

TAXATION ANNEXES TO THE SUMMARY
OF 2017
BUDGET MEASURES

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CONTENTS

Annex A	A distributional analysis of Budget 2017 Measures on a variety of household family types across a range of income levels	B.5
Annex B	Income Tax and Progressivity Issues	B.25
Annex C	Review of the Corporation Tax Code by an Independent Expert	B.31
Annex D	Help to Buy	B.32

ANNEX A

A distributional analysis of Budget 2017 Measures on a variety of household family types across a range of income levels.

Introduction

This Annex presents a range of information that illustrates the effect of the Budget measures on different categories of income earners and household types. Distribution tables show the impact of Budget measures for different family types – 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, taking into account the personal, PAYE, Earned Income and Home Carer tax credits as relevant. The examples also do not take account of additional tax reliefs which may be available such as Mortgage Interest Relief. 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 2002 to 2017.

Information is also provided on the distribution of income earners for Income Tax purposes on a 2016 and a post-Budget 2017 basis. This shows a breakdown of the number of income earners: exempt from Income Tax; paying Income Tax at the standard rate; and paying Income Tax at the higher rate.

A number of illustrative cases are also provided to demonstrate the impact of the Budget changes across a broader range of family types and income sources.

This complements other analyses that are undertaken aimed at integrating equality and distributional considerations into the Budget process as set out in the Economic and Fiscal Outlook section of this document. In particular, the following Annex B provides a broader examination of income tax and progressivity issues.

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

EXAMPLE 1

Single person, no children, private sector employee taxed under PAYE

Full rate PRSI contributor

Note: Assuming that employees currently earning less than €18,556 p.a. earn all their income at the minimum wage and will therefore benefit from an increase of 1.09% (€9.15 to €9.25 per hour) in their gross income

B.6

Gross Income			Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income	Effective Tax Rate	
Existing	Min. Wage	New	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	Increase	€	€	€	€	€	€	€	€	€		%	%
12,000	131	12,131	0	0	0	0	0	0	131	3	1.1%	0.0%	0.0%
14,000	153	14,153	0	0	0	0	180	114	219	4	1.6%	1.3%	0.8%
18,000	197	18,197	300	339	0	0	300	215	242	5	1.4%	3.3%	3.0%
20,000	0	20,000	700	700	459	459	393	290	103	2	0.6%	7.8%	7.2%
25,000	0	25,000	1,700	1,700	1,000	1,000	668	540	128	2	0.6%	13.5%	13.0%
30,000	0	30,000	2,700	2,700	1,200	1,200	943	790	153	3	0.6%	16.1%	15.6%
35,000	0	35,000	3,940	3,940	1,400	1,400	1,218	1,040	178	3	0.6%	18.7%	18.2%
45,000	0	45,000	7,940	7,940	1,800	1,800	1,768	1,540	228	4	0.7%	25.6%	25.1%
55,000	0	55,000	11,940	11,940	2,200	2,200	2,318	2,040	278	5	0.7%	29.9%	29.4%
70,000	0	70,000	17,940	17,940	2,800	2,800	3,143	2,790	353	7	0.8%	34.1%	33.6%
100,000	0	100,000	29,940	29,940	4,000	4,000	5,542	5,189	353	7	0.6%	39.5%	39.1%
150,000	0	150,000	49,940	49,940	6,000	6,000	9,542	9,189	353	7	0.4%	43.7%	43.4%
175,000	0	175,000	59,940	59,940	7,000	7,000	11,542	11,189	353	7	0.4%	44.8%	44.6%

Variations can arise due to rounding

EXAMPLE 2

Married couple, one income, no children, private sector employee taxed under PAYE

Full rate PRSI contributor

Note: Assuming that employees currently earning less than €18,556 p.a. earn all their income at the minimum wage and will therefore benefit from an increase of 1.09% (€9.15 to €9.25 per hour) in their gross income

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	131	12,131	0	0	0	0	0	0	131	3	1.1%	0.0%	0.0%
14,000	153	14,153	0	0	0	0	180	114	219	4	1.6%	1.3%	0.8%
18,000	197	18,197	0	0	0	0	300	215	282	5	1.6%	1.7%	1.2%
20,000	0	20,000	0	0	459	459	393	290	103	2	0.5%	4.3%	3.7%
25,000	0	25,000	50	50	1,000	1,000	668	540	128	2	0.5%	6.9%	6.4%
30,000	0	30,000	1,050	1,050	1,200	1,200	943	790	153	3	0.6%	10.6%	10.1%
35,000	0	35,000	2,050	2,050	1,400	1,400	1,218	1,040	178	3	0.6%	13.3%	12.8%
45,000	0	45,000	4,490	4,490	1,800	1,800	1,768	1,540	228	4	0.6%	17.9%	17.4%
55,000	0	55,000	8,490	8,490	2,200	2,200	2,318	2,040	278	5	0.7%	23.7%	23.1%
70,000	0	70,000	14,490	14,490	2,800	2,800	3,143	2,790	353	7	0.7%	29.2%	28.7%
100,000	0	100,000	26,490	26,490	4,000	4,000	5,542	5,189	353	7	0.6%	36.0%	35.7%
150,000	0	150,000	46,490	46,490	6,000	6,000	9,542	9,189	353	7	0.4%	41.4%	41.1%
175,000	0	175,000	56,490	56,490	7,000	7,000	11,542	11,189	353	7	0.4%	42.9%	42.7%

