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Government of Ireland

Budget 2021
Tax Policy Changes

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BUDGET 2021

Tax Policy Changes

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BUDGET 2021

TAX POLICY CHANGES

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Additional information and related documents are available on the Budget 2021 website (www.budget.gov.ie)

SUMMARY OF 2021 BUDGET MEASURES

POLICY CHANGES

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Summary of Budget 2021 Measures – Policy Changes

Taxation Measures for Introduction in 2021

Measure	Yield/Cost 2021	Yield/Cost Full Year
Personal Income Tax		
Income Tax		
An increase in the Earned Income Credit from €1,500 to €1,650[1]	-€24m	-€24m
An increase in the Dependent Relative Credit from €70 to €245	-€5.2m	-€5.9m
Extension of the Sea-going Naval Personnel Tax Credit to 31 December 2021 and to increase it to €1,500 for 2021 (from €1,270 in 2020).	-€0.5m	-€0.5m
USC		
The following changes to USC will apply from 1 January 2021. • €203 increase to €20,484 band ceiling to €20,687 The increase in the 2% rate band ceiling will ensure that a full-time adult worker who benefits from the increase in the hourly minimum wage rate from €10.10 to €10.20 will remain outside the top rates of USC.	-€6m	-€7m
<u>The USC Rates & Bands from 1 January 2021 will be</u>**:** Incomes of €13,000 are exempt. Otherwise: • €0 – €12,012 @ 0.5% • €12,012 – €20,687 @ 2% • €20,687 – €70,044 @ 4.5% • €70,044+ @ 8% • Self-employed income over €100,000: 3% surcharge	-	-
The reduced rate of USC for medical card holders is being extended for a further year, at an estimated cost of €44m in		

[1] This measure will also be applied for the 2020 tax year with a 2020 cost of €13m.

2021 and €53m per annum thereafter. This measure is revenue neutral as it is already included in the tax base.		
Measures to support Enterprise/SMEs/Agri-sector		
Knowledge Development Box		
Two year extension of the Knowledge Development Box to 31/12/2022[2]	-	-
Film Relief		
The Section 481 (Film Tax Credit) Regional Uplift scheme is being extended by one year by inserting an additional year of uplift at the rate of 5% in 2021. The uplift will then reduce to 3% in 2022, 2% in 2023, and Nil thereafter.	-€2m	-€2m
Amend CGT Entrepreneurial Relief	-	-
Farm Consolidation (Stamp Duty) Relief		
Extension in its present format until 31 December 2022	-	-
Consanguinity (Stamp Duty) Relief		
Extension in its present format until 31 December 2023	-	-
Expansion of Warehousing of tax liabilities	-	-
Housing		
Residential Development (Stamp Duty) Refund Scheme	-	-
Extension from 31 December 2021 to 31 December 2022 with minor amendments		
Help to Buy		
Extension of Help to Buy additional measures to end 2021 (additional cost)	-€43m	-€43m

[2] The annual cost of this measure is estimated to be €14m, which is included in the tax base

Climate and Environmental measures		
Carbon Tax €7.50 Increase in Carbon Tax Rate	+€108m	+€147m
Vehicle Registration Tax Changes to Vehicle Registration Tax	-	-
Motor Tax Changes to Motor Tax	-	-
Accelerated Capital Allowances for Energy Efficient Equipment[3] The Accelerated Capital Allowance scheme for Energy Efficient Equipment is being extended for three years to 31/12/2023	-€1m	-€1m
Anti-Avoidance Amend Section 541 TCA 1991 to close an avoidance scheme.	-	-
Corporation Tax – BEPS/ATAD Implementation Technical amendment to Exit Tax (ATAD)	-	-
Additional Taxation Measures		
VAT Temporary Reduction of VAT for Tourism and Hospitality items from 13.5% to 9%[4]	-€336m	-
Increase in the Farmers Flat Rate Addition from 5.4% to 5.6%	-€10m	-€12m
Capital Allowances for Intangible Assets Revised balancing charge rules with effect from 14 October 2020	-	-

[3] The annual cost of this measure is estimated to be €4m, which is partially included in the base.
[4] Estimated cost of measure from 1 November 2020 to 31 December 2021 is €401m in total

Covid Restrictions Support Scheme Estimated. cost of €40m for every week nationwide at Level 3[5]	-	-
Tobacco Products Tax Increase in 50c on pack of 20 cigarettes with pro-rata increase on other tobacco products. The Minimum Excise Duty rate on cigarettes is increasing such that any 20 pack priced below €11.50 will be subject to excise as if it were priced at €11.50.	+€57m	+€57m
Employer's PRSI From 1 January 2021 the weekly income threshold for the higher rate of employer's PRSI will increase from €394 to €398. This follows a recommendation of the Low Pay Commission to ensure that the increase in the hourly minimum wage does not lead to work disincentives for workers, in particular those seeking to work full-time.	-€3.1m	-€3.7m

[5] The actual cost will be determined by reference to Covid-19 restrictions. Any costs arising in 2021 will be met from the National Recovery Fund

TAXATION ANNEXES TO THE SUMMARY OF 2021 BUDGET MEASURES

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Annex A

Description of Taxation Measures for Introduction in 2021

Measure

Personal Income Tax

Earned Income Credit

An increase in the Earned Income Credit from €1,500 to €1,650.

Dependent Relative Credit

An increase in the Dependent Relative Credit from €70 to €245.

Sea-going Naval Personnel Tax Credit

To amend s. 472BB of the TCA to extend the Sea-going Naval Personnel Tax Credit to 31 December 2021 and to increase it to €1,500 for 2021 (from €1,270 in 2020).

USC

The following changes to USC will apply from 1 January 2021.

- €203 increase to €20,484 band ceiling

The increase in the 2% rate band ceiling will ensure that a full-time adult worker who benefits from the increase in the hourly minimum wage rate from €10.10 to €10.20 will remain outside the top rates of USC.

<u>The USC Rates & Bands from 1 January 2021 will be</u>**:**

Incomes of €13,000 are exempt. Otherwise:

- €0 – €12,012 @ 0.5%
- €12,012 – €20,687 @ 2%
- €20,687 – €70,044 @ 4.5%
- €70,044+ @ 8%
- Self-employed income over €100,000: 3% surcharge

The reduced rate of USC for medical card holders is being extended for a further year, at an estimated cost of €44m in 2021 and €53m per annum thereafter. This measure is revenue neutral as it is already included in the tax base.

Measures to Support Enterprise/SMEs/Agri-sector

Extension of the Knowledge Development Box

The KDB is an OECD-compliant intellectual property regime, introduced in 2016, that supports businesses in retaining and exploiting certain assets, such as patents and copyrighted software, developed through R&D activities carried out in Ireland. Finance Bill 2020 will extend the relief for a further two years until 31 December 2022. The extension provides certainty for businesses during the current challenging circumstances, in the context of Covid-19 and the end of the Brexit transition period.

