - For USC the age related condition is irrelevant.
  - For Class K Public Office Holders, the age-related condition is also irrelevant. It is however relevant for the other Class K contributors. A 4% rate is applied for Class K, but only above €5,200 per annum for public office holders and for "chargeable persons" in the case of other Class K contributors. There are four rates for USC.
  - PRSI is on a week one basis (meaning as soon as income is above certain levels in a week it is subject to the charge), and USC is levied on a cumulative basis (meaning where annual income is over €13,000 per annum the charge is levied).

Table 20: Class K compared to USC

	PRSI –Class K	USC
Rates and bands	4% but only if income is more than €100 a week (€5,200 p/a)	0.5% from €0 to €12,012 2% from €12,013 to €19,372 4.75% from €19,373 to €70,044 8% from €70,044+
Basis for rate	Week One	Cumulative per annum
General income subject to charge	Earnings, share based remuneration, BIK, SARP income. Unearned income such as rental income, investment income, dividends, interest on deposits and savings and deposit interest.	Earnings, share based remuneration, BIK, SARP income Most investment income and Unearned income is subject to USC, however, deposit interest is exempt from USC.
Threshold of income subject to charge	4% applies from €100 a week (€5,200 p/a)	€13,000 per annum (€250 per week)
Individual subject to charge	Individual	Individual
Cap on income subject to charge	No cap	No cap Surcharge payable on self-employed on earnings over €100,000
Exempt income	None – Public Office Holders Other Class K – same exemptions as Class S	Social Welfare payments, KEEP income, Employer contributions to pension[66]
Exempt individuals	None – Public Office Holders Other Class K – same exemptions as Class S	The following have a reduced rate of charge: - Over 70 - medical card holders earning less than 60k
Deductions allowed	N/A	
Deductions not allowed	N/A	Employee pension contribution
Collection	Revenue[67]	Revenue
Destination / use of receipts	Ring-fenced to the Social Insurance Fund. Payments are recorded on social insurance contribution records, however, there are no benefits associated with Class K.	General Exchequer

[66] Revenue approved superannuation scheme or PRSA.
[67] The Department of Employment Affairs and Social Protection collects PRSI in certain circumstances.

USC compared with Class J of PRSI

Class J applies to people earning less than €38 per week. However, a small number of employees are insurable at Class J, no matter how much they earn, such as employees aged 66 or over or people in subsidiary employment. In addition, it includes people insurable at Class B, C, D or H in their main employment and who have a second job which is of a subsidiary nature.

In 2015, Class J contributors made up 1.5% of all PRSI contributors.

The key similarities between the USC and Class J of PRSI are:

- Both operate on an individualised basis.

Some key differences are:

- The application of the particular rates:
  - Class J can apply if an employee is 66 or over whereas for USC the age-related condition is irrelevant.
  - There is only a 0% employee rate for Class J whereas there are 4 rates for USC. Class J will give rise to a Nil Employee PRSI liability.
  - PRSI is on a week one basis (meaning as soon as income is above certain levels in a week it is subject to the charge), and USC is levied on a cumulative basis (meaning where annual income is over €13,000 per annum the charge is levied).

Table 21: Class J compared to USC

	PRSI – Class J	USC
Rates and bands	No Employee PRSI applies for Class J	0.5% from €0 to €12,012 2% from €12,013 to €19,372 4.75% from €19,373 to €70,044 8% from €70,044+
Basis for rate	Week One	Cumulative per annum
General income subject to charge	Earnings, share based remuneration, BIK, SARP income	Earnings, share based remuneration, BIK, SARP income
Threshold of income subject to charge	No Employee PRSI applies for Class J	€13,000 per annum (€250 per week)
Individual subject to charge	Individual	Individual
Cap on income subject to charge	No cap	No cap Surcharge payable on self-employed on earnings over €100,000
Exempt income		Social Welfare payments, KEEP income, employer contributions to pension[68]
Exempt individuals	Over 66's **<u>are included</u>** in this Class	The following have a reduced rate of charge: - Over 70 - medical card holders earning less than 60k
Deductions allowed	N/A	
Deductions not allowed	Employee pension contribution – (but as Class J does not give a liability this may not be relevant)	Employee pension contribution
Collection	Revenue[69]	Revenue
Destination / use of receipts	Ring-fenced to the Social Insurance Fund. Payments are recorded on social insurance contribution records which have a link with entitlement to certain benefits at a particular point in time.	General Exchequer

[68] Revenue approved superannuation scheme or PRSA.

[69] The Department of Employment Affairs and Social Protection collects PRSI in certain circumstances.

Note on Class P and Class V of PRSI

Class P applies to fishermen or fisherwomen who are classified as self-employed and who are already paying PRSI under Class S (Class P covers limited access to certain social insurance payments not covered by Class S. These are limited Jobseeker's Benefit, limited Illness Benefit and Treatment Benefit). The rate of Class S PRSI is 0% up to annual earnings of €2,500 and 4% over annual earnings of €2,500.

In 2015, Class P contributors made up less than 1% of PRSI contributors.

Class V are voluntary contributions (VCs) paid by contributors who are under pensionable age (currently 66 years) and who are no longer working or are no longer compulsorily insured. An individual can opt to become a voluntary contributor where they have left the workforce early. Other categories paying VCs include Public Office Holders, such as TDs who do generate entitlements based on the payment of PRSI on other sources of income. Class V contributions help to protect the rate of State Pension (Contributory) the individual will receive, provided they have already qualified for State Pension (Contributory). VCs do not provide cover for other short-term benefits i.e. Illness Benefit.

The rates of Class V are as follows:

Type of Contribution	Amount Payable	If you previously paid PRSI at Class
High Rate *(see note below)	6.6%	A, E, H
Low Rate *(see note below)	2.6%	B, C, D
Special Rate	Flat rate of €500	S

Note: The amount of voluntary contributions an individual pays in any contribution year is a percentage of their reckonable income in the previous tax year, subject to a minimum charge of €500 for the High Rate and €250 for the Low Rate.

In 2015, Class V contributors made up 0.1% of all PRSI contributors.