



Overview of the sources of revenue for the State, the composition of such revenue in Ireland and general uses

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Key Points

- In considering potential reform of the tax and welfare system, particularly in relation to the funding of public services, it is helpful to consider individual options around taxes and charges, such as what to levy, who should pay and how much.
- Under the current system in Ireland, the majority of tax receipts come from income taxes and consumption taxes with a smaller proportion arising from capital and wealth.
- The revenue raised by the tax and welfare system is significant and covers nearly all public services - taxes and social contributions typically account for over 80% of general government revenue (an average of 65% and 17% of general government revenue respectively over the past 20 years).

Note: Whilst every effort is made to ensure the accuracy of the information contained in this document, this material is provided as a guide only and is not professional advice, including legal advice. It should not be assumed that the guidance is comprehensive and the authors cannot be held responsible for any errors or omissions.

Table of Contents

1.	Introduction	3
2.	Overview of types of taxes and charges	3
2.1	Taxes on labour, consumption and capital	3
2.1.1	Taxes on labour	3
2.1.2	Taxes on consumption	3
2.1.3	Taxes on capital.....	4
2.2	Direct taxation versus indirect taxation.....	4
2.3	Stock versus flow	5
3.	Overview of how existing taxes and charges may be reformed	6
4.	Overview of taxes and charges in Ireland	7
4.1	Current composition of receipts (2020).....	7
4.2	Evolution of Exchequer tax receipts since 2000	7
4.3	Composition of general government revenue.....	8
4.5	Comparison of Government revenue in Ireland with OECD average	10
4.6	Note on receipts from income, consumption and wealth.....	11
5.	General overview of uses of revenue	11

1. Introduction

The purpose of this paper is to provide a short summary of options relating to taxes and charges that may provide revenue for the State and the general way they can be amended or reformed. This paper also discusses the overall composition of Irish tax receipts and general government revenue; and gives an overview of how that revenue is used.

The paper entitled 'Overview of taxes and charges in Ireland and key changes since 2009' provides a brief overview of the individual taxes and charges currently in existence in Ireland and how they operate.

2. Overview of types of taxes and charges

Individual choices around what and how to levy a charge pull from a broad menu of options and may be broken down into various categories and classifications. The following options are not necessarily comprehensive, but are presented to give some examples of how types of taxes and charges can be broken down.

2.1 Taxes on labour, consumption and capital

2.1.1 Taxes on labour

Taxes on labour cover charges broadly related to personal income and employment and may be further split into two categories:

- Taxes on employed labour income
This covers taxes directly linked to wages paid by employees and employers. It includes personal income tax that is related to earned income and salaries (payroll) as well as social security contributions paid by workers and employers.
- Taxes on non-employed labour income
This includes taxes and charges on other income, including income supports and other transfers paid by the State, such as unemployment benefits and benefits from old-age pension schemes (both State and occupational pension schemes).

2.1.2 Taxes on consumption

Taxes on consumption are those levied on the final consumption or use of goods and services.

Some examples of consumption related taxes include:

- Value-Added Tax ('VAT')

- Customs taxes and duties on imports
- Excise duties
- Other taxes on production, including taxes on international transactions and taxes on pollution
- Other current taxes such as poll taxes, expenditure taxes, and payments by households for licences
- Carbon taxes
- Vehicle Registration Tax and Motor tax
- Metered water charges

2.1.3 Taxes on capital

The term 'capital' may be defined broadly in this context and typically arise for whoever owns or has economic benefits from capital items including physical capital assets, intangible assets and financial investment and savings. Taxes on capital include capital and business income taxes and taxes on stocks (wealth):

- Capital and business income taxes
This includes taxes on income or profits of businesses including corporations and the self-employed. It includes personal income tax raised on rents and other property income, as well as dividends, trusts, interest, investments and entrepreneurial activity.
- Taxes on capital stock
Typically more passive and related to the holding of capital assets and wealth, including property. It includes stamp duty, wealth tax, capital taxes including gift and inheritance tax, property tax, gains on the disposal of capital assets or on the acquisition of such property, commercial rates.

2.2 Direct taxation versus indirect taxation

The categorisation of a tax as direct or indirect is closely related to the question of who should pay the tax – whether it is individual, household, business or employer:

- A direct tax is one that is charged on individuals or firms and paid directly by them to Revenue. Examples include income taxes and corporation tax.
- An indirect tax is one that is collected by means of a levy attached to expenditure on goods and services. Examples include VAT and excise duties which are fiduciary taxes that are

typically factored into the sales price of a good or service and so are collected on behalf of the final consumers by the seller or provider of the service and remitted to Revenue.

