PUBLIC POLICY.IE

Survey of Irish Taxation

Contents

1. Introduction

This paper gives an overview of taxation in Ireland.

Section 2 outlines returns for 2011 and projected exchequer returns for 2012 as well as showing the income tax distribution statistics for 2009.

Section 3 discusses shifting pattern of tax revenue over the past decade with section four outlining the significant changes in tax policy over the same period with a focus on income tax.

2. Revenue Raised by Ireland's Taxes

Exchequer returns for 2012 are projected to be €35.8 billion euro. However, this will not represent the total revenue for the Irish Government in 2012.

For example, in 2011 approximately €2.8 billion was collected from non-tax revenue sources such as royalties, interest on loans, dividends and other receipts as well as €1.8 billion (approximately) due to capital revenue.[1] Table 1 below shows the exchequer projections for 2012 by main tax head along with the actual figures for 2011 and a column showing year-on-year percentage change.

Table 1: Exchequer Tax Revenues 2011 and 2012.[2]

Tax Heading	**2011 Actual**	**2012 Budget Estimate**	**Change**
	€m	€m	%
Customs	240	245	+2.1
Excise Duties*	4,690	4,815	+2.7
Capital Gains Tax	310	355	+14.5
Capital Acquisitions Tax	240	295	+22.9
Stamp Duties	1,400	1,350	-3.6
Income Tax	13,835	15,000	+8.4
Corporation Tax	3,730	3,770	+1.1
VAT	9,730	9,995	+2.7
Total	34,175	35,825	+4.8

**Figures rounded to the nearest €5 million.*

Income tax and VAT are the largest contributors with both together accounting for almost 70% of total tax revenue. Excise duties are the next largest with corporation tax close behind at €4.8 and €3.7 billion respectively.

In 2012, capital gains tax is estimated to be €355 million. Although this represents a small proportion of total Government receipts, capital gains tax is generally accepted to play a role as an anti-avoidance measure, as it discourages the conversion of income into capital gains to reduce tax liability. Over all, total tax revenue is projected to grow by 4.8% between 2011 and 2012, or €1,650 million.

[1] Source:http://www.finance.gov.ie/documents/exchequerstatements/2011/enddecexcheqstat.pdf
[2]Source:http://budget.gov.ie/Budgets/2012/Documents/Estimates%20of%20Receipts%20and%20Expenditure%20for%20the%20Year%20ending%2031%20December%202012.pdf

Stamp duties are the only revenue stream expected to fall over the period with most of the overall increase being made by income tax which will add €1,165 million to the total growth this year. It is worth noting that since these figures have been released the Central Bank has reduced its GDP growth forecasts for 2012 from 1% to 0.5 %[3]. Projected non-tax revenue is expected to be €2,496 million.

Table 2 below gives the income tax distribution statistics for 2009. Of the total income tax take, those on incomes below €30,000 a year paid just over 3% of total income tax for the year 2009. Those on incomes over €100,000 paid 46 per cent of the income tax revenue for the year. These statistics may not be representitive of 2012 due to budgetary measures introduced post 2009 such as the lowering of the tax bands, a reduction in the tax credits and the universal social charge all in occurring in 2011 .

