An Roinn Airgeadais
Department of Finance

# Income Tax

**(Incorporating a Review of the Help-to-Buy Scheme)**

# Tax Strategy Group – 21/02

## September 2021

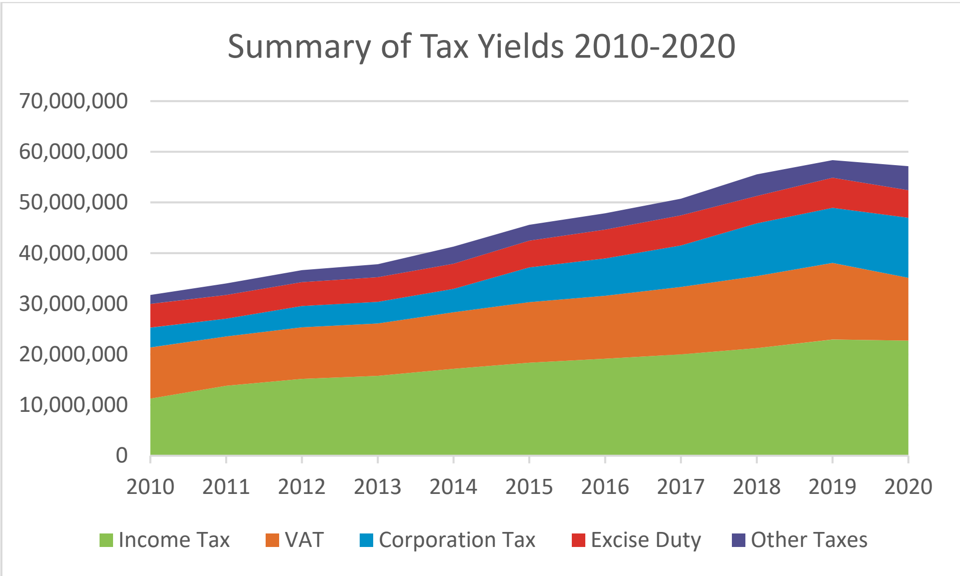
Prepared by the Tax Division,
Department of Finance
**www.gov.ie/finance**

## Contents

# Introduction

1. In 2020, income taxes of c. €22.7 billion were raised for the Exchequer, representing almost 40% of the total tax take. Of this, income tax comprises c. €17.4 billion and USC comprises c. €3.8 billion[1]. 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 2010 – 2020




*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 2011 to 2020 represent actual yield and figures for the year 2021 are projections[2].

**Table 1: Income Tax (including USC) Yield**

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2020* | *2021* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| €bn | 13.8 | 15.2 | 15.8 | 17.2 | 18.4 | 19.2 | 20.0 | 21.2 | 22.9 | 22.7 | *25.4* |
| % Tax | 40.5 | 41.4 | 41.7 | 41.6 | 40.3 | 40.0 | 39.4 | 38.2 | 38.7 | 39.7 | *41.0* |

## Structure of Income Tax and USC

3. The 2021 rates and bands of income tax are as follows:
    - 20% rate on income within standard rate band, and

[1] Balance of c. €1.4 billion includes other items such as Professional Services Withholding Tax and Dividend Withholding Tax

[2] Department of Finance Summer Economic Statement: https://www.gov.ie/en/publication/4d84e-summer-economic-statement-2021/

- 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)[3] | €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 generally 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;013 to €20;687@ 2%;
- €20;688 to €70;044 @ 4.5%;
- €70;045 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.

[3] 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

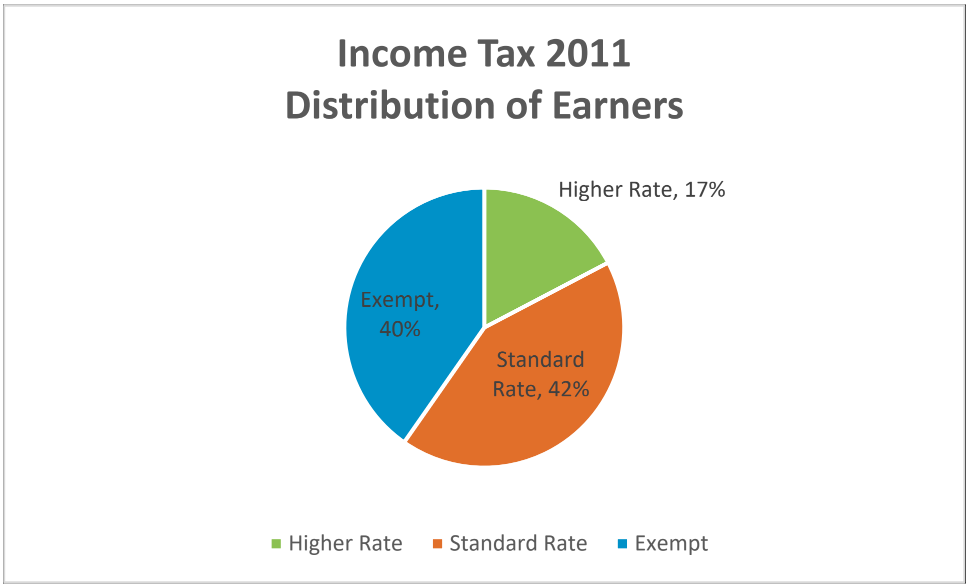
6. The years leading up to 2009 saw a progressive narrowing of the income tax base as Government policy was focused on increasing tax credits and bands. As a result, by 2009, 40% of income earners were exempt from income tax and only 20% of earners were liable to the higher rate of tax. The subsequent 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.

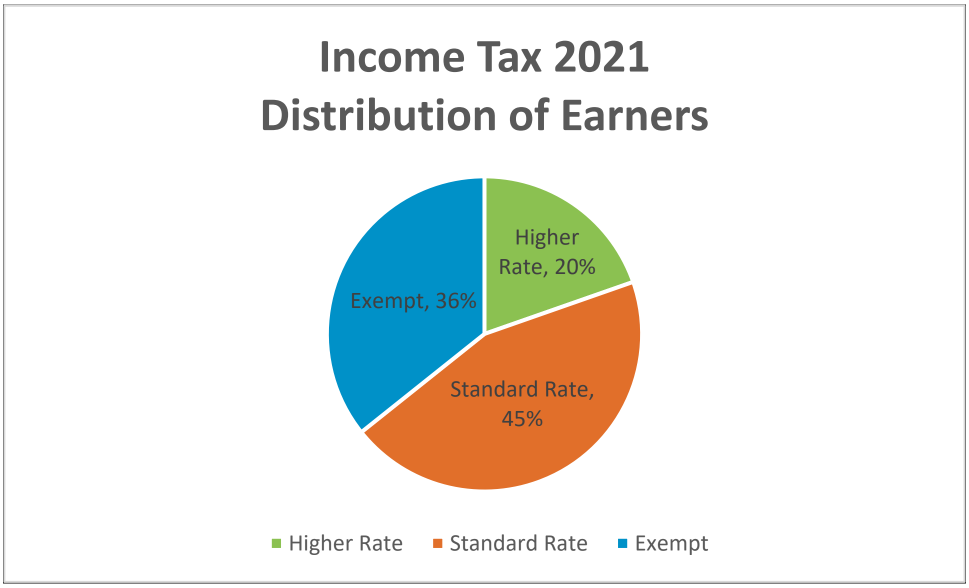
8. Taking account of the economic recovery, since 2015 Government policy has focused on reductions to income tax targeted at low to middle income earners.

## Income Tax Distribution of Income Earners

9. The following charts and tables show the 2021 projected distribution of income tax across income earners; exempt from income tax, pay the standard rate of tax at 20% and pay the higher rate of tax at 40%. For comparative purposes, the 2011 distribution of income tax and the 2012 distribution of USC (latest available data), across income earners is also provided.