In considering direct and indirect taxes, the concept of tax incidence, which is explained further in the paper entitled 'Overview of economic principles and fundamentals of a tax system', is particularly relevant as the person paying the tax may not necessarily bear the full economic impact of the charge. For example, it is more typically the consumer who bears most of the economic burden of indirect taxes through the final price they pay for the goods or services, but it is also noted that the business bears the administrative burden of the tax and is also affected by the impact the increased price has on consumer demand.

For direct taxes, it is generally the case that the incidence of direct taxation falls on the individual making the payment, but it is not necessarily so clear cut. For example, in the case of corporation tax there is evidence that some of the incidence of the tax may fall on employees, because of the impact on it has on the availability of resources in the firm to pay wages.

2.3 Stock versus flow

Another option is whether to tax fixed assets (stock) or transactions (flows). This may be relevant in considering whether it is desirable to tax:

- a once-off activity, as is the case for stamp duty on the sale of shares or customs duty on an import of goods;
- cyclical activity, such as the business cycle in the case of profits taxation where relief may also be given for losses, interest on savings or even metered water charges; or
- on an on-going basis, on assets like property and land (such as the annual Local Property Tax 'LPT') or flat annual levy like the TV licence.

It is noted that the choices relating to the above would have particular consequences for the overall stability of tax receipts and government revenue.

3. Overview of how existing taxes and charges may be reformed

As an alternative to considering new taxes, another approach is to consider amendments to existing taxes and charges that are already in place. Such changes could be significant reforms or incremental amendments. This could involve:

- Broadening the taxable base (the thing or value on which the tax rate is applied) by increasing the scope of the charge by:
 - Lowering thresholds e.g. Capital Acquisitions Tax ('CAT') thresholds
 - Removing exemptions e.g. social welfare payments are exempt from the Universal Social Charge
 - Reducing the application of deductions or reliefs which may reduce liability e.g. retirement relief for Capital Gains Tax ('CGT')
 - Providing for annual revaluations e.g. for LPT
 - Not indexing certain reliefs e.g. for CGT purposes or income tax credits and bands
- Adjusting how rates are applied:
 - Increasing the headline rates or specific rates for certain activity e.g. trading or passive income for corporation tax purposes
 - Decreasing the rates e.g. in the case of CGT
 - Moving from a flat rate to a progressive charge e.g. in the case of PRSI
 - Extending income bands e.g. USC bands
- Measures to ensure increased compliance:
 - Targeted anti-avoidance measures like the close company surcharge to encourage companies to pay out profits to shareholder
 - Increase or introduce withholding taxes (may impact receipts though not necessarily final liability) such as Dividend Withholding Tax or facilitate real-time payments.

4. Overview of taxes and charges in Ireland

As mentioned in the introduction, a summary of the main taxes and charges, in place in Ireland, are set out in the paper entitled 'Overview of taxes and charges in Ireland and key changes since 2009'.

The following sets out how much these taxes and charges yield and the overall composition of receipts in Ireland.

4.1 Current composition of receipts (2020)

In 2020, the total amount of taxes and charges collected in Ireland was €69bn¹, a breakdown of which is outlined in the table below.

Table 1:

Tax /charge	Amount collected (€bn)	Percentage of total ²
Income tax (including USC)	22.6	33%
VAT	12.5	19%
Corporation tax	11.8	18%
PRSI (employee & employer)	11.3	17%
Excise	5.4	8%
Stamp Duty	2.1	3%
CGT	0.950	1.4%
CAT	0.505	0.8%
Customs	0.273	0.5%

