Commission on Taxation & Welfare
An Coimisiún um Chánachas ⁊ Leas

Progress Paper

Personal Taxes

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Subject	**Personal Taxes**
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1. Introduction

The purpose of this paper is to provide the basis for draft material for the final report and to pave the way for recommendations the Commission will ultimately make in the area of taxation of personal income (with a particular focus on employment).

It should be read in conjunction with the accompanying paper on children and families and follows on from discussions at the following meetings:

Meeting 2 – Introduction to Social Protection

Meeting 4 – How tax and welfare interact to facilitate employment

Meeting 7 – Market income and redistribution

Meeting 10 – Social insurance design and Employment disincentives

Meeting 11 – Activation and PES

Meeting 12 – Taxation of labour under different legal forms

Meeting 13 – PRSI rates and base options

Meeting 14 – Taxes on personal income

Meeting 15 – PRB and Social Assistance

Meeting 17 – Pension Commission response

Meeting 18 – Global mobility and International Income Tax issues

2. Items of general consensus

This section sets out, in summary, points of general consensus among Commission members to date. These are presented for confirmation or further discussion as appropriate.

2.1 Focus on structure

The Commission is focused on the structure and base of the three personal tax charges (income tax, USC and PRSI) in the interest of longer term fiscal sustainability.

Any views expressed on the rates will focus on a 'direction of travel over time' rather than setting specific rates as the Commission considers that setting of specific rates is a matter for Government taking into account prevailing economic circumstances.

Further analysis on the potential implications of extending the base across the three charges is outlined below.

2.2 Principles

Fiscal sustainability is a core concern for the Commission. In considering the impact of possible change, the Commission may wish to consider the short and long-run impact of any proposed changes, particularly in the light of the aging of the population. Changes made in the short term may have much greater fiscal consequences in the longer term.

At the same time, the Commission recognises the importance of the equity principle – both horizontal and vertical. Vertical equity means that the tax system should be progressive i.e. those who have more should pay more. Horizontal equity requires that those with like resources should be treated alike, which ties in which the concept of tax neutrality i.e. the system should be neutral regarding the personal choices of individuals and households. Exceptions to the equitable treatment across all taxpayers should have a clear and evidence based rationale.

The Commission is also of the view that the tax and welfare system should ensure that individuals are able to maximise their employment opportunities.

The Commission recognises the increased importance of income based secondary benefits for employment incentives, in particular their tapered withdrawal as incomes increase. The Commission notes the advantages of better alignment of criteria across a number of schemes, including the National Childcare Scheme, Housing Assistance Payment and Medical card scheme.

2.3 Impacts of tax neutrality - factors no longer appropriate for preferential tax treatment

2.3.1 Age (IT, PRSI and USC)

The Commission is of the view that age should be removed as a factor for determining the amount of income tax, USC and PRSI paid.

The necessary changes to each charge should be introduced over time to minimise negative impacts and should be implemented in a way that minimises inter-generational inequities.

2.3.2 Marital status (IT)

The Commission is of the view that marital status is no longer an appropriate factor to determine income tax treatment and that a fully individualised income tax system should be introduced[1].

This is important to increase the labour market participation of secondary income earners and should be done over time in such a way as to minimise negative impacts for lower income households.

2.3.3 Medical card (USC)

The Commission is of the view that the medical card should no longer determine how much USC an individual is subject to.

[1] A separate discussion of the individualisation of the social welfare system is discussed in the accompany paper on children and families.

3. Further information sought

This section sets out further information requested by the Commission on a number of topics for further consideration and discussion.

A broader discussion of the balance of taxation was held at meeting 14 and remains on-going.

Discussions to date[2] have indicated that PRSI is the likely priority area for reform of personal taxes. This also follows the discussion of the response to the Report of the Commission on Pensions from meeting 17 where the broad direction of travel to increase the rate of PRSI on the self-employed, employees and employers were endorsed, as well as the need to broaden the PRSI base.

It is therefore noted that, absent any changes to income tax and USC rates, the changes endorsed for PRSI will result in increases to marginal rates of tax on income.

The following information is intended to further aid these deliberations, revisiting options to broaden the base of all personal taxes, other revenue raising options, measures to encourage employment and other areas of PRSI reform.

3.1 Base broadening: principle

Vertical equity implies that everyone should pay in accordance with capacity or ability; horizontal equity implies that everyone should pay a similar amount when in similar situations. These principles taken together are consistent with the idea that everyone should pay personal taxes, with a the combination of a progressive rate structure and a widely available tax free allowance or tax credit ensuring those with higher income more pay proportionately more of their total income. That idea may well be attractive under the assumption that it engenders some degree of social cohesion, in which case it may be of broader application than personal taxes only.

Discussions on base broadening to date have indicated an emerging view that in everyone should pay some tax, even if that contribution is small.

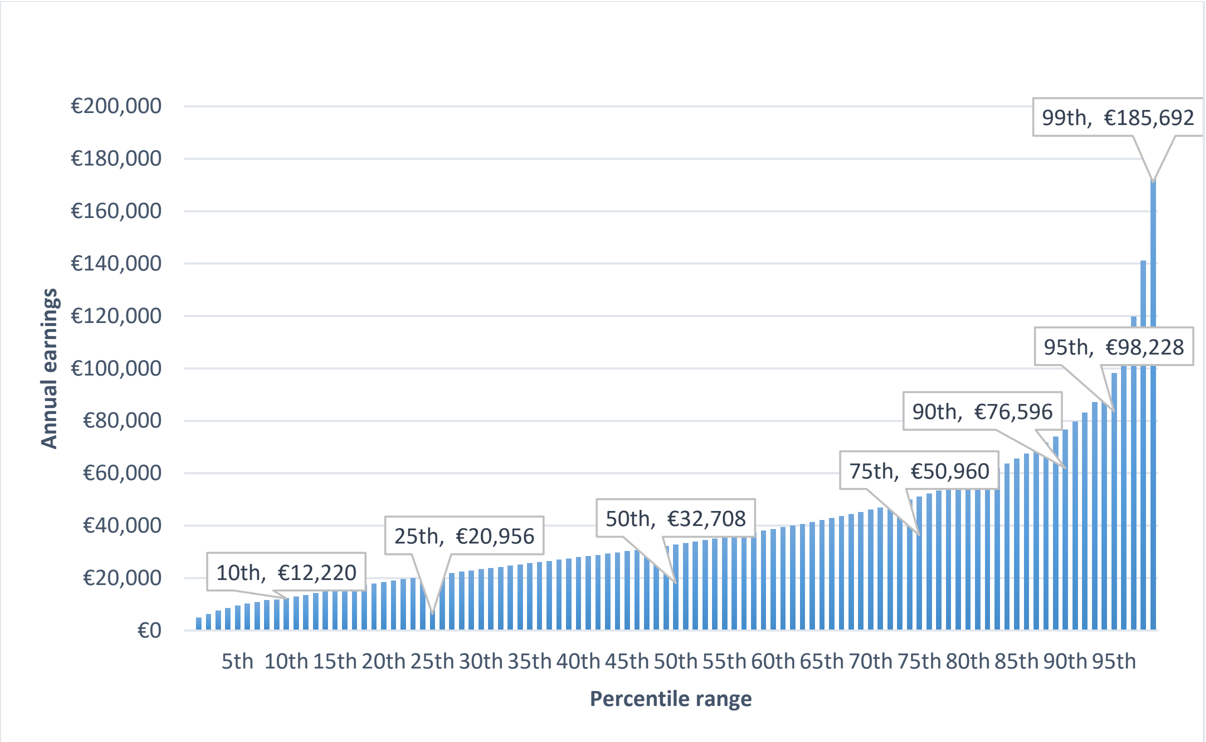
To facilitate a further discussion of base broadening options, matters relevant to the current base of all three taxes on personal income are restated below – discussing the income levels charged, the taxpayer characteristics that may give rise to exemptions or reliefs and the source of income.

