Commission on Taxation & Welfare
An Coimisiún um Chánachas ⁊ Leas

Briefing Paper

Personal taxes on income

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Key points

- There are a number of differences in scope across the three charges on income - Income Tax, the Universal Social Charge (USC) and employee Pay Related Social Insurance (PRSI).
- The combined application of these charges is progressive with the amount due overall increasing in line with increases in income.
- Many of the differences between the charges are in place by design. They reduce the tax burden on individuals and provide income support to take account of their specific circumstances – for example age or caring responsibilities.
- There may be opportunities to raise revenue through incremental amendment or more fundamental reform of the charges.
- There may also be opportunities to introduce changes which could encourage maximising the employment capacity of certain households and income earners.

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1. Introduction

This paper follows previous discussions by the Commission at meeting 4 (on how the tax and welfare systems facilitate employment), meeting 7 (on market income and redistribution) and meeting 10 (employment disincentives in the tax and welfare system).

The purpose of the paper is to discuss the current tax treatment of income with a focus on employment related sources. It follows discussions of horizontal equity in the taxation of income and capital at meeting 12 and is relevant to the discussion on share based remuneration in a related paper.

It is also relevant to the following themes under consideration by the Commission:

- Options for reform on the balance between the taxation of earned income, consumption, and wealth.
- Revenue raising possibilities complimenting the work already discussed at meeting 13 on social insurance, specifically the charge to PRSI.
- Encouraging employment.

The international aspects of income tax, USC and PRSI as they relate to employment will be discussed in a future paper.

2. Income tax, USC and PRSI fundamentals

2.1 Income

As discussed previously, there are three charges on income[1], namely Income Tax, the Universal Social Charge (USC) and Pay Related Social Insurance (PRSI)[2].

The source of income will determine the extent to which these charges are applied. Each of the charges are generally applied to "*all salaries, fees, wages, perquisites or profits*" arising to an individual having or exercising an office or employment[3].

The list of taxable items from employment is very broad. It includes cash allowances paid to individuals (overtime, holiday money, shift allowances, bonuses, etc.) benefits-in-kind (company car, company

[1] As defined for the purposes of the Taxes and Social Welfare Acts.
[2] With regard to PRSI, this paper mainly deals with the employee charge to PRSI, where relevant. Employee, employer and self employed PRSI is dealt with comprehensively in the paper presented at meeting 13.
[3] Section 112 of the Taxes Consolidation Act, 1997 sets out the charge to tax under Schedule E which in turn is the basis for the charge to PRSI (reckonable earnings) and USC.

van, employer paid accommodation) and perquisites (gift vouchers, other expenses or goods paid by an employer on behalf of an employee).

The charges are also applied to other types of income, including rents from property, investments and assets (passive income). The table below summarises the rates and bands that currently apply for Income Tax[4], PRSI and USC.[5]

Table 1 Summary of income tax, PRSI and USC bands and rates

Tax	Rate	Band
Income Tax	20% (standard rate)	Up to €36,800
Income Tax	40% (higher rate)	€36,800.01 and over
Income Tax age exemption – over 65	0%	Up to €18,000
Employee PRSI (PAYE)	0%	€352 per week (Under €18,304 per annum)
Employee PRSI (PAYE)	4%	€352.01 per week (Over €18,304 per annum)
Self-Employed (Class S)	0%	Up to €5,000 per year
Self-Employed (Class S)	4%	4% on all income, or €500 (whichever is higher)
Employer PRSI (Class A)	8.5%	Up to €21,320 (€410 per week)
Employer PRSI (Class A)	11.05%	Over €21,320 (€410.01 per week)
USC	0%	€0 - €13,000
USC	0.5%	On income over €13,000 the first €12,012 is taxed @ 0.5%
USC	2%	€12,012.01 - €21,295
USC	4.5%	€21,295.01 - €70,044
USC	8%	€70,044.01 and over

[4] Based on a single person or a widow or surviving civil partner without any qualifying children - the entry point to the higher rate of Income Tax will vary based on personal circumstances. For more information, see Revenue's Budget 2022 summary.

[5] The band for the higher rate of income tax will vary based on personal circumstances, €36,800 is used for illustrative purposes and represents a single person or a widow or surviving civil partner.

USC	11% (8% plus 3% surcharge)	Non PAYE income of €100,000 and over[6]
USC reduced rate for over 70 (and medical card holders)	0.5%	€0 - €12,012
USC reduced rate for over 70 (and medical card holders)	2%	€12,012.01 - €60,000

Source: Secretariat

2.2 Base and personal credits

Individual credits and exemptions are discussed later in this paper, however the following table summarises the main scope of these charges, and the main exemptions and reliefs.

The annual income entry points shown in the table include the impact of tax credits, for example the €22,250 single parent employee entry point is made up of personal credit, PAYE credit, and single parent child carer credit.

Table 2 Summary of main distinctions between scope of income tax, USC and Employee Class A PRSI

Scope	Income Tax	USC	PRSI
Annual income entry point (equivalent where relevant)	€17,000 – self-employed €17,000 – employee €22,250 – Single parent €22,500 – couple, one income €33,500 - couple, one income, one stay at home parent €34,000 – couple, two incomes	€13,000	€18,304 (€352 per week)
Exemptions	Individuals aged 65 where income is below €18,000 (single) or €36,000 (couple) Artists' income – first €50,000 (subject to High Earners Restriction) Rent-a-room Relief (max €14,000)	All social welfare income Income subject to DIRT	Those aged under 16 and over 66 All social welfare income Income subject to DIRT

[6] Where an individual has non-employment income (self-employed or passive income) or certain foreign employment income in excess of €100,000, a further 3% USC surcharge applies to that income only. See "Taxation of labour under different legal forms" from meeting 12.

Scope	Income Tax	USC	PRSI
	Childcare service relief (max €15,000) Child benefit and certain means-tested social welfare payments[7]		See detailed list from meeting 13
Pension Contributions	Relief at marginal rate, subject to limits[8]	No Relief	No relief
Medical Expenses	Relief generally at standard rate Relief at marginal rate for nursing home expenses	No Relief	No relief
Medical Insurance	Relief at standard rate, subject to limits[9]	No Relief	No relief
Employment & Investment Incentive	Relief for investments up to €150,000 Not currently subject to High Income Earners Restriction (HIER) - see section 2 below	No Relief	No relief
Foreign Earnings Deduction	Relief for income earned while working abroad in a qualifying State - subject to HIER	No Relief	No relief
Living City Initiative	Relief for refurbishment cost of older buildings in qualifying cities Not subject to HIER	No Relief	No relief
Special Assignee Relief Programme (SARP)	Relief for a proportion of income earned by high-income employees assigned to work in Ireland Not subject to HIER	No Relief	No relief

[7] https://www.revenue.ie/en/jobs-and-pensions/taxation-of-social-welfare-payments/taxable-payments-you-do-not-need-to-declare.aspx

[8] For reference, please find the link to paper on Pension Tax Expenditures from Meeting 13 here.

[9] The relief available is equal to the lesser of 20% of the cost of the policy or 20% of €1,000 (equal to a credit of €200) in the case of an adult policy. In the case of a child policy, the relief available is equal to the lesser of 20% of the cost of the policy or 20% of €500 (equal to a credit of €100).

Scope	Income Tax	USC	PRSI
Certain monthly or annual travel passes	Relief at marginal rate[10]	Relief from USC	Relief from PRSI
Share based remuneration[11]	Relief for APSS shares and SAYE option gains Deduction for restricted shares Relief for KEEP option gains	No relief for APSS shares and SAYE option gains Deduction for restricted shares Relief for KEEP option gains	No relief for APSS shares and SAYE option gains Deduction for restricted shares Relief for KEEP option gains

Source: Secretariat

2.2.1 Rationale for three charges

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 per cent of income earners were exempt from income tax and only 20 per cent 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 per cent of earners were exempt from income tax and just over 13 per cent were liable to the higher rate.

A range of changes were made between 2009 and 2014 to broaden the income tax base, including reductions in tax credits and bands and the restriction or abolition of many reliefs. In addition USC, a broad-based charge, was introduced.

This brought the total number of charges on income to three which has remained the position since. The matter of amalgamation of the USC and PRSI was considered by a technical working group in 2018 who concluded that it was not possible to amalgamate the charges on a no-losers basis without significant loss of General Government revenue.

[10] Relief available where pass provided by employer or paid for by way of salary sacrifice
[11] For further detail, see accompanying paper on share based remuneration

The application of three distinct charges in the Irish system of personal taxation provides useful levers for Government when it is considered desirable to target particular cohorts within the distributional spread of incomes.

It also brings complexity, as do the nuances of each charge which are applied to different (although similar) bases. However, as noted in the paper discussed in meeting 2 (Overview of economic principles and fundamentals of a tax system), complexity may facilitate increased equity in the system as extensive rules and groupings may better address the needs of disparate groups of people. Additionally, the current position is somewhat less complex than it was 10 years ago:

- The USC was introduced in 2011 to replace the Income and Health Levies and so actually reduced the number of charges on income from four to three.
- Since 2009, the base of the income tax system was broadened and simplified through the removal of many tax reliefs, including many of those recommended by the 2009 Commission on Taxation.
- The annual earnings ceiling for employee PRSI was removed in 2010. Other potential future reforms of PRSI were discussed at meeting 13.

