An Roinn Airgeadais
Department of Finance

Income Tax

Tax Strategy Group – 19/03

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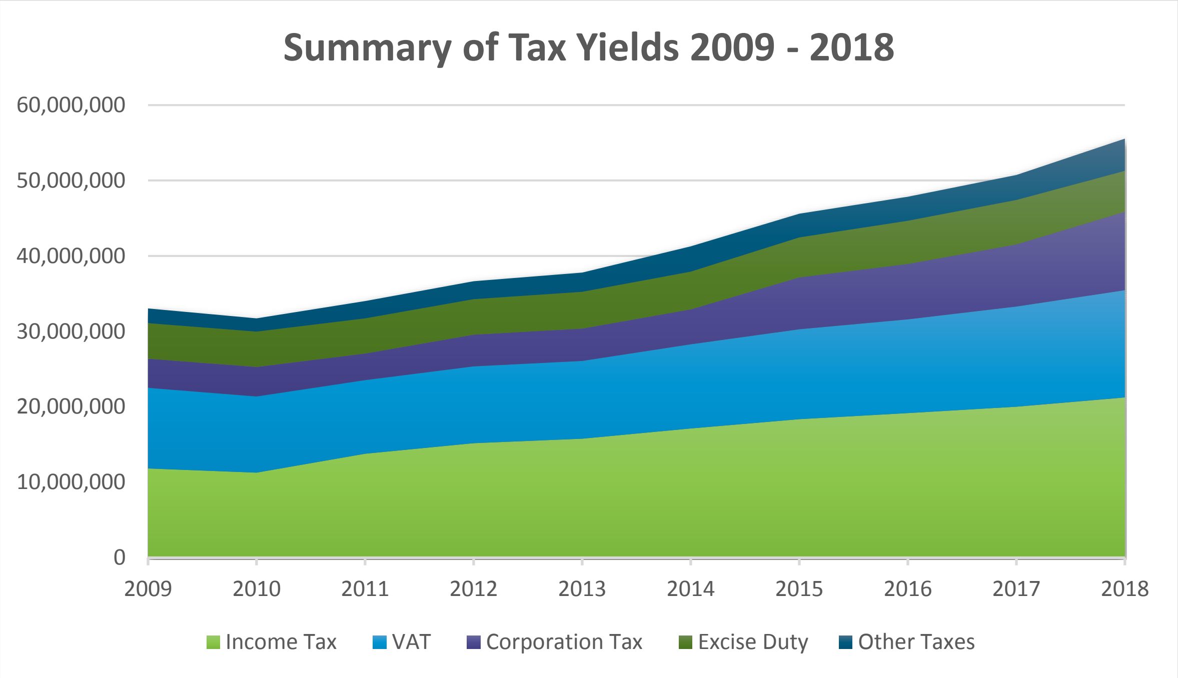
www.gov.ie/finance

Contents

Introduction

1. In 2018, personal income taxes of c. €21.2 billion were raised for the Exchequer, representing about 38% of the total tax take. Of this, income tax comprises c. €17.5 billion and USC comprises c. €3.7 billion. Income tax and USC remain the single largest source of tax revenue to the Exchequer, having surpassed the proportion contributed by VAT in 2009.

Summary of Tax Yields 2009 – 2018



Data source: Department of Finance

2. The total income tax yield for the last ten years is set out in table 1 below. Figures for the years 2009 to 2018 represent actual yield and figures for the year 2019 are projections.

Table 1: Income Tax (including USC) Yield

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	*2019*
€bn	11.8	11.3	13.8	15.2	15.8	17.2	18.4	19.2	20.0	21.2	*22.9*
% Tax	35.8	35.5	40.5	41.4	41.7	41.6	40.3	40.0	39.4	38.2	*39.2*

Structure of Income Tax and USC

3. The 2019 rates and bands of income tax are as follows:
   - 20% rate on income within standard rate band, and
   - 40% on income in excess of standard rate band.

Taxpayer	Standard Rate Band
Single	€35,300
Single Parent	€39,300
Married – one earner	€44,300
Married – two earners (max)[1]	€70,600

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

5. The Universal Social Charge is an individualised tax, meaning that a person's liability to the tax is determined on the basis of his/her own individual income and personal circumstances. The USC was introduced in 2011 and replaced two existing levies – the Income Levy and the Health Levy. The current rates and bands of USC are as follows:
   - Incomes of €13,000 or less are exempt. Otherwise:
   - €0 to €12,012 @ 0.5%,
   - €12,012 to €19,874 @ 2%,
   - €19,874 to €70,044 @ 4.5%,
   - €70,044 to €100,000 @8%,
   - PAYE income > €100,000 @ 8%,
   - Self-employed income > €100,000 @11%, and
   - Maximum rate of USC of 2% for individuals over 70, and for full medical cardholders (under 70), whose aggregate income does not exceed €60,000.

[1] Where each spouse earns a minimum of €26,300– the maximum rate band transferability between jointly-assessed spouses is €9,000.

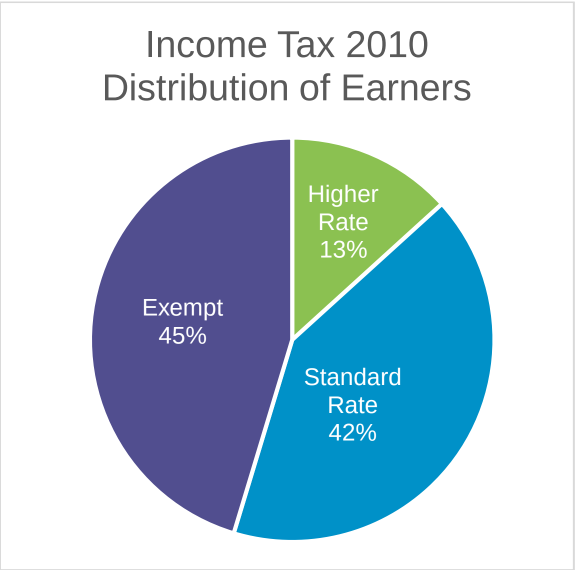
Distribution and Burden of Income Tax and USC

6. The years leading up to 2009 saw a progressive narrowing of the income tax base as Government policy was focused on increasing tax credits and bands. As a result, by 2009, 40% of income earners were exempt from income tax and only 20% of earners were liable to the higher rate of tax. The subsequent falls in income and rising unemployment exacerbated the narrowing of the base further and by 2010 over 45% of earners were exempt from income tax and just over 13% were liable to the higher rate.

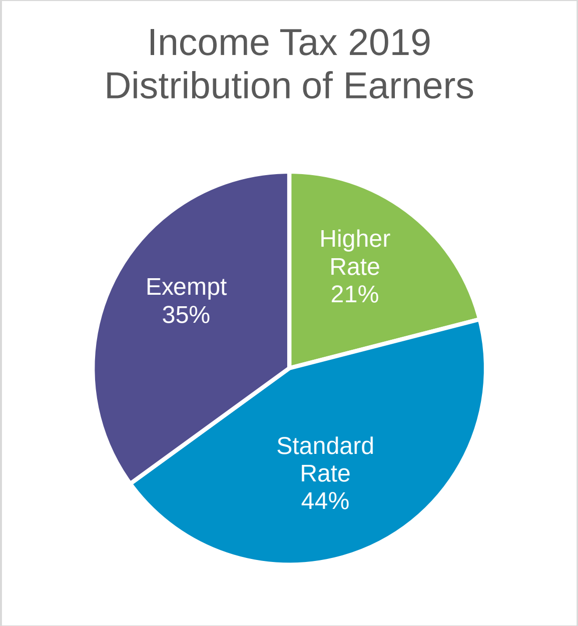
7. A range of changes were made between 2009 and 2014 to correct the narrowing of the income tax base, including reductions in tax credits and bands, the restriction or abolition of many reliefs, and the introduction of the broad-based USC.