[2] Views expressed at meeting 10 on employment disincentives and social insurance design, meeting 12 on taxation of labour under different legal forms, meeting 13 on PRSI rates and base options, meeting 14 on taxes on personal income.

3.2 Base broadening: income levels

At present, income is exempt from tax at different levels for income tax, USC and PRSI i.e. €13,000 per annum in the case of the USC, €17,000 per annum for income tax or €18,304 per annum for Employee (EE) PRSI. Figure 1 shows the distribution of annual earnings from employment in 2020 by percentile, highlighting selected points. A key takeaway is that a substantial majority of workers in Ireland have earnings of less than €40,000 per annum (further tables and figures are set out at Appendix I).

Figure 1 Annual Earnings in Euro by Percentile (Every 5th Percentile) (2020, €)[3]



Source: CSO Ireland, Earnings Analysis using Administrative Data Sources

While there was a more detailed discussion of options to broaden the base of these charges at meeting 14, they are summarised below for ease of reference.

INCOME TAX

Although income tax is applied from the first €1 of income, a number of credits (including the single/married credit, PAYE and Earned Income tax credit) operate so that, currently, typically €17,000 of income is sheltered from the income tax charge. If an individual's income is below this level, their income is fully sheltered from income tax by design through availing of the credits which are available to all taxpayers.

[3] Excludes individuals with zero gross income.

A reduction in these credits in part or in full, would have a significant yield potential (as would, over time, a decision not to increase the credits further), but would impact all taxpayers, not just those currently outside the liability to income tax.

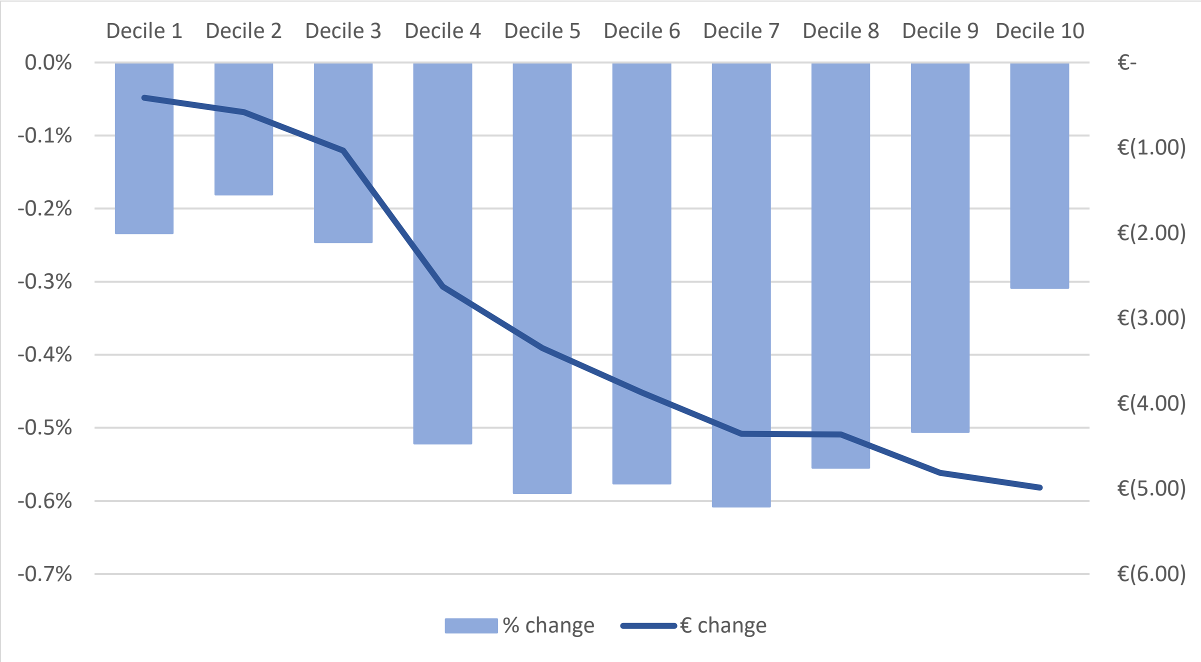
To illustrate the impact that the universal personal credits have on the charge to income tax by using an extreme example, if the single/married credit and PAYE credits were reduced to zero it is estimated to raise an additional €9.2 billion per annum with 2.6 million taxpayer units impacted[4]. The result of such a move is that the number of taxpayer units who are labelled as exempt from income tax would be significantly reduced to just 144,000 which is 5% of all taxpayer units – reduced from the current estimated 34%.

A less extreme change would be to reduce the single/married personal credits and PAYE credit by €100. On the same basis as the above, it is estimated that this would yield an additional €455 million per annum with around 1.9 million taxpayer units impacted. The projected result of such a move is that the number of taxpayer units who are labelled as exempt from income tax would be reduced by around 50,000 taxpayer units to 924,000 which is 32% of all taxpayer units.