Amendment to the Section 481 Regional Uplift scheme

The regional uplift to section 481 (Film Tax Credit) provides an additional time-limited, tapered benefit for productions in areas designated under the State aid regional guidelines, to support the development of new, local talent in areas outside the current main production hubs. Finance Bill 2020 will provide an additional year at the uplift rate of 5% in 2021, as the intended incentive effect of the relief in 2020 was largely eroded by Covid-related production shut-downs. The uplift taper will then occur over the subsequent two years, to 3% in 2022, 2% in 2023 and Nil thereafter.

Digital Gaming Sector

Work will take place in 2021 on the development of a tax credit for the digital gaming sector, with a view to supporting qualifying activity from January 2022 onwards. Digital gaming is a sector that has seen exponential global growth in the past decade and there are potential synergies to exploit with the established film and animation sectors, to support quality employment in creative and digital arts in Ireland

CGT

Amend the holding requirement under the CGT Entrepreneur Relief so that an individual that held at least 5% of the shares for a continuous period of any three years qualifies, all other qualifying criteria remain unchanged. This measure will come into effect 1 January 2021.

Consanguinity (Stamp Duty) Relief

This relief, which is being extended from its current expiry date of 31 December 2020, to 31 December 2023, provides, under certain conditions, for a 1% rate of stamp duty to be applicable where a transfer of agricultural land (by sale/purchase, exchange or gift) is made to certain close relations, such as a mother to son or uncle to niece. The standard rate of stamp duty applying to the transfer of agricultural land is 7.5%. It is designed to facilitate and encourage intergenerational farm transfers.

Farm Consolidation (Stamp Duty) Relief (section 81C of SDCA 1999)

This relief, which is being extended from its current expiry date of 31 December 2020, to 31 December 2022 provides for a reduced stamp duty rate of 1% (as opposed to the general rate on non-residential property of 7.5%) to apply where a farmer disposes of and purchases land and/or exchanges land with another farmer in order to consolidate an existing farm. It is being extended to by two years to 31 December 2022, so that it will next fall due for renewal at the same time as its CGT equivalent.

Expansion of Warehousing of tax liabilities

The tax debt warehousing scheme will be expanded to include repayments of Temporary Wage Subsidy Scheme owed by employers and preliminary tax obligations for adversely affected self-assessed taxpayers. It is not currently possible to estimate the cost of this measure.

Employment and Investment Incentive Scheme

An assessment will commence in Q4 2020 of how the Employment and Investment Incentive Scheme can be enhanced in light of the impact of the current crisis with a particular focus on improved support for start-ups, the potential to attract capital from a broader range of investors and the potential to include energy-efficient projects within the remit of the scheme.

Housing

Residential Development (Stamp Duty) Refund Scheme

This scheme, introduced in Finance Act 2017 provides for the refunding of a portion of the Stamp Duty paid on the acquisition of non-residential land where that land is subsequently developed for residential purposes, so bringing the effective Stamp Duty rate down to a minimum of 2%.

This is of course subject to a number of conditions, including ones relating to the portion of the land involved given over to housing and the time taken to commence and complete the construction of the residential units involved. It is due to expire for new applications on 31

December 2021, but this deadline is now being extended to 31 December 2022, and the 24 months currently allowed between commencement and completion of construction is being extended to 30 months, so that the last possible eligible completion date will be 30 June 2025.

Help to Buy

Extension of Help to Buy additional measures introduced on 23 July 2020 to the end of 2021. An increase the amount that may be claimed so that it is the lesser of:

- €30,000
- 10% of the purchase price of a new home (For self-builds 10% of the completion value of the property), or
- the amount of Income Tax and DIRT paid in the four years before the purchase or self-build.

Climate and Environmental Measures

Carbon Tax

Carbon tax will be increased by €7.50 from €26 to €33.50 per tonne/CO2. This increase will be applied to auto fuels – from tonight - and all other fuels from 1 May 2021.

Vehicle Registration Tax

A new rates table is introduced for Vehicle Registration Tax. The charging structure for the NOx surcharge is also adjusted so that 1-40 mg are charged at €5 per mg, and 41-80 mg are charged at €15 per mg. The €5,000 relief for Battery Electric vehicles is tapered for vehicles with an OMSP over €40,000, so that no amount of relief is available for BEVs with a value of over €50,000.

Motor Tax

A new motor tax rates table is introduced for WLTP cars first registered in the State from 01/01/21. Minor rates changes are implemented in the existing rates table for cars taxed on CO2 emissions (cars first registered in the State between July 2008 and end 2020). There are no changes to the rates table for cars taxed based on engine size (pre July 2008).

See Annex B for technical note on vehicle tax changes

Extension of Accelerated Capital Allowance scheme for Energy Efficient Equipment

The Accelerated Capital Allowance (ACA) scheme is designed to improve energy efficiency among Irish companies and unincorporated businesses. The ACA scheme allows taxpayers to deduct the full cost of expenditure on eligible energy efficient equipment from taxable

profits in the year of purchase. The scheme was reviewed in accordance with guidelines for best practice for the evaluation of tax expenditures. Following this review, the scheme will be extended until 31 December 2023.

Anti-Avoidance

Amend Section 541 TCA 1991 to close an avoidance scheme.

Corporation Tax – BEPS/ATAD Implementation

The EU Anti-Tax Avoidance Directive (ATAD) implements five separate anti-avoidance measures in a coordinated way throughout the European Union, three of which are based on the OECD BEPS Package and two of which (the Exit Tax and General Anti-Abuse Rule) are additional. As part of the ATAD transposition process, an ATAD-compliant Exit Tax regime was introduced by Finance Act 2018. Finance Bill 2020 includes a technical amendment to the Exit Tax legislation to ensure that provisions relating to the calculation of interest on instalment payments of Exit Tax operate as intended.

Additional Taxation Measures

VAT

- **Temporary Reduction in VAT on Tourism and Hospitality goods and services**

Tourism and Hospitality related services and goods currently applying at 13.5% will decrease to 9% from 1 November 2020 for a defined period of time.

- **Farmers Flat Rate Scheme**

The flat-rate scheme compensates un-registered farmers on an overall basis for VAT incurred on their farming inputs. Based on macro-economic data, an increase in the farmers' flat rate addition from the current 5.4% to 5.6% is warranted for the year 2021.

Corporation Tax

- **Capital Allowances for Intangible Assets**

To ensure that it is consistent with international best practice for similar reliefs, provisions relating to capital allowances on intangible assets are being amended to provide that all assets acquired from Budget night will be fully within the scope of balancing charge rules. While the new rules are not expected to result in significant additional tax revenue given the current profile of claims, they will ensure that Ireland's tax regime for intellectual property,

together with the broader corporation tax regime, remains competitive, legitimate and sustainable.

Covid Restrictions Support Scheme (CRSS)

The new Covid Restrictions Support Scheme (CRSS) is aimed at businesses which have either been prohibited in operating or only been able to trade at significantly reduced levels as a result of restrictions imposed on them in response to Covid-19.

Qualifying businesses can apply to Revenue for a cash payment, representing an advance credit for trading expenses that are deductible for income and/or corporation tax purposes ("ACTE") for the period of restrictions resulting in operations being prohibited / reduction in activities effective from 13 October. Payments will be calculated on the basis of 10% of the first €1m in turnover and 5% thereafter, based on average VAT exclusive turnover for 2019, and will be subject to a maximum weekly payment of €5,000.