8. Taking account of the economic recovery, since 2015 Government policy has focused on reductions to income tax targeted at low to middle income earners.

Income Tax 2019 Distribution of Income Earners



Data source: Revenue Commissioners



Data source: Revenue Commissioners

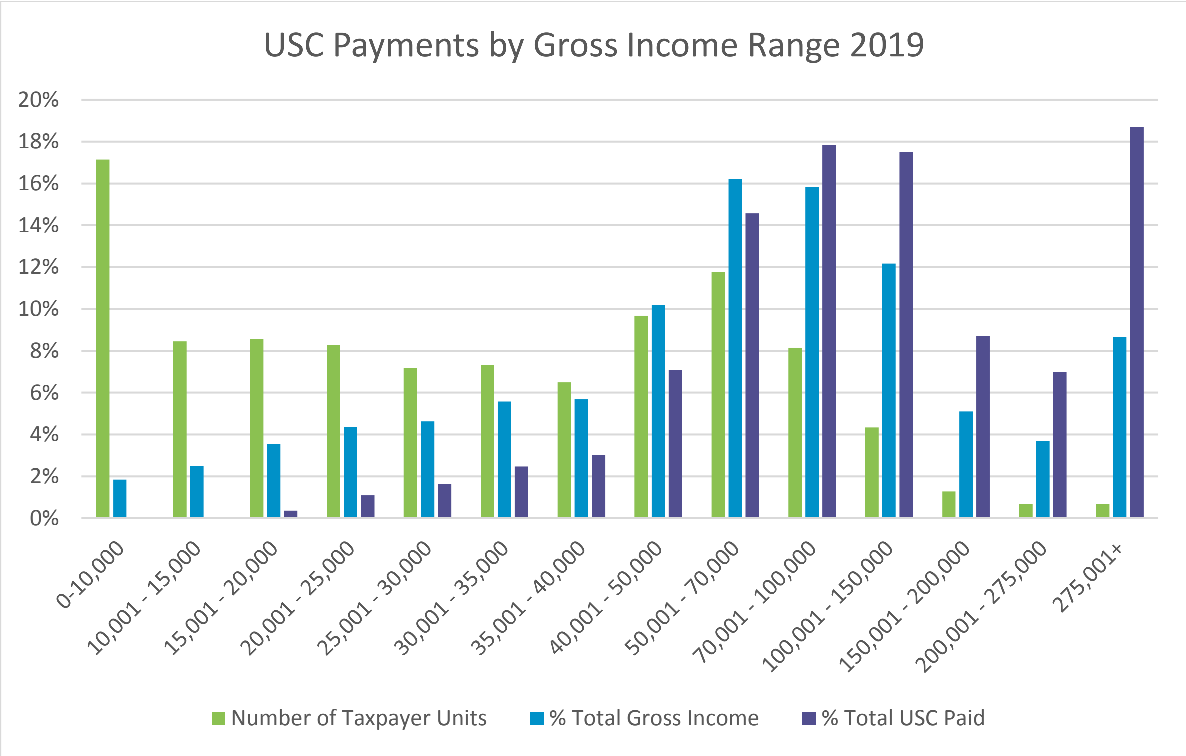
Table 2: Income Tax 2010 Distribution of earners

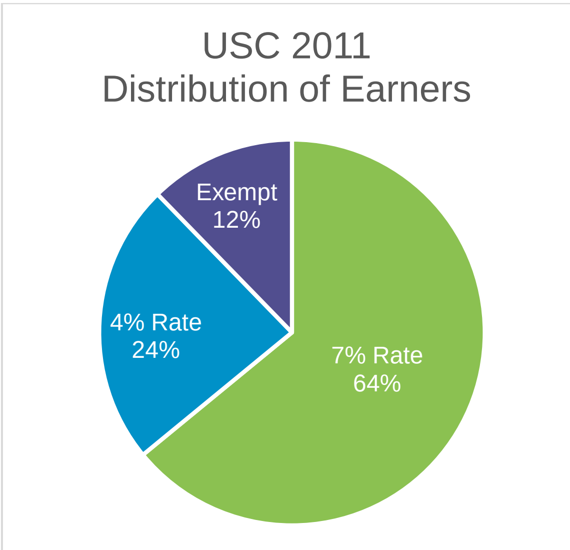
Income Tax	Earners	% of Earners
Higher Rate	277,086	13%
Standard Rate	864,726	42%
Exempt	946,631	45%
Total	2,088,443	100%

Table 3: Income Tax 2019 Distribution of earners

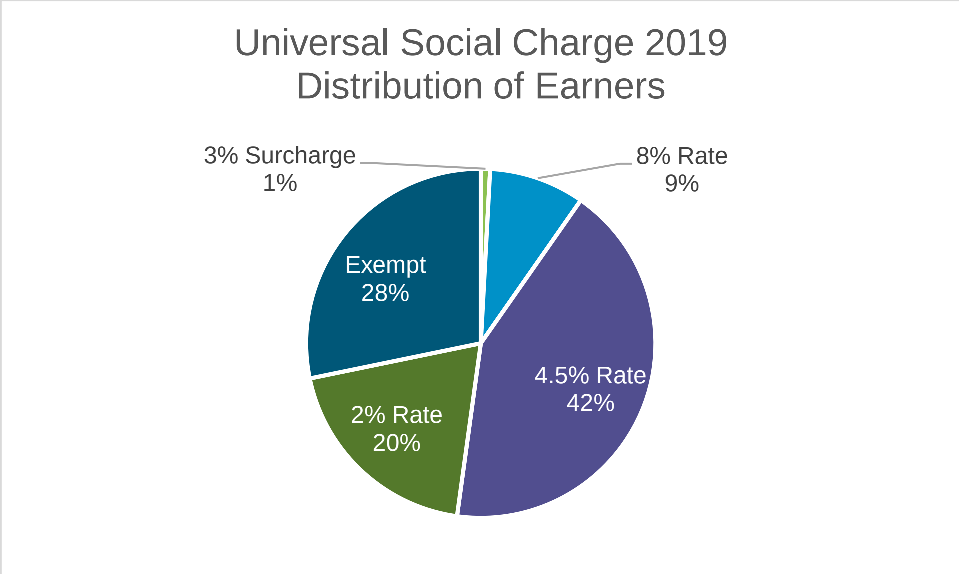
Income Tax	Earners	% of Earners
Higher Rate	576,500	21%
Standard Rate	1,205,300	44%
Exempt	941,700	35%
Total	2,723,500	100%

Universal Social Charge 2019 Distribution of Income Earners





Source: Revenue Commissioners



Data Source: Revenue Commissioners

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

Table 4: Universal Social Charge 2019 Distribution of Earners

USC (2019)	Earners (2019)	% of Earners (2019)
3% Surcharge	23,570	1%
8%	243,300	9%
4.5%	1,166,560	43%
2%	538,169	20%
Exempt	775,507	28%
Total[2]	2,723,536	100%

[2] This excludes the 3% surcharge as these taxpayer units are also included under the 8% rate.

Estimated Cumulative Burden of Income Tax and USC for 2019

9. In 2019:
   - The top 1% of income earners (>€200,000) will pay 26% of total IT and USC
   - The top 7% of income earners (>€100,000) will pay 51% of total IT and USC
   - The top 27% of income earners (>€50,000) will pay 84% of total IT and USC
   - The remaining 73% of income earners will pay 16% of total IT and USC

Notes for tables 2, 3 & 4:

1. *Distributions for 2019 are estimates from the Revenue tax-forecasting model using actual data for the year 2016, adjusted as necessary for income and employment trends in the interim.*
2. *Figures are provisional and likely to be revised.*
3. *A jointly assessed married couple/civil partnership is treated as one tax unit.*
4. *Percentages are rounded to the nearest percentage point.*

Recent Developments – Budgets 2015 to 2019

10. The stabilisation of the economy has allowed for reductions in the personal tax burden to be introduced in five successive Budgets, focussing primarily on reductions to the lower rates of Universal Social Charge.