Figure 2 below estimates the distributional impact of a €100 per annum reduction in the Personal Tax Credits (single, married, PAYE and Earned Income), using the ESRI's tax-benefit model, SWITCH. The average loss across all deciles is just under 0.5% of weekly disposable income, which equates to approximately €3.00 per week. This measure primarily targets taxpayers in middle- and upper-income deciles and peaks (in proportionate terms) at 0.7%, or €4.40 of weekly disposable income in the seventh income decile. It is estimated that this measure would reduce the At-Risk-of-Poverty rate by approximately 0.1% for the whole population and just over 0.3% for children.

[4] Post-Budget 22 projection basis, this calculation is based on Revenue's Tax Modeller which does not include the facility to adjust the EITC, which has around 220,000 beneficiaries per annum. See Revenue Ready Reckoner for current post-Budget 22 projections.

Figure 2: Estimated distributional impact on weekly disposable income of reducing main Personal Tax Credits by €100



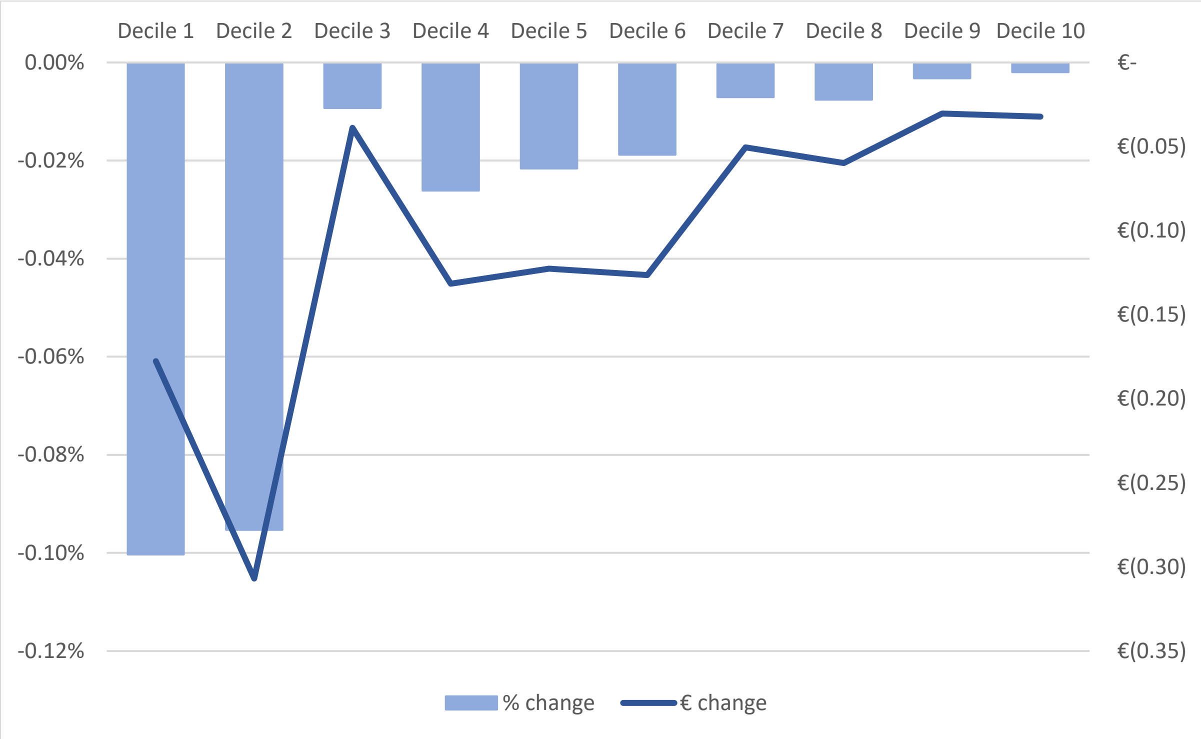
Source: Secretariat calculations using ESRI SWITCH tax-benefit model

USC

At present, the first €13,000 of income is exempt from USC. As outlined in Meeting 14, one option to base broaden in a USC context is to reduce the current threshold for entry to the USC from €13,000 to €4,000 as it was originally designed when the USC was first introduced. This showed an annual yield of €25m.

The SWITCH analysis for this change is shown in Figure 3 below:

Figure 3: Estimated distributional impact on weekly disposable income of reducing the USC entry threshold to €4,000 per annum



Source: Secretariat calculations using ESRI SWITCH tax-benefit model

PRSI

The 2021 Commission on Pensions focused on PRSI base broadening recommendations that related to the source of the income and the characteristics of the taxpayer. In this section, two options to increase the PRSI base are examined i.e. lowering the threshold and introducing a new low rate of PRSI.

An option to increase the EE PRSI base by reference to income levels is to reduce the current weekly EE PRSI threshold to increase EE PRSI contributions. The following table outlines the impact of reducing the threshold from €352 to €250 of weekly earnings (which would align with the *current* USC annual income threshold).

Table 1 Impact of reducing the employee PRSI threshold from €352 to €250 of weekly earnings

Scenario	Baseline	Threshold reduction to €250	Change
Number of employees	2,405,910	2,405,910	Same
Number of individuals affected	0	439,513	+439,513
Number of individuals exempt from employee PRSI	656,672	413,107	-243,565
Number of individuals with tapered employee PRSI	195,948	439,513	+243,565
Number of individuals at full employee PRSI, 4%	1,553,290	1,553,290	Same
Number of individuals exempt from employer PRSI	32,666	32,666	Same
Number of individuals at lower rate of employer PRSI, 8.8%	782,685	782,685	Same
Number of individuals at full rate of employer PRSI, 11.05%	1,590,559	1,590,559	Same
Increased yield to SIF, million	€0.00	€78.20	+€78 million