4.2 Evolution of Exchequer tax receipts since 2000

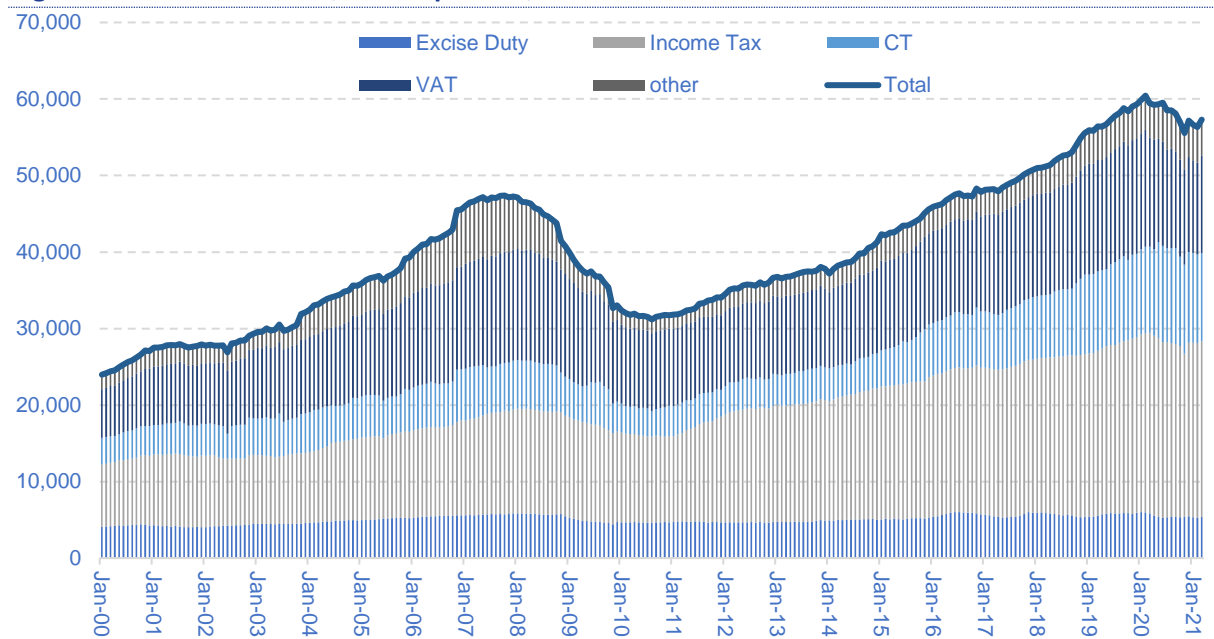
The evolution of Exchequer tax receipts over the past 20 years is set out in figure 1³:

As the figure shows, income taxes generated the largest amount of tax receipts throughout the period, save in 2003 when VAT receipts overtook income tax receipts.

¹ This comprises total Exchequer tax revenue of €56.2bn, PRSI receipts of €11.3bn and LPT of €482m.

² Total is more than 100 due to rounding

³ Exchequer receipts do not include PRSI or LPT.

Figure 1: taxation revenue, 2000 – present, € millions

CT: corporation tax.

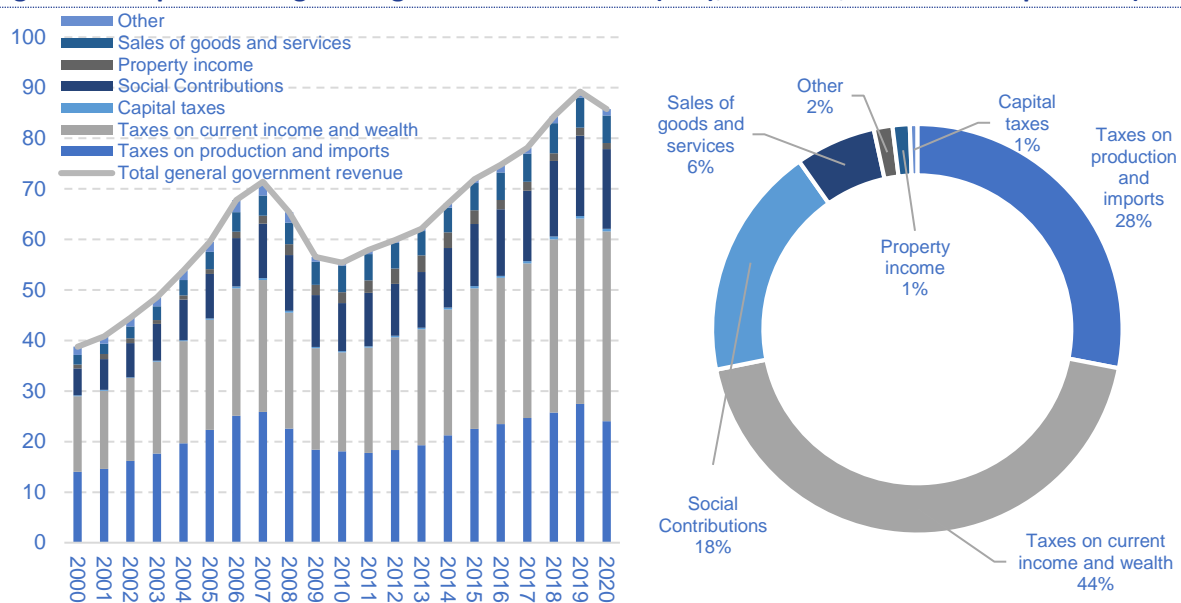
From 2011, income tax includes the Universal Social Charge. Figures presented on a 12-month rolling sum basis.