*Source: Revenue data.*




*Source: Revenue data*

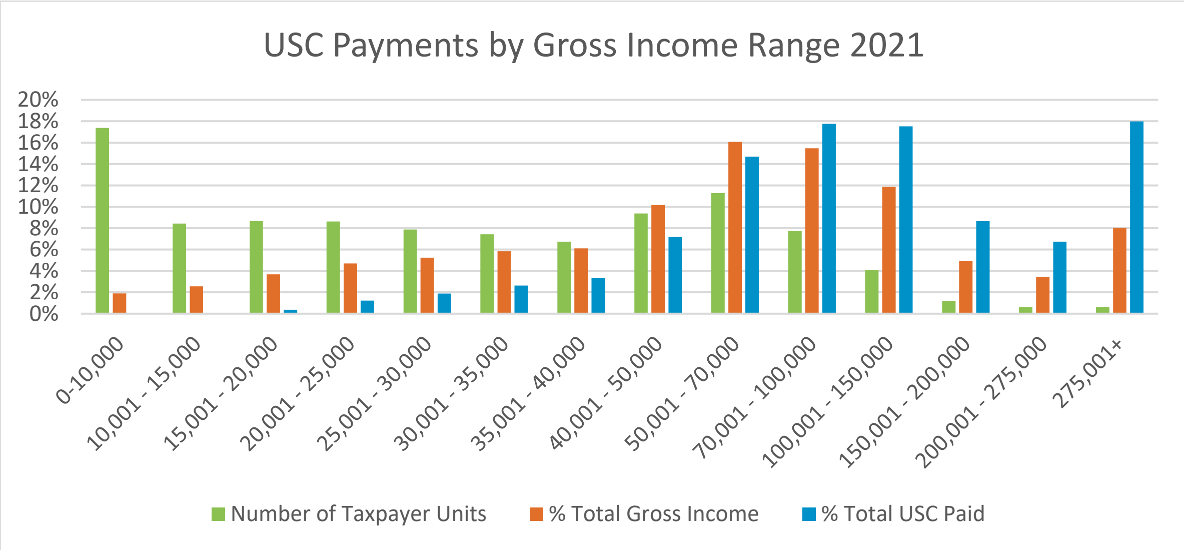
**Table 2: Income Tax 2011 Distribution of earners**

| Income Tax | Earners | % of Earners |
|---|---|---|
| Higher Rate | 354,931 | 17% |
| Standard Rate | 868,979 | 42% |
| Exempt | 825,707 | 40% |
| Total | 2,049,617 | 100% |

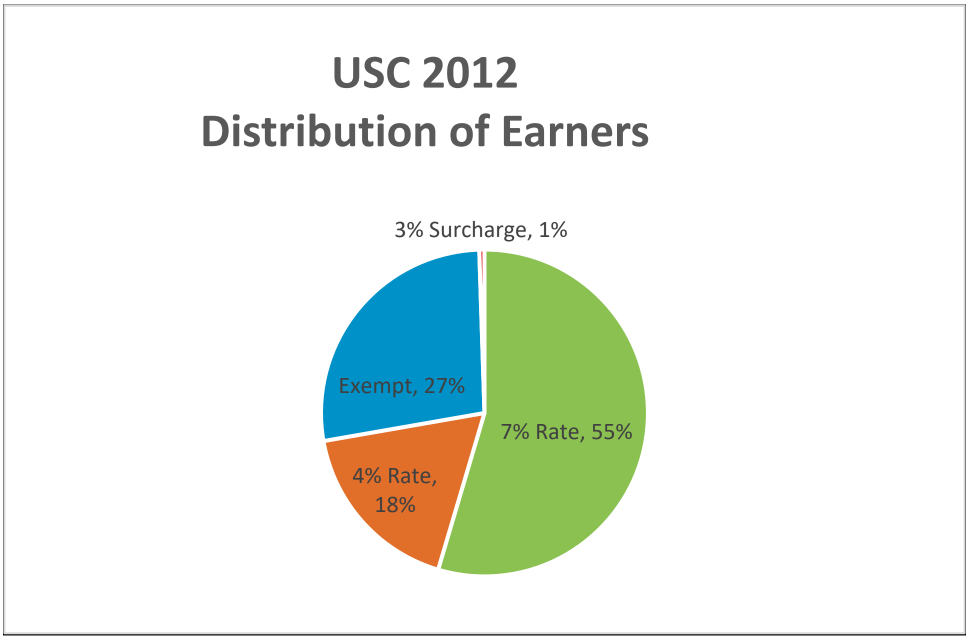
**Table 3: Income Tax 2021 Distribution of earners**

| Income Tax | Earners | % of Earners |
|---|---|---|
| Higher Rate | 543,900 | 20% |
| Standard Rate | 1,236,000 | 45% |
| Exempt | 989,000 | 36% |
| Total | 2,768,900 | 100% |

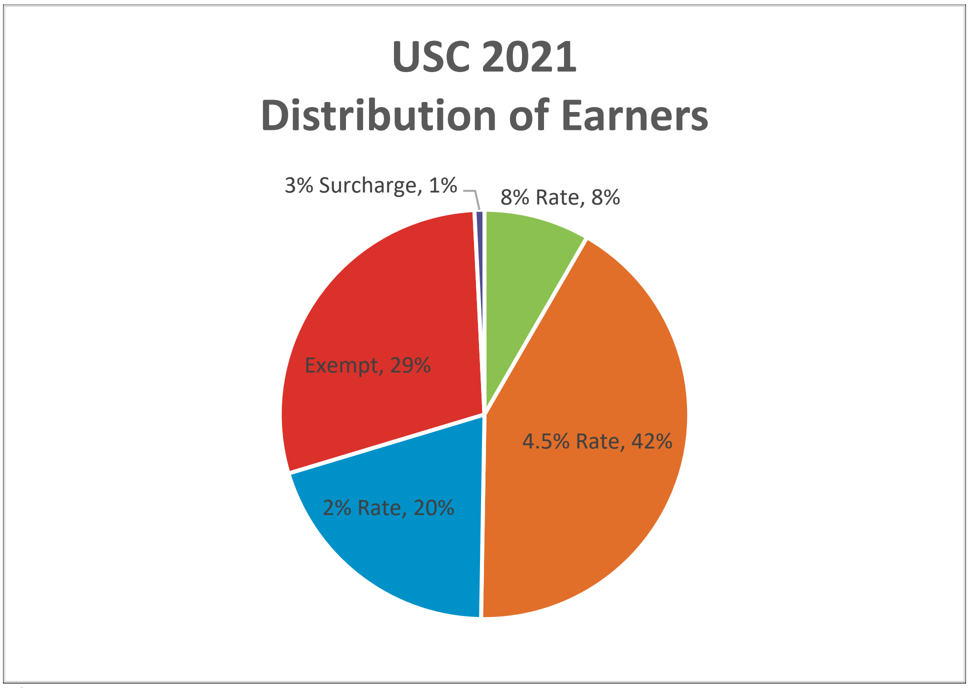
# Universal Social Charge 2021 Distribution of Income Earners




*Source: Revenue data*




*Source: Revenue data*




*Source: Revenue data*

**Table 4: Universal Social Charge 2021 Distribution of Earners**

| USC (2021) | Earners (2021) | % of Earners (2021) |
|---|---|---|
| 3% Surcharge | 21,900 | 0.8% |
| 8% | 233,200 | 8% |
| 4.5% | 1,169,600 | 42% |
| 2% | 560,500 | 20% |
| Exempt | 805,600 | 29% |
| Total[4] | 2,768,900 | 100% |

[4] 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 2021

10. In 2021 it is projected that:
    - The top 1% of income earners (>€200;000) will pay 25% of total IT and USC;
    - The top 6% of income earners (>€100;000) will pay 51% of total IT and USC;
    - The top 25% of income earners (>€50;000) will pay 83% of total IT and USC;
    - The bottom 75% of income earners (< €50;000) will pay 17% of total IT and USC.

*Notes for tables 2, 3 & 4:*

1. *Distributions for 2021 are estimates from the Revenue tax-forecasting model using latest actual data for the year 2018, 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.*
5. *Figures in the tables are subject to rounding.*

# Recent Developments – Budgets 2015 to 2021

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

12. Due to the COVID crisis, Budget 2021 was prepared against a background of extraordinary uncertainty regarding near-term economic and budgetary prospects. Resources were targeted at those most affected by the crisis in the form of the various COVID support schemes. As a result there was limited scope for changes in the area of income tax. The income tax package was relatively modest and focused on targeted changes to specific measures.

13. The main cumulative effects of the recent 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 to €20,687 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 2020 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 subsequent Budgets to the current rate of €1,650.

- 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 €1,600. 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 2021, the USC provision for medical card holders and individuals aged 70 years was extended for a further year to end 2021. This provides for a reduced 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 €20,687 to be taxed at the second USC rate (currently 2%) in place of the third rate (currently 4.5%).

14. As a result of the changes in the previous budgets, almost €3 billion has been allocated to income tax reductions, comprising both income tax and USC and other income tax measures.