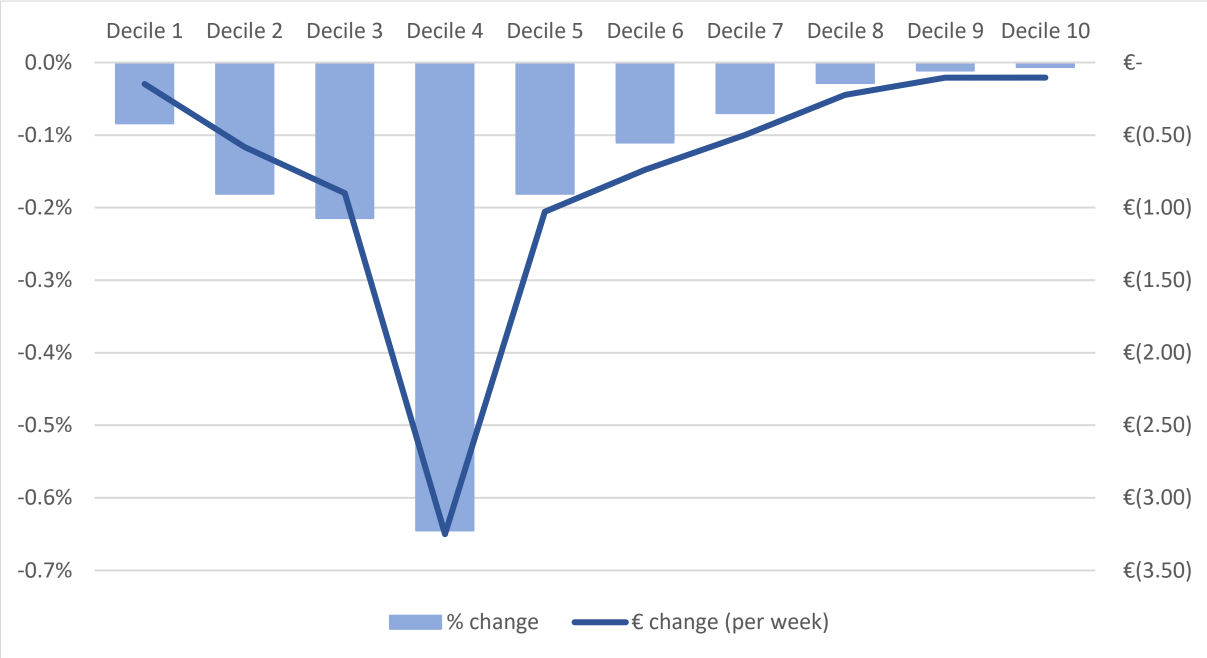
Source: DSP Statistics Unit[5]

It is noted that a reduction in the threshold would largely impact the lower end of the income distribution. The decrease in net pay at the lower end of the earnings distribution would have consequences for expenditure on in-work support for low-income families with children (as Working Family Payment 'WFP' is currently configured). Half of households in receipt of WFP in 2020 had net weekly household earnings of €300 to €500.

Members may wish to consider the objective of having a wider range of people contributing personal taxes against the yield and distributional impact as shown in Figure 4 below[6].

[5] Note: PRSI credit is amended to €10 rather than €12 under the reduced threshold scenario.
[6] Secretariat calculations using SWITCH, the ESRI tax-benefit model. Information on the design, underlying data and model construction can be found at www.esri.ie/switch. The model simulates the impact of changes in welfare and income tax for a representative sample of over 5,000 households, drawn from the 2019 CSO Survey on Income and Living Conditions, with the data uprated to reflect growth in population, employment, and incomes. Responsibility for the results and interpretation in this document rests with the Secretariat and not with the ESRI.

Figure 4: E Estimated distributional impact on weekly disposable income of reducing Employee PRSI Threshold from €352 to €250 of Weekly Earnings



Source: Secretariat calculations using ESRI SWITCH tax-benefit model

This option impacts those in lower and middle income deciles most, and particularly those in the fourth decile, where the loss is approximately 0.6% of disposable income (equivalent to approximately €3.25 per week). There is an increase in the At-Risk-of-Poverty rate by 0.1 percentage points.

When modelling a reduction in this threshold from €352 to €300, the same general pattern emerges. The largest impact is seen in the fourth income decile, with average losses equating to just over 0.4% of weekly income, or approximately €2.25, and an increase in the At-Risk-of-Poverty rate by 0.1 percentage points.

Another option would be to bring in a lower rate of PRSI to apply from the first €1 of income earned, up to €352 per week, with the current 4% rate remaining for incomes above the current level.

The estimated yield from introducing a 0.5% rate of PRSI as outlined above is around €25m per annum, and would affect approximately 656,000 employees. A SWITCH analysis of this change is not yet available, but will be circulated to members if and when it is obtained.

3.3 Base broadening: taxpayer characteristics

As discussed at meeting 14, the income tax system deviates from the principle of horizontal equity to discriminate in favour of certain individuals, as a result of the policy response to address the additional challenges which they may face.

Revisiting these policy choices may also provide a means to broaden the tax base.

AGE AND MEDICAL CARDS

The removal of age as a basis for an exemption for both income tax and PRSI – a point which the Commission has generally agreed upon as noted in Section 2 above, would broaden the base of both these charges. While the removal of the reduced rate for USC for those aged 70 or older would increase the amount of tax to be paid.

The following sets out the numbers of recipients and the annual value of the age and medical card related measures referenced above.

Table 2 Annual cost and uptake of age-related and medical card-related measures in IT and USC

Measure	Potential yield (€ million)	Current recipients
Age tax credit	78	209,900
Age income tax exemption[7]	77	84,200
Reduced Rate of USC (over 70s and medical card holders)	69	212,000

Source: Revenue

The 2021 Commission on Pensions estimated an annual yield of around €50 million if the PRSI exemption for over 66s was removed on the current policy basis.

OTHER PERSONAL CIRCUMSTANCES

In the context of looking at revenue raising options in the personal tax code, there was a discussion at meeting 14 about whether specific targeted income tax credits like the Blind person, Single Parent Child Carer Credit (SPCCC) and Incapacitated Child Credit could be curtailed or removed from the tax code, with the relevant support given instead directly through the welfare system.

Some other matters previously discussed by the Commission are relevant to such consideration, including the impact of these credits on the financial incentive for the individual in receipt of them to

[7] This cost includes the standard age exemption rate and the increased exemption allowed.

maximise their employment capacity[8]. At meeting 4, the Commission discussed how this is particularly relevant for individuals with particular employment challenges, especially single parents. It is well established that single parents have particular additional challenges to taking up employment, including the cost of childcare and fewer flexibilities than a dual couple household might have[9]. The value of the Single Parent Child Carer Credit (SPCCC) therefore is to preserve take home pay as much as possible and to reflect the additional costs of employment for such a worker vis-à-vis a person with no children or with a partner to help with the caring responsibility.