The Scheme will generally apply when Level 3 or higher restrictions are imposed in line with the Plan for Living with Covid-19 is. It will run from Budget day until 31 March 2021. It will be brought into effect by Finance Bill 2020.

Tobacco Products Tax

Increase in 50c on pack of 20 cigarettes with pro-rata increase on other tobacco products. The Minimum Excise Duty rate on cigarettes is increasing such that any 20 pack priced below €11.50 will be subject to excise as if it were priced at €11.50.

Employer's PRSI

From 1 January 2021 the weekly income threshold for the higher rate of employer's PRSI will increase from €394 to €398.

This follows a recommendation of the Low Pay Commission to ensure that the increase in the hourly minimum wage from €10.10 to €10.20 does not lead to work disincentives for workers, in particular those seeking to work full-time.

Annex B

Budget 2021 Changes to Vehicle Registration and Motor Tax - Technical note

Vehicle Registration Tax

From January 2021 a new vehicle registration tax (VRT) table is being introduced to:

(a) use the CO2 values from a new EU emissions test for passenger cars, known as "WLTP"; and
(b) strengthen the environmental rationale of the VRT regime in line with Government commitments to radically reduce emissions from road transport and to reform the VRT regime.

The existing 11 band table is replaced with a 20 band table with a revised rates structure. Whereas current VRT rates range from 14% to 36%, the new VRT table has a range from 7% to 37%. The table is shown below.

VRT Rates Table from 1/1/2021			
BAND	**FROM**	**TO**	**VRT Rate**
1	0	50	7.00%
2	51	80	9.00%
3	81	85	9.75%
4	86	90	10.50%
5	91	95	11.25%
6	96	100	12.00%
7	101	105	12.75%
8	106	110	13.50%
9	111	115	14.25%
10	116	120	15.00%
11	121	125	15.75%
12	126	130	16.50%
13	131	135	17.25%
14	136	140	18.00%
15	141	145	19.50%
16	146	150	21.00%
17	151	155	23.50%
18	156	170	26.00%
19	171	190	31.00%
20	>191		37.00%

While the VRT regime is transitioning to the new WLTP emissions test, it is still the case that used imports pre September 2018 will have been subject to the old and discredited NEDC emissions test. In order to address the level playing field issue between new cars and these used imports, it is necessary to deploy a mechanism to generate a 'WLTP equivalent' CO2 value for cars subject to the NEDC test.

The budget measures provide for line equations that act as 'multipliers' which uplift NEDC CO2 values to WLTP equivalent levels. This follows European Commission methodology. The NEDC CO2 value is inserted into one of two line equations (determined by whether the fuel type is petrol or diesel) and the resulting figure is equivalent to what the vehicle emissions would be under WLTP. The line equations are shown below with an illustration.

Petrol: y = x(0.9227)+34.554

Diesel: y = x(1.1405)+12.858

A NEDC tested petrol car has a CO2 value of 110 g/km on the vehicle registration documentation which would attract a rate of 16%. Revenue uplifts this CO2 value to a WLTP equivalent value as follows: *y = **110**(0.9227) + 34.554 y = 136*

This car is then subject to an 18% VRT rate.

Motor Tax

As with VRT, motor tax reform is being introduced in line with Government climate action commitments and in the context of the transition to the new vehicle emissions test procedure 'WLTP'.

A new motor tax table is added for cars registering with a 'WLTP' CO2 value.

Cars first registered in the State up to end 2020, or cars registering from January 2021 which only have a NEDC figure, will remain in the current motor tax table, which is adjusted slightly to reflect climate action priorities.

Pre-2008 cars, which do not have CO2 emissions information, will continue to be taxed according to engine size. These rates remain unchanged.

Cars registered from July 2008 to end 2020 **(NEDC value taken)**			Cars registered from 1/1/2021 **(WLTP)**		
CO2g/km		**Option**	**CO2g/km**		**Option**
From	To	Rate	From	To	Rate
0	0	120	0	0	120
1	80	170	1	50	140
81	100	180	51	80	150
101	110	190	81	90	160
111	120	200	91	100	170
121	130	270	101	110	180
131	140	280	111	120	190
141	155	400	121	130	200
156	170	600	131	140	210
171	190	790	141	150	270
191	225	1250	151	160	280
>225		2400	161	170	420
			171	190	600
			191	200	790
			201	225	1250
			>225		2400

From 2021, there will be three motor tax tables in operation:

1. The pre-July 2008 table based on engine size.
2. Cars registered up to 31/12/2020 and those from 2021 which are NEDC tested only
3. Cars registered from 1/1/2021 (WLTP tested cars)

The third table covers WLTP cars registered from 1/1/2021. There are extra CO2 bands in table 3 to (a) make the aligning of WLTP and NEDC equivalents more workable, and (b) strengthen the environmental rationale of the tax by tying it closely to the polluter-pays principle. The rates for the bands into which the majority of cars fall are aligned as closely as possible to their equivalent in the NEDC table. For example, a WLTP-tested car with CO2 110 g/km is roughly equivalent to 90 g/km under the NEDC test. Therefore a NEDC-tested 90g/km, and a WLTP tested 110g/km, would pay the same €180. Where there are divergences, for the most part they are likely to be of the order of €10 per annum (the rates gap between a single CO2 band where most of the volume lies).

Annex C

A distributional analysis of Budget 2021 Measures on a variety of household family types across a range of income levels.

Introduction

This Annex illustrates the effect of the Budget measures on small range of different categories of income earners and household types. The following distribution tables focus on the impact of measures for certain family types affected by the changes in Budget 2021 – single individuals, married couples, families with children - across a range of income levels from €12,000 to €175,000.

The examples are based on specimen incomes from both employment and self-employment sources. These cases deal with basic personal tax credits, the PAYE employee tax credit, earned income tax credit, the home carer credit, the standard rate bands, PRSI and the Universal Social Charge (USC). Social welfare payments such as Working Family Payment are included, where relevant. Variations can arise due to rounding.

There are also tables showing the average effective tax rate for different household types with employment and self-employment income for the years 2006 to 2021.

Information is also provided on the distribution of income earners for Income Tax purposes on a 2020 and a post-Budget 2021 basis. This shows a breakdown of the number and percentage of income earners who are: exempt from Income Tax; paying Income Tax at the standard rate; and paying Income Tax at the higher rate.

This complements other analyses that are undertaken aimed at integrating equality and distributional considerations into the Budget process as set out in Annex D of this document.