15. 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 2015 to 2021 (rounded)** | **-€2902.4m** |
| **Budget 2021** | |
| **USC** | |
| €203 increase to €20,484 band ceiling to €20,687 | -€7m |
| 1 year extension of reduced rate of USC for medical card holders | |
| **Income Tax** | -€24m |
| Increase in the Earned Income Credit from €1500 to €1650 | -€5.9m |
| Increase in the Dependent Relative Credit from €70 to €245 | |
| Extension of the Sea-going Naval Personnel Tax Credit to 31 December 2021 and to increase it to €1,500 for 2021 (from €1270 in 2020) | -€0.5m |
| **Other** | -€43m |
| Extension of Help to Buy additional measures to end 2021 | |
| **Budget 2021 Total Cost** | **-€80.4m** |
| **Budget 2020** | |
| **USC** | |
| 1 year extension of reduced rate of USC for medical card holders | |
| **Income Tax** | |
| Increase in the Home Carer Tax Credit from €1,500 to €1,600 | - €8m |
| An increase in the Earned Income Credit from €1,350 to €1,500 | - €35m |
| **Other** | |
| Enhancements to Key Employee Engagement Programme (KEEP) | |
| Enhancements to Employment and Investment Incentive | |
| Extension of Foreign Earnings Deduction to 31 December 2022 | |
| Extension of Special Assignee Relief Programme to 31 December 2022 | |
| Extension of Help to Buy until 31 December 2021 | - €40m |
| **Budget 2020 Total Cost** | **- €83m** |

| | |
|---|---|
| **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[5] | +€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 | |

[5] 75% of the existing 2017 relief will be continued into 2018, 50% into 2019 and 25% into 2020. The relief will cease entirely from 2021. (Generates an exchequer yield as the full relief is currently in the tax base.)

| | |
|---|---|
| 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** |
| **Budget 2015** | |
| | |
| **USC** | |
| Reduce 2.0% rate to 1.5% | -€237m |

| | |
|---|---|
| Reduce 4.0% rate to 3.5%<br>Introduce new 8% rate on income over €70,044 | |
| **Income Tax** | |
| Increase in the standard rate band of €1,000 from €32,800 to €33,800 for single individuals and from €41,800 to €42,800 for married one earner couples<br>Reduction in the higher rate of income tax from 41% to 40% | -€405m |
| **Other** | |
| Increase in artists' exemption threshold | -€0.8m |
| Foreign Earnings Deduction extended | -€1m |
| Special Assignee Relief Programme extended | -€1m |
| Rent-a-room relief threshold increased | -€0.4m |
| HRI extended | -€3m |
| **Budget 2015 Total Cost** | **-€648.2m** |

# Programme for Government Considerations

16. The Programme for Government, Our Shared Future, commits to the establishment of a Commission on Taxation and Welfare to independently consider how best the tax system can support economic activity and promote increased employment and prosperity, while ensuring that there are sufficient resources available to meet the cost of public services and supports in the medium and longer term.

17. The Commission on Taxation and Welfare was established in April 2021 and held its first meeting in June 2021. The Commission is tasked with submitting its report to the Minister for Finance by no later than 1 July 2022. The terms of reference of the Commission are set out in Appendix B.

18. The Programme for Government also contains a number of specific undertakings with regard to personal taxation (income tax and USC) including the following:

## Indexation

19. "*There will be no increases in income tax or USC rates. In Budget 2021, there will be no change to income tax credits or bands. From Budget 2022 onwards, in the event that incomes are again rising as the economy recovers, credits and bands will be indexed linked to earnings. This will be done to prevent an increase in the real burden of income tax, to prevent more low-income workers being taken into the tax net because of no changes to the tax system and to ensure there is no increase in the number of people having to pay higher income tax and USC rates*".

20. The Covid-19 pandemic has had a significant impact on the labour market. Work is ongoing in relation to developing an appropriate metric to estimate the Covid-19 adjusted wage inflation in the context of Budget 2022. It is anticipated that wage inflation may be in the range of 1.5% to 3%.

21. In terms of cost, the most recent Revenue Ready Reckoner (post-Budget 2021), provides indicative costs of a one percentage increase in personal tax bands and credits (IT and USC) is as follows:

| **Indexation** | | **First Year Cost** | **Full Year Cost** |
|---|---|---|---|
| Income Tax | Indexation of the Income Tax System including:<br><br>• Personal and PAYE Credits<br>• Standard Rate Band<br>• Exemption Limit | €140m | €162m |

| | | | |
|---|---|---|---|
| | • Earned Income Credit | | |
| USC | Indexation of the USC System including:<br><br>• USC rate bands<br>• Exemption Limit | €18m | €21m |
| **Total Indicative Cost of Indexation at 1%** | | **€158m** | **€183m** |

### Earned Income Tax Credit

22. The Programme for Government also committed to increasing the Earned Income Tax Credit (for self-employed individuals) so that it would be equalised with the employee tax credit.

23. Budget 2021 provided for an increase in the Earned Income Credit from €1,500 to €1,650, so that the credit is now the same value as the employee tax credit.

### Other Personal Tax Commitments

24. The Programme for Government also outlines the following objectives relevant to personal tax considerations, which will be considered in the context of future Budgets in accordance with Government priorities and as fiscal resources allow:

- The 3% USC surcharge applied to self-employed income is unfair and proposals will be considered to ameliorate this over time as resources allow.

- The Home Carer Tax Credit is an effective mechanism to support couples where one decides to home parent rather than working or availing of childcare subsidies and also where one parent stays at home to meet other caring needs. It will be increased to support stay-at-home parents as we increase subsidies for childcare.

## Equality Proofing

25. The Programme for Government, Our Shared Future, contains commitments to expand the equality budgeting Programme across government departments and agencies, and to examine expenditure as it relates to people with a disability. This commitment has been accompanied by the adoption of national strategies in a number of equality areas such as gender, disability, LGBTI, youth, migrant integration, Traveller and Roma inclusion, and social inclusion.

26. These high level commitments create a favourable enabling environment for equality budgeting and mean that Ireland is well placed to be a world leader in the area of Equality Budgeting.

27. 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

28. The issue of individualisation was outlined in the Budget 2020 Income Tax TSG paper.

29. It should be noted that if a policy of individualisation were to be pursued over the coming years it could support the equality agenda and it would have a positive impact on female labour participation.

# International Comparisons

30. 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.

31. 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.

32. The latest data from the OECD (for 2018[6]), notes that Ireland has the most progressive system of taxes and transfers of any OECD member. Ireland ranks 32 of 34 among OECD members for income inequality before taxes and transfers. Taxation and transfers do more to reduce income inequality than in any other member. However, compared to other OECD countries, Ireland remains moderately unequal after taxes and transfers, ranking 15 of 34.

33. 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.

34. 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.

35. In terms of international comparisons, according to the OECD Taxing Wages Report 2021[7], based on 2020 data:
    - Ireland has a tax wedge of 32.3% which places Ireland within the top third countries with the lowest headline tax wedge (25th lowest of the 37 OECD members included) for a single worker on average earnings. Ireland's tax wedge sits below the average of 34.6%. Ireland is the lowest of the 22 EU members of the OECD included in the report.

[6] https://www.oecd.org/gov/gov-at-a-glance-2021-ireland.pdf
[7] https://www.oecd.org/tax/taxing-wages-20725124.htm

- The wedge for a two-earner married couple with children is 24.2%, below the OECD average of 28.9%, eleventh lowest in the OECD and the second lowest of the EU members included in the report.

# Update on Income Tax Related Reviews

36. Following various commitments, a number of income tax related issues were examined during the course of 2021. A separate Tax Strategy Group (TSG) paper has been prepared in respect of each issue and the following is a short summary of the key issues.

## Tax Arrangements for Remote Working

37. The national remote working strategy, "Making Remote Work"[8], commits the TSG to review the current tax arrangements for remote working in respect of both employees and employers, taking account of the economic, financial and organisational implications arising from the experience of remote working during the pandemic, and assess the merits of further enhancements for consideration in the context of Budget 2022. The review of the tax arrangements for remote working is outlined in TSG paper 21/03.

38. In common with many countries, working arrangements in Ireland shifted significantly over a relatively short period precipitated by the Covid-19 pandemic and the imposition of public health restrictions. In the year immediately preceding the on-set of the pandemic, the share of total workers working remotely in Ireland was around 22% of total employment. During the pandemic, the share of employees who 'usually or sometimes' work from home increased some 16 percentage points to 38% by the end of 2020.

39. Unsurprisingly, some sectors saw much bigger increases in the rate of remote working (e.g. knowledge intensive sectors) than others (e.g. customer facing and contact intensive sectors). The variation depended on the capacity and culture within each sector, with some sectors being more suitably tailored for remote working as compared to others.