11. The main cumulative effects of these five Budgets are as follows:

- The three lower rates of USC have been reduced from 1.5%, 3.5% and 7% to 0.5%, 2% and 4.5% respectively.

- The ceiling of the second USC rate band has increased by €2,298 to €19,874, in conjunction with increases in the National Minimum Wage.

- The income tax standard-rate band has increased by €2,500 from €32,800 to €35,300 for single individuals and from €41,800 to €44,300 for married one earner couples, and the higher rate of income tax was reduced from 41% to 40%.

- A new 8% USC rate was introduced in Budget 2015 in concurrence with the reduction of the higher rate of income tax. This USC rate band has allowed the benefits of the Budget 2015 to 2019 personal tax packages to apply on income up to €70,044 only, thereby limiting benefits arising to higher earners.

- A new Earned Income Credit for self-employed individuals who do not have access to the PAYE tax credit was introduced in Budget 2016 and increased in each subsequent Budget to the current rate of €1,350.

- The Home Carer Credit, which is available to families where one spouse or civil partner works primarily in the home to care for children or dependents, has increased from €810 to €1,500. The limit on the income which the home carer is allowed to earn and still qualify for the credit was also increased from €5,080 to €7,200.

- In Budget 2018, the USC provision for medical card holders and individuals aged 70 years was extended by two years to end 2019. This limits the rate of USC payable by such individuals whose aggregate USC-liable income does not exceed €60,000 per annum by allowing income in excess of €19,874 to be taxed at the second USC rate (currently 2%) in place of the third rate (currently 4.5%).

12. As a result of the changes in the previous five budgets, over €2 billion per annum has been allocated to income tax reductions, comprising both income tax and USC.

13. The following table illustrates the estimated value of income tax packages that have been introduced since Budget 2015:

Table 5: estimated value of budget income tax packages	Full Year Cost/Yield
Aggregate cost, Budgets 2016 to 2019 (rounded)	-€2,091m
Budget 2019	
USC	-€123m
Reduce 4.75% rate to 4.5%	
€502 increase to €19,372 band ceiling to €19,874	
Income Tax	
Increase the Standard Rate Band by €750	-€161m
Increase in the Home Carer Tax Credit from €1,200 to €1,500	-€24m
An increase in the Earned Income Credit from €1,150 to €1,350	-€48m
Other	
Agri-Taxation measures	-€10.5m
Amendment to Key Employee Engagement Programme (KEEP)	-€10m
Rented residential property interest deduction restoration	-€18m
Budget 2019 Total Cost	-€394.5m
Budget 2018	
USC	-€206m
Reduce 2.5% rate to 2.0%	
€600 increase in 2nd rate band ceiling to €19,372	
Reduce 5.0% rate to 4.75%	
Income Tax	
Increase the Standard Rate Band by €750	-€152m
Increase in the Home Carer Tax Credit from €1,100 to €1,200	-€8m
An increase in the Earned Income Credit from €950 to €1,150	-€31m
Other	
Tapered extension of Mortgage Interest Relief	+€175m
Introduction of Key Employee Engagement Programme (KEEP)	-€10m
Pre-letting expenses – rented residential property	-€3m
Budget 2018 Total Cost	-€235m
Budget 2017	
USC	-€390m
Reduce 1% rate to 0.5%	
Reduce 3% rate to 2.5% and increase ceiling to €18,772	
Reduce 5.5% rate to 5%	

Income Tax	
Increase in the Home Carer Tax Credit from €1,000 to €1,100	-€8m
An increase in the Earned Income Credit from €550 to €950	-€58m
Other	
Help to Buy Initiative introduced	-€40m
HRI extended until 31 Dec 2018	-€38m
Rent-a-Room threshold increased to €14,000	-€1m
Living City Initiative enhanced	-€3m
SARP and FED enhanced and extended until end of 2020	-€11m
Start Your Own Business (SYOB) relief extended to end 2018	-€10m
Fishers' Tax Credit introduced	-€6m
ACAs for Energy Efficient Equipment available to sole traders	-€3m
Budget 2017 Total Cost	-€568m
Budget 2016	
USC	-€772m
Reduce 1.5% rate to 1%	
Reduce 3.5% rate to 3% and increase ceiling to €18,668	
Reduce 7% rate to 5.5%	
Income Tax	
Increase Home Carer Credit from €810 to €1,000 (+ threshold increase)	-€14m
Introduction of €550 Earned Income Credit	-€61m
Other	
EII changes (incl. Nursing homes)	-€3m
HRI extended until 31 Dec 2016	-€19m
Various Agri-Taxation measures (incl. Farm Succession)	-€23m
High Earners' Restriction (removal of woodlands)	-€1m
Incentives for Certain Aviation Services Facilities	-€0.3m
Budget 2016 Total Cost	-€893.3m

Programme for a Partnership Government Commitments

14. The Programme for a Partnership Government (PPG) expresses a number of commitments with regard to public finances and taxation. It recognises the need to keep the tax and revenue base broad, while reducing the rate of tax on work and some other activities in order to achieve specific social and economic objectives. The PPG commits to meeting the required domestic and EU fiscal rules, and sets out a planned 2:1 split of available resources between public spending and tax reductions. Budget 2017 was announced with a split of over 3:1 in favour of public spending. Budget 2018 contained a split of 2:1 in favour of public spending.

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

Potential Offsetting Measures

16. The PPG states that the reductions in personal tax rates, such as the continued phasing out of the USC, will be funded largely through:
    - *Extra revenues from not indexing personal tax credits and bands.*
    - *The removal of the PAYE tax credit for high earners and other measures to ensure the tax system remains fair and progressive.*
    - *Higher excise duties on cigarettes.*
    - *Increased enforcement and sanctions on fuel laundering and the illegal importation and sale of cigarettes.*
    - *A new tax on sugar sweetened drinks.*
    - *Improvements in tax compliance*.

Equality Proofing

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

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

19. The latest data from the OECD (for 2017), shows that Ireland had the largest reduction in the Gini coefficient between market and disposable income for the OECD countries for which data are available.[3] The data show that, compared to other countries, the Irish tax system is strongly progressive and that the tax and welfare systems combined contribute substantially to the redistribution of income and to the reduction of income inequality.

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

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

Gender Proofing: Individualisation

22. Liability to tax and entitlement to credits and reliefs is generally determined by factors such as the type and source of income earned and the nature of deductible expenses incurred and is not influenced by the gender of the individual taxpayer. The system of tax rates, bands and credits applies equally to both genders.

[3] OECD Economic Surveys, Ireland, March 2018 (Figure 22); http://www.oecd.org/eco/surveys/Ireland-2018-OECD-economic-survey-overview.pdf

23. USC and PRSI are calculated and payable on an individualised basis, meaning that a person's liability to these charges is determined on the basis of their own individual income and personal circumstances. This facilitates higher levels of precision in policies which seek to target different cohorts of taxpayers, and better data collection at the individual personal level. By contrast, income tax has historically allowed for a system of joint assessment of married couples, whereby one spouse may be assessed to the joint income of both individuals and tax credits and bands may be (partially) transferred between spouses. The main advantage of the joint system is that it gives additional flexibility to married couples as a whole.