(i) Examples showing the effects of Budget changes on different categories of single and married income earners

Example 1

Married couple, one income, two children, private sector employee taxed under PAYE, Full rate PRSI contributor

Gross Income			Income Tax		PRSI		Universal Social Charge		Working Family Payment		Child Benefit		Total Change (including Working Family Payment)		Change as % of Net Income	Effective Tax Rate	
Existing	Min Wage Increase	New	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	€	€	€	€	€	€	€	€		%	%
12,000	119	12,119	0	0	0	0	0	0	12,532	12,792	3,360	3,360	379	7	1.5%	0.0%	0.0%
15,000	149	15,149	0	0	0	0	120	120	10,816	11,024	3,360	3,360	357	7	1.4%	0.8%	0.8%
18,000	178	18,178	0	0	0	0	180	180	9,048	9,256	3,360	3,360	386	7	1.4%	1.0%	1.0%
20,000	198	20,198	0	0	459	500	220	220	8,164	8,372	3,360	3,360	365	7	1.3%	3.4%	3.6%
25,000	0	25,000	0	0	1,000	1,000	433	428	5,616	5,928	3,360	3,360	317	6	1.1%	5.7%	5.7%
30,000	0	30,000	0	0	1,200	1,200	658	653	2,860	3,172	3,360	3,360	317	6	1.0%	6.2%	6.2%
35,000	0	35,000	450	450	1,400	1,400	883	878	1,040	1,040	3,360	3,360	5	0	0.0%	7.8%	7.8%
40,000	0	40,000	1,450	1,450	1,600	1,600	1,108	1,103	0	0	3,360	3,360	5	0	0.0%	10.4%	10.4%
50,000	0	50,000	4,590	4,590	2,000	2,000	1,558	1,553	0	0	3,360	3,360	5	0	0.0%	16.3%	16.3%
75,000	0	75,000	14,590	14,590	3,000	3,000	2,856	2,851	0	0	3,360	3,360	5	0	0.0%	27.3%	27.3%
100,000	0	100,000	24,590	24,590	4,000	4,000	4,856	4,851	0	0	3,360	3,360	5	0	0.0%	33.4%	33.4%
120,000	0	120,000	32,590	32,590	4,800	4,800	6,456	6,451	0	0	3,360	3,360	5	0	0.0%	36.5%	36.5%

Note 1: Includes the impact of the Working Family Payment where relevant.
Note 2: For illustrative purposes, assumes Working Family Payment applies for 52 weeks in 2021.
Note 3: Variations can arise due to rounding.
Note 4: Assuming that employees currently earning less than €20,484 p.a. earn all their income at the minimum wage and will therefore benefit from an increase in the National Minimum Wage.

Example 2

Single person, no children, private sector employee taxed under PAYE, Full rate PRSI contributor

Gross Income			Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income	Effective Tax Rate	
Existing	Min Wage Increase	New	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	€	€	€	€		%	%
12,000	119	12,119	0	0	0	0	0	0	119	2	1.0%	0.0%	0.0%
15,000	149	15,149	0	0	0	0	120	120	149	3	1.0%	0.8%	0.8%
18,000	178	18,178	300	336	0	0	180	180	143	3	0.8%	2.7%	2.8%
20,000	198	20,198	700	740	459	500	220	220	117	2	0.6%	6.9%	7.2%
25,000	0	25,000	1,700	1,700	1,000	1,000	433	428	5	0	0.0%	12.5%	12.5%
30,000	0	30,000	2,700	2,700	1,200	1,200	658	653	5	0	0.0%	15.2%	15.2%
35,000	0	35,000	3,700	3,700	1,400	1,400	883	878	5	0	0.0%	17.1%	17.1%
40,000	0	40,000	5,640	5,640	1,600	1,600	1,108	1,103	5	0	0.0%	20.9%	20.9%
50,000	0	50,000	9,640	9,640	2,000	2,000	1,558	1,553	5	0	0.0%	26.4%	26.4%
75,000	0	75,000	19,640	19,640	3,000	3,000	2,856	2,851	5	0	0.0%	34.0%	34.0%
100,000	0	100,000	29,640	29,640	4,000	4,000	4,856	4,851	5	0	0.0%	38.5%	38.5%
120,000	0	120,000	37,640	37,640	4,800	4,800	6,456	6,451	5	0	0.0%	40.7%	40.7%

Note 1: Variations can arise due to rounding.

Note 2: Assuming that employees currently earning less than €20,484 p.a. earn all their income at the minimum wage and will therefore benefit from an increase in the National Minimum Wage.

Example 3

Single person, no children, taxed under Schedule D (self-employed)

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income	Effective Tax Rate	
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	€	€		%	%
12,000	0	0	500	500	0	0	0	0	0.0%	4.2%	4.2%
14,000	0	0	560	560	100	100	0	0	0.0%	4.7%	4.7%
18,000	450	300	720	720	180	180	150	3	0.9%	7.5%	6.7%
20,000	850	700	800	800	220	220	150	3	0.8%	9.3%	8.6%
25,000	1,850	1,700	1,000	1,000	433	428	155	3	0.7%	13.1%	12.5%
30,000	2,850	2,700	1,200	1,200	658	653	155	3	0.6%	15.7%	15.2%
35,000	3,850	3,700	1,400	1,400	883	878	155	3	0.5%	17.5%	17.1%
45,000	7,790	7,640	1,800	1,800	1,333	1,328	155	3	0.5%	24.3%	23.9%
55,000	11,790	11,640	2,200	2,200	1,783	1,778	155	3	0.4%	28.7%	28.4%
70,000	17,790	17,640	2,800	2,800	2,458	2,453	155	3	0.3%	32.9%	32.7%
100,000	29,790	29,640	4,000	4,000	4,856	4,851	155	3	0.3%	38.6%	38.5%
150,000	49,790	49,640	6,000	6,000	10,356	10,351	155	3	0.2%	44.1%	44.0%
175,000	59,790	59,640	7,000	7,000	13,106	13,101	155	3	0.2%	45.7%	45.6%

Note: Variations can arise due to rounding

Example 4

Married couple, one income, no children, taxed under Schedule D (self-employed)

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income	Effective Tax Rate	
	Existing	Proposed	Existing	Proposed	Existing	Proposed	New	Existing		Existing	Proposed
€	€	€	€	€	€	€	€	€		€	€
12,000	0	0	500	500	0	0	0	0	0.0%	4.2%	4.2%
14,000	0	0	560	560	100	100	0	0	0.0%	4.7%	4.7%
18,000	0	0	720	720	180	180	0	0	0.0%	5.0%	5.0%
20,000	0	0	800	800	220	220	0	0	0.0%	5.1%	5.1%
25,000	200	50	1,000	1,000	433	428	155	3	0.7%	6.5%	5.9%
30,000	1,200	1,050	1,200	1,200	658	653	155	3	0.6%	10.2%	9.7%
35,000	2,200	2,050	1,400	1,400	883	878	155	3	0.5%	12.8%	12.4%
45,000	4,340	4,190	1,800	1,800	1,333	1,328	155	3	0.4%	16.6%	16.3%
55,000	8,340	8,190	2,200	2,200	1,783	1,778	155	3	0.4%	22.4%	22.1%
70,000	14,340	14,190	2,800	2,800	2,458	2,453	155	3	0.3%	28.0%	27.8%
100,000	26,340	26,190	4,000	4,000	4,856	4,851	155	3	0.2%	35.2%	35.0%
150,000	46,340	46,190	6,000	6,000	10,356	10,351	155	3	0.2%	41.8%	41.7%
175,000	56,340	56,190	7,000	7,000	13,106	13,101	155	3	0.2%	43.7%	43.6%

Note: Variations can arise due to rounding

Example 5

Married couple, one income, two children, taxed under Schedule D (self-employed)