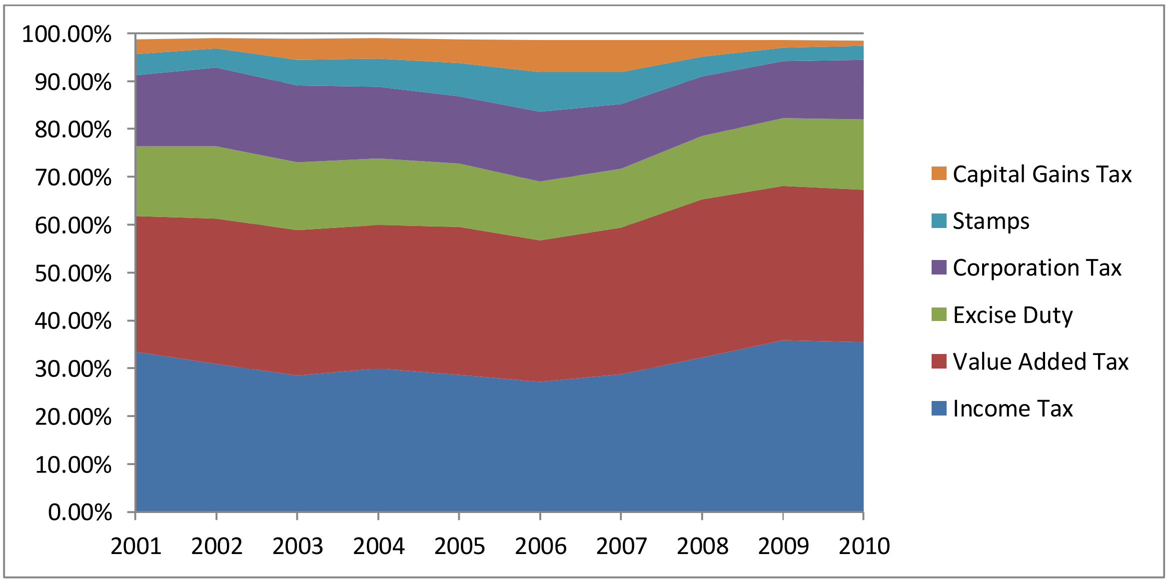
Table 2: Income Distribution Statistics 2009.[4]

Range of Gross Income €	Income €'m	% of Total	Tax Revenue €'m	% of total Income Tax
0 - 20000	7547.86	9.2	30.24	0.28
20001 – 30000	9609.17	11.71	298.9	2.82
30001- 40000	10219.65	12.46	633.89	5.97
40001-50000	9138.75	11.14	886.32	8.35
50001- 75000	16262.37	19.82	2,208.81	20.81
75001- 100000	9482.34	11.56	1,641.93	15.47
100001- 150000	8344.08	10.17	1,792.28	16.88
150001-200000	3136.34	3.82	777.73	7.33
200001-275000	2299.68	2.8	607.86	5.73
275001 and over	6011.08	7.33	1,738.05	16.37
Total	82051.42	100	10,616.3	100

[3] http://www.centralbank.ie/publications/Documents/Quarterly%20Bulletin%20Q%201.pdf , page 11
[4] http://www.revenue.ie/en/about/publications/statistical/2010/index.html

2. Development of Government Revenues

Figure 1: The composition of Government receipts by cumulative percentage, years 2001-2010.[5]



*Minor revenue streams were omitted from this graph for the purposes of clarity.

One of the most significant changes in the composition of Government taxes over the period 2001-2010 is **the large increase in the contribution of capital gains tax until 2006** where it peaks at approximately 6.8% before falling off to 3.5% in 2008, and to just above a percent in 2010.

Similarly, **Stamp Duty rose to roughly 8% in 2006 and has fallen to 3% in 2010**. This is largely due to revenues accruing from the construction industry and rising property values which experienced a significant growth period and subsequently suffered a large decline during the period. This decline has contributed to a structural gap in the Irish tax system in the years since adding to the general decline brought about by the global financial crisis. Figure 1 shows income tax taking a U shaped path. Income tax fell as a percentage with other taxes became more prominent and then rose again in response to the falling significance of other taxes such as Stamp Duty and CGT as well the effect of the income levy slowing the fall of the of Income Tax relative to other taxes.

[5] Compiled from the Finance Accounts available here: http://www.finance.gov.ie/viewdoc.asp?DocId=-1&CatID=10

Ireland currently has one of the lowest tax burdens on labour in the E.U[6].

"Ireland is among the OECD countries that levy a low tax burden on labour income. The average tax wedge (the average income taxes plus employee and employer social security contributions minus cash transfers as a percentage of total labour costs) was below the OECD average for all families in 2000; the difference with the OECD average has even increased as Ireland has reduced the tax wedge strongly over the past 10 years. In 2009, single taxpayers at 167% of the average wage faced a tax wedge which was 2 percentage points below the OECD average; lone parents with 2 children at 67% of the average wage were taxed the most favourably with a tax wedge 26.4 percentage points below the OECD average." – OECD[7]

4. Significant changes in tax Policy[8]

A strategy for future changes to tax system was included in The National Recovery Plan 2011-14.[9]

Income Tax

The income tax burden was reduced significantly in the years 2001 to 2008. In this period tax policy generally sought to keep the minimum wage out of the tax net and the average industrial wage out of the liability to pay tax at the higher rate while maintaining incentives to work by keeping overall taxes on labour low.