2.2.2 General points of interaction/ overlap

There are a number of different policy decisions that have been made that determine the extent to which an income tax, USC or PRSI charge is levied and to which reliefs, credits and exemptions may apply. These include:

- The scope or base of the charges.
- The unit that is assessed, which may be the individual or their household as a whole.
- How family members such as adult or child dependents, are taken into account[12].
- The period that determines the charge, which may be on an annual or weekly basis.

These differences may impact the short-term financial incentive to increase earnings by carrying out additional paid work, in particular for those on lower incomes, those moving from part-time to full time hours and those whose work may be seasonal in nature.

[12] This may also be contrasted with the approach taken by the social welfare system, which will be discussed at meeting 15.

Scope

As illustrated in Table 2 above, USC has the broadest base of the three charges on income in Ireland. This is because, in general, entry into the USC net starts at income of €13,000 per year (compared with €17,000 for income tax and €18,304 (€352 per week) for Employee PRSI.

There are no credits and very few reliefs in the USC beyond basic allowable expenses. The credits and reliefs for income tax are discussed further below.

Unit of assessment

Personal circumstances and lifestyle choices, including around marriage and relationships may impact on the level of income that individuals and households have and by extension, the tax and welfare system can influences people's lifestyle choices.

USC and PRSI are calculated and payable on an individualised basis, meaning that a person's liability to these charges is determined on the basis of their own individual income and individual personal circumstances. There are no credits or measures in either charge that take account of the circumstances of any family members or dependents.

Income tax is a hybrid charge – partially levied on the basis of individual income in the case of single persons or those who are not legally married, but with a historical allowance for a joint assessment of married couples, whereby one spouse may be assessed on the joint income of both spouses and tax credits and bands may be effectively (partially) transferred between spouses who are living together. A higher standard rate band applies in the case of married couples with one earner as compared with single earners.

The income tax system also has a number of credits and measures to allow account to be taken of dependents including the Single Person Child Carer Credit, the Home Carer Credit, the Incapacitated Child Tax Credit and the Dependent Relative Tax Credit. Account is also taken of the level of support that may be given by the State through non-tax means noting that, in general, it is considered that direct expenditure is a more effective way of targeting assistance to specific groups in society that require assistance.

Period of assessment

Income tax and USC are charged on the amount of taxable income received in the full tax year. While, as noted above PRSI, by contrast, is charged on the basis of weekly income or reckonable earnings[13].

[13] Class S can be annual minimum charge. It is also recalled that the weekly application of PRSI functions to record contributions and build up entitlement to social insurance benefits.

For those subject to Class A PRSI, employer PRSI is charged when income is above €38 per week. There is no charge to employees PRSI until weekly income is over €352 per week and then all income is subject to the charge. USC is also only applied on a cumulative basis where total annual income is over €13,000 per annum. If the total annual income is below that level there is no charge to USC. Income tax is charged on all annual income, although personal credits reduce the amount of tax due.

As illustrated in the examples below, these distinctions have particular relevance for those who have additional earnings over part of the calendar year or who earn just over the relevant threshold – such as seasonal workers who may have more work during summer months or over the Christmas period.

Example of PRSI impact

Joe is a single PAYE worker who earns €350 per week for 40 weeks of the year and €800 per week for 12 weeks of the year:

Total annual income = €23,600 (€800 × 12 + €350 × 40)

Total tax charge = €2,169 comprising:

USC = €349 (€12,012 @ 0.5% rate, €9,283 @ 2% rate, €2,305 @ 4.5% rate)

Income Tax = €1,320 (€23,600 @ 20% less PAYE and personal credits of €3,400)

EE PRSI = €384 (€9,600 (i.e. €800 × 12 weeks) @ 4% rate and €14,000 at nil as weekly earnings below €352 for remaining 40 weeks of the year)

If Joe earned the same income (€23,600) over the full calendar year at €453.85 per week his total tax charge would be €2,729 comprising:

USC = €349 (€12,012 @ 0.5% rate, €9,283 @ 2% rate €2,305 @ 4.5% rate)

Income Tax = €1,320 (€23,600 @ 20% less PAYE and personal credits of €3,400)

EE PRSI = €944 (€23,600 @ 4% rate as weekly earnings above €352)

with the difference comprising an additional PRSI charge of €560 (i.e. €944 - €384)

Example of USC impact

Catherine is a single PAYE worker who earns €250 per week for 40 weeks of the year and €350 per week for the remaining 12 weeks:

Total annual income = €14,200

Total tax charge = €104 comprising:

USC = €104 (€12,012 @ 0.5% rate, €2,188 @ 2% rate)

Income Tax = €0 (PAYE and personal credits absorb liability)

EE PRSI = €0 (weekly earnings below €352)

If Catherine did not have any seasonal income increase and earned €250 per week over the full calendar year (€13,000 total) her total tax charge would be €0 as no USC would apply:

USC = €0 (income is €13,000 or less so exempt)

Income Tax = €0 (PAYE and personal credits absorb liability)

EE PRSI = €0 (weekly earnings below €352)

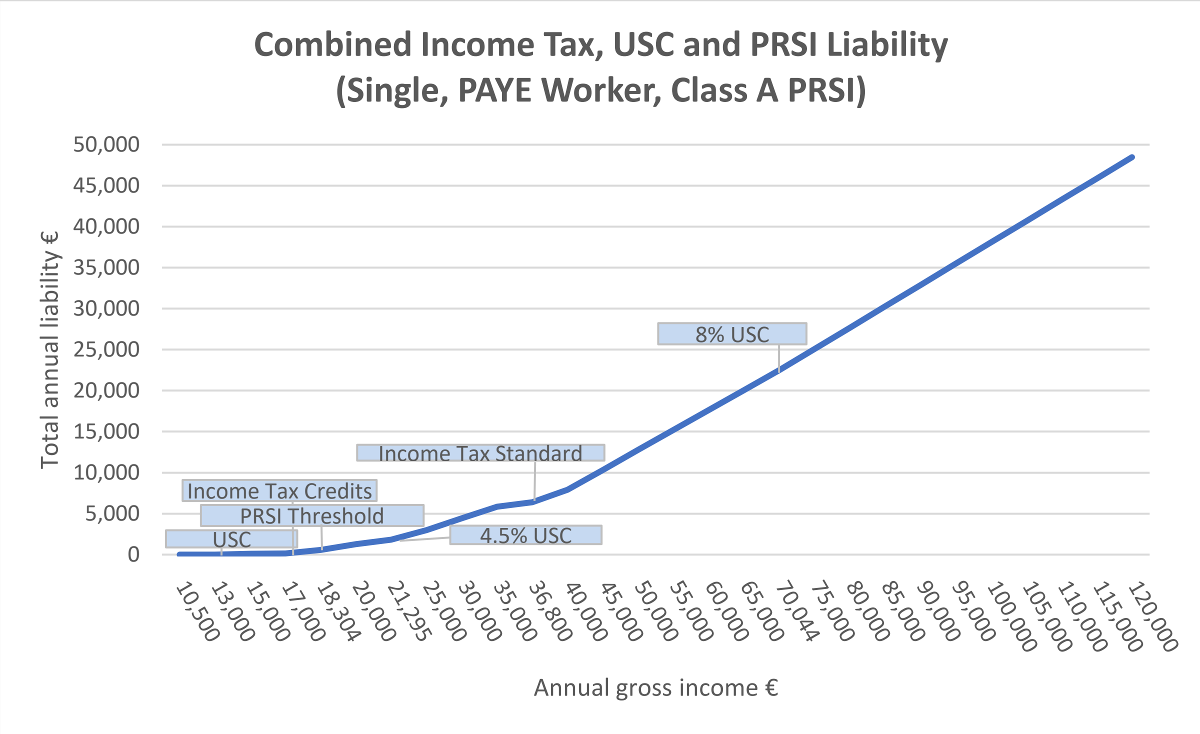
Attention is drawn to the more nuanced step effect in the USC example than the PRSI example. This is in part due to the deliberate design of the USC charge which is more progressive than the two rate structure of EE PRSI. In the context of considering broader reform of the social insurance system, as agreed at meeting 13 it may be desirable to incorporate the positive characteristics of USC including the multiple rate structure and lower threshold for liability.

As noted in the 2018 Report of the Working Group on the Amalgamation of USC and PRSI, the multi rate approach gives flexibility to more precisely target the charge and the lower threshold also provides the opportunity to broaden the base if so desired.

2.3 Vertical equity

2.3.1 Progressivity

As discussed in meeting 4, the Irish personal tax system is highly progressive with those on the highest of incomes paying the highest amount of tax. The following charts the progressivity of the application of the three main charges on income against the individual gross incomes[14].



As discussed at meeting 7, the structure of the income tax system also performs an important re-distributive function, and is an important component, along with the income supports provided by the social protection system, to address Ireland's high levels of market income inequality.

2.3.2 High Income Earner Restriction

As well as the broad design of the income tax system, there are measures in place to ensure equitable contributions are made by all tax payers.

One such measure is the High Income Earner Restriction (HIER), which is in place to ensure that individuals who earn a high level of income end up in a situation where they pay an effective rate of income tax of approximately 30 per cent[15]. Post Budget 2022, this is around the overall effective tax

[14] On post-Budget 2022 basis
[15] PRSI and USC may also apply

rate of a single PAYE worker (including income tax, USC and PRSI) with above average income from employment (around €60,000 per annum)[16].