Gross Income	Income Tax		PRSI		Universal Social Charge		Child Benefit		Total Change		Change as % of Net Income	Effective Tax Rate	
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	€	€	€	€		%	%
12,000	0	0	500	500	0	0	3,360	3,360	0	0	0.0%	4.2%	4.2%
14,000	0	0	560	560	100	100	3,360	3,360	0	0	0.0%	4.7%	4.7%
18,000	0	0	720	720	180	180	3,360	3,360	0	0	0.0%	5.0%	5.0%
20,000	0	0	800	800	220	220	3,360	3,360	0	0	0.0%	5.1%	5.1%
25,000	0	0	1,000	1,000	433	428	3,360	3,360	5	0	0.0%	5.7%	5.7%
30,000	0	0	1,200	1,200	658	653	3,360	3,360	5	0	0.0%	6.2%	6.2%
35,000	600	450	1,400	1,400	883	878	3,360	3,360	155	3	0.4%	8.2%	7.8%
45,000	2,740	2,590	1,800	1,800	1,333	1,328	3,360	3,360	155	3	0.4%	13.1%	12.7%
55,000	6,740	6,590	2,200	2,200	1,783	1,778	3,360	3,360	155	3	0.3%	19.5%	19.2%
70,000	12,740	12,590	2,800	2,800	2,458	2,453	3,360	3,360	155	3	0.3%	25.7%	25.5%
100,000	24,740	24,590	4,000	4,000	4,856	4,851	3,360	3,360	155	3	0.2%	33.6%	33.4%
150,000	44,740	44,590	6,000	6,000	10,356	10,351	3,360	3,360	155	3	0.2%	40.7%	40.6%
175,000	54,740	54,590	7,000	7,000	13,106	13,101	3,360	3,360	155	3	0.1%	42.8%	42.7%

Note: Variations can arise due to rounding

(ii) AVERAGE EFFECTIVE TAX RATES ON ANNUAL EARNINGS IN % TERMS*

FULL RATE PRSI

FULL RATE PRSI	SINGLE															
Gross Income €	2006	2007	2008	2009	2009(s) / 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
15,000	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	2.7%	2.7%	2.7%	1.9%	1.4%	0.9%	0.8%	0.8%	0.8%	0.8%
20,000	7.1%	5.1%	4.4%	5.4%	6.4%	9.8%	9.8%	11.1%	11.1%	10.2%	7.8%	7.2%	7.0%	6.9%	6.9%	6.9%
25,000	12.5%	10.9%	8.3%	9.3%	10.3%	14.0%	14.0%	15.1%	15.1%	14.4%	13.5%	13.0%	12.7%	12.6%	12.5%	12.5%
30,000	14.7%	13.4%	12.9%	13.9%	16.9%	16.8%	16.8%	17.7%	17.7%	17.1%	16.1%	15.6%	15.4%	15.2%	15.2%	15.2%
40,000	21.9%	19.7%	18.6%	19.1%	22.1%	24.2%	24.2%	24.8%	24.8%	23.7%	22.6%	22.1%	21.4%	20.9%	20.9%	20.9%
60,000	29.8%	28.1%	27.5%	28.2%	31.7%	33.4%	33.4%	33.9%	33.9%	32.8%	31.6%	31.1%	30.5%	30.1%	30.1%	30.1%
100,000	35.6%	34.2%	33.8%	34.6%	39.2%	40.9%	40.9%	41.1%	41.1%	40.4%	39.5%	39.1%	38.8%	38.5%	38.5%	38.5%
120,000	37.0%	35.7%	35.4%	36.5%	41.1%	42.7%	42.7%	42.9%	42.9%	42.3%	41.6%	41.3%	41.0%	40.8%	40.7%	40.7%

FULL RATE PRSI

FULL RATE PRSI	MARRIED / CIVIL PARTNER, ONE INCOME, TWO CHILDREN														
Gross Income €	**2006**	**2007**	**2008**	**2009**	**2009(s) /2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
15,000	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	2.7%	2.7%	2.7%	1.9%	1.4%	0.9%	0.8%	0.8%	0.8%	0.8%
20,000	2.7%	2.7%	2.7%	3.7%	4.7%	6.3%	6.3%	7.6%	7.6%	6.7%	4.3%	3.7%	3.5%	3.4%	3.4%	3.4%
25,000	4.9%	4.9%	2.9%	3.9%	4.9%	7.2%	7.2%	8.3%	8.3%	7.6%	6.7%	6.2%	5.9%	5.8%	5.8%	5.7%
30,000	6.7%	5.1%	5.1%	6.1%	9.1%	8.6%	8.6%	9.5%	9.5%	8.9%	7.3%	6.6%	6.4%	6.2%	6.2%	6.2%
40,000	11.5%	10.2%	9.4%	10.4%	13.4%	14.2%	14.2%	14.9%	14.9%	14.5%	12.9%	12.1%	11.6%	10.7%	10.4%	10.4%
60,000	22.5%	20.8%	19.8%	20.5%	24.0%	26.2%	26.2%	26.6%	26.6%	25.7%	24.1%	23.5%	22.8%	21.9%	21.7%	21.7%
100,000	31.2%	29.7%	29.2%	30.0%	34.6%	36.5%	36.5%	36.8%	36.8%	36.1%	35.0%	34.6%	34.2%	33.6%	33.5%	33.4%
120,000	33.3%	32.0%	31.6%	32.6%	37.2%	39.1%	39.1%	39.3%	39.3%	38.8%	37.9%	37.5%	37.1%	36.6%	36.6%	36.5%

*Average Effective Tax Rates 2005-2010: Total of Income Tax, Levies (Income and Health) and PRSI as a proportion of gross income.

Average Effective Tax Rates 2011-2021: Total of Income Tax, PRSI and Universal Social Charge as a proportion of gross income.

Calculations only account for the standard employee credit, personal income tax credit and home carer credit, where relevant.

(s) Supplementary Budget 2009

AVERAGE EFFECTIVE TAX RATES ON ANNUAL EARNINGS IN % TERMS*

SELF EMPLOYED

SELF EMPLOYED	SINGLE															
Gross Income €	2006	2007	2008	2009	2009(s) /2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
15,000	12.1%	11.3%	10.8%	10.8%	10.8%	15.7%	15.7%	15.7%	15.7%	14.9%	10.7%	7.6%	6.1%	4.8%	4.8%	4.8%
20,000	14.9%	14.2%	13.9%	14.9%	15.9%	19.3%	19.3%	19.3%	19.3%	18.5%	15.0%	12.5%	11.2%	10.1%	9.4%	8.6%
25,000	18.5%	18.0%	15.7%	16.7%	17.7%	21.7%	21.7%	21.7%	21.7%	21.0%	17.9%	15.8%	14.7%	13.8%	13.2%	12.5%
30,000	19.6%	19.1%	18.9%	19.9%	22.9%	23.2%	23.2%	23.2%	23.2%	22.6%	19.8%	18.0%	17.0%	16.2%	15.7%	15.2%
40,000	25.3%	23.8%	22.8%	23.3%	26.3%	29.0%	29.0%	29.0%	29.0%	27.8%	25.3%	23.8%	22.7%	21.7%	21.3%	20.9%
60,000	32.6%	31.2%	30.6%	31.2%	34.2%	36.6%	36.6%	36.6%	36.6%	35.6%	33.4%	32.2%	31.4%	30.6%	30.4%	30.1%
100,000	38.3%	37.1%	36.7%	37.5%	41.3%	42.8%	42.8%	42.8%	42.8%	42.0%	40.6%	39.8%	39.3%	38.8%	38.7%	38.5%
120,000	39.8%	38.7%	38.4%	39.4%	43.2%	44.8%	44.8%	44.8%	44.8%	44.2%	43.0%	42.4%	41.9%	41.5%	41.4%	41.2%

