



How Fair Have Recent Budgets Been?

BUDGET 2013



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Department of Finance



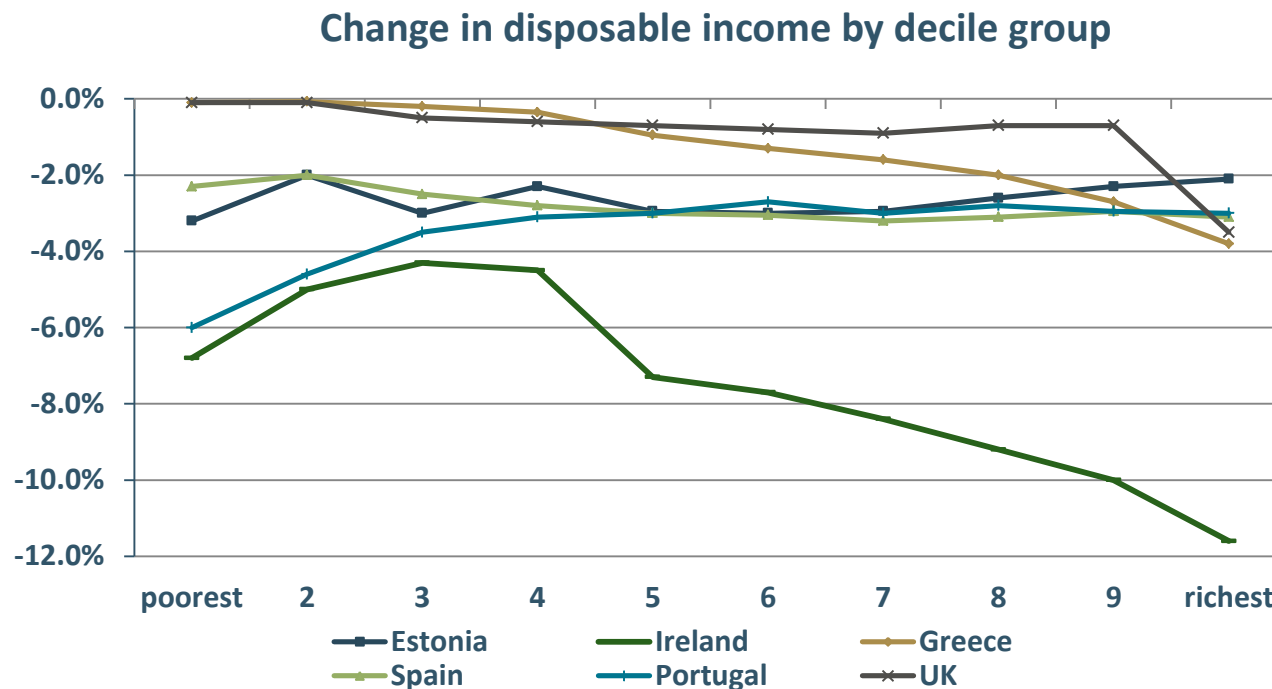
Progressivity (‘fairness’) of the Irish Income Tax System

- The Irish tax system is one of the most progressive in the world.
- Research by the OECD, the ESRI in Ireland and the European Commission has shown that:
 - The income tax system is one of the most progressive in the OECD; and,
 - The overall fiscal adjustment has been progressive in nature.
- Those who earn the most have borne the greatest share of the fiscal adjustment.

* For further information on progressivity issues and the distributional impacts of recent Budgets see Annex F in Budget Book 2013 (<http://www.budget.gov.ie>)