40. The structural effects that the pandemic is having on employment and the prevalence of remote working remains an evolving situation. At this point it is unclear the extent to which those changes will become permanent and the precise future of work arrangements is as yet unclear. This presents challenges in terms of assessing if there is a need for an immediate policy response or if would be preferable to continue to monitor developments as they emerge.

41. It is unclear if there is in fact a market failure that requires State intervention as both employees and employers already support the move towards a remote working model, with evidence of such moves underway. It is unlikely that enhanced tax arrangements would have an impact on the uptake of remote working and may lead to inefficiencies and deadweight.

42. There are also equity concerns from the perspective of the personal income tax system, as well as broader policy questions around the potential for shifting the traditional costs of employment from the employer to the State.

43. However, notwithstanding these considerations, it nonetheless remains an option that current tax arrangements may be enhanced or amended in order to underline and reinforce public

[8] https://www.gov.ie/en/publication/51f84-making-remote-work-national-remote-work-strategy/

policy decisions in this area. A number of options have been set out in the TSG paper for further consideration.

- The current tax arrangements are operated by Revenue on an administrative basis. These arrangements could be formalised and placed on a statutory footing to provide certainty.

- Introduce a per-day working from home allowance. The aim of this relief would be to reduce the perceived administrative burden on employees so that a set amount per day can be claimed, which would eliminate the need for employees to keep track of their electricity, heat and broadband costs over the year. The relief would be targeted in that it can only be claimed for each day worked from home, which may assist in reducing deadweight and inefficiencies, while also supporting the policy objective of encouraging working from home. Consideration would need to be given to the interaction between this measure and existing measures, with decisions to be taken around the curtailment or removal of current reliefs.

- Introduce a new remote working tax credit. It is understood this measure would be preferable for stakeholders. Such a measure would provide an attractive benefit to remote workers and the use of credits would allow the measure to be implemented quickly for 2022. However issues of deadweight, inefficiencies and equity would need to be considered.

- Enhance the current tax arrangements in place by increasing the percentage limits for electricity and heat that can currently be claimed, to either 20% or 30%. This option is likely to be cheaper than other options and result in significantly less deadweight.

- Introduce a temporary "super-accelerated" capital allowance scheme for employers, similar to the UK's scheme. This measure would have the effect of encouraging capital investment as companies emerge from the pandemic. The Exchequer impact would be net neutral over an eight-year time-frame, as it would represent the acceleration of a deduction already provided under tax legislation. It would have the potential to have a significant temporal cost in the years in which the relief was active however, particularly if the relief extended beyond P&M provided to facilitate home-working.

## Trans-Border Workers' Relief

44. The matter of trans-border workers was raised during the Finance Bill 2020 debates, specifically in the context of people who reside in the State but who work in Northern Ireland and who avail of a domestic tax relief, known as Trans-Border Workers' Relief as provided for by section 825A of the Taxes Consolidation Act 1997 (TCA 1997). The Minister for Finance undertook that his Department would examine the operation of the Trans-Border Workers' Relief as part of the TSG process.

45. This tax relief would not normally be available for Irish residents who work from home in Ireland while employed by a company resident outside the State, however, Revenue introduced a concession for 2020 and 2021 on foot of the Covid-19 pandemic and the necessity to work from home to comply with public health restrictions. There have been calls to place this concessional treatment on a statutory footing so that individuals who are resident

in the State but work for a non-resident employer can continue to avail of the relief if they exercise their duties of employment in the State.

46. The detailed review of the matter is set out in TSG paper 21/04. While there would be no additional Exchequer costs arising from the changes sought (because the tax and PRSI that would be collected in the absence of this relief is foregone in any event due to the operation of the relief), the following other relevant issues require consideration:

    **Equity and Fairness** – the review identified issues associated with the equity for all Irish residents if the changes sought were made. It would result in Irish income tax rules applying a different Irish income tax treatment to an Irish resident solely because of the location of their employer as opposed to the location of where they carry out their duties of employment, as is the current position.

    This would lead to different tax liabilities between those Irish residents who can avail of the relief as compared to those who cannot avail of the relief. From the perspective of all resident employees in the State, this raises questions of equity and fairness which are fundamental features of Ireland's income tax system. It is unclear how this would be sustainable and acceptable from the perspective of all Irish resident taxpayers.

    **Competitiveness** – the review identified issues that may impact on the competitiveness of Irish based employers if the changes sought were made. This may arise where salaries of non-resident employments would be subject to lower rates of tax which may have implications as regards Irish based employers' cost base and their ability to attract and retain staff from the talent pool.

    **Taxing Rights** – Where a person carries out their employment duties in Ireland regardless of the residency status of the employer, Ireland has a taxing right over that income. To implement the changes sought is asking the State to give up a taxing right it rightfully has under the Irish tax code. It is also unclear if another jurisdiction could exercise a taxing right over that income, given that the employment duties were carried out in the State.

47. Taking all of the above factors into consideration, it appears unworkable and challenging from a policy perspective having regard to the interests of the wider body of taxpayers encompassing all Irish resident employees and employers, to place the concessional treatment on a statutory footing.

# Update on Review of Tax Treatment of Employment Expenses including Flat Rate Expenses

## Introduction

48. During the course of Revenue's review of its flat rate expenses regime in 2018 and 2019, a number of policy issues emerged. Revenue decided to defer its implementation of any planned changes to the regime pending the outcome of a policy review by the TSG.

49. A detailed account of the review of the tax treatment of employment expenses including flat rate expenses was included in last year's Income Tax TSG paper [20/02]. As part of the presentation and examination of the issues in that paper, a number of policy options as to how the flat rate expense issue might be addressed going forward were outlined and discussed.

50. While the TSG did not reach specific conclusions in the paper, the Group observed that, having regard to the huge disruption in the labour market brought about by Covid-19, the question of the appropriate timing of the introduction of any policy changes relating to the flat rate expenses regime was one that would require careful consideration.

51. The position adopted by the TSG last year, remains relevant and valid in the context of any discussion on the policy issues associated with the tax treatment of employment expenses including flat rate expenses.

52. Over the course of the last year, the pandemic continued to significantly disrupt the labour market. The question of the appropriate timing of the introduction of any policy changes to the flat rate expenses regime that may result in a reduction of income for a significant number of employees, remains a valid consideration at this time.

53. The policy options to take account of possible changes to Revenue's flat rate expenses regime are set out below for further consideration by the TSG against the background of the continued social and economic circumstances arising from the pandemic.

## Policy Options to take account of possible changes to Revenue's Flat Rate Expenses Regime

54. All employees have a statutory right to claim a deduction under section 114 TCA for any valid expenses incurred wholly, exclusively and necessarily in the performance of the duties of their employment, to the extent which the expenses are not reimbursed from any source. This would be done on a specific "vouched basis" following a claim to Revenue.

55. In order to provide clarity to employees, Revenue's flat rate expenses regime forms part of their administration of the tax code. This concessionary practice is applied where both specific commonality of expenditure exists across an employment category, and the statutory requirement of Section 114 is satisfied.

56. The purpose of the practice is to simplify tax administration for both taxpayers and Revenue by making it easier for large groups of employees working in the same sector to avail of their entitlement to tax relief in respect of allowable expenses incurred in the performance of their employment duties.

57. Any maintenance or progression of the practice can only take place if Revenue are satisfied that there is a legally valid basis to give the concession, and a decision on same typically involves extensive engagement with the relevant representative body acting on behalf of the various categories of workers.

58. Revenue carried out a review of their flat rate expenses regime in 2018 and 2019 to ensure that their on-going practice complied with the legislation.

59. This review may result in a change to the current list of flat rate expenses, by either increasing, reducing, maintaining or withdrawing the various expenses that cover 53 employments and 134 categories of expense.

60. In the event that the review results in changes that increase the burden of taxation on workers in a way that is not considered desirable, the options presented below may be considered.

## Legislate to allow the individual expense be claimed by amending Section 115 TCA

61. Section 114 of the TCA is the legislative basis for employment expenses. Any changes to this section could constitute a substantial erosion of the income tax base, with potentially significant additional costs to the Exchequer.

62. An amendment to this section would therefore not be considered advisable – but an alternative option might be considered in relation to Section 115.