SELF EMPLOYED

SELF EMPLOYED	MARRIED / CIVIL PARTNER, ONE INCOME, TWO CHILDREN															
Gross Income €	**2006**	**2007**	**2008**	**2009**	**2009(s) /2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
15,000	3.0%	3.0%	3.0%	3.0%	3.0%	6.7%	6.7%	6.7%	6.7%	5.9%	5.4%	4.9%	4.8%	4.8%	4.8%	4.8%
20,000	3.0%	3.0%	3.0%	4.0%	5.0%	7.6%	7.6%	7.6%	7.6%	6.7%	6.0%	5.5%	5.2%	5.1%	5.1%	5.1%
25,000	8.9%	7.8%	4.8%	5.8%	6.8%	11.8%	11.8%	11.8%	11.8%	11.1%	7.3%	6.2%	5.9%	5.8%	5.8%	5.7%
30,000	11.6%	10.7%	9.8%	10.8%	13.8%	15.0%	15.0%	15.0%	15.0%	14.4%	11.0%	8.8%	7.5%	6.2%	6.2%	6.2%
40,000	14.9%	14.3%	13.6%	14.6%	17.6%	19.0%	19.0%	19.0%	19.0%	18.6%	15.6%	13.9%	12.8%	11.4%	10.8%	10.4%
60,000	25.3%	23.8%	22.9%	23.5%	26.5%	29.4%	29.4%	29.4%	29.4%	28.5%	26.0%	24.6%	23.6%	22.4%	21.9%	21.7%
100,000	34.0%	32.7%	32.1%	32.9%	36.7%	38.4%	38.4%	38.4%	38.4%	37.8%	36.1%	35.3%	34.7%	33.9%	33.6%	33.4%
120,000	36.1%	35.0%	34.5%	35.5%	39.4%	41.2%	41.2%	41.2%	41.2%	40.6%	39.3%	38.6%	38.0%	37.4%	37.2%	37.0%

*Average Effective Tax Rates 2005-2010: Total of Income Tax, Levies (Income and Health) and PRSI as a proportion of gross income.

Average Effective Tax Rates 2011-2021: Total of Income Tax, PRSI and Universal Social Charge as a proportion of gross income.

Calculations only account for the personal income tax credit, earned income credit and home carer credit, where relevant.

(s) Supplementary Budget 2009

(iii) ESTIMATED DISTRIBUTION OF INCOME EARNERS ON THE INCOME TAX FILE FOR 2020 AND 2021

	Exempt (standard rate liability covered by credits or age exemption limits)	Paying tax at the standard rate* (including those whose liability at the higher rate is fully offset by credits)	Higher rate liability NOT fully offset by credits	Total
2020	932,600 38%	1,120,500 45%	417,000 17%	2,470,100
2021 on a post budget basis	964,200 37%	1,176,200 45%	473,600 18%	2,614,100

Note 1: Distributions are estimates from the Revenue tax-forecasting model using actual data for the year 2018, adjusted as necessary for income and employment trends in the interim.

Note 2: Figures are provisional and likely to be revised.

Note 3: A jointly assessed married couple/civil partnership is treated as one tax unit.

Annex D

Progressivity of Income Tax System

1. Introduction

This annex analyses the progressivity in the Irish income tax system. An income tax system is said to be progressive when the average tax rate rises as the tax base (i.e. the level of income) rises. Progressivity results in those earning higher incomes paying proportionately more of their income in tax than those on lower incomes. Trends in the Gini coefficient (the primary measure of income inequality) are examined. The contribution of the tax and welfare system to changes in income inequality and recent developments in the tax wedge are also discussed.

2. Income distribution in comparative context

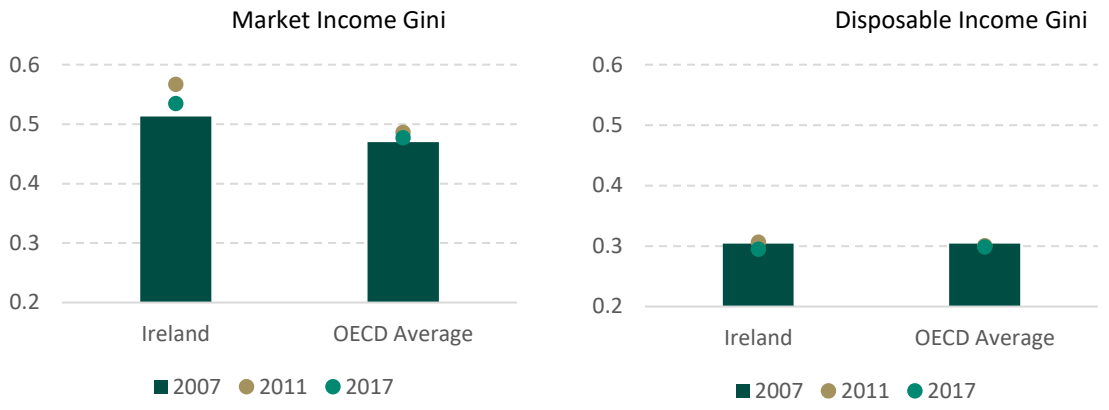
The Gini coefficient is a standardised measure of the dispersion of income where 0 represents a situation where all households have an equal income and 1 indicates that one household has all national income. This coefficient can be calculated on the basis of market income (before tax and transfers) and disposable income (after tax and transfers). The coefficient measured on the basis of disposable income captures the distribution of income after the tax and welfare systems have performed their redistributive function. As a result, the Gini coefficient measured on this basis is the most suitable for the purposes of examining inequality.

The Gini coefficients outlined below are calculated on the basis of equivalised household income.[6] The panel on the left-hand side of Figure A shows that market income inequality increased during the crisis (i.e. between 2007 and 2011) in both Ireland and across the OECD. In 2011, Ireland had the highest level of market income inequality in the OECD. However, in the intervening period, market income inequality has fallen in Ireland, improving relative to the OECD average.

The right-hand side panel of the chart, outlines this measure of inequality based on disposable income. The markedly lower values of the coefficient attest to the strongly redistributive nature of the tax and welfare systems in Ireland and across the OECD. The larger reduction in the disposable income Gini in Ireland relative to the OECD average illustrates that the Irish system is comparatively successful in reducing income inequality. Overall, Figure A shows that while market income inequality can be changeable, disposable income inequality has remained remarkably stable over time, both in the OECD as a whole and in Ireland specifically.