EXAMPLE 3

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

Note: Assuming that employees currently earning less than €18,556 p.a. earn all their income at the minimum wage and will therefore benefit from an increase of 1.09% (€9.15 to €9.25 per hour) in their gross income

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	131	12,131	0	0	0	0	0	0	131	3	1.1%	0.0%	0.0%
14,000	153	14,153	0	0	0	0	180	114	219	4	1.6%	1.3%	0.8%
18,000	197	18,197	0	0	0	0	300	215	282	5	1.6%	1.7%	1.2%
20,000	0	20,000	0	0	459	459	393	290	103	2	0.5%	4.3%	3.7%
25,000	0	25,000	0	0	1,000	1,000	668	540	128	2	0.5%	6.7%	6.2%
30,000	0	30,000	50	0	1,200	1,200	943	790	203	4	0.7%	7.3%	6.6%
35,000	0	35,000	1,050	950	1,400	1,400	1,218	1,040	278	5	0.9%	10.5%	9.7%
45,000	0	45,000	3,490	3,390	1,800	1,800	1,768	1,540	328	6	0.9%	15.7%	15.0%
55,000	0	55,000	7,490	7,390	2,200	2,200	2,318	2,040	378	7	0.9%	21.8%	21.1%
70,000	0	70,000	13,490	13,390	2,800	2,800	3,143	2,790	453	9	0.9%	27.8%	27.1%
100,000	0	100,000	25,490	25,390	4,000	4,000	5,542	5,189	453	9	0.7%	35.0%	34.6%
150,000	0	150,000	45,490	45,390	6,000	6,000	9,542	9,189	453	9	0.5%	40.7%	40.4%
175,000	0	175,000	55,490	55,390	7,000	7,000	11,542	11,189	453	9	0.4%	42.3%	42.0%

(a) Variations can arise due to rounding

(b) Total change includes Income Tax and USC changes only

EXAMPLE 4

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	200	0	500	500	0	0	200	4	1.8%	5.8%	4.2%
14,000	600	200	560	560	180	110	470	9	3.7%	9.6%	6.2%
18,000	1,400	1,000	720	720	300	210	490	9	3.1%	13.4%	10.7%
20,000	1,800	1,400	800	800	393	290	503	10	3.0%	15.0%	12.5%
25,000	2,800	2,400	1,000	1,000	668	540	528	10	2.6%	17.9%	15.8%
30,000	3,800	3,400	1,200	1,200	943	790	553	11	2.3%	19.8%	18.0%
35,000	5,040	4,640	1,400	1,400	1,218	1,040	578	11	2.1%	21.9%	20.2%
45,000	9,040	8,640	1,800	1,800	1,768	1,540	628	12	1.9%	28.0%	26.6%
55,000	13,040	12,640	2,200	2,200	2,318	2,040	678	13	1.8%	31.9%	30.7%
70,000	19,040	18,640	2,800	2,800	3,143	2,790	753	14	1.7%	35.7%	34.6%
100,000	31,040	30,640	4,000	4,000	5,542	5,189	753	14	1.3%	40.6%	39.8%
150,000	51,040	50,640	6,000	6,000	11,042	10,689	753	14	0.9%	45.4%	44.9%
175,000	61,040	60,640	7,000	7,000	13,792	13,439	753	14	0.8%	46.8%	46.3%

Variations can arise due to rounding

EXAMPLE 5

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	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	180	110	70	1	0.5%	5.3%	4.8%
18,000	0	0	720	720	300	210	90	2	0.5%	5.7%	5.2%
20,000	150	0	800	800	393	290	253	5	1.4%	6.7%	5.5%
25,000	1,150	750	1,000	1,000	668	540	528	10	2.4%	11.3%	9.2%
30,000	2,150	1,750	1,200	1,200	943	790	553	11	2.1%	14.3%	12.5%
35,000	3,150	2,750	1,400	1,400	1,218	1,040	578	11	2.0%	16.5%	14.8%
45,000	5,590	5,190	1,800	1,800	1,768	1,540	628	12	1.8%	20.4%	19.0%
55,000	9,590	9,190	2,200	2,200	2,318	2,040	678	13	1.7%	25.7%	24.4%
70,000	15,590	15,190	2,800	2,800	3,143	2,790	753	14	1.6%	30.8%	29.7%
100,000	27,590	27,190	4,000	4,000	5,542	5,189	753	14	1.2%	37.1%	36.4%
150,000	47,590	47,190	6,000	6,000	11,042	10,689	753	14	0.9%	43.1%	42.6%
175,000	57,590	57,190	7,000	7,000	13,792	13,439	753	14	0.8%	44.8%	44.4%