It would also be challenging to directly compensate the loss of the value of these credits if they were withdrawn through simple changes to SW payments. Although there is a maximum credit value set by Government, the exact benefit received will differ from recipient to recipient, depending on the level of income the person has that is sheltered from income tax. If the maximum value was used to try and have no losers at the taxpayer level, there would likely be an additional cost for the State via increased direct expenditure. This is before the administrative costs of introducing new SW payments, and any means-testing was set up.

3.4 Base broadening: income source

Income tax and USC

Most income tax, and indeed some USC exemptions are linked with particular tax incentives or measures – for example rent-a-room relief and certain employer benefits such as travel passes and the bike-to-work schemes[10]. As such, reflections on these incentives or measures are related to the discussions on tax expenditures (at meeting 5 and meeting 10) and pensions tax relief (at meeting 13).

PRSI

As outlined in meeting 13 there are a number of income sources that are not currently subject to employer (ER) PRSI, employee (EE) PRSI or both. These include:

- Share-based remuneration
- Key Employee Engagement Programme (KEEP)
- Ex gratia termination payments

[8] The Commission have discussed how the level of take home pay may influence work, including at meeting 10 when the impacts of the withdrawal of various secondary benefits (outside the welfare system) was discussed. It was noted that the application of the main income tax charges (income tax, USC and PRSI) determine how much of the additional employment income earned a person keeps and may influence the choices around how much a worker chooses to work.

[9] This is discussed in the accompanying paper including the higher poverty risks for single parent households.

[10] See more detail on exemptions here.

- Pension income drawn down at retirement
- Monies drawn down from Revenue approved retirement funds

Extending PRSI to these sources would be consistent with the principle of everyone contributing something and particularly congruent with the horizontal equity principle, especially considering that these sources are related to employment. It is also important to note the increasing level of share-based remuneration and the risk to the exchequer of maintaining preferential PRSI treatment which results.

At present, persons under 66 years of age who are in receipt of occupational pensions are not subject to PRSI, which mirrors the treatment of those over 66 years. If the proposed age-based recommendation is adopted (see above), it would be important to extend the treatment of occupational pensions to those under 66. This is also consistent with the recommendations of the 2021 Commission on Pensions.

Social welfare payments

As discussed at meeting 14, although USC has the broadest base of the three charges on income in Ireland, it does not include social welfare payments.

The exclusion of social welfare payments from the PRSI charge was discussed at meeting 13. As noted in their final report, 2021 Commission on Pensions did not consider extending PRSI to social welfare payment, including State Pensions as a base broadening measure due to its potential poverty impacts. Any change to the tax treatment of social welfare payments would need to be balanced against the impact on those in receipt of such payments, noting that welfare rates are typically already set at minimal “safety net” levels. This may also be relevant for the design of Pay Related Benefits, which was discussed at meeting 15.

3.5 Other revenue raising: rate alignment

3.5.1 Alignment of treatment by source of income: unearned income

The different rates applying to different forms of investment income was discussed at meeting 12.

Since January 2014, unearned income from rents, investments, dividends and interest on deposits and savings is liable to Class K PRSI at 4%, a charge that applies to those aged under 66 years (this could change based on the proposals regarding age, above). The application of Class K PRSI on unearned income does not lead to an entitlement to any social insurance benefits, primarily because it applies only to those with other occupational earnings and who are already covered under other classes.

In the context of the Commission's remit to consider options for reform on the balance between the taxation of earned income, consumption, and wealth, and using the horizontal equity lens of treating income identically regardless of source, there is an argument for the current consensus to align the charges on unearned income with earnings from employment, where a total of 15.05% is applied to employment and 4% to self-employment. This is also related to ongoing Commission deliberations on the treatment of income and capital gains.

3.5.2 Self-employed PRSI

The question of whether the taxation system should influence the legal form under which employment is carried out has been discussed previously (meeting 12). The approach taken by the 2021 Commission on Pensions was endorsed in principle at meeting 17. If this approach is pursued, it may also be appropriate to remove the USC surcharge on incomes above €100,000 to recognise the better alignment between the two forms.

3.6 Other revenue raising: higher incomes

It has been suggested that it would be challenging to broaden the base of the scope of personal taxes at the lower end, without also looking at options specifically targeted at higher incomes.

A number of proposals discussed at meeting 14 which highlighted a number of options related to the rates and size of rate bands, including for USC. These also highlighted options to increase the yield from those on the highest incomes, and it is also noted that the impact of broader increases to PRSI consistent with the recommendations of the 2021 Commission on Pensions may already increase the marginal rates of tax on these incomes.

The topic was revisited at meeting 18 in the context of mobility of individuals to Ireland where the use of pay equalisation schemes was noted and reforms of SARP, FED and the remittance basis of taxation were discussed.

Meeting 14 also discussed the expansion of the scope and source of the income that is subject to the High Earners Restriction. The High Income Earner Restriction (HIER) 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[1]. Post Budget 2022, this is around the overall effective tax rate of a single PAYE worker (including income tax, USC and PRSI) with above average income from employment (around €60,000 per annum)[2].

[1] PRSI and USC may also apply

[2] Summary Tax Measures from Budget 2022, Example 7

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.[3] 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.[4] 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.

The reform of rules in respect of domicile would also be relevant to this discussion.

3.7 Employment: middle incomes and higher rate of IT

Over the course of several meetings there has been a discussion of the competitiveness of the income tax system, including some proposals which may not raise revenue in the short term (and in fact have a cost), but which are relevant for discussions on medium term increases in employment.

The OECD Taxing Wages Report is the international standard for comparing the competitiveness of income tax systems consistently in a multi-country comparison. At meeting 14 the Commission discussed that Ireland currently has a competitive tax wedge at average incomes across the main household types[11]. This competitive level is particularly attributable to the comparative low levels of social security contributions charged as a percentage of the charge overall. It is for this reason, inter alia, that reform of the PRSI system may be appropriate to focus on for base broadening in personal taxes.