24. For a married couple under joint assessment, the assessable spouse is determined not by gender but typically by reference to the higher earner of the couple. Notwithstanding this gender neutral approach, earnings and workforce participation data indicate that males are more likely to be the higher earners in households and therefore usually the assessable spouse. Therefore, policy measures targeted at the secondary earner of a jointly assessed couple could be expected to have a more significant impact on females.

25. Prior to 2000, income tax allowed for full joint assessment of married couples. This meant that the earner in a single-income couple could use the combined tax credits and standard rate band available to both individuals – i.e. double the personal tax credit and rate band available to a single earner. As a result, where the primary earner of a couple had sufficient income to use the available reliefs in full, the second earner faced the marginal rate of tax from the first pound of income earned, which acted as a disincentive to workforce participation for second earners.

26. A process of moving towards an individualised system of income taxation began in the tax year 2000/2001 with the stated economic objectives of increasing labour force participation and reducing the numbers of workers paying the higher rates of income tax. Many European countries have made similar moves towards a partial or fully individualised income taxation system on the grounds that it improves equality and economic independence for women.

27. However, in Ireland progress towards full individualisation was met with opposition, in particular on behalf of single-income families with caring responsibilities in the home. The Home Carer Credit (HCC) was therefore introduced in tandem with the move towards individualisation in order to benefit families where one spouse works primarily in the home to care for children or other dependants. The HCC may be claimed in full where the home carer's income is below €7,200 per year, and on a reduced tapered basis where the home carer earns less than €10,200 per year. The HCC has been increased significantly in recent budgets from €810 to the post-Budget 2019 level of €1,500, while the position on individualisation has remained unchanged.

28. The Parliamentary Budget Office Report on the measures in Budget 2019 highlighted that further increases to the HCC risks undermining labour market activation, which in their view potentially conflicts with the European Commission Country Specific Recommendation to pursue labour market activation policies. The HCC is being reviewed in 2019 as part of the First Five: Whole of Government Strategy for Babies, Young Children and Their Families (see further details below at section 8).

29. Other non-tax factors also have significant impacts on female workforce participation, including the cost of childcare. Studies of the 'participation tax rate' for families where women return to work (i.e. the amount of the additional gross earned income which is loss through payments

of tax, social insurance, reductions in welfare entitlements), have found a participation rate of below 20% for Ireland indicating a tax and welfare system that is supportive of the second earner returning to work. However, in situations where the family has to pay for childcare, the participation tax rate including childcare costs for women with two children was 94% - the second highest in the EU (second only to the UK).[4]

30. The issue of tax individualisation was considered by the Commission on Taxation in 2009 and that body recommended no change should be made to the prevailing income tax system at that time. It concluded that the partially-individualised income tax system represents a balance between, on the one hand, acknowledging the choices families make in caring for children and, on the other, taking account of the need to encourage labour market participation. Assuming that there would be no reduction in the value of any existing bands, they had suggested that the "*most likely*" way to complete individualisation would be to bring the value of the single band up to the value of the married one-earner band, with a married two-earner couple having a maximum band of twice the value of the single band but no transferability between spouses. On the basis of the most recent data, the cost of implementing this change, is tentatively estimated to be €960m per annum.

31. Some 10 years on, the question arises as to whether this issue should be revisited, noting in particular Ambition 4.3 of the Future Jobs Ireland Plan 2019 to *"consider income tax arrangements for second earners that optimise financial incentive to work, taking account of the impact that the income tax system may have on female participation in the workforce"* as well as the European Commission Country Specific Recommendation on labour market activation. As the Irish economy edges closer to "full employment" and continues to experience housing supply pressures,[5] policies that reduce labour participation by second earners could perhaps be given renewed analysis. This issue could be given further consideration following the completion of the 2019 review of the HCC mentioned above, and form part of the overall policy objective of raising the Standard Rate Cut-Off Point in the coming Budgets (for this and further details on cost impacts, see more below at Section 7).

[4] http://ec.europa.eu/justice/gender-equality/files/documents/150511_secondary_earners_en.pdf
[5] Both of which are discussed in the Stability Programme Update 2019

International Comparisons

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

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

34. The Tax Wedge is defined as the sum of personal income tax plus employee and employer social security contributions together with any payroll taxes less cash transfers, expressed as a percentage of labour costs. It is the difference between what an employer has to pay in terms of gross wages plus taxes to hire an employee and the net income received by that employee after deduction of all taxes on their wages. High tax wedges particularly affect low skilled workers, second earners and older cohorts whose labour force participation is more sensitive to taxation. Reductions in the tax wedge on these groups can have significant impacts on participation rates which can increase medium term economic growth rates through the labour supply channel.

35. Reductions in the tax wedge can also increase the demand for labour from employers. For these reasons, a competitive tax wedge is considered vital in encouraging employment growth across all income categories and to incentivise individuals to remain in or return to the labour market.

36. In terms of international comparisons, according to the OECD Taxing Wages Report 2019, based on 2018 data:
    - Ireland had the twelfth lowest headline tax wedge (32.7%) of the 36 OECD members included for a single worker on average earnings, which sits below the average of 36.1%. Ireland is the second lowest of the 23 EU members of the OECD.
    - The wedge for a two earner married couple with children is 24.7%, below the OECD average of 30.8%, ninth lowest in the OECD and the lowest of the EU members.
    - Median earners in Ireland face the third highest marginal rate in the OECD (49% compared with OECD average of 35.5%), but the ninth average tax rate overall (25.3% compared with OECD average of 25.6%). The difference between the marginal rate and the average tax rate in Ireland reflects the relative progressivity of the Irish tax system.

Potential Tax Policy Considerations: USC

Universal Social Charge

37. The USC was introduced with effect from 1 January 2011, and replaced two existing levies, the Income Levy and the Health Levy. It was a measure intended to widen and re-structure the Irish income tax base, as previous increases in income tax credits and rate bands combined with falls in incomes and employments in the recession had resulted in c.45% of income earners being exempt from income tax by 2010.

38. The USC was also a revenue-raising measure intended to reduce the budget deficit, although the projected net increase in revenue from replacing the two existing levies with the USC was only €420 million per annum. The reductions to the USC in the past five Budgets are estimated to have cost over €1.6bn[6] which is well in excess of the additional amounts raised when the USC was introduced. It could be argued therefore that further significant modifications to the USC could undermine the re-structuring of the income tax system.

39. In line with a PPG commitment, further reductions to the three lowest rates of USC were introduced in Budget 2017, such that the lowest rate of USC now stands at 0.5%. The USC, with its entry threshold of €13,000, is the lowest point of entry to the income tax system for many taxpayers. Continued reductions in the USC in isolation could result in a further narrowing of the tax base.

40. An alternative change that could meet the PPG commitment and benefit lower and middle income households, would be to continue to increase the threshold that the second (2%) rate of USC currently applies. An increase in the threshold at which the 4.5% applies from the current level of €19,874 would benefit all taxpayers from that income level up, including incomes that are below the average wage of c. €38,900.[7]

41. The USC is a component factor in the top marginal tax rate, which is 52% for all income over €70,044 and 55% for non-PAYE income over €100,000. Higher marginal tax rates are considered to be an impediment to international competitiveness, so reductions in the highest rate of USC (currently 8% on income in excess of €70,044), being one of the components of the top marginal rate, could improve Ireland's comparative competitive advantage. It should be noted that the distributional impact of such a change (on its own) would only benefit those earning above €70,044, which is estimated to be around 200,000 individuals[8] or 6.6% of the total c. 3 million taxpayers.

Future Options for USC: Amalgamation

42. The working group on the amalgamation of USC and PRSI submitted its report to the Minister for Finance in September 2018, in line with the terms of reference following 9 months of examination of the subject by officials from the Department of Employment Affairs and Social

[6] €237m in Budget 2015, €772m in Budget 2016, €335m in Budget 2017, €206m in Budget 2018 and €123m in Budget 2019.
[7] Based on CSO Earnings and Labour Costs 2018 Dataset
[8] This estimate is based on Revenue's individualised data exercise which was published in July 2018 on the basis of 2016 returns.