63. Section 115 of the Taxes Consolidation Act, 1997 states that *"(w)here the Minister for Finance is satisfied, with respect to any class of persons in receipt of any salary, fees or emoluments payable out of the public revenue, that such persons are obliged to lay out and expend money wholly, exclusively and necessarily in the performance of the duties in respect of which such salary, fees or emoluments are of the average amount for a year of assessment so laid out and expended by persons of that class, and in charging the tax on such salary, fees or emoluments, there shall be deducted from the amount of such salary, fees or emoluments the sums so fixed by the Minister for Finance; but, if any person would but for this section be entitled to deduct a larger amount than the sum so fixed, that sum may be deducted instead of the sum so fixed".*

64. Currently, the deductions provided under this section apply to public servants. It is possible that this legislation could be amended to expand the application to all workers and allow the list to be updated to specify deductions for specific categories of workers.
An advantage of this approach is that workers would have some level of certainty if expenses were explicitly referenced in legislation and it would not be expected to have an additional Exchequer cost as it would be legislating for what is already the current practice.

65. Disadvantages include that the legislation still requires that the expense be *"wholly, necessarily and exclusively"* incurred so it may not satisfactorily resolve the issue – for example, in relation to historic expenses that are no longer incurred by workers that may be withdrawn.

66. A number of equity issues may arise vis-à-vis other workers and it is likely that this list would need to be reviewed regularly to make sure that the expenses remain valid and take account of up-to-date work practices, which is similar to what Revenue do already under their flat rate regime.

### Increase Employee (PAYE) Tax Credit

67. Under such an option, there would be a general increase to the Employee (PAYE) Tax Credit to compensate for the withdrawal of flat rate expenses from that date.

68. In order to arrive at a suitable increase, the flat rate expenses for 2020 for 184 categories of worker range from €21 to €2,476, the average value is €244 and the median value (where half of values are above, and half of values are below this amount) is €153.

69. If the PAYE Tax Credit was increased by €244 to €1,894 this would cost €366 million and €405 million in the first and full year respectively.

70. If the PAYE Tax Credit was increased by €153 to €1,803 this would cost €229 and €254 million in the first and full year respectively.

71. Advantages are that this is a straightforward solution that might allow for the withdrawal of the flat rate expenses while seeking to ensure that no-one is worse off.

72. Disadvantages are that it is not a targeted and the distribution of the benefits of the measure are uneven as it treats all employees in the country in the same way whether they have a large amount of expenses, a small amount, or none. This also results in an Exchequer cost.

### No Change to the legislation and allow individual expenses to be claimed by workers on a vouched basis

73. Under this option, there would be no change to Section 114 TCA, 1997 so all employees would retain their statutory right to claim a deduction for any valid expenses incurred wholly, exclusively and necessarily in the performance of the duties of their employment, to the extent which the expenses are not reimbursed from any source.

74. This would allow Revenue to continue to apply their universal flat rate regime as appropriate, including with the changes they have deemed necessary to comply with the legislation, but employees would be able to claim their deduction on a specific “vouched basis”.

75. This measure has the advantage of ensuring that no worker is left out of pocket as a result of any expenses they have incurred in their job, although it would introduce an additional administrative burden for both them and Revenue in the making of the claim. The horizontal equity between different categories of workers on similar salaries would be increased although the withdrawal of certain historic deductions would still arise. Notwithstanding the intrinsic merits of such a proposal, in the current unprecedented social and economic circumstances the issues that arise from seeking to adjust or withdraw what may be seen as a modest tax benefit, especially from those on lower incomes, need to be carefully weighed.

# Developments in the Pensions Landscape

## Report of the Interdepartmental Pensions Reform and Taxation Group

76. The Interdepartmental Pensions Reform and Taxations Group (IDPRTG) was established to carry out a number of tasks set out in the Roadmap for Pensions Reform 2018-2023. The Roadmap set out the need to promote long-term pension saving to address income adequacy in retirement, in particular for low income earners.

77. The IDPRTG, chaired by the Department of Finance, published its report in November 2020[9].

78. The Report represents a significant building block for reform in the area of personal pension provision. It makes a number of practical, focussed recommendations on the reform and simplification of the existing supplementary pension's landscape, elements of which have developed in an *ad hoc* manner over a number of years.

79. A number of specific recommendations relate to pensions tax policy and have been assigned to the Department of Finance and Revenue for consideration. The following issues are actively being considered, with a view to putting forward legislative amendment in the context of Finance Bill 2021:

    A. Removal of 15 year rule for transfer from Occupational Pension Scheme to Personal Retirement Savings Account (PRSA); and
    B. Abolition of the Approved Minimum Retirement Fund.

### A. Removal of 15 year rule for transfer from OPS to PRSA

80. Currently there is a 15-year rule in place that prohibits transfer from occupational pension schemes to PRSAs where the individual has more than 15 years qualifying service. This provision was introduced in the Pensions (Amendment) Act 2002 together with the introduction of the PRSA product.

81. It is understood that the 15-year restriction was originally put in place to prevent widespread transfers out of schemes, the concern being that PRSAs would attract substantial volumes of transfers from schemes which could unintentionally undermine existing occupational pension scheme provision.

82. At the time PRSAs were introduced most employees were members of defined benefit occupational pension schemes. The pension landscape today is vastly different from that which pertained when PRSAs were first introduced, with the inexorable decline of the defined benefit pension arrangement.

[9] https://www.gov.ie/en/press-release/4c555-minister-donohoe-welcomes-publication-of-the-report-of-the-interdepartmental-pensions-reform-and-taxation-group/

83. As a consequence of the 15-year rule, a member leaving employment or whose scheme is winding-up with more than 15 years' service is limited in transfer options to either another occupational pension scheme with a new employer, or to a BOB (Buy-out Bond).

84. To advance the simplification and reform agenda, the IDPRTG report recommends that BOBs should cease to be available on a prospective basis, with the PRSA operating as the sole personal pension product. The IDPRTG report also recommends that existing BOBs should be allowed to run-off over time.

85. Therefore, in order to ensure the availability of an alternative transfer vehicle if the BOB was ceased, this restriction, where the member has more than 15 years scheme service, would need to be removed.

86. The IDPRTG report concludes that in order to facilitate the prospective cessation of BOBs, the provision in the Taxes Consolidation Act prohibiting transfers to PRSAs for scheme members with more than 15 years qualifying service should be removed.

## B. Abolition of the Approved Minimum Retirement Fund

87. Individuals in certain pension arrangements, mainly defined contribution pension schemes, have the option of putting the funds accumulated under the arrangement into an Approved Retirement Fund (ARF) on retirement, subject to conditions.

88. Where an individual is under the age of 75 at the time of exercising the ARF option and does not have a minimum guaranteed income for life of €12,700 per annum (referred to as the specified income requirement), he/she is required to set aside €63,500 or, if their residual pension fund is less than €63,500 after taking a retirement lump sum, invest this balance in an Approved Minimum Retirement Fund (AMRF) or use this sum to purchase an annuity.

89. The rationale for the AMRF at the time it was introduced, in 1999, was to ensure that an individual who did not have a minimum guaranteed pension income would have a capital nest-egg to provide for the latter years of her/his retirement. There was also a fear that individuals might draw down the entirety of their ARF shortly after they retired.

90. However, with the current level of State contributory pension, for the majority of people, once they reach the age at which they can access the State pension entitlement, the AMRF requirement has become redundant, as the State pension now exceeds the specified income requirement[10]. In such cases where there is an AMRF in place, it then becomes an ARF.

91. Most pension funds are small and those individuals without guaranteed income of €12,700 are forced to set aside a substantial portion or, perhaps all, of their pension pot (after taking a tax free lump sum) in an AMRF. The requirement therefore disproportionately affects those with smaller pension funds.

[10] 2021 State Pension Contributory rate is €12,912 per annum

92. As such, the requirement for an AMRF may be inequitable, as those with a small pension pot are not able to access their pension funds at a time when they may need them, while those with higher incomes or pension funds have full access to their pension pot.

93. The IDPRTG report recommends that the AMRF should be abolished, while noting that financial advice for retirees would be important to achieve the policy objective which gave rise to the AMRF, i.e. assisting retirees in avoiding outliving their savings.

## Auto-Enrolment

94. In line with the 'Roadmap for Pension Reform 2018– 2023', the Government has committed to develop and implement a State sponsored 'Automatic Enrolment' supplementary retirement savings system.

95. Under Automatic Enrolment, it is being considered that employees without personal retirement savings and who meet certain age and earnings criteria will be automatically enrolled into a State sponsored quality assured supplementary retirement savings system, with freedom of choice to opt-out. The reforms will make it easier for people to access retirement savings options to help them meet their own income expectations for when they retire.