The HIER is to limit the use of certain tax reliefs and exemptions by high income individuals, which have the potential to substantially reduce their tax liabilities. The list of reliefs that are excluded from the HIER calculation has increased in recent years in order to maximise the use of the reliefs themselves - for example prospective investments made under the Employment and Investment Incentive were removed from 2013 and when the Key Employee Engagement Programme was introduced in 2017 it was not added to the list of specified reliefs for HIER.

The HIER applies if a person's income is equal to or greater than €125,000 and a certain level of income tax reliefs are available to them.[17] In 2018, the overall number of individuals subject to the restriction was 358 and the estimated additional income tax yield was €26.4 million.

A review of the HIER was carried out in 2020. It was based on 2018 data and is contained in the Budget 2021 Report on Tax Expenditures.[18] It found that the objective of ensuring an effective rate of income tax, of approximately 30 per cent for individuals with an adjusted income of €400,000 or more, was achieved.

2.4 Horizontal equity

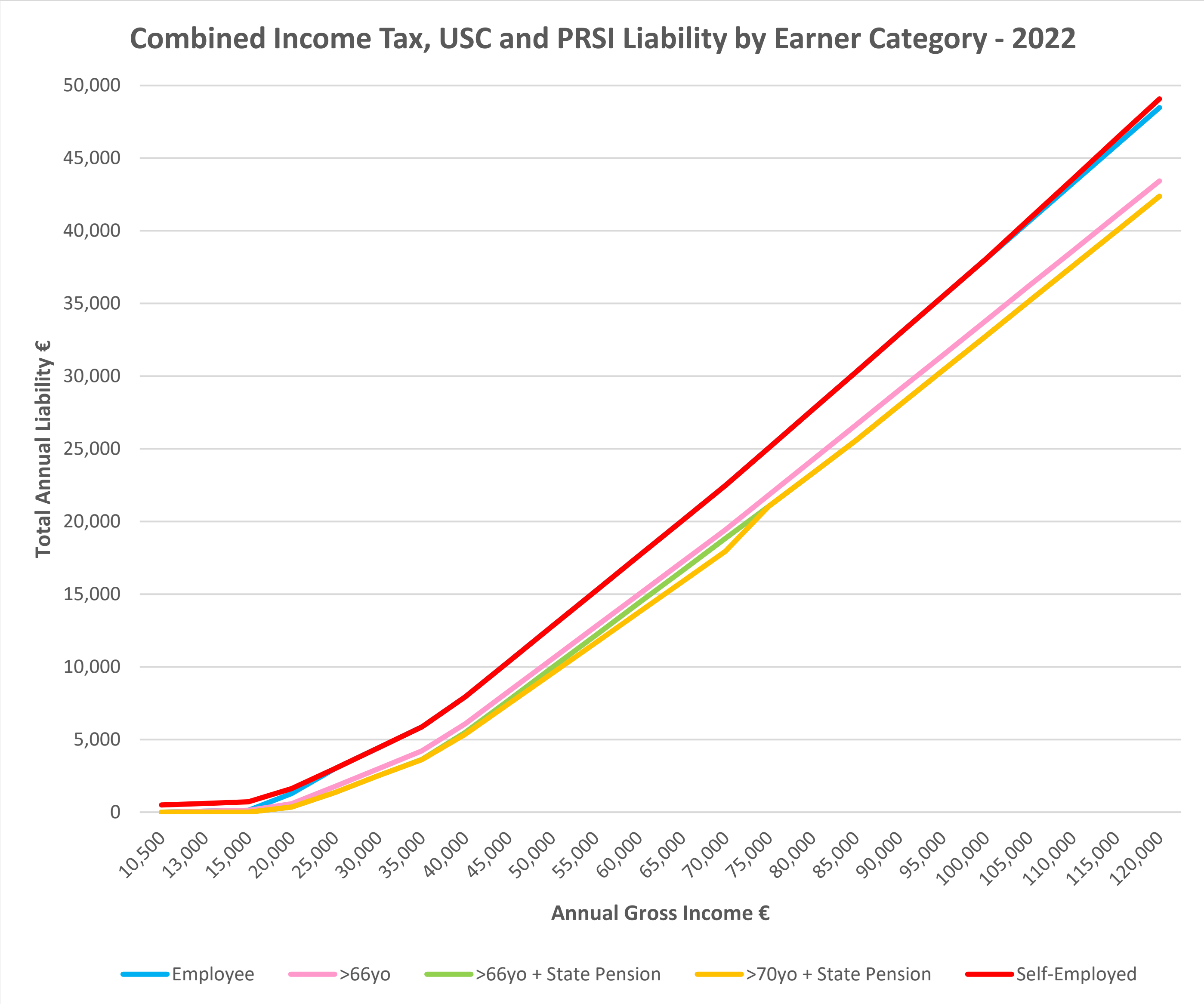
The income tax system contains a number of provisions which discriminate in favour of certain individuals, in view of additional challenges which they may face. These measures deviate from the principle of horizontal equity, under which each person with the same income should have the same tax liability. However, they have been introduced as a result of policy decisions to provide additional supports to individuals in these specific circumstances or to support policy objectives such as pension savings.

As illustrated in Table 2 above there are a number of exemptions for different types of taxpayers, depending on their age, their source of income and type of employment.

2.4.1 Scope and exemptions

The following highlights the impact of some the disparities across individual taxpayers[19]:

[16] Summary Tax Measures from Budget 2022, Example 7
[17] For more detail and information on how the income tax reliefs are limited, see Revenue's website here.
[18] Budget 2021, Department of Finance Report on Tax Expenditures, available here.
[19] Post-Budget 2022 basis in the case of single individuals



Age related measures

As discussed in previous meetings, there are a number of exemptions related to the age of the taxpayer, in particular those aged over 65.

The Age Exemption for income tax purpose is available to persons who are aged over 65 years of age with total income of less than or equal to the exemption limits (€18,000 for a single person, €36,000 for married couples)[20]. If the household has dependent children these exemption limits are also increased for each child.

[20] Where the exemption limits have been exceeded, a tapered income tax relief, known as marginal relief may be available instead.

This is available in addition to the Age Tax credit discussed below which is also available for those aged over 65.

Individuals aged over 65 with a yearly income of less than the exemption, may also be exempt from Deposit Interest Retention Tax (DIRT).

Those aged over 70, with aggregate annual income of €60,000 or less, are subject to a reduced top rate of USC which allows all income in excess of 12,012 to be taxed at 2%, rather than the full USC rate structure applying.

As discussed at meeting 13, once a person is over 66 all their income is out of scope of PRSI, regardless of the source.

Medical card holders

The criteria for a medical card was discussed in meeting 7. Those in receipt of a medical card, with aggregate annual income of €60,000 or less, pay a maximum USC rate of 2 per cent regardless of their income.

This reduced rate of USC for medical card holders was part of the original design of USC when it was first introduced. The rationale for this reduced rate was that USC replaced the health levy (as well as the income levy) which did not apply to those in receipt of a medical card.

The 2 per cent reduced rate has been maintained ever since, as the medical card is considered a proxy for a low income individual or household, on the basis that qualification follows a means test. The qualifying criteria for the means test was discussed at meeting 7 and the threshold is €15,834 net per annum, excluding certain social welfare payments, allowing for housing and childcare costs.

Not all medical cards are means tested – an individual with income above the threshold may still qualify for a medical card if their circumstances mean that the absence of a card would result in financial hardship. This flexibility is provided to allow for those with particular health conditions or medical needs and allows account to also be taken of a family's medical expenses as well as their income.

A significant proportion of the population have a medical card, some of which are provided on a discretionary basis without a means test. At the end of 2020, almost 1.6 million people in Ireland held a full medical card (33 per cent) which would give them access to the lower rate of USC.

Consideration could be given to whether the broad application of this relief remains appropriate, including in the context of the Governments planned changes to health service provision with the introduction of Sláintecare.

2.4.2 Credits

The following shows the cost and uptake of the main income tax credits and exemptions in 2018:

Table 3 Main income tax credits and exemptions (cost and uptake, 2018)

Credit	Cost (€ million)	Uptake
Single person credit	2,221.9	1,506,900
Married couple credit	2,549.3	883,800
Employee (PAYE) tax credit	3,587.6	1,969.600
Earned income tax credit	261.2	227,900
Blind tax credit	2.3	1,700
Age tax credit	77.5	209,900

Source: Revenue Statistics

The following describes these items with the rates applicable from 1 January 2022. It is noted that the main credits (single, married and PAYE) are widely available so the growth in uptake and cost referenced below is broadly in line with the size of the labour market over this period.

Single person credit

The single person tax credit is an annual income tax credit provided to a single person of €1,700.

The number in receipt of the single person tax credit has increased very slightly from 1,503,300 in 2008 to 1,506,900 in 2018 and the cost has increased going from €2,406.8 million in 2008 to €2,221.9 million in 2018.

Married couple credit

An annual income tax credit is provided to a married person or a person in a civil partnership of €3,400.

The number in receipt of married and civil partners tax credit has slightly increased going from 853,100 in 2008 to 883,800 in 2018 and the cost has also increased very slightly going from €2,944.9 million in 2008 to €2,549.3 million in 2018.

Employee (PAYE) tax credit

An annual income tax credit is available to workers who remit their salary using the Pay As You Earn (PAYE) system. The maximum amount of this credit is €1,700 and the full use of the credit depends on the level of annual income of the individual.