Source: Department of Finance calculations.

Further information on, and analysis of, the above trends is set out in the Department of Finance's Annual Taxation Report 2021.

4.3 Composition of general government revenue

As noted above, Exchequer receipts do not include PRSI or LPT. In order to take account of PRSI and LPT receipts it is also useful to consider the composition of general government revenue over the last two decades (see figure 2) below.

Figure 2: composition of general government revenue (LHS), € billions, share in 2020 per cent (RHS)

Other consists of current and capital transfers.

Source: Central Statistics Office (CSO) data.

As the above shows, taxes received by the Exchequer in 2020 (on a cash basis) accounted for the bulk of general government revenue.⁴ Since 2000, taxes and social contributions have accounted for an average of 65% and 17% of general government revenue, respectively and combined at 82%. The remainder of general government revenue consists of property income, sales of goods and services from non-market bodies, current and capital transfers.

Exchequer taxes are classified within various components of general government revenue:

- *current taxes on income and wealth* include income tax, capital gains and corporation tax;
- *taxes on production and imports* include VAT, customs, excise and stamp duties; and
- *capital taxes* including CAT.

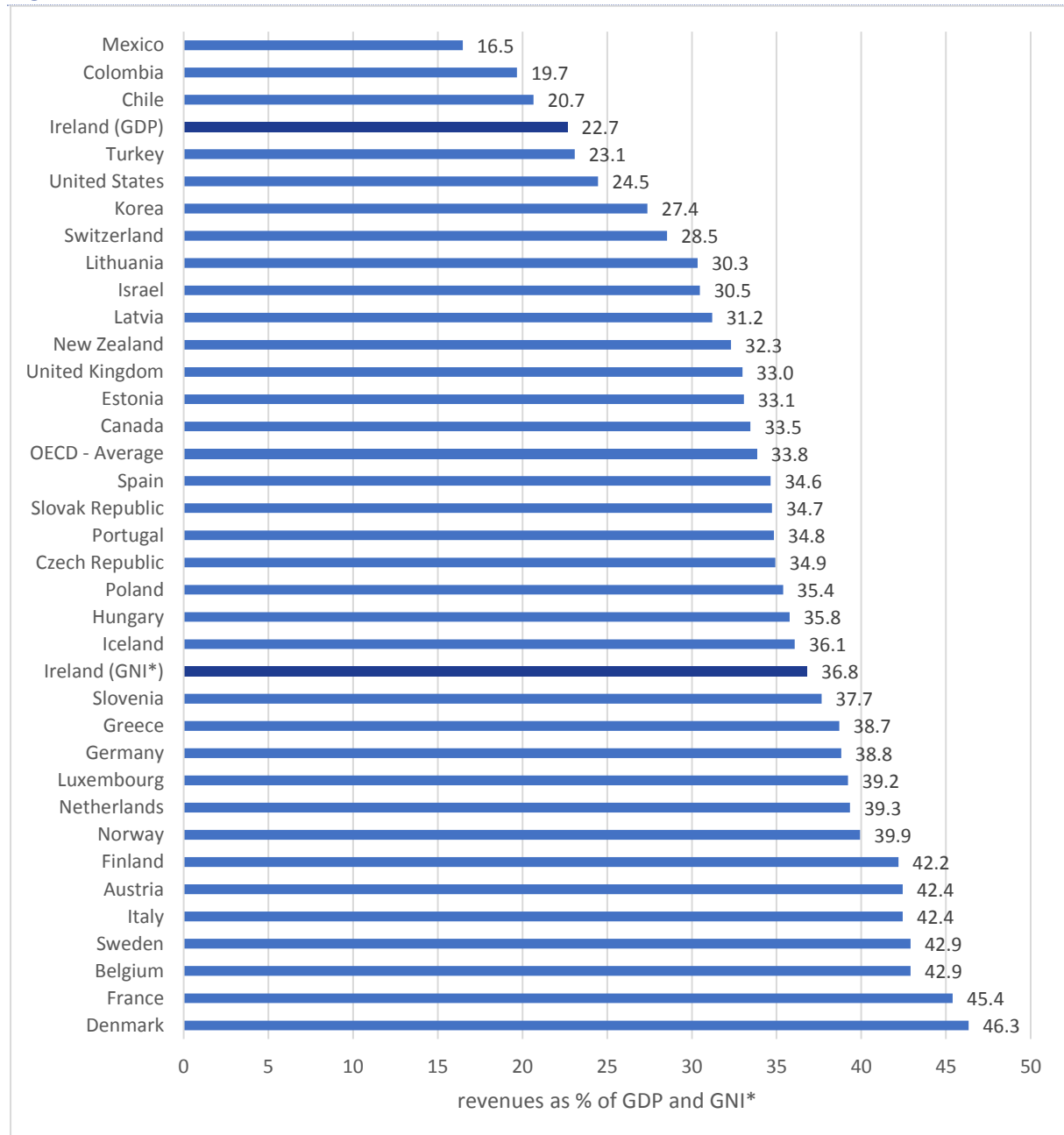
In 2020, taxes on current income and wealth and social contributions made up a substantial proportion of general government revenue (62%).