Protection, the Department of Finance, the Department of Public Expenditure and Reform, Revenue, the Department of the Taoiseach and independent expert, Dr. Micheál Collins.

43. The report acknowledges the complexity of the process and sets out a range of options as to how amalgamation could be achieved, including five detailed options that were developed by the group. The group concluded that all five involved a trade-off between simplicity in design, loss of revenue to the State overall (general government basis) and losses/gains at a taxpayer level.

44. Options included implementation on a revenue neutral basis which gave rise to inequitable outcomes with middle earners losing and higher earners gaining, as well as approaches which mitigated such undesirable impacts on individuals which in turn had not insignificant cost implications for the government finances.

45. Separately, as part of the regular IMF Article IV Review of the Irish economy, in examining options for "*broadening the tax base in a growth-friendly manner*" a selected issues paper on Personal Income Tax Reform: Past and Present was published. This set out a number of proposals for how "*a re-calibrated income tax*" could replace the USC, noting certain desirable features of the USC such as progressivity, individualisation and stability. While it is unlikely that the process envisaged would be as straightforward as the paper suggests, consideration could be given to ways that income tax could adopt some of the more desirable features of USC as an alternative to amalgamation with PRSI.

Potential Tax Policy Considerations – Income Tax

46. Recent Budgets have focussed primarily on changes to the Universal Social Charge rather than income tax. The income tax standard rate bands have been increased by €2,500[9] over that period and the higher rate of income tax was reduced to 40%. In addition to the Earned Income Credit, set out in more detail below, the Home Carer tax credit (HCC) was increased in Budget 2016, Budget 2017, Budget 2018 and Budget 2019, and now stands at €1,500. The HCC is available to jointly assessed couples where one partner works primarily in the home to care for children or other dependant persons.

Entry Point to the Higher Rate of Income Tax

47. Wage growth is projected to be relatively stable out to 2023, with non-agricultural pay per capita expected to grow at around 3.2% on average per year.[10] Consideration could therefore be given to further increases to the standard rate income tax band having regard to such projected growth as otherwise increased numbers of taxpayers will end up subject to income tax at the higher rate. This may bring an advantage in terms of the availability of tax relief at the marginal rate (for example, for pension contributions), but in general would increase the marginal rates of tax being paid at average income levels.

48. There has been a lot of commentary around the competitiveness of the Irish income tax regime, in particular the entry point to the higher rate of income tax which applies the 40% rate on incomes above €35,300. In 2018, the Taoiseach and Minister for Finance made a public commitment to increasing the SRCO to €50,000 over 5 years.

49. Preliminary estimates put the cost of this policy at €2.3bn if the policy was to be implemented in a single year[11]. These estimates would be subject to review in each budget year to take account of updated data, including employment and income growth. On the basis of the most recent Revenue Ready Reckoner (Post-Budget 2019), a €3,000 increase to all standard rate bands would cost €524m in the first year, and €610m in a full year.

50. These cost impacts could be mitigated to a degree if individualisation was simultaneously advanced as part of the policy to increase the standard rate cut-off point. This could be done by increasing the married 1 earner band at a slower pace over the five years until the individual tax band catches up. For example, if the married 1 earner was only increased by €1,000 while the other bands increase by €3,000 it is estimated that this would reduce the cost to €399m in the first year and €463m in a full year. Both these options are contained in the distributional analysis below in Appendix B.

[9] For single people it increased by €1,000 in Budget 2015 from €32,800 to €33,800, by €750 in Budget 2018 from €33,800 to €34,550 and by €750 in Budget 2019 from €34,550 to €35,300.
[10] Wage forecasts based on Stability Programme Update 2019 - Compensation per Employee Year-on-Year Change, Table 5
[11] This is the estimated full year cost of increasing the standard rate cut off point for all income tax bands by €14,700 (which brings it to €50,000 in the case of a single person) in a single year. This figure has been generated by reference to projected 2019 incomes, calculated on the basis of actual data for the year 2016, the latest year for which returns are presently available, and adjusted for income, self-employment and employment trends in the interim. This Revenue estimate is provisional and may be revised.

Earned Income Credit

51. The Earned Income Credit was introduced in Budget 2016 and is available to self-employed individuals who do not have access to the PAYE tax credit. It is tentatively estimated that the credit will continue to be available to approximately 215,000 taxpayer units in 2019. The PPG committed to an increase in the value of the Earned Income Credit from €550 to €1,650, to match the PAYE credit, by 2018. The credit is currently €1,350 having been increased by €400 in Budget 2017, by €200 in Budget 2018 and by €200 in Budget 2019.

52. Options for further increases to the credit in fulfilment of the PPG commitment include:
    - An increase of €300 in Budget 2020 (Finance Bill 2019) to bring the credit up to €1,650, at a cost of €40 million in the first year and €72 million in a full year. This would equate to an additional benefit of €6 per week for recipients; or
    - A two-stage increase of €150 in each of Budget 2020 and Budget 2021 (Finance Bill 2019), at a cost each year of €20 million in the first year and €36 million in a full year. This would equate to an additional benefit of €3 per week for recipients in each of the two years.

Tapered withdrawal of tax credits

53. The PPG contains a commitment to consider the removal of the PAYE credit for high earners as part of a medium-term income tax reform plan, and it is assumed that this would also extend to removal of the Earned Income Credit on the same basis.

54. There are a number of technical issues and policy issues which would need to be addressed in order to achieve such a withdrawal, particularly for PAYE employees, and these were set out in some detail in the Income Tax Reform Plan published in July 2016.

55. The UK tax system incorporates a personal tax allowance which is subject to a tapered withdrawal for individuals whose income is in excess of £100,000 per annum. (In this context it is worth noting that a tax allowance allows relief at a taxpayer's marginal rate, whereas the PAYE and Earned Income Credits are standard-rated tax credits.) The allowance is reduced by £1 for every £2 earned above this limit, tapering out (in the 2017/2018 tax year) once income reaches £123,000. The £100,000 threshold was chosen as all individuals with income above that level were already obliged to file a tax return each year and this facilitated the operation of the taper. By contrast, there is no similar liability to file a tax return based on income level in Ireland at present and that would likely need to be reviewed if the policy of tapering the credits was to be pursued.

56. Tapering the tax credits could affect the relative position of different categories of taxpayer. For example, in the absence of full individualisation of the income tax system, consideration would need to be given to how the taper would work in the case of jointly-assessed individuals – such as whether the value of a single personal tax credit or that of a married personal tax credit be subject to the taper, and what income threshold would apply to a single-income couple.

57. The tapering out of a tax credit would also result in a higher marginal tax rate within the taper zone than would apply at higher income levels. For example, were the personal tax credit of €1,650 to be tapered out at a rate of 5% per €1,000 (i.e. a loss of just over 8 cent per additional

euro of income), the marginal rate within the taper zone would be just over 60%. Once the taper period has expired, at income over €120,000 in this example, the marginal rate would revert back to 52%.

58. The Department of Finance Income Tax Reform Plan, published in July 2016, contained estimated yields for tapering the PAYE and Earned Income Credits over the income ranges €80,000 to €100,000, and €100,000 to €120,000, in the region of €365 million and €212 million respectively on a first-year basis. However, these yields were calculated on a "tax unit" basis rather than on an individualised basis. This means that, in the case of a married-two-earner couple, the yield assumed the credits were withdrawn where the couple's joint income exceeded the relevant threshold. As such it is expected that those estimated yields are significantly higher than would arise if a taper were to be applied on a per-earner basis. In July 2018, Revenue published income distribution statistics for 2016 including, for the first time, analysis on the basis of individual taxpayers. On the basis of these figures, the yield is estimated to be €150 million and €90 million respectively on a first-year basis using the 2016 value of €550 for the Earned Income Credit. A number of important caveats apply to these estimates which are provisional and may be revised, including that this estimation process required a number of assumptions to be made and the figures assume no behavioural response on the part of taxpayers to the changes.