96. The Programme for Government, 'Our Shared Future'[11], reaffirms the commitment to introducing a pension auto-enrolment system, which will be delivered on a gradual basis with a phased roll-out over a decade. Matching contributions will be made by both workers and employers and the State will top up contributions.

97. The recently published Economic Recovery Plan 2021[12], notes that the overall design of auto-enrolment will be decided in 2021, with the necessary legislative, organisational ad process structures to follow through 2022 and 2023.

## Pensions Commission

98. The Pensions Commission was established in November 2020 to fulfil a Programme for Government commitment, to examine sustainability and eligibility issues with state pensions and the Social Insurance Fund[13]. The Commission was tasked with providing options for the Government to address issues including qualifying age, contribution rate, total contributions and eligibility requirements.

99. The work of the Commission has concluded and it is expected that Commission's report will be furnished to the Minister for Employment Affairs and Social Protection in due course.

[11] https://www.gov.ie/en/publication/7e05d-programme-for-government-our-shared-future/ (page 75)
[12] https://www.gov.ie/en/publication/49b23-overview-of-economic-recovery-plan-2021/#the-plan (page 10)
[13] https://www.gov.ie/en/publication/7e05d-programme-for-government-our-shared-future/ (page 75)

# Further Potential Options for Consideration

100. The Post-Budget 2021 Ready Reckoner (dated November 2020) in Appendix A allows calculation of the cost/yield of adjustments to the rates, bands and major credits in the income tax system.

# Review of the Help-to-Buy Scheme

## Introduction

101. The Help-to-Buy incentive (HTB) is a scheme to assist first-time purchasers in obtaining the deposit they need to buy or build a new house or apartment. The scheme provides a refund on Income Tax and Deposit Interest Retention Tax (DIRT) paid in the State over the previous four years, subject to limits outlined in the legislation.

102. An increase in the supply of new housing is fundamental to resolving the current housing crisis. One of the main aims of the policy underpinning the design of HTB was to help encourage the building of additional new properties.

103. The Housing for All Strategy (HFA) outlines a broad range of measures to support additional supply. A number of these operate in the same policy space as HTB in that they target first-time buyers, e.g. the proposed shared equity scheme and an owner-occupier guarantee for new developments. HFA also includes a commitment that:

> *"The role of the Help to Buy incentive will also be reviewed by the Department of Finance, using the Tax Strategy Group mechanism, with the aim of ensuring that it is appropriately calibrated in the context of other measures contained in Housing for All. The Help-to-Buy scheme is due to end on 31 December 2021 and the Minister for Finance will consider an extension to the timeline in the context of Budget 2022."*

104. This paper seeks to implement the commitment.

## Background

### Operation of scheme

105. HTB takes the form of a rebate of Income tax, including DIRT, paid over the previous four tax years. However, it is open to claimants to select all or any of the previous four tax years for the purposes of calculating the refund available to them.

106. Currently the maximum rebate is the lower of:

- €30,000 (increased in 2020 from €20,000);
- the total income tax and DIRT paid in the previous 4 years; or
- 10% (increased in 2020 from 5%) of the purchase price of a new home/self-build property.

107. The following conditions apply:

- The property must be purchased or built as the first-time buyer's principal private residence. The HTB incentive does not include properties acquired for investment purposes.
- The relief only applies where a mortgage is taken out to purchase or build the home and where that mortgage is a minimum of 70% of the purchase price or 70% of the value of the property in the case of a self-build.
- The property price is a maximum of €500,000 (a €600,000 maximum applied where, in the period from 19 July 2016 to 31 December 2016, a contract for the purchase of a new house was entered into, or in the case of a self-build, the first tranche of a qualifying loan was drawn down by the claimant).
- Where more than one individual is involved in purchasing or building a new home, all of the individuals must be first-time buyers.
- The property must be occupied by the claimant as their only or main residence for a period of five years from the date it is first occupied. Otherwise, some or all of the refund will be clawed back.

108. Data from Revenue indicate that, as of end July 2021 and since the inception of the scheme, some 26,744 claims have been approved.[14] The table below summarises approved claims for each year to the end of July 2021 (the latest date for which data are available).

| Year | 2017[15] | 2018 | 2019 | 2020 | 2021 (YTD) | Total |
|---|---|---|---|---|---|---|
| Approved claims | 4812 | 4957 | 6713 | 6227 | 4,035 | 26,744 |

109. The estimated total value of approved HTB claims to end July 2021 is in the order of €470 million.[16] The table below summarises the approximate value of approved HTB claims for each year and to the end of July 2021. The cost of the scheme to the Exchequer has continued to grow year-on-year since its introduction.

| Year | 2017[17] | 2018 | 2019 | 2020 | 2021 (YTD) | Total |
|---|---|---|---|---|---|---|
| Value (€m) | 69 | 73 | 102 | 126 | 100 | 470 |

110. Some 63% of all claimants claimed a HTB income tax refund of between €15,000 and €30,000; 20% of all claimants claimed a refund of between €20,000 and €30,000, this is despite this enhanced level of support only having been in place since July 2020.

[14] www.budget.gov.ie/Budgets/2019/Documents/Tax%20Expenditures%20Report%20Budget%202019.pdf
[15] The 2017 figure includes approved retrospective claims made in 2017 in respect of the period 19 July 2016 to end 2016, as provided for in the relevant legislation.
[16] Data sourced as detailed in notes 4 and 5.
[17] The 2017 figure includes approved retrospective claims made in 2017 in respect of the period 19 July 2016 to end 2016, as provided for in the relevant legislation. The scheme was originally costed at €40 million per annum.

111. Some 58% of claimants had a mortgage loan to value ratio of 85% or more.

112. In terms of geographical spread, some 61% of beneficiaries were located in four counties. About 26% of claimants were located in Dublin, 12% were located in Meath and Cork respectively, and approx. 11% were located Kildare.

113. Properties valued between €226k and €300k represent 31% of all claims, with a further 34% of claims relating to properties valued between €301k and €375k.

## HTB Timeline

114. HTB has been subject to several changes since its introduction:

***a) Introduction of the scheme – Finance Act 2017***

HTB was announced on 19 July 2016 as part of the 'Rebuilding Ireland: Action Plan for Housing and Homelessness' and was introduced in Finance Act 2017. It had an original sunset date of 31 December 2019.[18]

***b) Extension of the scheme –Finance Act 2019***

Finance Act 2019 extended HTB until 31 December 2020.

***c) Enhancement of the scheme –'July Stimulus Package' 2020***[19]

Enhancements to the existing HTB scheme until 31 December 2020 were provided for in the July 2020 Stimulus Package. The level of support available to first time buyers was increased to the lesser of:

- €30,000 (increased from €20,000),
- the total income tax and DIRT paid in the previous 4 years, or
- 10% (increased from 5%) of the purchase price of a new home/self-build property.

All other parameters of the scheme remained the same.

***d) Extension of enhancement of scheme – Finance Act 2020***

Finance Act 2020 extended the enhanced HTB scheme until 31 December 2021.

## Reviews of HTB

115. HTB has been the subject of two independent reviews: an impact assessment (2017)[20], and a Cost Benefit Analysis (CBA) (2018)[21]. The 2018 CBA confirmed the findings of the impact assessment as follows:

[18] Section 477C of the Taxes Consolidation Act of 1997 provides for the Help to Buy scheme (HTB)
[19] Financial Provisions (Covid-19) (No.2) Act 2020
[20] Available at: http://www.budget.gov.ie/Budgets/2018/Documents/HTB_Independent_Impact_Assessment_Sept2017.pdf
[21] http://www.budget.gov.ie/Budgets/2019/Documents/Tax%20Expenditures%20Report%20Budget%202019.pdf

- **Prices:** While there might have been a very small increase in prices attributable to the introduction of the incentive, the primary driver of house prices remained the continued misalignment between demand and supply.
- **Supply:** The evidence suggested that following the introduction of the incentive there was a marked increase in supply, which could be attributed in part to HTB.
- **Affordability:** The analysis also found that availability of HTB had reduced the time to save for all claimants and improved the overall affordability of housing for these individuals.
- **Benefit/Cost Ratio:** The analysis found a benefit-cost ratio of 1.28 indicating a moderate positive effect for the incentive.