The number in receipt of the PAYE credit has increased slightly from 1,710,200 in 2008 to 1,969,600 in 2018 and the cost has also increased from €3,253.8 million in 2008 to €3,587.6 million in 2018.

Earned income tax credit

The earned income tax credit was introduced in 2016 to address the different in tax treatment between those who were able to avail of the PAYE credit and those who could not (such as certain types of self-employed workers). It is a tax credit allowed in respect of income that is earned, including trading income and pay earned by proprietary directors. The credit is the lower of €1,700 or 20 per cent of qualifying earned income.

There has been increase in the number receiving this credit from 1,823,700 in 2016 to 1,969,600 in 2018 with the cost increasing from €3.3million in 2016 to €3.6 million 2018.

Where an employee is also in receipt of self-employed income, the aggregate of the earned income tax credit and the PAYE tax credit cannot exceed €1,700.

Blind tax credit

The purpose of the blind person's tax credit is to support those who have a certain level of visual impairment, particularly if they are in employment[21]. According to the CSO, in census 2016, 54,810 persons had a sight related disability, amounting to just over 1 per cent of the population.[22]

An income tax credit of €1,650 is provided to a single person or where one person in a marriage or civil partnership is blind. An income tax credit of €3,300 is provided where both people in a marriage or civil partnership are blind.

The number of people in receipt of the blind person's tax credit has increased since 2008 going from 1,320 in 2008 to 1,700 in 2018. The cost of the blind person's tax credit has also very slightly increased from €2.1 million in 2008 to €2.3 million in 2018.

The 2009 Commission on Taxation recommended that the blind person's tax credit should be discontinued when direct expenditure support at the appropriate level is in place. This was on the basis that it was inequitable as the credit only benefits blind persons liable to tax and with sufficient income to absorb the credit. For example, those on low incomes or dependent on social welfare do not obtain any benefit from the credit.

Age tax credit

An annual tax credit is available to people who are 65 years or older, or if their spouse or civil partner is 65 years older in the tax year.

A credit of €245 is available to a person who is single, a widowed/surviving civil partner, or singly assessed.

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[21] Additional support is available for a trained guide dog of €825 and may be claimed at the standard rate of 20%
[22] CSO

Where the couple is jointly or separately assessed, an annual income tax credit of €490 is available.

The number in receipt of the age tax credit has significantly increased going from 88,100 in 2008 to 209,900 in 2018 and the cost has also correspondingly increased going from €42.3 million in 2008 to €77.5 million in 2018. This is likely to be reflective of demographic changes and an increased number of people aged over 65.

The 2009 Commission on Taxation recommended that the age tax credit should continue on the basis that while it provides preferential treatment for older persons, it performs a valuable social role in relation to supporting older people. And, unlike the other credits outlined above, it does this in addition to the social transfer in place for this cohort (pensions, including non-contributory pension).

2.5 Tax wedge and competitiveness

As discussed previously, a competitive tax wedge[23] is considered vital in encouraging employment growth across all income categories and to incentivise individuals to remain in or return to the labour market.

Changes to the application of any of the charges on income could impact on the overall tax wedge in Ireland, noting in particular the discussion of PRSI at meeting 13. The extent to which such an impact would have on Ireland's competitive position vis-à-vis other countries would depend on the nature and extent of any such change as well as the position in other countries.

To give additional context to any considerations of the Commission in that regard it is noted that compared internationally using OECD data for 2020[24], at present Ireland has a competitive tax wedge. Income tax and employer social security contributions combine to account for 89 per cent of the total tax wedge, compared with 76 per cent of the total OECD average tax wedge.

The following table shows Ireland's current tax wedge ranking internationally amongst OECD members by household type using 2020 data from the OECD Taxing Wages Report 2021.

[23] The difference between what an employer has to pay in gross wages plus taxes to hire an employee and the net income received by that employee after deduction of all taxes on wages. It is defined as the sum of personal income tax plus employee and employer social security contributions together with any payroll taxes less cash transfers[23], expressed as a percentage of labour costs (gross wages plus employer social security costs).

[24] OECD Taxing Wages Report 2021 based on 2020 data

Table 4 Ireland: Tax Wedge by Household Type (2020)

Household Type	Average Wage	Tax Wedge	Rank	OECD Average
Single, no children	100%	32.3%	25/37 (13th lowest)	34.6%
Single, two children	67%	1.3%	32/37 (6th lowest)	13.7%
Married, one earner, two children	100%	16.1%	30/37 (8th lowest)	24.4%
Married, two earners, no children	*100% & 67%	28.1%	28/37 (10th lowest)	33.0%
Married, two earners, two children	*100% & 67%	24.2%	27/37 (11th lowest)	28.9%
Married, two earners, two children	*100% & 100%	29.1%	25/37 (13th lowest)	31.3%

Source: OECD Taxing Wages 2021
**Percentage of the average wage earned by each spouse.*

3. Impact of the personal tax system on employment

Employment disincentives in the tax and welfare system were discussed at meeting 10. Some further more structural elements of the tax code are set out here. Further aspects of the social welfare system (with a focus on Social Assistance) will be discussed at meeting 15.

3.1 SRCO and employment

Given the two-rate structure of the income-tax system, and its progressive nature, there is a substantial increase in the marginal rate of tax once the SRCO has been reached. In the case of a single PAYE worker there is a significant jump in the marginal rate of tax (MTR), from 28.5 per cent[25] to 48.5 per cent for every additional euro earned above €36,800. This is a relatively high MTR (just below the top MTR for PAYE workers of 52 per cent) to apply to relatively average levels of income when compared internationally. As set out in the most recent 2021 OECD Taxing Wages Report, the OECD average marginal rate at average wages for a single person is 35.6 per cent and 40.5 per cent among the 22 EU members of the OECD[26].

As discussed in the Encouraging Employment paper from Meeting 4 and above, this 'jump' impacts on the tax wedge and potentially also on Ireland's competitiveness for foreign direct investment. It may

[25] Comprising the standard 20% rate of income tax, the 4% rate of EE PRSI and 4.5% rate of USC
[26] Table 3.7

also impact workers decisions about whether to carry out additional paid work and their expectations about increasing their wages around the standard rate threshold.

Options to reduce the significant jump in the marginal rate of tax at relatively average levels of income include increasing the SCRO, or potentially introducing a third, middle rate of income tax.

Both options would have an additional cost to the Exchequer. For example, on a post Budget 2022 basis, a €1,000 increase to all SCROs would cost an estimated €230 in a full year (see 5.2 below for the distributional impact of this change). With regard to a third rate of income tax, the full implications of such a move would depend on the rate chosen and the associated modifications to the relevant bands and cut off points.

Based on 2018 data, there are around 77,000 single taxpayers units with income in the range between €36,000 and €40,000.

3.2 Married one-income households

3.2.1 Rationale behind current treatment of married couples

As discussed at meeting 10, the Commission may wish to consider the extent that personal circumstances and lifestyle choices, including around marriage and family life, should impact on the tax treatment of income or social welfare payments that individuals and households may be entitled to, relevant to employment.

It is noted that the income tax system allows for particular recognition of married[27] couples which is not available to cohabiting couples who are not married. This may be contrasted with the social welfare system which assesses on the household basis and is based on consideration of household needs, regardless of whether married or cohabiting.

The current tax treatment that is only available to married couples includes the ability to be jointly assessed, the effective partial transferability of the personal tax credit, the increased standard rate cut of point and the ability to claim the Home Carer Credit (if applicable).

[27] Note: all references to the tax treatment of married couples also applies to those in civil partnerships

Illustrative example of difference marriage makes to taxation of single income couples

Alex and Anne are cohabiting couple and Alex is the sole earner (PAYE) with income of €40,000 per annum.

Their total tax charge is = €7,927 comprising:

USC = €1,087 (€12,012 @ 0.5% rate, €9,283 @ 2% rate, €18,705 @ 4.5% rate)

Income Tax = €5,240 (€36,800 @ 20%, €1,280 at 40% less PAYE and personal credits of €3,400)

EE PRSI = €1,600

If Alex and Anne were married and jointly assessed their total tax charge would be €5,587 comprising:

USC = €1,087 (€12,012 @ 0.5% rate, €9,283 @ 2% rate, €18,705 @ 4.5% rate)

Income Tax = €2,900 (€40,000 @ 20% less PAYE and personal credits of €5,100)

EE PRSI = €1,600

This represents an annual saving of **€2,340** (i.e. 5,240 – 2,900) of income tax. This saving is attributable to the effective partial transfer of Anne's personal tax credit and the higher standard rate band.

When the current tax treatment of marriage was put in place, it was a realistic assumption that a married couple would also have children and dependents, so it was reasonable to use marriage as a proxy when trying to recognise the additional financial burdens of family life.

In 2021, the appropriateness of marriage being a proxy may be questioned, noting the seismic demographic changes that have taken place in Ireland over the past 30 years (and those expected in the coming years), including reduced fertility levels resulting in smaller families, and therefore a reduced financial burden.

Also notable are the changes around the proportion of children born to parents who are not married, and the sequencing of life events noting that it is now more common for parents to have children before marriage[28], if the couple choses to get married at all[29] and before they buy their first family home[30][31].

The 2009 Commission on Taxation discussed the appropriate unit on which personal tax should be assessed and charged, whether the family or individual. They supported the continuation of the existing position that the family should remain the unit of taxation for all direct taxes.