When only income taxes are taken into account, Ireland ranks less competitively for the average single workers with the 6th highest wedge of 18.8%. This is attributable to the highest rate of income tax

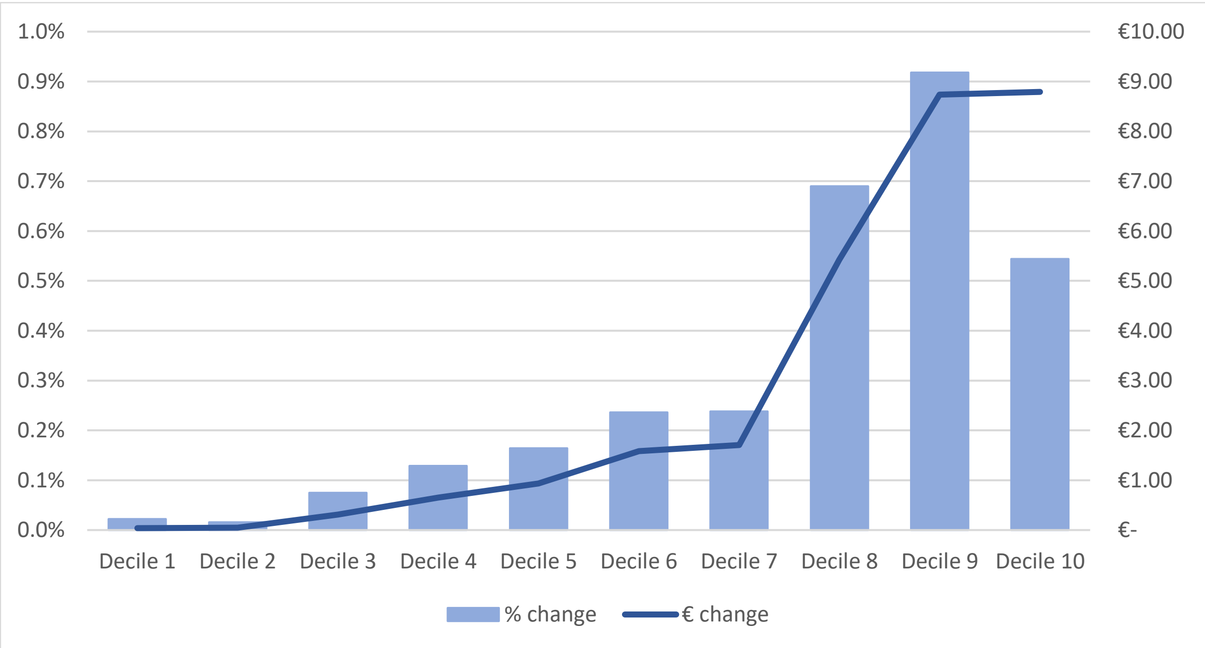
[3] For more detail and information on how the income tax reliefs are limited, see Revenue's website here.
[4] Budget 2021, Department of Finance Report on Tax Expenditures, available here.
[11] For example is the 13th lowest headline tax wedge (32.3%) of the 36 OECD members included for a single worker on average earnings, which sits below the average of 34.7%.

(40%) kicking in at relatively average income levels in Ireland, with the Standard Rate Cut Off point (SRCO) currently set at €36,800 for a single person.

Income tax changes that are targeted at average incomes are typically expensive in budgetary terms[12] and have an uneven distributional impact with no benefits for those on below average incomes.

For example, if a third rate of income tax was introduced to bring a more progressive step from the standard to higher rate, only around a third of all taxpayer units would benefit (approximately 1 million units). The cost of introducing a new 30% rate on a relatively narrow band of around €1,500 across all income taxpayer units is around €180m lost to the Exchequer per annum. Figure 5 below shows the estimated distributional impact of introducing a third, narrow band of income tax charged at 30%. As we might expect, this primarily benefits households in higher-income deciles, particularly the eighth, ninth and tenth deciles. The ninth decile gains (in proportionate terms) from this, gaining approximately 0.9% of weekly disposable income, which is approximately equal to €8.70 per week.

Figure 5: Estimated distributional impact on weekly disposable income of introducing a 30% rate of income tax on incomes between €36,800 and €38,300



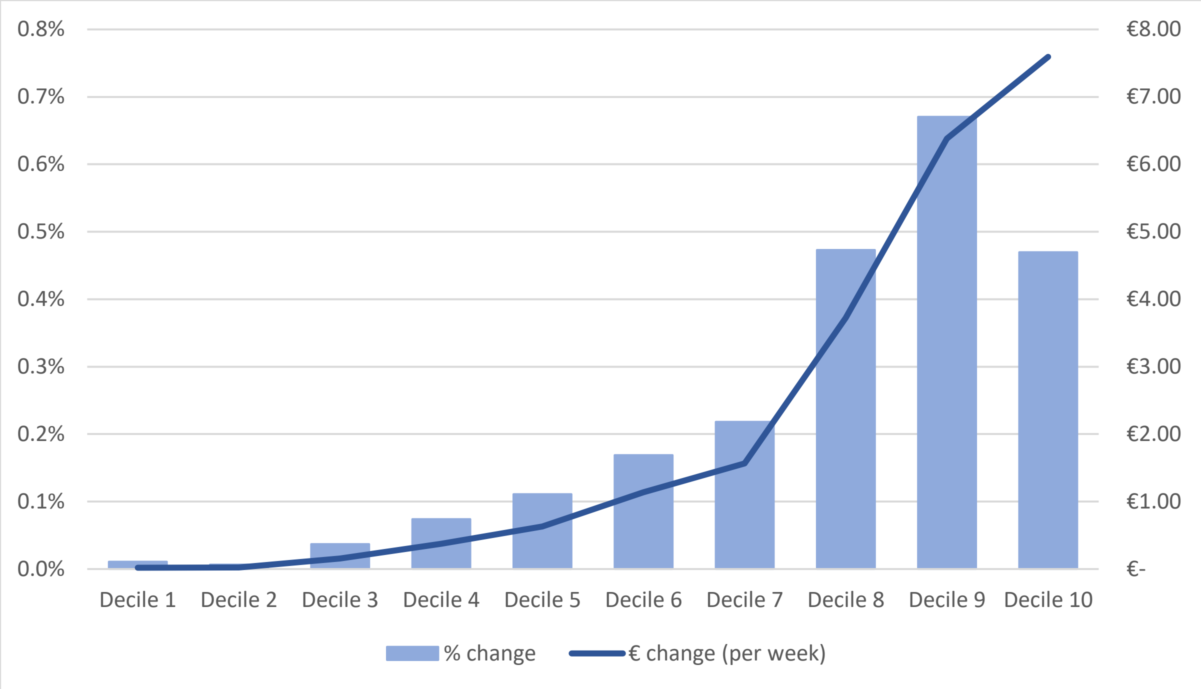
Source: Secretariat calculations using ESRI SWITCH tax-benefit model

If the SRCO was increased by €1,500, a similar number of taxpayer units would benefit and the annual Exchequer cost would be around €340 million per annum. As Figure 6 below shows, it is estimated

[12] Which may have consequences in the need to raise revenue elsewhere to fund them

that this would be of most benefit to higher income deciles, with little or no positive impact for lower- and middle-income earners.