116. Since the most recent review (2018), the scheme was extended both in terms of duration and in the extent of the relief available. Further modifications would, in accordance with the Department of Finance Tax Expenditure Guidelines, warrant an additional review. (Schemes that cost in excess of €50m p.a. should be subject to a review, ideally every three years). Furthermore, the context in which the scheme operates is changing, arising from the renewed policy priority and momentum associated with housing and the articulation of that policy in practical terms in the Housing for All Strategy. However, at the time of writing, the supply deficit persists and affordability remains a challenge both for most wishing to purchase a first home (as well as those seeking to rent).

## Policy Context

117. HTB was announced in July 2016 as part of the "Rebuilding Ireland: Action Plan for Housing and Homelessness"[22]. That plan identified several policy challenges to be addressed, including:

- *Lack of supply*

  The economic contraction and corresponding collapse in the construction industry in the late 2000s brought about a severe decline in the number of completions within the private and social housing sectors, falling from approximately 90,000 in 2007 to 10,000 in 2014. Rebuilding Ireland noted that, according to the ESRI *"…research also outlined other potential scenarios with regard to economic growth, household formation and migration patterns, which would give rise to an annual requirement in excess of 25,000 units."*

- *Affordability*

  Another important policy consideration noted was that of affordability. It stated, *"(t)he incomes of many households are such that aspiration to home ownership in the communities in which they came from and work is unlikely to be realisable: this is despite the fact that in the recent past households in similar relative economic positions may well have bought houses in those communities."* The plan noted how rental price inflation was far in excess of income growth, meaning that households were paying a greater proportion of their incomes on accommodation, with obvious impacts on their ability to save.

[22] Available at: https://rebuildingireland.ie/wp-content/uploads/2016/07/Rebuilding-Ireland_Action-Plan.pdf

118. The introduction of the HTB scheme was aimed at addressing these policy challenges by assisting first-time buyers of new homes to fund the deposit required, and encourage the building of additional new properties. By restricting the initiative to certain categories of new dwellings, it was anticipated that the increase in effective demand for affordable new-build homes could encourage the construction of an additional supply of such properties. However, policy makers were aware at the time that this approach was not without risk and that there was a danger that, against a background of constrained supply, the initiative could serve to increase prices for new homes and thus potentially undermine to some extent at least the affordability aspiration of the scheme. In the event, on both occasions when the matter was formally examined to-date (paragraphs X and Y above), concerns in this regard were not born out by the review data. However, it is now three years since the last formal review of HTB.

- *Programme for Government*

The Programme for Government includes the following commitment in relation to Help-to-Buy *"Retain and expand the Help to Buy scheme for new properties and self-build properties."*

- *Housing for All Strategy*

The introduction of new measures in HFA will alter the policy context in which HTB operates. These measures include both supply side measures and affordability supports:

  - A new Local Authority led Affordable Purchase Scheme.
  - A new 'First Home' Shared Equity Scheme for private developments.
  - A reformed Local Authority Mortgage Scheme.
  - An 'Owner Occupier Guarantee' in housing developments to secure homes exclusively for first time buyers and other owner-occupiers.
  - 20% of all developments set aside for affordable and social housing.

- *Developments in the Housing Market*

2020 saw an interruption in the upward trend of in the number of housing completions[23]:

| Year | 2018 | 2019 | 2020 | 2021 YTD |
|---|---|---|---|---|
| Total | 17,952 | 21,087 | 20,676 | 8,974 |

**Supply:** There were 20,676 housing completions in 2020 and 8,974 in 2021 to end Q2. The ESRI expect approximately 18,000 housing completions in 2021 and 21,000 in 2022.[24] The Central Bank forecast that completions are to remain below estimates of long-run demand, increasing by approximately 20,000 units in 2021,

[23] Available at: https://www.cso.ie/en/statistics/construction/archive/
[24] Available at: https://www.esri.ie/system/files/publications/QEC2021SUM_0.pdf

23,000 in 2022 and 26,500 in 2023.[25] The Banking and Payments Federation Ireland estimate 22,000 housing completions in 2021 and up to 27,000 in 2022.[26]

**Demand:** According to data released by Banking and Payments Federation Ireland[27], mortgage approvals continued to show a strong recovery with 5,203 mortgages were approved in June 2021, 11% higher than May 2021 and 16% cent higher than pre-pandemic levels in June 2019. First time buyers were approved for 2,755 mortgages in June 2021, 7% higher than May and 18% higher than June 2019. Mortgage drawdowns for Q2 show 7,438 mortgages for home purchase were drawn down in Q2 2021, 2% higher than the previous quarter and 7% lower than Q2 2019. First time buyers were drew down 4,895 mortgages in Q2, 4% higher than Q1 2021 and 3% lower than Q2 2019.

**Prices:** Residential property prices (houses and apartments) increased by 6.9% nationally in the year to June. This compares to an increase of 5.4% in the year to May and 0% inflation in the twelve months to June 2020. In Dublin, residential property prices saw an increase of 6.4% in the year to June, while property prices outside Dublin were 7.4% higher.

119. Progress in addressing the market failure challenges that gave rise to HTB has been hampered by Covid 19 and the public health restrictions that ensued. In relation to the future of HTB, the question is what is the most appropriate direction and configuration of the scheme having regard to Government Programme commitments and the introduction of HFA. The following paragraphs set out a number of options.

[25] Available at https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2021/quarterly-bulletin---q3-2021.pdf?sfvrsn=12
[26] https://bpfi.ie/wp-content/uploads/2021/09/BPFI-Housing-Market-Monitor-Q2-2021-web.pdf
[27] Available at: https://bpfi.ie/publications/bpfi-mortgage-approvals-june-2021/ and https://bpfi.ie/wp-content/uploads/2020/07/BPFI-Mortgage-Approvals-Report-June-2019-for-website.pdf

# Policy Options

### Option 1: Allow the scheme expire on 31 December 2021

120. The cost of HTB continues to grow and, based on its current trajectory, it could reach over €170 million in 2021. Even taking into account the significant enhancements introduced (on a temporary basis) in July 2020, this is over four times greater than the original estimated cost of the €40 million per annum for the scheme when it was first introduced. With the advent of the HFA Strategy, additional direct expenditure and other non-tax measures will be in place which will also be aimed at addressing the same broad policy objectives as HTB.

121. It is possible to view HTB as having inequitable characteristics in that it provides a support to a small cohort (first time buyers) that is not offered to other taxpayers. Also, it is regressive in that those who have paid more income tax over the preceding four years benefit the most. In addition, the argument made earlier in this paper about the potential to impact on the price of new housing units is relevant.

122. Thus, it is reasonable to consider whether the scheme should be allowed to expire at the end of 2021 as per its current sunset clause.

123. However, a number of countervailing factors are also relevant. As mentioned above, the scheme forms part of the range of housing-related commitments set out in the Government Programme. Following on from that, the HFA strategy envisages a potential role for the measure in helping to address current housing challenges.

124. Bearing in mind the Government Programme commitment in particular, a withdrawal of the relief at the end of the current year could give rise to market disruption as builders may scale back supply in response to the withdrawal of the support. Also, in practice, in the absence of a clear indication that the scheme would end this year, many developers and purchasers may have factored its extension beyond the end of this year into their plans.

125. Overall then, there are formal commitments in place which in turn are likely to have given rise to expectations about the continuation of the scheme. Furthermore, the measures in HFA which have objectives that overlap with those of HTB are likely to take some time to bed in and take effect.

### Option 2: Extend the scheme for a further two years in its current "enhanced" form.

126. This option would be consistent with the Government Programme commitment to "retain and expand" the scheme. It would also allow time for those HFA measures which have the same broad objectives as HTB to be bedded in.

127. Furthermore, it would also avoid potential market disruption that might be arise in the event that the scheme was discontinued.

**Option 3: Extend the scheme for a further two years in its original (pre-July 2020) form.**

128. As an alternative to option two, HTB could be extended for a further two years in its original (pre-July 2020) form i.e. the relief capped at €20,000 or 5% of the value of a new home up to a maximum value of €400,000. New properties valued between €400,000 and €500,000 would still qualify but would only attract a maximum potential support equivalent to 5% of €400,000.

129. This option would continue to provide support to first-time buyers and to the market but at a more modest cost to the Exchequer that Option 2. It is difficult to be precise about the extent of the likely savings but, based on certain assumptions[28], they could be in the region of €70 million per year.

130. The current enhanced rate of HTB relief was put in place as a temporary measure in the context of the July Stimulus package. It was later extended out in Budget 2021 to coincide with the sunset date for the incentive.