However, the general understanding of the family unit has shifted significantly since 2009. As such, it may be desirable for the current Commission to re-visit the matter, noting that the 2009 Commission pre-dated the introduction of the fully individualised USC, the 2015 Marriage Referendum and the Civil Partnership and Certain Rights and Obligations of Cohabitants Act 2010. It also did not take into account the interaction between the tax and welfare system which may lead to inconsistent outcomes for citizens, in particular around how family life is organised, relevant to employment decisions which are typically taken on a household basis - such as how the tax treatment relies on marriage while the social welfare system looks at cohabiting couples, whether married or not. The question of tax neutrality should also be considered further– i.e. that tax should not influence the individual personal choices of families.

If any prospective changes are to be made, care would need to be taken to manage the impact on families who have already made their choices around their family life and who benefit from the current treatment. In this regard, it is also noted that the Home Carer Credit that is discussed further below, was specifically introduced to mitigate the impact of the partial individualisation of the tax code on households with caring responsibilities for children or other family members.

[28] According to the CSO, in 2019 38% of births were outside marriage and the average age of first-time mothers was 31 years old. In the same year, the average age of grooms and brides was 36.8 years and 34.8 years respectively.

[29] According to the CSO, in 2019 38% of births were outside marriage and the average age of first-time mothers was 31 years old. In the same year, the average age of grooms and brides was 36.8 years and 34.8 years respectively.

[30] According to the CSO, in 2019 the median age of joint first time buyers with children was 38 years old.

[31] As a result of these changes, the tax treatment of court-ordered maintenance payments and property transfers on foot of a relationship breakdown has had to change in recent years to recognise the end of cohabitating relationships.

Illustrative example of value of current tax treatment to beneficiaries[32]

> Barry and Brenda are married and jointly assessed and have 2 young children who Brenda looks after full-time. Barry is the sole earner (PAYE) with income of €40,000 per annum.
>
> Their total tax charge is = €3,987 comprising:
>
> USC = €1,087 (€12,012 @ 0.5% rate, €9,283 @ 2% rate, €18,705 @ 4.5% rate)
>
> Income Tax = €1,300 (€40,000 @ 20% less credits of €6,700 [PAYE credit, married personal credit and home carer credit])
>
> EE PRSI = €1,600
>
> If the Barry and Brenda were not married their total tax charge would be €7,927 so the value of the married based tax treatment to them is **€3,940** per annum.

Based on 2018 data there are around 440,000 married one income households, nearly half of whom are aged between 40 and 70 years of age[33].

The options that could be considered further in this space include:

- More accurately recognising the economic impact of dependents, including children.
- Equalising the treatment of the family unit, regardless of marriage status by allowing cohabiting couples to be given the same tax treatment as married couples.

In addition, consideration should be given to whether direct expenditure would be a better method of delivery of the above rather than through the tax code.

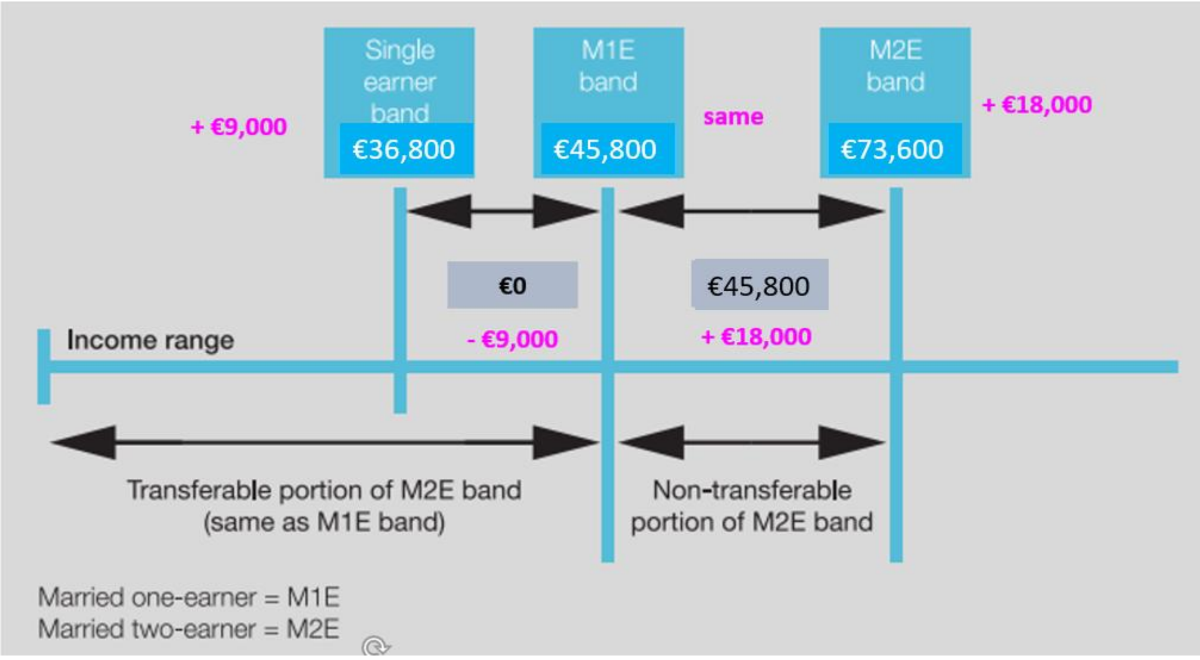
3.2.2 Individualisation of income tax code

A fully individualised income tax system would equalise the marginal tax rates of the primary and secondary earner on their first Euro of income so that both parties to a marriage are equally encouraged to work. Such a change would be consistent with current Government strategies on labour market participation of secondary earners and female labour market participation specifically as set out in Pathways to Work and Future Jobs strategy. There are a number of options for how an individualised income tax system could be achieved, including on a revenue neutral basis as part of broader reform of the income tax code.

[32] Note this does not also take account of any social welfare measures that they may also be entitled to, including Child Benefit or Working Family Payment

[33] 265,800, based on the age of the assessable spouse.

The step in the design of the SRCO that applies in the case of married couples[34] with only one income[35] was discussed at meeting 10. A move towards individualisation of the income tax bands in a manner where nobody loses relative to their present position would involve raising the single person SRCO by €9,000 to make it the same as the married one-earner SRCO. The estimated Exchequer cost of such a step in a single year is around €960m per annum.



An alternative to completing the step in one go would be to reduce the gap between the single SRCO and married one-earner SRCO over time, when or if further increases to the SRCO are made more generally. For example, if there was a policy to raise the SRCO by €1,500[36] it could be possible to raise the bands for all SRCOs except for the married one-earner band, thereby reducing the gap from €9,000 to €7,500. Although all other households would gain, there would be no loss to married one earner households.

Another option would be to increase the married one-earner SRCO by a reduced amount – for example €500 - so that all taxpayers would still have benefited from the policy, to varying extents, and reduce the gap to €8,000, with similar measures being taken over time until full individualisation is achieved.

[34] Note: all references to the tax treatment of married couples also applies to those in civil partnerships
[35] The additional ability to transfer personal credits further increases the step, as may the withdrawal of the home carer credit if being claimed.
[36] If the change made in Budget 2022 was repeated noting the Government's priority of increasing the threshold of the SRCO over a number of years.

4. Income support through the tax code

Generally, the tax system does not provide direct income support. Such support is an important and primary function of the social welfare system and is achieved through the delivery of the relevant benefits.

4.1 Credits for caring

One of the design principles behind the Irish income tax system is that it is intended to be broad-based and progressive, in order to ensure that the tax burden is the lowest for those on the lowest incomes.

Given this, a number of specific tax credits have been introduced which are aimed at providing additional targeted supports to certain people, depending on their personal circumstances and to recognise the particular additional financial challenges that may arise for them.

The table below provides the latest data on the cost and number of claims in respect of a number income tax credits intended to support balancing caring responsibilities and employment:

Table 5 Credits for caring – cost and number of claims (2018)

Credit	Cost (million)	Number of Claims
Single Person Child Carer Credit	99.1	70,500
Incapacitated Child Carer Credit	92.7	30,700
Home Carer Credit	90	83,110
Widowed Person or Surviving Civil Partner Credit	161.4	75,800
Dependent Relative Tax Credit	2.7	24,300

Source: Revenue statistics

4.1.1 Single Person Child Carer Credit (SPCCC)

The purpose of the SPCCC is to support single parents with children in taking up, or remaining in employment by indirectly assisting with the cost of childcare, in particular for single income households. Single parents are show to be at a higher risk of poverty, and employment is shown to be one of the most effective means of protecting against poverty.

The 2009 Report of the Commission on Taxation recognised this policy rationale of supporting and incentivising labour market participation of single and widowed parents (see the Widow Tax Credit below), but noted the inefficiencies and deadweight associated with allocating a full credit to both parents. This resulted in the introduction of the SPCCC to replace the One-Parent Family Tax credit in 2014. The main difference between the credits is that both parents could claim the full One-Parent Family Tac Credit if the child or children lived with them for part of the year, whereas only one parent can claim the SPCCC to address the inefficiencies and deadweight highlighted by the Commission on Taxation.

When this change was introduced it was met with opposition on behalf of separated parents who were not the primary carer of their children (in particular fathers), who lost access to the credit and the support it provided. In this regard it is noted that regardless of who the primary carer of a child is, if they are to have a relationship with both parents, then the secondary carer will need to maintain a home environment for the child and may face similar financial expenses and employment steps as the primary carer in that regard.