Update on Income Tax Related Reviews

59. Following various commitments, including those set out in the Department of Finance Tax Expenditure Guidelines[12] a number of income tax incentives are being reviewed over the course of 2019. The following is a short summary of the status of these reviews.

Home Carer Credit (HCC)

60. The HCC may be claimed where one spouse works primarily in the home to care for children or other dependants. The HCC is being reviewed in line with the Tax Expenditure Guidelines, following a commitment in the First Five: Whole of Government Strategy for Babies, Young Children and Their Families to:

"…include an examination of the beneficiaries of the scheme and an assessment of the extent that it is effective at supporting working families who take care of young children at home."

61. The results of this review are due to be published as part of Budget 2020, but the following preliminary results are brought to the attention of the Group:
    - The annual cost has increased over the past number of years, which is broadly in-line with the enhancements to the measure over the past 4 Budgets.
    - The number of claimants has remained relatively static over the past five years, staying at between 80,000 to 85,000 taxpayer units per annum over that period.
    - The majority of home carers are females.
    - Around a quarter of claimants have gross incomes of less than €30,000 per annum, which suggest that the majority of claimants earn above average incomes.
    - Over 10% of claimants have gross incomes of over €100,000 per annum.

Special Assignee Relief Programme (SARP)

62. The aim of SARP is to reduce the cost to employers of assigning skilled individuals in their companies from abroad to take up positions in the Irish-based operations of their employer or an associated company, thereby facilitating the creation of jobs and the development and expansion of businesses in Ireland.

63. The Exchequer cost of SARP rose to €18.1million in 2016 from €9.5 million in 2015, 793 employees availed of SARP directly in 2017 (up from 586 in 2015).

64. External consultants are undertaking a review of SARP on behalf of the Minister for Finance to be completed in August 2019.

Living City Initiative

65. The Living City Initiative, a scheme of property tax incentives that was enacted in Finance Act 2013 and commenced on 5th May 2015, is due to terminate on 4th May 2020. The scheme provides tax relief for qualifying expenditure incurred on the refurbishment and conversion of both residential and commercial buildings and is aimed at the regeneration of certain areas in the historic centres of Cork, Dublin, Galway, Kilkenny, Limerick and Waterford.

[12] http://www.budget.gov.ie/Budgets/2015/Documents/Tax_Expenditures_Oct14.pdf

66. There are three types of relief available; owner occupier residential relief, rented residential (landlord) relief and commercial or retail relief. The rented residential relief was introduced with effect from 1 January 2017. Owner occupier relief is given by writing off expenditure incurred at a rate of 10% per annum over ten years. Rented residential and commercial/retail relief is given by way of capital allowances (expenditure incurred is written off over a 7 year period at a rate of 15% per annum over 6 years and 10% in the final year). The Exchequer cost of the incentive is less than €1 million p.a.

67. The Department's Tax Division is carrying out an ex-ante review of the incentive ahead of Finance Bill 2019.

Foreign Earnings Deduction (FED)

68. The Foreign Earnings Deduction (FED) provides relief from income tax on up to €35,000 of salary for employees who travel out of state to certain countries on behalf of their employer. Relief is not provided from USC or PRSI. The intent behind the scheme is to encourage Irish companies to export into new markets by sending employees on trade missions. In order to qualify for FED, an employee must spend a minimum of 30 days abroad in a year and each trip must consist of at least 3 consecutive days in a qualifying country.

69. The Exchequer cost of FED is some €1million annually.

70. External consultants are undertaking a review of FED on behalf of the Minister for Finance to be completed in August 2019.

Flat Rate Expenses (Review by Revenue)

71. In late 2018 and early 2019, Revenue's review of the flat rate expenses regime was raised in the Oireachtas.

72. The flat rate expenses regime is a concessionary practice operated by Revenue, where both:
    - specific commonality of expenditure exists across an employment category; <u>and</u>
    - the statutory requirement for the tax deduction, as set out in section 114 Taxes Consolidation Act 1997 (TCA), is satisfied.

73. Section 114 states:
    "Where the holder of an office or employment of profit is necessarily obliged … to expend money wholly, exclusively and necessarily in the performance of those duties, there may be deducted from the emoluments to be assessed the expenses so necessarily incurred and defrayed."

74. A flat rate expense is agreed following engagement between Revenue and the relevant representative body for a group of employees who incur the same expense. This regime has developed incrementally over many years and currently includes 53 employment categories covering broadly 134 individual flat rate expenses.

75. The purpose of the regime is to simplify tax administration for taxpayers and Revenue by making it easier for large groups of employees to avail of their entitlement to tax relief for allowable expenses incurred in the performance of their employment duties.

76. The review was undertaken to take a global look at the flat rate expenses regime, to establish whether expenses previously agreed are appropriate to modern day employments and work

practices, and are in accordance with the legislative requirement for a tax deduction. Under the review, Revenue has engaged extensively with representative bodies acting on behalf of the various categories of workers. It is due to be completed by the end of 2019, with any changes on foot of the review to come into effect from 1 January 2020.

77. As there has been no change to the underlying legislation, all employees retain their statutory right to claim a deduction under section 114 TCA for expenses incurred wholly, exclusively and necessarily in the performance of the duties of their employment, to the extent that the expenses are not reimbursed. This means that, separate to the flat rate expense regime, employees retain their right to claim a deduction for qualifying expenses on a “vouched basis”.

Help to Buy

78. The Help to Buy incentive (HTB) is a measure that will be reviewed, as per normal practice, in advance of this year’s Budget and Finance Bill process. The reason for this is that the relief is scheduled to expire on 31 December 2019 in the normal course of events. Specifically, the role and operation of the incentive will be looked and the outcome of that process will help inform relevant policy decisions.

Update on Pension Taxation Matters

79. In February 2018, the Government published *A Roadmap for Pensions Reform 2018 - 2023* to address long-term pension policy challenges. The *Roadmap* details specific actions to be taken by various government Departments and agencies presented under six strands that, taken together, are intended to modernise the Irish pension system while continuing to target resources at those most in need.

80. A number of specific *Roadmap* actions have been assigned to the Department of Finance and the Interdepartmental Pensions Reform and Taxation Group (IDPRTG) which the Department chairs[13].

81. These include a review of the cost of funded supplementary pensions to the Exchequer in the context of the development of a new auto-enrolment scheme (Action 3.13) and a review of the utilisation of the Approved Retirement Fund option, including the criteria set out in tax legislation (Action 3.14).

82. Hosted by the Department, the IDPTRG held a public consultation on the above matters from August to October 2018.

83. It is expected that policy decisions arising from the Roadmap will be put forward for decision in future Budgets. This could include decisions on:
    - The tax treatment to be applied in the context of the new auto-enrolment scheme (if required).
    - Consequential amendments to the Taxes Consolidation Act, 1997 to mirror any changes that may be made to the types of pension products available in Ireland on foot of the simplification pillar of the Roadmap.

[13] This group is comprised of representatives from the Department of Finance, the Department of Public Expenditure & Reform, the Department of Employment Affairs & Social Protection, Revenue and the Pensions Authority.

Further Potential Options for Consideration

84. The Post-Budget 2019 Ready Reckoner in Appendix A allows calculation of the cost/yield of adjustments to the rates, bands and major credits in the income tax system.