[6] Equivalisation adjusts household income on the basis of household size and composition. The OECD uses a scale of 1 for the first adult, 0.7 for subsequent adults and 0.5 for each child in the household. In this way 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 actual income of 170 (170 ÷ {1+0.7} =100).

Figure A: the Gini coefficient



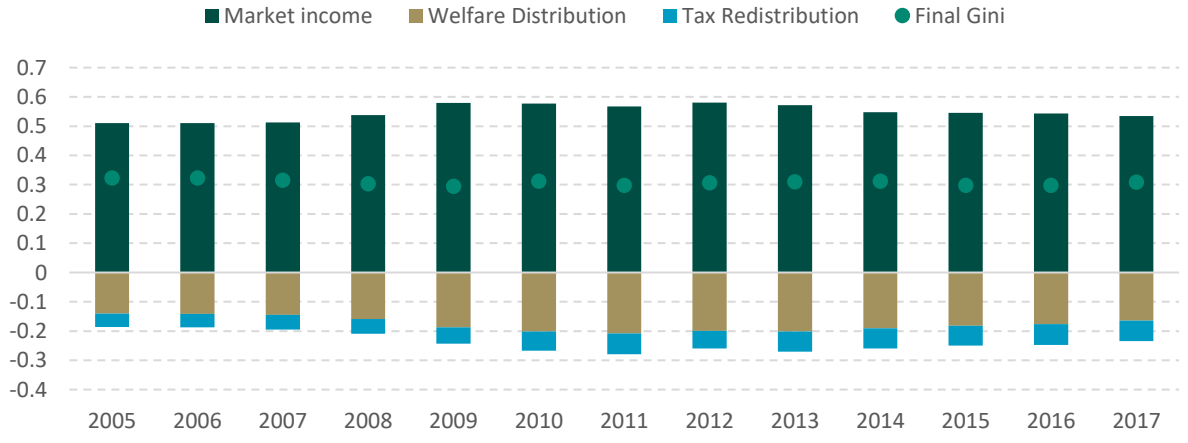
Source: OECD, Income Distribution and Poverty Dataset
Note: the OECD average refers to the 18 member countries for which a long time series of data is available.

3. Impact of the tax and welfare system

The extent to which taxation and welfare respectively contribute to the narrowing of income inequality in Ireland is worth examining further. The difference between the initial market Gini coefficient and the disposable income Gini coefficient can be decomposed into constituent parts, separating the impact of the tax and welfare systems.

Figure B below shows that, from 2005 to 2007, the Gini for market income in Ireland was stable. Following an increase over 2008-2009, the market Gini held steady at a higher level before declining in 2014 and remaining stable out to 2017. The Irish tax and welfare systems also registered an increase in their redistributive impact counteracting this increase in the market Gini. Reflecting these developments, the Gini for disposable income (after taxes and transfers) held at a reasonably steady level throughout the period. As is evident from the graph, Ireland's welfare system makes a greater contribution than the tax system in reducing income inequality. This feature is also common at OECD level.

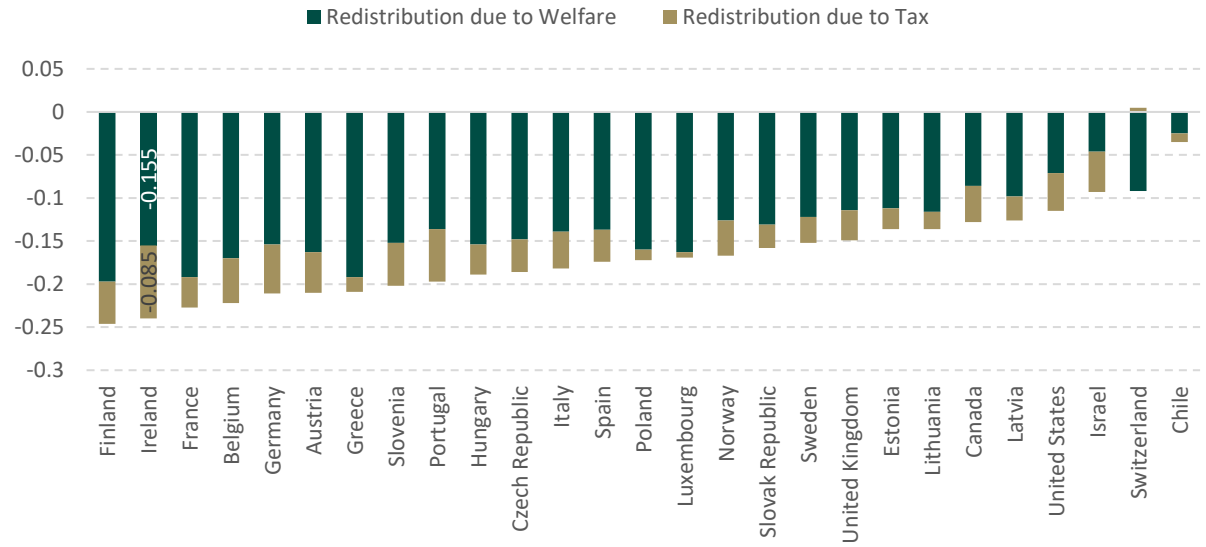
Figure B: the composition of the Gini coefficient in Ireland



Source: OECD, Income Distribution and Poverty Dataset

The latest OECD data to 2017 show (Figure C) that Ireland recorded the second largest absolute reduction (0.24) in the Gini coefficient between market and disposable income, after Finland. The Irish tax and welfare systems jointly reduced the market Gini by 44 per cent from 0.54 to 0.30. This improvement is the fourth largest proportionate reduction in the OECD. One third of the reduction in Ireland in 2017 was attributable to the tax system, a proportion exceeded in only two OECD countries. Notably, the absolute size of the reduction in the Irish Gini coefficient *due to tax* has remained the largest in the OECD each year since 2009.

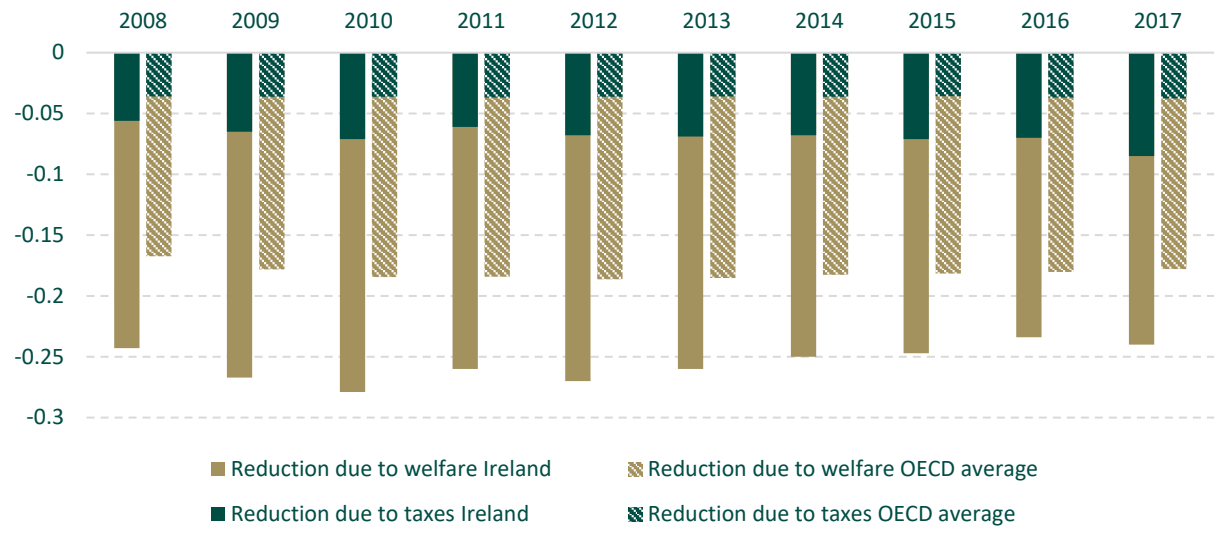
Figure C: reduction in Gini coefficients across OECD due to tax and welfare, 2017