The SPCCC is an income tax credit with a value of €1,650 annually. This reduces the amount of tax paid per week by €31.73. There is also entitlement to an increased rate band of €4,000 at the 20 per cent tax rate for the person receiving the SPCCC.

The SPCCC is paid to the parent that the child lives with for the majority of the year and only one credit is provided regardless of the number of qualifying children. The parent receiving it may elect to relinquish and transfer the credit to the other parent or grandparent (the secondary carer), for example if they do not have sufficient income to absorb the value of the credit.

According to the CSO (2016 census data) of the total of 218,817 single parent families, just over 86 per cent of one parent families were comprised of the mother and child or children.[37] Given the number of claimants of the SPCCC in 2018, 70,500, this suggests that there is a large proportion of single parent families who are not in receipt of this credit. It may be the case that the primary carer is not working and so would not get the benefit of the tax credit or that there is a lack of awareness of the availability of the credit.

The SPCCC was last reviewed in 2015.[38] This review mainly centred on the legal, administrative, operational, and data protection issues around the proposed amendment to provide for partial transfer of the SPCCC. Three options were considered to:

[37] CSO; The Department of Finance Report on Tax Expenditures, Budget 2022, provides a high level gender breakdown of the Single Parent Child Carer Credit.

[38] Available here: Report on Tax Expenditures, Budget 2016.

1. maintain the status quo
2. amendment allowing for partial transfer
3. removal of the SPCCC from the tax system and focusing employment activation support to single person child carers via the Social Welfare system instead.

The legal review highlighted the importance of retaining qualification criteria related to the provision of care for the relevant child and the administrative review identified significant difficulties in the operation of an automatic transfer of the credit.

The number in receipt of the SPCCC has decreased from 71,100 in 2014 to 70,500 in 2018 while the cost has increased from €94 million in 2014 to €99 million in 2018.

4.1.2 Incapacitated Child Credit

The purpose of the incapacitated child credit is to support a parent of a child who is permanently incapacitated, either physically or mentally, and is expected to be unable to maintain themselves when over the age of 18 years. It is an income tax credit of €3,330.

The beneficiary is the parent(s) or guardian(s) of the incapacitated child. A credit is available for each child if there is more than one incapacitated child. If an incapacitated child is maintained by more than one person, the tax credit is divided between them.

The number of people claiming the incapacitated child tax credit has increased significantly from 9,800 in 2004 to 30,700 in 2018. Based on the 2016 Census, the CSO recorded an increase of 11,828 persons aged under 20 with a disability (15.6 per cent) since 2011, representing a disability rate of 6.7 per cent (up from 6 per cent in 2011).

The 2009 Commission on Taxation recommended that when direct expenditure support is in place at the appropriate level, the incapacitated child tax credit should be discontinued. The Commission was of the view that it is inequitable that individuals on low incomes who are caring for an incapacitated child do not obtain any benefit from the tax credit. Instead the Commission recommended that expenditure support should be put in place.

4.1.3 Home Carer Credit

The purpose of the home carer credit is to support parents who choose to stay at home and care for children or other dependents, including elderly relatives. The link between this measure and the individualisation of the income tax code is noted in 3.2.1 above, but also is the fact that the home carer credit has been almost doubled in recent years (from €810 to €1,600), while the position on individualisation has remained unchanged.

This income tax credit is available where a person who is married or in a civil partnership (and jointly assessed for tax purposes) cares for one or more dependent persons (not their spouse or civil partner). The amount of the credit is based on the level of income received by the person responsible for caring.

The full credit of €1,600 is available where the carer earns less than €7,200 annually and the tax credit reduces as the level of income increases until the point where if the carer is earning €10,400 or more, they cannot claim the tax credit.[39] The increased standard rate cut off point for dual income couples may not be claimed at the same time as the home carer credit, but Revenue apply whichever is more generous to the person's individual circumstances. Carer's allowances is not taken into consideration when determining whether a person qualifies for home carer credit (i.e. it is not included in their income). The main beneficiary of the credit is the spouse or civil partner who is employed but the overall household will benefit from greater net disposable income.

The 2009 Commission on Taxation recommended the continuation of the Home Care Credit, but noted the link between the credit and individualisation as the credit was first introduced in response to the partial individualisation of the income tax code in 2000 in an effort to mitigate the impact of the change for married couples with caring responsibilities.

The Home Carer Credit was reviewed in 2019 (Budget 2020 Tax Expenditure Review). The credit benefits over 80,000 households with an annual cost of over €83 million and mostly benefits families with two or less children. Most of the beneficiaries have a total household income of between €20,000 and €40,000 and most home carers are women who do not undertake other paid work outside of the home.

The review indicated there could be merit in re-examining the legal status of non-married couples (while recognising broader reform of their legal status would be needed before it would be possible to extend the credit to cohabiting couples with children). The review noted the narrow scope of the tax credit in the wider context of supports for families with caring responsibilities. The review also recognised the tension between the policy objectives of stay-at-home parents and incentivising and maximising employment capacity and labour force participation, particularly in the case of women.

4.1.4 Widowed Person Tax Credit

The purpose of the widowed person tax credit, including for a widowed person with children, is to assist individuals with the transition from married or civil partnership to widowed status. An income

[39] For more detail on the calculation of the credit based on income level, see Revenue's website here.

tax credit of €2,240 is provided to a widowed person or Surviving Civil Partner without a qualifying child[40].

Additionally, a widowed parent tax credit may also be available for a widowed parent who is not remarried or cohabiting and has a qualifying child living with them. It is intended to assist with the loss of a second income to provide for children. This is an income tax credit that is available for the five years after the death of a spouse or civil partner that reduces each year from €3,600 in the first year to €1,800 in the fifth year.

The purpose of the widowed parent tax credit, like the single person child carer credit, is to assist with the cost of raising a child on a single income. A widowed parent may also qualify for the single parent child carer credit.

The number in receipt of the widowed person or surviving civil partner has credit has decreased going from 81,100 in 2008 to 75,800 in 2018 and the cost has also decreased going from €184.3 million in 2008 to €161.4 million in 2018.

There does not appear to have been a review of this tax credit carried out in the last 10 years. The 2009 Commission on Taxation recommended that the widowed parent tax credit should continue as it helps those who are widowed to cope financially and assists them either accessing or remaining in the labour market in the years following bereavement.

4.1.5 Dependent Relative Tax Credit

The purpose of the Dependent Relative Tax Credit is to provide support to a person who is looking after a dependent relative[41], including a child, or a relative of a spouse or civil partner.

It provides an income tax credit to a person who maintains a dependent relative and covers their everyday living costs at their own expense to assist with this cost.

An income tax credit is provided of €245, but this is not available if the dependent relative's income exceeds €15,740.

The number in receipt of the dependent relative tax credit has gone from 18,700 in 2008 to 24,300 in 2018 and the cost of the dependent relative tax credit has gone from €2 million in 2008 to €2.7 million in 2018.

[40] This credit replaces the basic single or married personal tax credit. In the year of bereavement, a basic personal credit of €3,400 is available to the surviving spouse.

[41] Except where the dependent relative is a child, there is no requirement for the relative to live in Ireland or to live with the claimant in order for them to qualify for this credit.

There does not appear to have been a review of this tax credit carried out in the last 10 years. The 2009 Commission on Taxation recommended that the dependent relative tax credit should be discontinued. While the Commission acknowledged the purpose of the tax credit was generally to assist people in old age or infirmity who may be in need of accommodation it took the view that the nominal value of the dependent relative tax credit is too small to be of any material benefit to a claimant.

4.2 Refundable tax credits

The provision of in-work benefits via the welfare system was discussed in the employment disincentives paper at meeting 10 and will be re-visited at meeting 15.

Proposals around refundable tax credits have been made in the past as a means to provide in-work income support via the tax system[42].

Tax credits are generally only of value when the taxpayer has income to generate a gross tax liability sufficient to use them[43]. A refundable tax credit is one where, if an income-earner has an insufficient income tax liability to use all of their tax credit, the unused portion is paid by way of a cash transfer. Refundable tax credits have been proposed as a means of redistributing income to people on low pay.

Arguments against refundable credits include concerns relating to their impact on incentives to work for those on lower incomes both in terms of participation and progression. This is because if an individual already benefits from the tax credit in full by way of cash transfer, the potential beneficial impact of a move to work, or progression in work is reduced.

In their April 2021 paper "Towards a more integrated income support system" the National Economic and Social Council (NESC) discussed refundable tax credits in the context of measures to benefit low-paid employees and basic income systems, alongside negative income tax and partial basic income proposals. NESC noted that the design of any such measure would have to be considered carefully to ensure that the refundable tax credits would lower poverty rates and that eligibility criteria would need to be set to ensure that the measure was targeted, in terms of setting a minimum age, a minimum annual income from employment, a minimum of PRSI payments, a maximum level of annual

[42] A broader system of refundable tax credits has also been proposed previously, with universal application where everyone would qualify for refundable credits regardless of whether they are within the tax system. Such a system would be conceptually very similar to a system of basic income which will be addressed in a future paper.