85. Taking into account the PPG commitment to focus tax reductions on low and middle income workers, the information on the distribution of income earners across the various rates of income tax and USC contained in Section 2 will be of relevance to the consideration of these options.

86. For example, the following could be extrapolated from the distribution projections in Section 2:
    - Approximately 35% of income earners are exempt from income tax, and 28% are exempt from USC. As such, these income earners (mostly in the lowest income deciles) would not be in a position to benefit from any reductions in income tax or USC rates, or from increases in tax credits.

    - 20% of income earners are liable to USC at a maximum of the 2% rate only, and the majority (42%) of people paying USC are covered by the 4.5% rate. Therefore, changes to the thresholds for the 4.5% rate could be a means to target the low to middle income earners. Individuals on higher incomes would also benefit, due to the USC band structure.

    - A reduction in the headline marginal rates of tax, targeted equally at employees and the self-employed, could be achieved by reducing the 8% rate of USC applying on income over €70,044. As illustrated in Section 2, projections indicate that this would be of benefit to approximately 9% of income earners.

87. Members of the Tax Strategy Group may wish to consider these issues.

Appendix A: Ready Reckoner – Potential Costs / Yields

The below table reflects the revised post-Budget 2019 ready reckoner that was published in October 2018.

(See notes on next page regarding costing methodology)

No.	Options	First Year Cost/Yield €m	Full Year Cost/Yield €m
	Tax Rate		
1	Decrease 20% rate to 19%	- 575	- 669
2	Decrease 40% rate to 39%	- 280	- 340
3	Increase 20% rate to 21%	+ 578	+ 673
4	Increase 40% rate to 41%	+ 279	+ 339
	Standard-Rate Bands		
5	Increase standard rate cut off point by €1,000 (single, married one-earners and two earners)	- 177	- 206
6	Increase standard rate cut off point by €1,200 (single, married one-earners and two earners)	- 212	-247
7	Increase standard rate cut off point by €1,400 (single, married one-earners and two earners)	- 248	- 288
	Tax Credits		
8	Increase Earned Income Credit by €250	- 34	- 61
9	Increase Earned Income Credit by €500	- 68	- 121
10	Increase personal tax credits by €100	- 330	- 381
11	Increase Home Carer Credit by €100	- 7	- 8
	Universal Social Charge		
12	Increase USC entry point to €13,500	- 2.2	- 2.6
13	Increase USC entry point to €14,000	- 4.5	- 5.3
14	Increase €12,013 and €19,874 ceilings of second USC rate band (by €1,000) to €13,013 and €20,874	- 64	- 74
15	Reduce 0.5% rate to 0.0%	- 117	- 136

16	Reduce 2% rate to 1%	- 164	- 192
17	Reduce 4.5% to 3.5%	- 342	- 399
18	Reduce 8% to 7%	- 135	- 171
19	Increase 8% rate to 9% on income over €70,044 (with consequential increase from 11% to 12% in rate applying to non-PAYE income over €100,000)	+ 135	+ 171

Points to note regarding costing methodology and assumptions:

- *Distributions for 2019 are estimates from the Revenue tax-forecasting model using actual data for the year 2016, adjusted as necessary for income and employment trends in the interim. The data are published in the Revenue Ready Reckoner which is available on the Revenue website.*
- *Individual element cost estimates stand-alone i.e. putting two elements together may not simply cost the aggregate of the two elements as there may be interaction between the elements.*
- *Figures are provisional and likely to be revised.*
- *A jointly assessed married couple/civil partnership is treated as one tax unit.*
- *Percentages are rounded to the nearest percentage point.*

Appendix B: Distributional and Work Incentive Aspects of the Income Tax System

Introduction

B1. This paper provides a short overview of the distributional and work incentive impacts of a number of possible tax measures. Before presenting the results, the context for the analysis and the approach and key concepts used are set out below.

Context

B2. The expected distributional impact of budgetary measures continues to be an important consideration in the formulation of budget policy. A number of government departments (Finance, Public Expenditure & Reform, Public Affairs and Social Protection) carry out distributional analyses in the period leading up to the Budget.

B3. The distributional analysis in this paper forms part of the Government's undertaking to facilitate earlier consideration of distributional issues in the budgetary process and is in line with the Programme for Partnership Government (PPG) commitment to "*develop the process of budget and policy proofing as a means of advancing equality*".

B4. Given that the details of the budget package are unknown, it is not possible to directly examine its distributional or work incentive impacts at this stage. Neither is it feasible to present all the possible individual tax measure permutations which could be considered. As a result this paper presents the impacts of a number of hypothetical individual tax measures, which can be informative as to the general implications were similar measures undertaken.

B5. The differing goals of the budget – which include raising revenue, encouraging economic efficiency and addressing distributional concerns – mean that trade-offs are faced in balancing these different objectives. The main focus of this paper is on distributional issues but consideration of financial incentives to work are also discussed as they relate to considerations around economic efficiency and growth.

B6. Other issues which should be borne in mind when considering this paper include:

- The importance of looking at Budgets and fiscal policy in the round, rather than at the level of each individual measure;
- This paper only addresses tax measures and does not incorporate expenditure which performs the bulk of the redistributive function of the Irish tax and welfare system (see Annex A of Budget 2017); and
- The very strong progressivity already present in the Irish income tax system.

Approach and Key Concepts

B7. This paper makes use of the SWITCH (**S**imulating **W**elfare and **I**ncome **T**ax **CH**anges) micro-simulation tax-benefit model developed and operated by the Economic and Social Research Institute (ESRI). SWITCH uses household survey data on incomes and other tax and welfare relevant characteristics to simulate how households are affected by the rules of the current system and by proposed reforms. SWITCH has limitations; for instance, it does not account for indirect taxes or expenditure on public services (such as health care) and it does not incorporate behavioural changes. The SWITCH model is updated regularly and the simulations in this paper were performed using the Post-Budget 2019 SWITCH version.

B8. The SWITCH model presents the estimated distributional impact of a budget measure or package by (i) income group and (ii) family type. The impact on different income groups can be examined by decile of equivalised disposable income, by fixed range of equivalised disposable income or by fixed range of gross income. The family types in the analysis include lone parents and singles without children, both employed and unemployed; single earner, dual earner and non-earning couples, with and without children; and retired singles and couples.

B9. While the Government is committed to advancing an equality agenda in the budget process, there are constraints around the available data to do so in tax policy analysis. Currently, there are nine aspects covered by Ireland's equality legislation. These are gender, age, family status, civil status, sexual orientation, race, disability, religion or membership of the Traveller Community. Although it is not currently part of the legal framework around equality, socio-economic status is also an important concern. Socio-economic status is not directly observable and income is often used as a proxy for it.

B10. The SWITCH model can currently address two of these equality dimensions: socio-economic status (via income) and family status. The ESRI have previously used the underlying micro-data behind SWITCH to examine the distributional impact of budgets by gender, although this is not a routine part of SWITCH outputs and was a specially commissioned project for the Equality Authority.[14] As SWITCH is based on household survey data, and more than one person can live in a household, equality dimensions which are unique to an individual are difficult to incorporate.

B11. The impacts by income group in this paper are presented in terms of their impact on deciles within the income distribution. Deciles are formed by ranking households based on their disposable income and then dividing them into ten equally sized groups.

B12. This ranking by decile is completed after households are 'equivalised'. Equivalisation involves adjusting household income on the basis of household size and composition. The SWITCH model uses a scale of 1 for the first adult, 0.66 for subsequent adults and 0.33 for children aged 14 or under. This means that the income of all households is expressed in terms of a single adult household. For instance, a single adult household with an actual income of 100 (100 ÷ 1 = 100) is considered to have the same equivalised income as a two adult household with an income of 166 (166 ÷ {1+0.66} =100).