Source: OECD, Income Distribution and Poverty Dataset. Data available for 27 OECD countries

When examined over a slightly longer time frame, it is evident that Ireland's tax system has consistently reduced the Gini coefficient to a greater extent than is the case for tax systems in other OECD countries (see Figure D). The absolute contribution of the tax system to narrowing the dispersion of incomes increased between 2007 and 2010, with Ireland's change being particularly notable. In the case of the OECD, this contribution has been stable since then. In Ireland's case, Budget 2011 measures such as the introduction of Universal Social Charge (USC) coincided with a reduced impact from taxation, but the contribution of the tax system has subsequently increased.

Figure D: reduction in Gini coefficients across OECD due to tax and welfare, 2017



Source: OECD, Income Distribution and Poverty Dataset
Note: the OECD average refers to the 19 member countries for which a long time series of data is available

4. Income tax progressivity through prism of *tax wedge*

The OECD's annual *Taxing Wages 2020* Report examines how personal income tax, social security contributions, payroll taxes and family benefits impact on net household incomes across different household compositions and income levels across all 36 OECD countries.

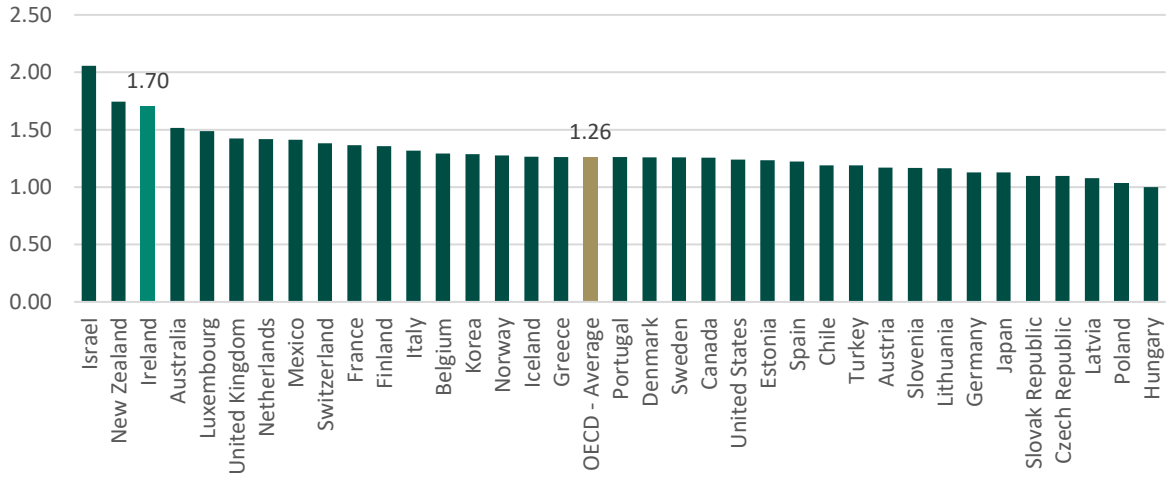
The so-called 'tax wedge' is a key determinant of labour demand and supply decisions of businesses and individuals respectively. It represents a measure of labour income that includes the tax paid by both the employer and the employee, and removes benefits received, expressing these as a share of total employer costs. In Ireland, the tax wedge for an average single worker has fallen by 2.1 percentage points since 2000, marking a greater fall than the equivalent OECD average.

Another standardised measure routinely used to compare progressivity trends expresses the tax wedge experienced by above-average income earners as a share of the wedge facing those on below-average incomes. On this basis, Ireland registers as the most progressive EU member state, and is the third most progressive in the OECD (Figure E). It should be noted, however, that this measure does not account for the effect of income tax expenditures (e.g. pensions), which by their nature tend typically to reduce the effective tax rate faced by high-income earners to a greater degree than for lower-income earners. Consequently, a more comprehensive measure of the tax wedge inclusive of tax expenditures would compress the reported measure of progressivity.[7]

[7] OECD relative tax wedge ratios are derived using tax rates based on income tax schedules before account is taken for the impact of tax expenditures.

In Ireland in 2019 the take-home pay of an average single worker, after tax and benefits amounted to 74.1 percent of their gross wage, identical to the 2019 OECD average. Ireland's performance relative to the OECD average differs in the case of an average worker with two children, where take-home-pay after tax and family benefits represents 91.1 per cent of gross wages, compared to an OECD average of 85.4 per cent.

Figure E: progressivity measured by ratio of tax wedges at 167% and 67% of average wage, 2019



Source: OECD Taxing Wages database

5. Income tax progressivity through prism of *revenue elasticities*

Tax revenue elasticities also provide a useful lens through which to assess the degree of progressivity offered by the tax system. As the tax elasticity is derived by dividing the marginal tax rate by the average tax rate, when the elasticity exceeds one this implies that as incomes rise, the proportion of income paid in tax also rises. An estimated income tax elasticity greater than one is therefore indicative of progressivity.

Joint research between the Department of Finance and the ESRI (Acheson et al 2017)[8] provides useful insights into how a number of structural aspects of the tax system, namely tax rates, credits and thresholds, influence the well-established progressivity of the Irish personal tax system. The work estimated an average income tax elasticity of 2.0, and an elasticity with regard to the USC of 1.2, suggesting that income tax is relatively more progressive that the USC, largely on account of the existence of tax credits in the income tax system. These tax credits help to reduce an individual's average tax rate, thereby resulting in an increase in revenue elasticity and as a result serve to reinforce the degree of progressivity evident in the tax system.

[8] Acheson, J., Deli, Y., Lambert, D., and E. Morgenroth. (2017). *Income tax revenue elasticities in Ireland: an Analytical Approach.* ESRI Research Series, No. 59. This research paper was produced under the Department of Finance and ESRI joint research programme on *The Macroeconomy Taxation and Banking*.

6. Summary

This annex has described some of the channels through which the tax system impacts on the income distribution. The range of metrics considered serve to demonstrate that compared to other countries, the Irish tax and welfare systems contribute substantially to the redistribution of income and a reduction in income inequality. Indeed, the income tax system has become more progressive over time and ranks as one of the most progressive in the OECD.