Figure 6: Estimated distributional impact on weekly disposable income of increasing Standard Rate Cut-Off point by €1,500



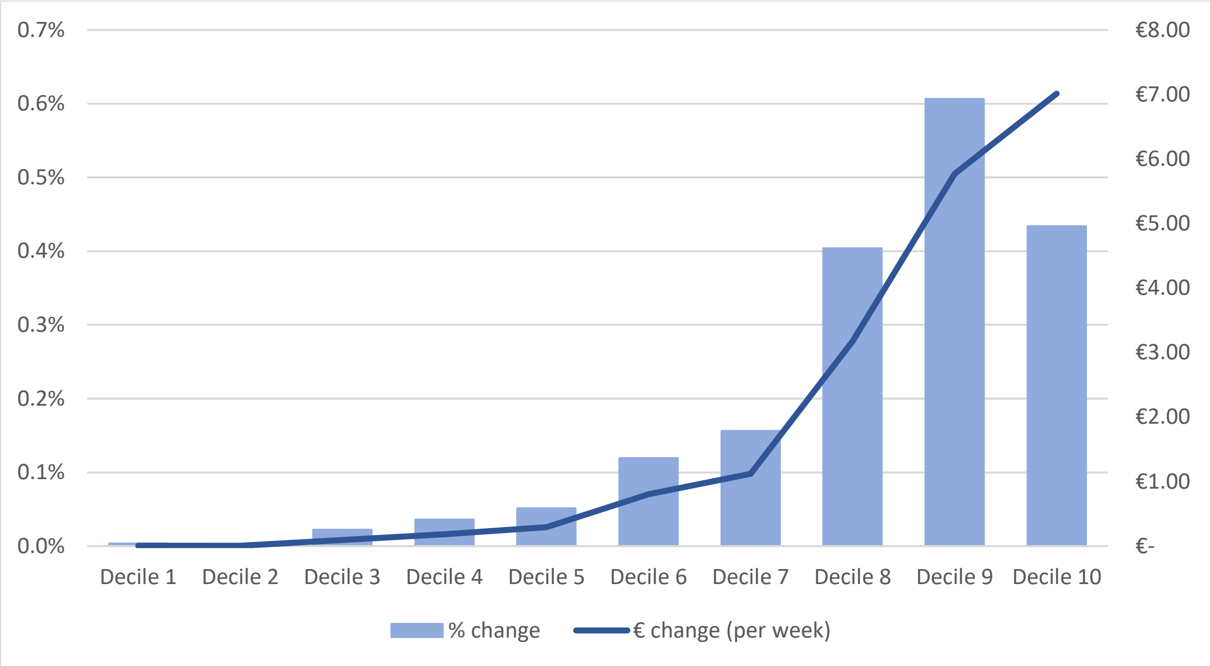
Source: Secretariat calculations using ESRI SWITCH tax-benefit model

An alternate approach that also addresses labour supply in the context of increasing international tax competition is to focus on secondary earners. As discussed at meeting 10, it is particularly important to increase the domestic labour market supply, in the context of housing and other demographic pressures on the domestic economy. This is especially important (and an issue highlighted in public consultation) in the context of skilled workers currently outside the labour market.

This could be achieved through the recommendation at Section 2 above to remove marriage as a criteria for a tax advantage and fully individualise the income tax code. A number of options for how this could be achieved on a no-loser basis were discussed at meeting 14. The following shows the distributional impact of one such approach whereby the SRCO for all taxpayers would be increased by €1,500 except for married one-earners who instead would only get an increase of €500. If this was pursued over time it would narrow the gap between the current treatment and reduce the current barriers that are in place for secondary earners to maximise their labour market participation.

Figure 7 below shows the estimated distributional impact of such a move, although on the basis that all married couples, whether single or dual income, receive only the €500 increase. Again, this measure primarily benefits higher-income earners.

Figure 7: Estimated distributional impact on weekly disposable income of increasing Standard Rate Cut-Off point by €1,500 for single people, and by €500 for all married couples



Source: Secretariat calculations using ESRI SWITCH tax-benefit model

3.8 Other PRSI reform

3.8.1 Employer PRSI

In discussions on pay-related benefits and the notion of reciprocity, members have indicated a preference for a greater emphasis on social insurance as a delivery mechanism of our social protections system. This is in line with the trends for those aged 66 and over, where an increasing majority receive the social insurance pension – the State Pension (Contributory) – and a decreasing minority receive the equivalent social assistance payment, the non-contributory State pension. ('Social Insurance' paper, Meeting 10).

This is a continuation of the policy direction since 1988, which has been to widen social insurance coverage and to increase benefits in scope and number by including self-employed workers, part-time workers and public servants. The current threshold for dependent employees is €38 weekly (equivalent to €1,976 annually), which confers access to the full range of long and short-term social insurance benefits at a value unchanged since 1994 (in nominal terms). While this ensures social insurance benefits are available to those engaged in part-time work, and creates an additional incentive to do so, it arguably extends social insurance coverage to those with only a partial attachment to employment.

The Commission may consider that a minimum threshold should be specified at (for example) four hours at the hourly national minimum wage. This is currently €42 (€10.50*4) but establishing a connection between the two means the threshold would increase with changes to the hourly national minimum wage.

3.8.2 PRSI – weekly vs annual

Previous Commission discussions have led to requests for additional information on the policy and operational consequences of moving PRSI from a weekly to an annual basis. This has arisen in the case of people whose net income at the end of the year will be different if earnings were concentrated in a smaller number of weeks (above the PRSI threshold) compared to someone with the same earnings spread over a greater number of weeks.

Given the importance of the weeks of insurable income as a means to measure intensity of attachment to employment over many years for entitlement to the State Pension (Contributory) and to a particular rate band, it is assumed that, at the end of the year, the PRSI liability is calculated over the year (based on the annual equivalent of €352 per week). This leads to a refund for those whose earnings were concentrated over a smaller number of weeks but who would have remained beneath the €352 threshold if they had been employed over 52 weeks (with the same earnings total).

The first impact is on SIF income, where a readjustment of PRSI, paid on a weekly basis, refunds some of the PRSI paid when calculated on an annual basis. It would be also have to take account of people in multiple employments – at present PRSI operates separately on each employment, with each employer free to operate independently in charging PRSI in a given week.