By 2008 these goals had been achieved. The national minimum wage at €17,542 was below the entry point to income tax and PRSI at €18,300. The average industrial wage for 2008 (€34,431) was well below the liability to tax (Official C.S.O. figures for 2008) at the higher rate. By 2008 the data indicated that just under 40% of income earners were exempt from tax, just over 40% were paying tax at the standard rate and only 20% were paying at the higher rate.-Tax Strategy Group (March 2009)[10]

[6] http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2011/country/ie.pdf
[7] http://www.oecd.org/document/40/0,3746,en_33873108_33873500_45143016_1_1_1_1,00.html
[8] Summary of Budget measures from 1996-2012 can be found here: http://budget.gov.ie/Budgets/2012/2012.aspx
[9] http://www.budget.gov.ie/The%20National%20Recovery%20Plan%202011-2014.pdf
[10] http://taxpolicy.gov.ie/wp-content/uploads/2011/03/09.03.pdf

In the period 2001 to 2008 to the taxes on labour were, in general, managed through changes to tax credits and bands rather than through changes to the tax rates.

The standard and higher rates of tax had been progressively lowered during the '90s which meant by 2002 the standard rate had been reduced to its current rate of 20% with the higher rate being reduced from 42% in 2001 where it stayed until 2007 when it was lowered by a single percentage point to 41%.

In 2002, income tax bands were €28,000 for a single person, €37,000 for Married One Income and €56,000 for Married Two Income family. The tax bands remained at these levels until 2005 where in the five years to 2009 inclusive, they received successive upward revisions with the single persons category rising by €8,400 to €36,400, married persons with single income by €7,400 to €45,400 and for married persons with two incomes by €16,800 to €72800. In 2011, the respective rates were lowered to €32,800, €41,800, €65,600.

By the year 2002, a move from personal allowances to system of tax credits was completed which allowed for a more equitable treatment of taxpayers. From the introduction of the tax credit system in 2002 most credits have risen substantially. Since its conversion to a credit in 2001 until 2008, the PAYE tax credit increased from €508 to €1,830 with personal, widowed and married credits also increasing during the period though by much smaller amounts than the PAYE credit. Other tax credits relating to specific circumstances of individuals such as the blind persons and the age credit were also increased. In 2011 the main tax credits were reduced by between €180-€300, this includes Personal Tax Credits, Employee tax credits, Incapacitated Child Tax Credit, One Parent Family Tax Credit etc.

The Universal Social Charge was formed from the health and the income levies which were rolled into one tax in 2011. The USC has lower entrance thresholds than Income tax which widened the tax base to those who weren't liable to income tax as well as having a progressive element with increasing rates according to income level. At its introduction Income levy had only two thresholds and two rates of tax but as it was combined with the Health levy into the USC it has become more targeted and no longer applies to those on incomes below €10,036.

Corporation Tax

Changes to the Corporation tax were provided for in the 1999 Budget and Finance Act. In this the standard rate was to be reduced from 32 per cent to 28 per cent effective from 1 January 1999.

The standard rate of corporation tax for trading income was then to fall by 4% per annum for the years 2000, 2001 and 2002 and by 3½% for 2003, giving a 12½ per cent rate in 2003 where it has stayed since then. A 25 per cent rate was applied to all non-trading income of companies for the year 2000 onwards and has also remained the same.

Value Added Tax

Value Added Tax has been fairly consistent over the period 2002-2008 which changes mainly coming to the thresholds at which businesses have to register for VAT and to the special farmer's rate of tax which is designed to recoup non-VAT registered farmers for the VAT they incur on their inputs.

The standard rate of VAT was increased to 21% in 2002 from 20 per cent where it stayed until late in 2008 then rising by half a percentage point to 21.5 per cent. It subsequently fell to 21% in January 2010 and was then increased to 23% in 2012**.** An increase in the lower VAT rate from 12.5% to 13.5% occurred in 2003 and has remained the same. A new temporary second reduced rate of VAT of 9% was introduced from 1 July, 2011 until the end of 2013. It applies mainly to restaurant and catering services, hotel and holiday accommodation and various entertainment services.