[43] An exception to this applies in the case of income tax relief for health insurance premiums which are provided at source and are available regardless of income or whether tax is paid.

earnings etc. They also highlighted that the cost would also need to be considered. Any such costing would depend on the overall design of the measure but it is noted that in 2009 Revenue estimated the cost could be as high as €2 billion per annum.

There are also concerns around using the tax system more generally to deliver income supports in this manner, which is typically primarily the role of the social protection system. In this regard, the connection with the provision of in-work benefits is relevant and will be discussed in more detail in the upcoming paper on Social Assistance at meeting 15.

5. Potential options for reform

The various aspects of the charges on income that are highlighted in this paper have generally been presented in isolation from each other so as to allow for the consideration of the potential impact of changes to each component part.

However, in the context of an annual Budget process, and even-more-so over the implementation of a multi-year strategic plan, it is the combined impact of making multiple policy changes that is most relevant.

There are opportunities to manage costs when considering substantial and important reforms of the tax system, as one change with a cost may be offset by another change that has a yield. As is ever the case, there is a trade-off between costs/yields and other relevant considerations including the impact on marginal rates of tax, competitiveness of the tax wedge, the distribution of the burden of taxation overall and specific policy objectives.

The following sets out some **illustrative** options for changes to the personal tax system– some revenue raising, some incurring cost to the Exchequer and others redistributive in nature, across various income ranges, covering those on low incomes, middle to higher income earners, and the highest income earners.

5.1 USC entry point

When initially introduced in 2011 the entry threshold to USC was €4,004, with the result that just over 12 per cent of income earners were exempt from the charge. Following a series of reviews, the threshold was increased to €10,036 in Budget 2012, then further increased to €12,012 in 2015 and €13,000 in 2016. 29 per cent of income earners were exempt from USC in 2021.

One option to increase the yield from USC is to broaden the base by lowering the entry threshold. If, for example, the entry threshold was reduced back to €4,000 the estimated annual yield would be €25 million in a full year. The distributional impact[44] of such a change, which would only impact on those with incomes below the current €13,000 threshold, would be as follows:

Table 6 Distributional impact of broadening the USC base and changing entry point to €4,000

Gross Income	Income Tax	PRSI	USC		Total Change		Change as % of Net Income	Effective Tax Rate	
	No Change	No Change	Existing	Proposed	Per Year	Per week		Existing	Proposed
€	€	€	€	€	€	€	%	%	%
9,000	0	0	0	45	-45	-1	-0.5%	0.0%	0.5%
10,000	0	0	0	50	-50	-1	-0.5%	0.0%	0.5%
11,000	0	0	0	55	-55	-1	-0.5%	0.0%	0.5%
12,000	0	0	0	60	-60	-1	-0.5%	0.0%	0.5%
15,000	0	0	120	120	0	0	0.0%	0.8%	0.8%
20,000	600	459	220	220	0	0	0.0%	6.4%	6.4%
22,000	1,000	872	277	277	0	0	0.0%	9.8%	9.8%
25,000	1,600	1,000	412	412	0	0	0.0%	12.0%	12.0%
30,000	2,600	1,200	637	637	0	0	0.0%	14.8%	14.8%
35,000	3,600	1,400	862	862	0	0	0.0%	16.7%	16.7%
55,000	11,240	2,200	1,762	1,762	0	0	0.0%	27.6%	27.6%
70,000	17,240	2,800	2,437	2,437	0	0	0.0%	32.1%	32.1%
100,000	29,240	4,000	4,836	4,836	0	0	0.0%	38.1%	38.1%
120,000	37,240	4,800	6,436	6,436	0	0	0.0%	40.4%	40.4%

Source: Secretariat analysis

5.2 Change the SRCO

As noted in section 3.1 above, a €1,000 increase to the SRCO has an estimated annual cost of €230 million per annum. This measure would benefit middle and higher income taxpayers (with income in excess of €36,800 in the case of a single PAYE worker) to the tune of €200 per annum based on current income tax rates. The distributional impact of this change[45] would be as follows:

[44] Post-Budget 2022, single PAYE worker, secretariat calculations
[45] Post-Budget 2022, single PAYE worker, secretariat calculations

Table 7 Distributional impact of €1,000 increase to the SRCO

Gross Income	Income Tax		PRSI	USC	Total Change		Change as % of Net Income	Effective Tax Rate	
	Existing	Proposed	No Change	No Change	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	%	%	%
12,000	0	0	0	0	0	0	0.0%	0.0%	0.0%
15,000	0	0	0	120	0	0	0.0%	0.8%	0.8%
20,000	600	600	459	220	0	0	0.0%	6.4%	6.4%
22,000	1,000	1,000	872	277	0	0	0.0%	9.8%	9.8%
25,000	1,600	1,600	1,000	412	0	0	0.0%	12.0%	12.0%
30,000	2,600	2,600	1,200	637	0	0	0.0%	14.8%	14.8%
35,000	3,600	3,600	1,400	862	0	0	0.0%	16.7%	16.7%
40,000	5,240	5,040	1,600	1,087	200	4	0.6%	19.8%	19.3%
45,000	7,240	7,040	1,800	1,312	200	4	0.6%	23.0%	22.6%
50,000	9,240	9,040	2,000	1,537	200	4	0.5%	25.6%	25.2%
55,000	11,240	11,040	2,200	1,762	200	4	0.5%	27.6%	27.3%
60,000	13,240	13,040	2,400	1,987	200	4	0.5%	29.4%	29.0%
70,000	17,240	17,040	2,800	2,437	200	4	0.4%	32.1%	31.8%
100,000	29,240	29,040	4,000	4,836	200	4	0.3%	38.1%	37.9%
120,000	37,240	37,040	4,800	6,436	200	4	0.3%	40.4%	40.2%

Source: Secretariat analysis

5.3 USC rate band changes

A further option is to revise the USC thresholds in such a way as to reduce the impact of USC on low to middle income earners while simultaneously ensuring that those on higher incomes continue to pay a similar amount of the charge overall. An illustrative example of how this could be achieved as follows:

- The 2 per cent USC band could be widened by increasing the applicable ceiling from €21,295 to €30,000. All taxpayers with income above €21,295 would stand to benefit from this change. For example, a person who earns €25,000 would save approximately €93 per annum, while a person who earns €80,000 would save €218.

- In order to limit the benefit given to those on higher incomes, the ceiling for the 4.5 per cent rate band could be lowered from €70,044 to €63,000, bringing some income that is currently subject to the 4.5 per cent rate into the 8 per cent rate band.
- By making both changes simultaneously, the net result for higher income earners should be neutral overall. For example, a person earning €80,000 would save €218 from having more income subject to the 2 per cent rate, but would pay an additional €245 because more of their income would be subject to the 8 per cent rate.
- The overall cost of such USC band changes is estimated to be around €300m.

The distributional impact of this combination of changes[46] would be as follows:

Table 8 Distributional impact of combined USC rate band changes

Gross Income	Income Tax	PRSI	USC		Total Change		Change as % of Net Income	Effective Tax Rate	
	No Change	No Change	Existing	Change	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	%	%	%
12,000	0	0	0	0	0	0	0.0%	0.0%	0.0%
15,000	0	0	120	120	0	0	0.0%	0.8%	0.8%
18,000	200	0	180	180	0	0	0.0%	2.1%	2.1%
20,000	600	459	220	220	0	0	0.0%	6.4%	6.4%
25,000	1,600	1,000	412	320	93	2	0.4%	12.0%	11.7%
30,000	2,600	1,200	637	420	218	4	0.9%	14.8%	14.1%
35,000	3,600	1,400	862	645	218	4	0.7%	16.7%	16.1%
40,000	5,240	1,600	1,087	870	218	4	0.7%	19.8%	19.3%
45,000	7,240	1,800	1,312	1,095	218	4	0.6%	23.0%	22.5%
50,000	9,240	2,000	1,537	1,320	218	4	0.6%	25.6%	25.1%
55,000	11,240	2,200	1,762	1,545	218	4	0.5%	27.6%	27.2%
70,000	17,240	2,800	2,437	2,430	8	0	0.0%	32.1%	32.1%
80,000	21,240	3,200	3,236	3,230	6	0	0.0%	34.6%	34.6%
100,000	29,240	4,000	4,836	4,830	6	0	0.0%	38.1%	38.1%
120,000	37,240	4,800	6,436	6,430	6	0	0.0%	40.4%	40.4%

[46] Post-Budget 2022, single PAYE worker, secretariat calculations

5.4 USC surcharge

If it was desired to increase the yield from the highest income earners, an option could be to impose an additional charge on individuals with income in excess of €100,000 in a year in line with the surcharge which currently applies, subject to certain exceptions[47], to non-PAYE incomes in excess of €100,000[48]. Such individuals account for only around 3% of taxpayers in Ireland but earn around 18% of total income.

If the surcharge was extended to all income earners it could allow for the equalisation of treatment between both PAYE and non-PAYE incomes and yield an estimated additional €200m per annum. This would increase the marginal rate of tax for such incomes and may be considered relevant for the competitiveness of the Irish income tax system.