[14] Keane, C., Callan, T., & Walsh, J. (2014). Gender Impact of Tax and Benefit Changes: A Microsimulation Approach. Economic and Social Research Institute (ESRI) and The Equality Authority.

B13. The distributional impact by family type is conducted on a ‘tax unit’ basis, i.e. an individual or couple, grouped together with any dependent children. Young adults (e.g. third-level students) are treated as independent tax units and are not grouped into households.

B14. There are a number of possible alternative scenarios or counterfactuals against which the budget or particular measures can be compared. Three alternatives which can be used in particular when it comes to distributional analysis include a ‘no change’ comparison as well as scenarios where the taxation system is assumed to have been indexed to either price inflation or wage growth. The results presented in the following sections are based on a ‘no change’ policy where all parameters and policies are kept at Budget 2019 levels except those explicitly mentioned.

Distributional Analysis

B15. In the interests of transparency and ease of comparison, the SWITCH simulations conducted here are on the basis of the modelled tax changes occurring in 2019 rather than 2020. This reflects the complication that SWITCH will be updated later in the year and at that stage assumptions about 2020 parameters, which could be made at present, will have changed. As such, the results do not account for wage growth in 2020. Nonetheless the simulations can be considered to be highly representative of the impact of measures were they to be introduced as part of Budget 2020.

B16. The following table presents the results of simulations of five separate tax measures each estimated using SWITCH all individually to cost less than approximately €450 million as follows:[15]

a) An increase in the Earned Income Tax Credit (EITC) from by €300 from €1,350 to €1,650;
b) A reduction in the 20% rate of income tax to 19.5%;
c) An increase in all the standard income tax rate bands by €2,000 to €37,300 and €46,300;
d) An increase in all the standard income tax rate bands by €2,000 to €37,300 except for the married one earner rate band, which instead is increased by €666 to €44,966;
e) "Pinching" the 4.5% USC rate band by increasing the entry point by €3,500 to €23,372 and decreasing the ceiling by €2,000 to €68,044; **or**
f) A reduction in the 8% rate of USC to 5%.

B17. For the tax measures shown, the impacts can be considered symmetric such that there would be a corresponding decrease in disposable income if tax rates rose instead of falling e.g. increasing the standard rate of income tax from 20% to 20.5% would reduce disposable income of the 1st and 10th deciles by 0.17 and 0.09 percent respectively.

[15] The less than circa €450 million cost associated with each of the measures is the cost estimate from SWITCH. These SWITCH cost estimates are used to ensure the comparability of the distributional impact. If the measures were costed to amount to €225 million, the percentage change in disposable income for each decile would halve. It should be noted that the Revenue Commissioners' Ready Reckoner (RCRR) as of October 2018 indicates in some cases quite different cost estimates for the six separate tax measures. The RCRR estimates the full-year costs as follows: IT EITC €1350 -> €1650, €72 million; IT 20% -> 19.5%, €335 million; IT Bands + €2000, €407 million; IT M1E Band +€666 and all other IT Bands +€2,000, €367 million; USC 4.5% Pinch, €116 million; and USC 8% -> 5%, €513 million. One possible reason for the difference is the different data sources and base years used. SWITCH uses Survey of Income and Living Conditions (SILC) 2013, 2014 and 2015 pooled data uprated to 2019, while the RCRR is based on 2019 estimates from the Revenue tax forecasting model using latest actual taxpayer data for the year 2016, adjusted as necessary for income, self-employment and employment trends in the interim.

Table B1 Distributional Impact of Alternative Income Tax and USC Changes

	EITC/€1,350 -> €1,650	IT 20% -> 19.5%	SRCO + €2,000	SRCO + €2,000 & €666	USC Pinch 4.5%	USC 8% -> 5%
Decile	Percentage Change in Disposable Income (%)					
1 (<= 263.12)	0.02	0.14	0.03	0.02	0.03	0.00
2 (<= 318.09)	0.04	0.23	0.14	0.04	0.07	0.00
3 (<= 386.79)	0.03	0.36	0.15	0.06	0.12	0.01
4 (<= 446.69)	0.06	0.40	0.22	0.13	0.13	0.03
5 (<= 502.53)	0.04	0.44	0.26	0.17	0.15	0.09
6 (<= 571.28)	0.03	0.46	0.36	0.29	0.17	0.08
7 (<= 644.59)	0.04	0.46	0.53	0.43	0.16	0.09
8 (<= 726.95)	0.04	0.44	0.67	0.57	0.16	0.17
9 (<= 875.40)	0.03	0.41	0.78	0.71	0.16	0.29
10 (> 875.40)	0.03	0.25	0.54	0.51	0.07	1.79
All	0.04	0.37	0.44	0.36	0.12	0.43
Households Gaining %	6.71%	87.19%	49.02	48.78	56.25%	13.99%

Source: Results based on analysis by the Department of Finance using SWITCH, the ESRI tax-benefit model[16]

B18. The proportion of households benefitting under each measure is given in the bottom row. This ranges from 7% of households for the increase in the Earned Income Tax Credit to 87% of households for reductions in the 20% rate of income tax.

B19. The average change in household disposable income varies across the different options. The average change is relatively steady across the middle decile ranges (from 4 to 9) for the reduction to the standard income tax rate although this measure does benefit across all decile ranges. Similarly, the benefit is steady at the middle deciles for the "pinch" of the USC threshold option with the impact more limited at the top and low deciles.

B20. Although most of the options have a positive impact on the lowest income decile (except the reduction to the top rate of USC), the positive impact is modest in scale. This is because

[16] www.esri.ie/switch

the other options do not greatly affect households in these deciles, as their incomes are typically at or just below the respective thresholds for those tax rates.

B21. As illustrated in the following Table 2, the distributional impact of the tax measures also varies by family status. Across the range of measures, the family types with above-average income gains are dual earning couples with and without children, and single earning couples without children. The smallest gains are for non-earning lone parents and the unemployed.

Table B2 Impact of Alternative Income Tax and USC Changes by Family Status

% of Families	EITC €1,350 -> €1,650	IT 20% -> 19.5%	SRCO + €2,000	SRCO + €2,000 & €666	USC 4.5% Pinch	USC 8% -> 5%
	Percentage Change in Disposable Income (%)					
Single Employed without Children	0.03	0.43	0.48	0.48	0.18	0.29
Single Un-Employed without Children	-0.02	0.16	-0.02	-0.01	-0.01	0.00
Employed Lone Parent	0.02	0.28	0.34	0.34	0.09	0.26
Non-Earning Lone Parent	0.00	0.09	0.01	0.01	0.01	0.00
Single Retired Tax Unit	0.00	0.36	0.46	0.46	0.05	0.17
Single Earner Couple without Children	0.07	0.38	0.31	0.14	0.12	0.38
Single Earner Couple with Children	0.04	0.28	0.35	0.13	0.08	0.74
Dual Earner Couple without Children	0.08	0.39	0.52	0.43	0.16	0.78
Dual Earner Couple with Children	0.06	0.38	0.57	0.49	0.14	0.71
Dual Earner Couple with Relative Assisting	0.03	0.43	0.50	0.20	0.15	0.17
Non-Earning Couple (>= 1 UE) no Kids	0.00	0.03	0.01	0.00	0.04	0.00
Non-Earning Couple (>= 1 UE) with Kids	0.00	0.01	0.00	0.00	0.00	0.00
Retired Couple	0.01	0.34	0.38	0.24	0.07	0.33
All Other Tax Units	0.00	0.34	0.03	0.03	0.01	0.00
All	0.04	0.37	0.44	0.36	0.12	0.43

Source: Results based on analysis by the Department of Finance using SWITCH, the ESRI tax-benefit model

B22. Members of the Tax Strategy Group may wish to consider these issues.

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