Irish fiscal adjustment compares well internationally

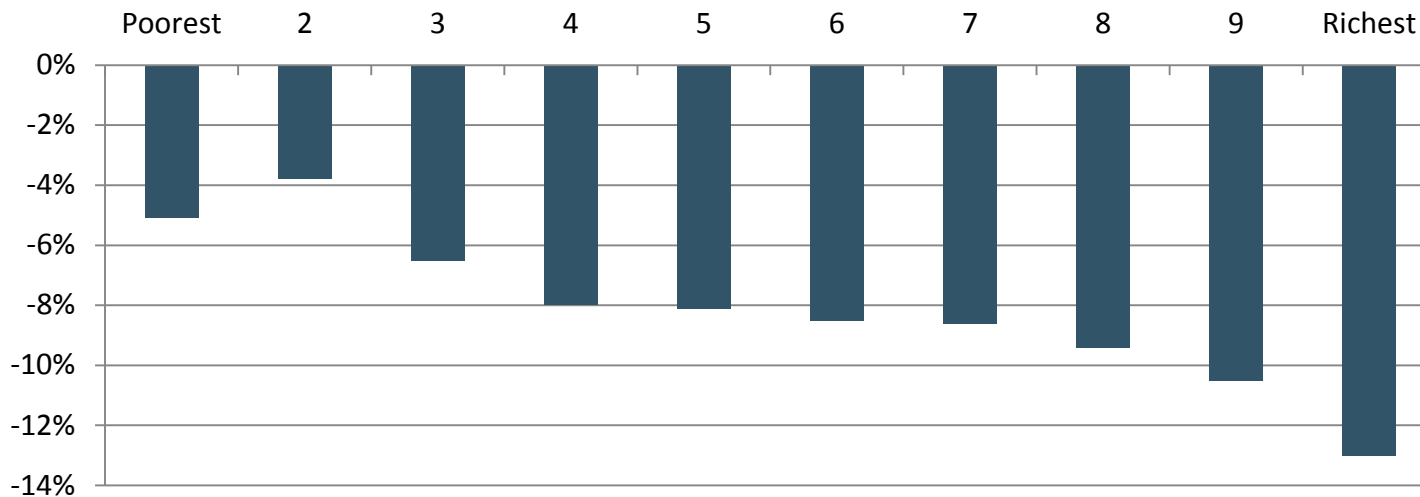


In a comparison of austerity measures up to 2011 in six EU countries by the researchers on behalf of the European Commission it was found that reductions in disposable income due to tax and contribution increases in Ireland were larger in the upper part of the income distribution. The research also showed that over 30% of the overall adjustment was borne by the richest 10% of the population and approximately 70% by the richest four deciles.

Source: Callan T., C. Leventi, H. Levy, M. Matsaganis, A. Paulus and H. Sutherland, 2011. "The distributional effects of austerity measures: a comparison of six EU countries" Research Note 2/2011 of the European Observatory on the Social Situation and Demography, European Commission.



High Earners have had the greatest loss in income



Based on the full period to Budget 2012 since the initial budgetary response to the emerging crisis in October 2008, the greatest losses over the period were for those with high incomes, and the smallest losses for those with the lowest incomes.

Losses for low income deciles range from 4 to 6 per cent, for middle income deciles from 7.5 to 9.5 per cent, and for the top two income deciles are close to 11-12 per cent.

Source: "Distributional Impact of Tax, Welfare and Public Sector Pay Policies: 2009-2012", in, Quarterly Economic Commentary, ESRI, 2012.



High Earners have had the greatest loss in income

Private Sector workers

Income	Total Deductions in 2008	Net Pay in 2008	Total Deductions in 2013	Net Pay in 2013	Total Change in Net Income	% Change in Net Income
€25,000	€3,216	€21,784	€4,969	€20,031	- €1,753	- 8.0%
€50,000	€13,732	€36,268	€16,901	€33,099	- €3,169	- 8.9%
€75,000	€25,561	€49,439	€30,786	€44,214	- €5,225	-10.6%
€100,000	€37,212	€62,788	€44,671	€55,329	- €7,459	- 11.9%
€150,000	€60,672	€89,328	€72,441	€77,559	- €11,769	- 13.2%
€200,000	€84,143	€115,857	€100,211	€99,789	- €16,068	- 13.9%