131. The issue at this point is that while the objective need for HTB at its enhanced rate is likely to diminish as other HFA measures with similar objectives come on stream, the combined effect of the Government Programme commitment together with the extension of the enhanced elements in Budget 2021 may have given rise to an expectation that the relief will be at the higher rates, if further continued beyond end-2021. Nonetheless, this option remains a valid one.

**Option 4: Extend the scheme but phase out over a number of years by tapering the amount of tax relief available.**

132. There are further variations that might be considered along the general theme of continuing the measure, e.g. extend HTB in time but taper it out over a number of years by progressively restricting the value of the property that may qualify for the relief. These options would reduce the amount of financial support available and, if the relief is viewed on a stand-alone basis, they could affect the time taken to put together a deposit and could leave some buyers chasing a receding target. At the same time, the coming on stream of the Shared Equity loan scheme would offer a potential solution to these issues. In addition, arising from the effects of the pandemic, prospective first-time buyers may have accumulated savings which could also be used towards a deposit for a home.

[28] 7,000 cases x €9,600 per case. The €9,600 = difference in average cost in 2019 compared with that in January – July 2021. If approved cases for 2021 continue at current trajectory, total for year will be c. 6,900 cases.

## Option 5: The question of expanding the scheme to include derelict properties

133. Another variation, in the context of an extension in time of HTB, would be to expand the scope of the measure to include properties that are currently uninhabitable. Such an approach could increase the supply of residential housing stock. It would be consistent with the objectives of the HFA Strategy and, on the face of it, would not undermine in a serious way the central purpose of the HTB scheme.

134. However, in order to seek to avoid potential abuse, it would be necessary to define in tax law the concept of an uninhabitable or derelict property. This could be a challenging exercise. Furthermore, the implementation of any resultant definitions or rules could create a substantial burden on the State as each application for the incentive would have to be individually examined on its specific criteria. Revenue has advised that, as matters stand at present, in some marginal cases involving this issue for both HTB and Local Property Tax, engineers' reports, photos and other supporting documentation are required to prove the condition of the building in question for the purposes of meeting the requirements of the existing legislation.

135. Also, it is possible that the measure could create a market for eligible properties that would result in the benefit accruing to the vendor in the form of increased prices rather than assisting the purchaser. Incentives are already in place for the owners of properties not suitable for habitation such as the an incentive for landlords under section 97A TCA, introduced in Finance Act 2017, which allows a deduction (capped at €5,000) from rental income for certain pre-letting expenditure on properties which have been vacant for at least twelve months and are subsequently let.

136. Having regard to these considerations, and bearing in mind that, in practice, the contribution of derelict properties to resolving the issue of supply is likely to be limited, the benefits of proceeding with this option relative to the administrative overheads that it may entail, may mean that ultimately it is not worth pursuing.

## Cost Implications

137. As indicated above, based on the number and value of approvals in the first seven months of the year, HTB could cost in the region of €170 million for 2021. This relates to the scheme in its "enhanced" form as it has applied since July 2020. Very roughly, the enhanced element of the scheme is estimated to cost in the region of €70 million on an annual basis.

138. These figures give a broad idea of the scale of costs involved in the scheme and of the scale of resources that might be freed up in the event that decisions are taken to continue or curtail the measure.

## Case for a Formal Review

139. In the event that a decision is taken to extend HTB, there is a strong case for commissioning a further formal review of the efficiency and effectiveness of the scheme, particularly if it is envisaged that the measure should continue beyond 2022. The significant cost, the changing policy context in which the relief operates, and the advent of other non-tax HFA measures that have similar objectives, as well as the requirements of the tax expenditure guideline considerations, all support such a move.

140. The Tax Strategy Group may wish to consider.

# Appendix A: Ready Reckoner – Potential Costs/Yields

The below table reflects the Post-Budget 2021 ready reckoner that was published in November 2020.

(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% | - 574 | - 660 |
| 2 | Decrease 40% rate to 39% | - 267 | - 319 |
| 3 | Increase 20% rate to 21% | + 578 | + 664 |
| 4 | Increase 40% rate to 41% | + 267 | + 319 |
| | Standard-Rate Bands | | |
| 5 | Increase standard rate cut off point by €1,000 (single, married one-earners and two earners) | - 171 | - 197 |
| 6 | Increase standard rate cut off point by €1,500 (single, married one-earners and two earners) | - 254 | - 292 |
| | Tax Credits | | |
| 7 | Increase Earned Income Credit by €50 | -3 | -5 |
| 8 | Increase single persons tax credits by €100 | - 85 | - 96 |
| 9 | Increase Home Carer’s Credit by €50 | - 3 | - 3 |
| | Universal Social Charge | | |
| 10 | Increase USC entry point to €13,500 | - 2 | - 3 |
| 11 | Increase USC entry point to €14,000 | - 5 | - 5 |
| 12 | Increase €12,013 and €19,874 ceilings of second USC rate band (by €1,000) to €13,013 and €21,687 | - 64 | - 74 |
| 13 | Reduce 0.5% rate to 0.0% | - 118 | - 136 |

| | | | |
|---|---|---|---|
| **14** | Reduce 2% rate to 1% | - 176 | -203 |
| **15** | Reduce 4.5% to 3.5% | - 325 | - 376 |
| **16** | Reduce 8% to 7% | - 128 | - 160 |
| **17** | 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) | + 128 | + 160 |

*Points to note regarding costing methodology and assumptions:*

- *Distributions for 2021 are estimates from the Revenue tax-forecasting model using latest actual data for the year 2018, 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: Commission on Taxation and Welfare 2021: Terms of Reference

As set out in the Programme for Government, the Commission of Taxation and Welfare is being established to independently consider how best the taxation and welfare systems can support economic activity and promote increased employment and prosperity, while ensuring that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term.

The Commission's work will have regard to the principles of taxation and welfare policy outlined within the Programme for Government, including the Government's commitment to a pro-enterprise policy framework and to providing a stable and sustainable regulatory and tax environment. It will also take account of relevant issues such as the impact of the COVID-19 Emergency, ageing demographics, digital disruption and automation and the long term strategic commitments of Government regarding health, housing, and climate.

Towards this end the Commission is asked to:

- review how best the taxation and welfare system can support economic activity and income redistribution, whilst promoting increased employment and prosperity in a resilient inclusive and sustainable way and ensuring that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term.
- examine what changes, if any, should be made to the social insurance system, including structure, rates of payment, and benefits coverage, while ensuring sustainability. This will include consideration of the:
    - NESC report no 151 (November 2020) on the future of the Irish social welfare system; and
    - output from the Pensions Commission Pensions Commission regarding sustainability and eligibility issues in respect of State Pension arrangements.

  It will also include examination of how welfare policy can work in tandem with the taxation system to support economic activity, and while continuing to support those most vulnerable in our society in a fair and equitable way, having regard in particular to experience gained during the COVID-19 Emergency.

- examine how the taxation system can be used to help Ireland move to a low carbon economy as part of the process of meeting its climate change commitments as set out in the Climate Action and Low Carbon Development (Amendment) Bill 2021. This will include ensuring the sustainability of environmental tax revenue resulting from de-carbonisation of the economy.
- consider the appropriate role for the taxation and welfare system, to include an examination of the merits of a Site Value Tax, in achieving housing policy objectives. This consideration should include reviewing the sustainability of such a role. It should also have regard to the experience of previous interventions in the housing and construction market and the current significant State supports for housing provision.
- consider how Ireland can maintain a clear, sustainable, and stable taxation policy as regards Ireland's attractiveness to Foreign Direct Investment in a changing global taxation environment, including retention of the 12.5% corporation tax rate.

- review how best the taxation environment for SMEs and entrepreneurs can ensure that Ireland remains an attractive place to sustain and grow an existing business or to start and scale up a new business.
- review the adaptability of the taxation and welfare systems to the rise of digital disruption and automation and other technological changes.
- examine the process for reviewing taxation measures and expenditures in order to ensure it is aligned with best practice and where appropriate make recommendations as to how it can be improved.
- examine how well Ireland's taxation and welfare system promotes good public health, and present reforms to advance this goal.
- consider taxation practices in other similar sized open economies in the OECD to see what lessons Ireland can learn from such countries. This will include consideration of how the tax administration system should be modernised, building on real time payroll reporting which underpinned the existing modernisation of the PAYE system, and ensuring that the tax administration system meets best international standards. This will also include consideration of the potential for improvements in simplicity and administrative efficiency from integrating the taxation and welfare systems, as well as options for reform on the balance between the taxation of earned income, consumption, and wealth.
- submit its report to the Minister for Finance by no later than 1 July 2022.

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