4. Conclusions and questions

Taking account of the elements discussed in this paper and at previous meetings, views of the Commission on the following are invited to inform a draft chapter to be prepared by the secretariat:

1. Do Members agree to the consensus items set out in section 2?
2. As referenced at section 3, what do the Commission view should be liable to a charge that is not already within the tax?
3. Following the additional material presented in Section 3 and taking into account previous papers presented and discussions are there other areas of consensus that could form the basis for recommendations?

Appendix I

Additional information on the distribution of earnings from employment

Table 3 Weekly Earnings in Euro by Decile (Every 10th Percentile) and the annual equivalent for 2020

Percentile	2013	2014	2015	2016	2017	2018	2019	2020	
								Weekly	Annual
10th	179.23	180.60	184.06	190.85	196.02	201.31	211.35	235.29	12,235
20th	268.02	269.60	273.26	284.06	292.06	300.96	316.84	354.14	18,415
30th	352.00	353.66	358.21	371.00	382.09	395.28	417.54	449.11	23,354
40th	437.19	438.46	442.83	454.25	466.05	480.88	504.62	535.57	27,850
50th	530.02	530.21	533.90	543.04	556.61	573.35	598.36	629.46	32,732
60th	635.86	633.85	636.83	643.85	658.87	678.41	708.13	744.41	38,709
70th	769.21	763.28	765.14	769.54	784.98	807.10	839.87	884.53	45,996
80th	952.50	947.56	954.73	960.46	981.50	1,008.85	1,048.32	1,103.35	57,374
90th	1,246.49	1,242.25	1,259.08	1,268.15	1,303.52	1,349.75	1,399.04	1,472.66	76,578

Source: CSO Ireland, Earnings Analysis using Administrative Data Sources

Table 4 Percentage Change in Weekly Earnings by Decile (Every 10th percentile)

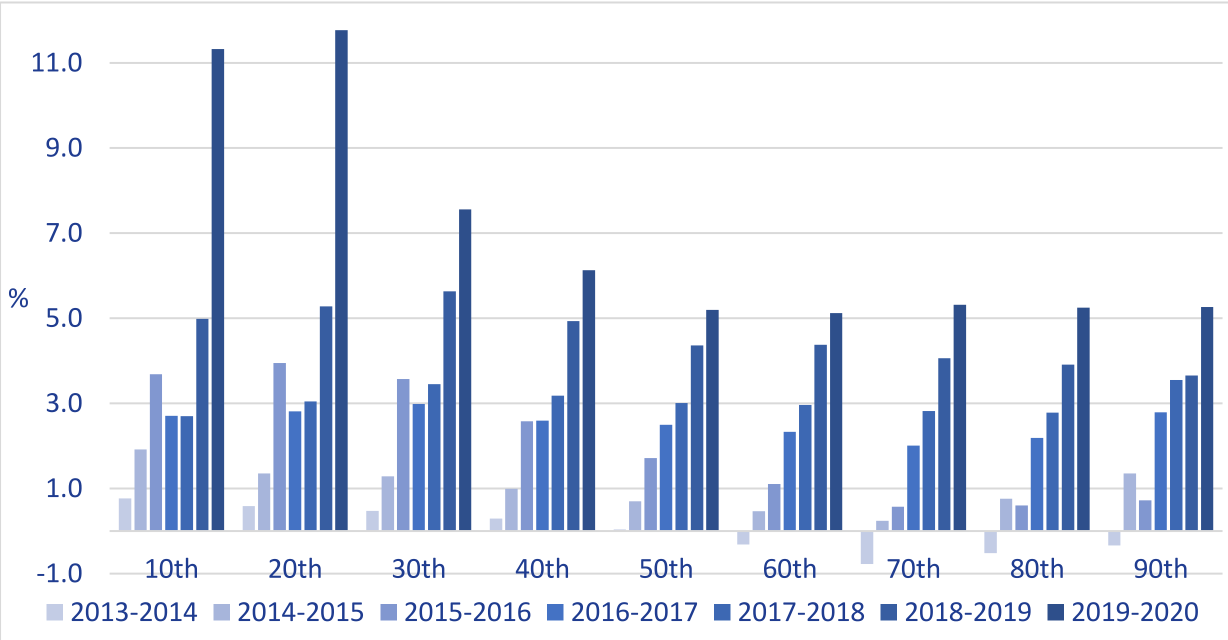
Percentile	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
10th	0.8	1.9	3.7	2.7	2.7	5.0	11.3
20th	0.6	1.4	4.0	2.8	3.0	5.3	11.8
30th	0.5	1.3	3.6	3.0	3.5	5.6	7.6
40th	0.3	1.0	2.6	2.6	3.2	4.9	6.1
50th	0.0	0.7	1.7	2.5	3.0	4.4	5.2
60th	-0.3	0.5	1.1	2.3	3.0	4.4	5.1
70th	-0.8	0.2	0.6	2.0	2.8	4.1	5.3
80th	-0.5	0.8	0.6	2.2	2.8	3.9	5.2
90th	-0.3	1.4	0.7	2.8	3.5	3.7	5.3

Source: CSO Ireland, Earnings Analysis using Administrative Data Sources

Figure 8 below illustrates the impact of these changes showing:

- Between 2013 and 2014 there were small increases in the lower percentiles and small decreases in the higher percentiles.
- In the 2014-2015 period there were increases in all the percentiles displayed, with the highest increase (1.9%) in the 10th percentile.
- Between 2015 and 2016 there were again increases in all the percentiles displayed, but the most significant increases were in the lowest 3 percentiles shown (10th, 20th and 30th), which experienced increases in earnings of 3.7%, 4% and 3.6% respectively.
- There were significant increases in all percentiles displayed for both the 2016-2017, 2017-2018 and 2018-2019 periods.
- Between 2019 and 2020 there was very strong increases in all the percentiles displayed. However, when considering these results it should be taken into account that the COVID-19 pandemic and the restrictions applied in response to it had a significant impact on the Labour Market in 2020. Earnings statistics for 2020 and comparisons with earlier years are impacted by changes in the composition of the labour market across 2020 and when compared to 2019 and earlier years. The level of earnings has also been impacted by COVID-19 income support schemes introduced in 2020.[13]

Figure 8 Percentage Change in Weekly Earnings (Year on Year) at every 10th Percentile



Source: CSO Ireland, Earnings Analysis using Administrative Data Sources

[13] CSO Earnings Analysis using Administrative Data Sources 2020