⁴ General government statistics are recorded on an accrual basis in accordance with the European System of Accounts 2010 (ESA 2010). General government statistics are compiled using accrual accounting, so that receipts and expenses are recorded when a transaction occurs, rather than when a cash payment is received or made, resulting in a divergence from the Exchequer due to timing, see below for more detail in relation to 2020.

4.5 Comparison of Government revenue in Ireland with OECD average

As illustrated below, government revenue in Ireland is above the OECD average as a share of economic activity (based on modified GNI):

Figure 3: 2019 OECD data for total revenues as % of GDP



Source: OECD

4.6 Note on receipts from income, consumption and wealth

The majority of Government revenue and tax receipts in Ireland are income related, followed by consumption related:

- Approximately 38% of receipts⁵ are from individual incomes alone⁶, with a further 26% from consumption related activity⁷.
- Capital or wealth based tax receipts comprise a comparatively small proportion of tax receipts, forming part of the “other” tax head, and a relatively small proportion of corporation tax receipts (2.5% of 2019 receipts⁸).

5. General overview of uses of revenue

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

The Exchequer is the main source of funding and expenditure for the majority of services covering all government departments and most state agencies, covering around 74% of total general government revenue and expenditure⁹. This includes (but is not limited to) health, education and non-contributory social welfare expenditure.

Around 90% of Exchequer receipts come from tax revenue¹⁰ with the remainder of receipts coming from non-tax revenues and capital receipts.

Social contributions (PRSI) are paid to the Social Insurance Fund (SIF) rather than the Central Fund. These receipts are ring-fenced to cover contributory social welfare expenditure, although the Exchequer is also the residual financier in the event the SIF is in deficit.

Taxes and charges may also be hypothecated for specific use by Departments and Agencies, such as:

- A proportion of excise receipts from tobacco go to the Department of Health for public health promotion (€168m per annum);

⁵ The €69bn referred to in section 4.1 above which comprises Exchequer tax receipts as well as PRSI and LPT

⁶ This is the total of income tax, USC and employee PRSI contributions (assumes 30% of PRSI contributions are from employees (€3.39bn in 2020) based on the PRSI receipts in 2017).

⁷ VAT and Excise

⁸ As set out [Revenue CT Paper May 2021](#) gains of €812m were recorded in 2019. Taxed at the CGT rate of 33% gives receipts of €268m of the total corporation tax receipts of €10.887bn that year.

⁹ 72% in 2019 and 76% in 2020 based on figures [2021 Stability and Programme Update](#) (SPU)

¹⁰ €59.3bn which is 92% of the €64.4bn total in 2019 and €57.2bn which is 88% of the €65bn total in 2020 (figures also from the SPU).

- The plastic bag levy is hypothecated to the Department of Housing, Planning and Local Government (€4.2m collected in 2020);
- Since 2018, LPT receipts go to the Local Government Fund;

There is also a commitment in the Programme for Government that the yield from future increases from the Carbon Tax will be hypothecated to specific expenditure including the prevention of fuel poverty, ensuring a just transition, a socially progressive national retrofitting programme and specific agricultural measures.