The distributional impact of this change would be as follows:

Table 9 Distributional impact of extending USC surcharge to all income earners

Gross Income	Income Tax	PRSI	USC		Total Change		Change as % of Net Income	Effective Tax Rate	
	No Change	No Change	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	%	%	%
12,000	0	0	0	0	0	0	0.0%	0.0%	0.0%
15,000	0	0	120	120	0	0	0.0%	0.8%	0.8%
20,000	600	459	220	220	0	0	0.0%	6.4%	6.4%
30,000	2,600	1,200	637	637	0	0	0.0%	14.8%	14.8%
40,000	5,240	1,600	1,087	1,087	0	0	0.0%	19.8%	19.8%
50,000	9,240	2,000	1,537	1,537	0	0	0.0%	25.6%	25.6%
60,000	13,240	2,400	1,987	1,987	0	0	0.0%	29.4%	29.4%
70,000	17,240	2,800	2,437	2,437	0	0	0.0%	32.1%	32.1%
100,000	29,240	4,000	4,836	4,836	0	0	0.0%	38.1%	38.1%
110,000	33,240	4,400	5,636	5,936	-300	-6	-0.4%	39.3%	39.6%
120,000	37,240	4,800	6,436	7,036	-600	-12	-0.8%	40.4%	40.9%
150,000	49,240	6,000	8,836	10,336	-1,500	-29	-1.7%	42.7%	43.7%

Source: Secretariat analysis

[47] Although tax on share option gains is collected under self-assessment rather than via the PAYE system, share option gains taxed under Schedule E are specifically excluded from the USC surcharge
[48] In 2018 the surcharge applied to .5% of taxpayer units

5.5 Rate increases and SWITCH analysis

In addition to the above potential changes to income tax and USC, changes could be made to the various rates applicable to different income levels. For illustrative purposes, the tables below present the results of simulations of seven separate changes to the three charges on income:

1. Income Tax: 1 per cent increase in the standard and higher rate
2. USC: 1 per cent increase in each rate of USC
3. Employee PRSI: 1 per cent increase in rate for Class A, Class S and rental income PRSI
   Income decile basis

The distributional analysis in the tables is based on the SWITCH (Simulating Welfare and Income Tax CHanges) micro-simulation tax-benefit model developed and operated by the Economic and Social Research Institute (ESRI). SWITCH uses household survey data collected by the CSO in the Survey on Income and Living Conditions (SILC) on incomes and other tax and welfare relevant characteristics to simulate how households are impacted by 'overnight' changes to tax and welfare leavers.[49]

The SWITCH simulations conducted here are updated to reflect 2022 price and income levels, however, the labour market is set to 2019 employment rates to reflect a long-run employment situation. As such Covid-19 supports are excluded from this analysis.

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[49] SWITCH is a static model and does not take into account behavioural changes that might be brought about by policy changes. It is the immediate, or overnight, impact on disposable income. The impact on different income groups shown by the analysis can be examined by decile of equivalised disposable income, by fixed range of equivalised disposable income or by fixed range of gross income. The family types in the analysis include lone parents and single individuals without children; working age adults with and without children; and retired single people and couples. The impacts by income group in this section are presented in terms of their impact on deciles within the income distribution. Deciles are formed by ranking households based on their disposable income and then dividing them into ten equally sized groups. This ranking by decile is completed after households are 'equivalised'. Equivalisation involves adjusting household income on the basis of household size and composition. The SWITCH model uses a scale of 1 for the first adult, 0.66 for subsequent adults and 0.33 for children aged 14 or under. This means that the income of all households is expressed in terms of a single adult household. For instance, a single adult household with an actual income of 100 (100 ÷ 1 = 100) is considered to have the same equivalised income as a two adult household with an income of 166 (166 ÷ {1+0.66} =100). The distributional impact by family type is conducted on a 'tax unit' basis, i.e. an individual or couple, grouped together with any dependent children. Young adults (e.g. third-level students) are treated as independent tax units and are not grouped into households.

Table 10 Distributional impact of 1 percentage point increases in income tax rates, each rate of USC, and Employee PRSI for Class A, Class S and rental income PRSI on an income decile basis

Change in Rates	Income Tax		USC				Employee PRSI
	20% to 21%	40% to 41%	0.5% to 1.5%	2% to 3%	4.5% to 5.5%	8% to 9%	4% to 5%
Disposable Income Decile	% change in household equivalised disposable income						
1 (€270.19)	-0.28	-0.01	-0.16	-0.08	-0.07	0.00	-0.24
2 (€313.88)	-0.28	0.00	-0.14	-0.08	-0.06	0.00	-0.23
3 (€371.04)	-0.59	-0.06	-0.26	-0.18	-0.22	-0.02	-0.56
4 (€430.11)	-0.72	-0.08	-0.29	-0.20	-0.31	-0.01	-0.72
5 (€492.28)	-0.85	-0.13	-0.32	-0.23	-0.35	-0.04	-0.77
6 (€561.78)	-0.93	-0.16	-0.34	-0.25	-0.45	-0.04	-0.96
7 (€644.15)	-0.96	-0.22	-0.32	-0.26	-0.51	-0.05	-0.92
8 (€755.78)	-0.93	-0.38	-0.31	-0.25	-0.63	-0.12	-1.21
9 (€883.87)	-0.88	-0.47	-0.28	-0.24	-0.70	-0.13	-1.24
10 (> €883.87)	-0.56	-1.05	-0.18	-0.14	-0.57	-0.73	-1.21
All	-0.75	-0.40	-0.26	-0.20	-0.48	-0.21	-0.96
% of Households impacted	76.31	47.64	78.19	76.89	64.20	17.89	66.03

Source: Secretariat Analysis using the ESRI's SWITCH model
Note: The first column values in parentheses are the € per week equivalised disposable income thresholds of each decile. The last row is the percentage of households losing > €0.50 a week in disposable income.

Income tax rate increases affect those on higher incomes disproportionately. A 1-percentage point increase in the standard rate from 20 to 21 per cent results in a reduction of 0.96 per cent in disposable income. In contrast, those in the bottom two deciles in particular, see reductions of 0.28 per cent on average. The effects of a similar increase in the 40 per cent rate are more concentrated in the higher deciles, affecting 47.6 per cent of households, compared to 76.3 per cent with a standard rate increase. Households in the bottom 40 per cent of disposable income earners are virtually unaffected by this change. In contrast, those in the top decile experience a decrease in disposable income of just over 1 per cent.

Similar progressive patterns can be seen with USC rate increases. However, an increase of 1 percentage point in the bottom two bands results in disproportionate impacts for households in the middle of the income distribution in particular. Of note, an increase in the lowest USC rate results in similar proportionate impacts for the bottom 20 per cent and the top decile. A change to the lowest rate of USC affects nearly every four households in five, which represents the fact that the USC is a broad-based tax. An increase in the 4.5 per cent USC rate indicates that it is a very progressive tax rate, with smaller impacts in the lower deciles rising gradually as income rises. Changes to the 8 per cent band affect the highest income decile in particular.

An increase in the employee PRSI rate results in similar distributional impacts affecting 66 per cent of all households.

Table 8 Distributional impact of 1 percentage point increases in income tax rates, each rate of USC, and Employee PRSI for Class A, Class S and rental income PRSI on a household type basis

Change in Rates	Income Tax		USC				Employee PRSI
	20% to 21%	40% to 41%	0.5% to 1.5%	2% to 3%	4.5% to 5.5%	9% to 9%	4% to 5%
Household Type	% change in disposable income						
Single working-age without children	-0.88	-0.28	-0.35	-0.24	-0.51	-0.09	-1.10
Lone parent	-0.57	-0.22	-0.22	-0.15	-0.35	-0.08	-0.57
Working-age couple without children	-0.84	-0.45	-0.29	-0.21	-0.58	-0.23	-1.13
Working-age couple with children	-0.76	-0.50	-0.25	-0.18	-0.57	-0.30	-1.25
Single retirement-age (>= 66)	-0.49	-0.15	-0.15	-0.16	-0.07	-0.04	0.00
Retirement-age couple (at least one >=66)	-0.44	-0.52	-0.15	-0.18	-0.17	-0.32	-0.06
Other							
All	-0.75	-0.40	-0.26	-0.20	-0.48	-0.21	-0.96

Source: Secretariat Analysis using the ESRI's SWITCH model

An increase in income tax rates affects those of working age disproportionately, on average. Single working-age households without children are impacted to a greater degree by a change in the lower income tax rate, followed by couples without children. A 1-percentage point increase in the 40 per cent rate impacts on retirement-age couples in particular, with an average reduction in disposable income of 0.52 per cent for this cohort. In contrast, single adults of retirement age see the smallest effects of an increase in the higher tax rate (-0.15 per cent), followed by lone parents (-0.22 per cent).

Similar patterns can be seen in the instance of USC rate increases. An increase in the lowest USC rate leads to an average decrease of 0.35 per cent in disposable income among single working-age adults without children, with smaller impacts on those of retirement age. Incomes of working-age couples with children and couples of retirement age are affected by the highest USC rates. An employee PRSI rate increase affects working age couples with children the greatest with smaller impacts on lone parents. As might be expected, increased employee PRSI does not affect retirees.

6. Conclusions and questions

Taking account of the elements discussed in this paper, views of the Commission on the following are invited to inform further work by the secretariat:

1. Noting the on-going discussion of the balance of taxes levied on earned income, consumption and wealth, is there scope to raise further revenue from taxes on income, in particular related to employment?
2. If so, where should the focus be?
3. Are there areas of the income tax system that should be examined further to meet the goal of encouraging individuals to maximise their employment capacity?
4. Are the commission satisfied that the current income supports provided through the tax system remain appropriate?
5. Are there any other substantive areas of taxes on income that Members think are relevant to the terms of reference that should be examined further?