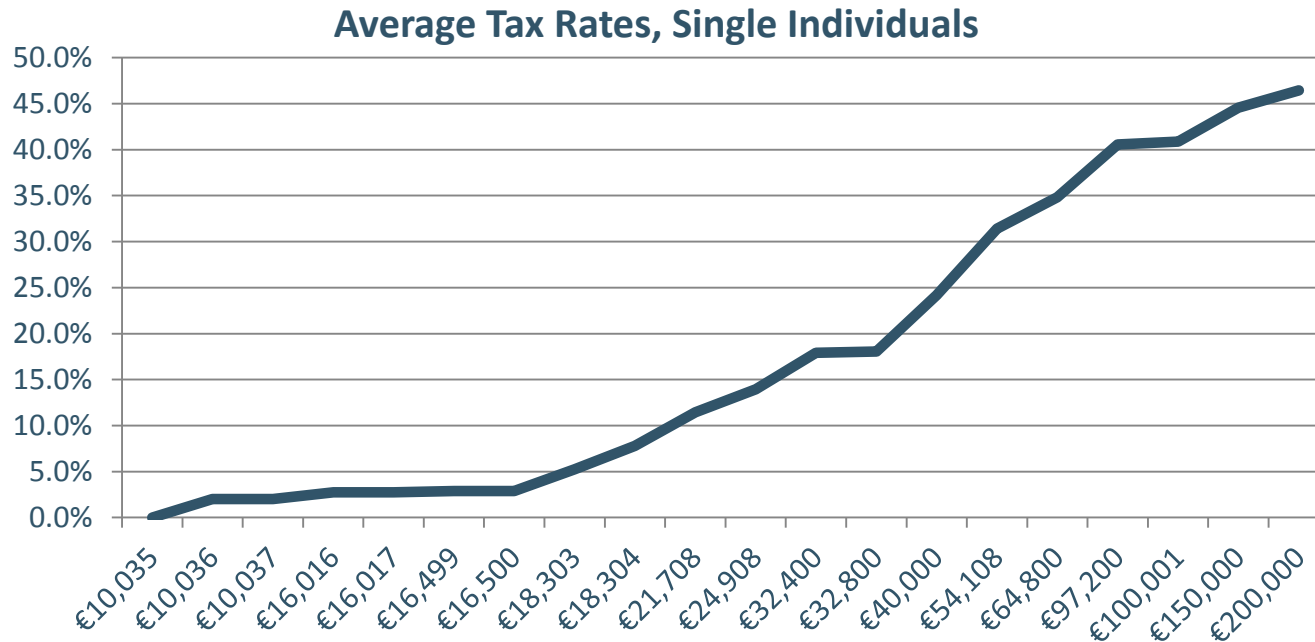
Public Sector workers*

Income	Total Deductions in 2008	Net Pay in 2008	Total Deductions in 2013	Net Pay in 2013	Total Change in Net Income	% Change in Net Income
€25,000	€2,674	€22,326	€4,999	€20,001	- €2,325	- 10.4%
€50,000	€13,420	€36,580	€18,472	€31,528	- €5,052	- 13.8%
€75,000	€25,297	€49,703	€33,950	€41,050	- €8,653	- 17.4%
€100,000	€37,020	€62,980	€49,457	€50,543	- €12,437	- 19.7%
€150,000	€60,622	€89,378	€80,472	€69,528	- €19,850	- 22.2%
€200,000	€84,234	€115,766	€111,487	€88,513	- €27,253	- 23.5%

*Does not account for public sector pay cuts



The average tax rate on lower incomes remains low

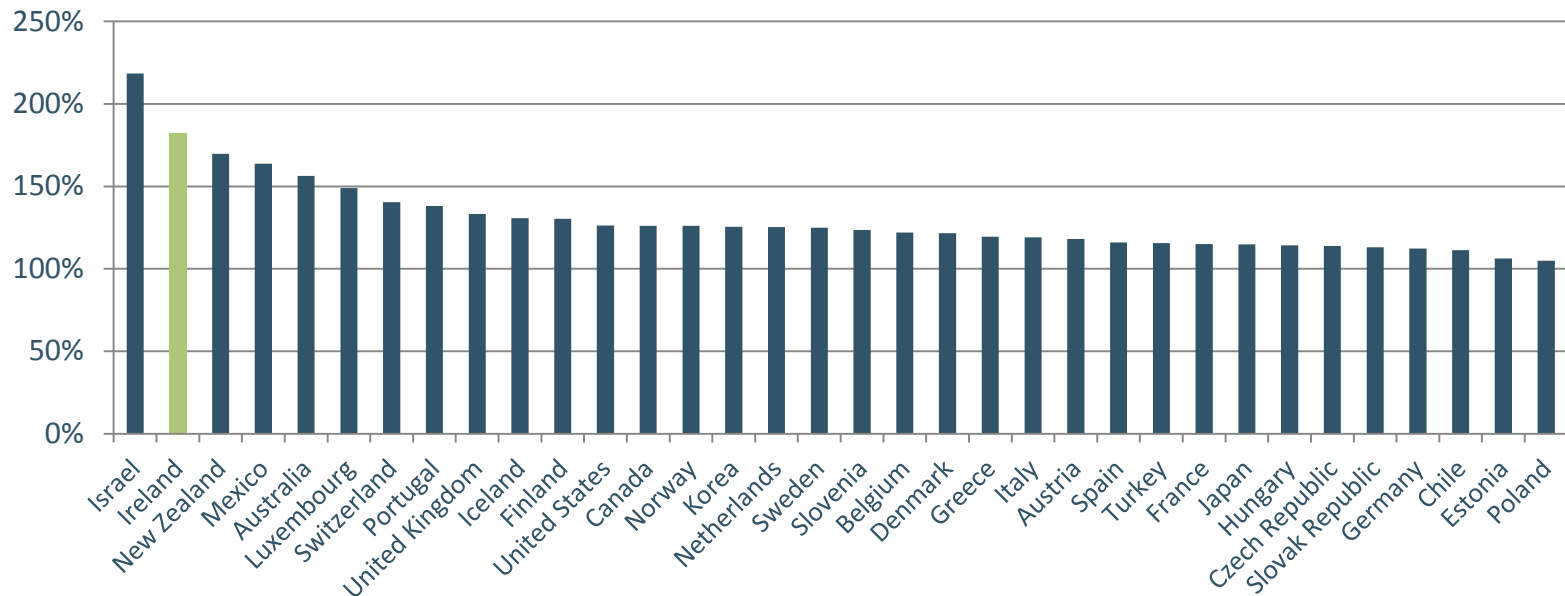


- The chart above plots the effective tax rates for a range of income levels along the income distribution.
- The effective tax rate is less than 11% for all incomes up to €21,700 (approximately 67% of the average wage) and 18% at the average wage. The OECD average for workers at 67% of the average wage was 21% in 2011 and 25% for individuals earning the average wage.



Irish tax system is one of most progressive in world

Progressivity Measure, OECD 2011



- In its annual publication 'Taxing Wages', based on an average wage in Ireland of €32,400, the OECD compares the ratio of the tax wedges of individuals earning approximately €54,100 to €21,700.
- Under this measure the OECD estimates show that with a score of 182%, Ireland had the second highest progressivity ('fairness') outcome of OECD members in 2011 and the highest of EU members.
- The tax wedge is defined by the OECD as income tax plus employee and employer social security contribution less cash benefits as a percentage of a labour costs.



For more information please go to:

<http://www.budget.gov.ie>

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