Variations can arise due to rounding

EXAMPLE 6

Married couple, one income, two 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	180	110	70	1	0.4%	5.3%	4.8%
18,000	0	0	720	720	300	210	90	2	0.4%	5.7%	5.2%
20,000	0	0	800	800	393	290	103	2	0.5%	6.0%	5.5%
25,000	150	0	1,000	1,000	668	540	278	5	1.0%	7.3%	6.2%
30,000	1,150	650	1,200	1,200	943	790	653	13	2.2%	11.0%	8.8%
35,000	2,150	1,650	1,400	1,400	1,218	1,040	678	13	2.0%	13.6%	11.7%
45,000	4,590	4,090	1,800	1,800	1,768	1,540	728	14	1.8%	18.1%	16.5%
55,000	8,590	8,090	2,200	2,200	2,318	2,040	778	15	1.7%	23.8%	22.4%
70,000	14,590	14,090	2,800	2,800	3,143	2,790	853	16	1.6%	29.3%	28.1%
100,000	26,590	26,090	4,000	4,000	5,542	5,189	853	16	1.3%	36.1%	35.3%
150,000	46,590	46,090	6,000	6,000	11,042	10,689	853	16	1.0%	42.4%	41.9%
175,000	56,590	56,090	7,000	7,000	13,792	13,439	853	16	0.8%	44.2%	43.7%

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 €	2002	2003	2004	2005	2006	2007	2008	2009	2009 (s)/2010	2011	2012	2013	2014	2015	2016	2017
15,000	7.7%	6.8%	5.2%	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	2.7%	2.7%	2.7%	1.9%	1.4%	0.9%
20,000	13.8%	13.1%	11.9%	8.4%	7.1%	5.1%	4.4%	5.4%	6.4%	9.8%	9.8%	11.1%	11.1%	10.2%	7.8%	7.2%	
25,000	16.2%	15.7%	14.7%	13.5%	12.5%	10.9%	8.3%	9.3%	10.3%	14.0%	14.0%	15.1%	15.1%	14.4%	13.5%	13.0%	
30,000	19.3%	18.9%	18.1%	16.0%	14.7%	13.4%	12.9%	13.9%	16.9%	16.8%	16.8%	17.7%	17.7%	17.1%	16.1%	15.6%	
40,000	26.4%	26.1%	25.5%	24.0%	21.9%	19.7%	18.6%	19.1%	22.1%	24.2%	24.2%	24.8%	24.8%	23.7%	22.6%	22.1%	
60,000	32.4%	32.3%	32.0%	31.1%	29.8%	28.1%	27.5%	28.2%	31.7%	33.4%	33.4%	33.9%	33.9%	32.8%	31.6%	31.1%	
100,000	37.1%	37.0%	36.9%	36.3%	35.6%	34.2%	33.8%	34.6%	39.2%	40.9%	40.9%	41.1%	41.1%	40.4%	39.5%	39.1%	
120,000	38.3%	38.2%	38.1%	37.6%	37.0%	35.7%	35.4%	36.5%	41.1%	42.7%	42.7%	42.9%	42.9%	42.3%	41.6%	41.3%	

B.12

FULL RATE PRSI	MARRIED/CIVIL PARTNER ONE INCOME TWO CHILDREN																
	Gross Income €	2002	2003	2004	2005	2006	2007	2008	2009	2009 (s)/2010	2011	2012	2013	2014	2015	2016	2017
15,000	2.2%	2.2%	2.2%	2.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	2.7%	2.7%	2.7%	1.9%	1.4%	0.9%
20,000	4.7%	4.7%	4.7%	2.7%	2.7%	2.7%	2.7%	3.7%	4.7%	6.3%	6.3%	7.6%	7.6%	6.7%	4.3%	3.7%	
25,000	7.1%	6.5%	5.5%	4.9%	4.9%	4.9%	2.9%	3.9%	4.9%	7.2%	7.2%	8.3%	8.3%	7.6%	6.7%	6.2%	
30,000	10.2%	9.8%	9.0%	7.8%	6.7%	5.1%	5.1%	6.1%	9.1%	8.6%	8.6%	9.5%	9.5%	8.9%	7.3%	6.6%	
40,000	15.7%	15.5%	14.9%	13.2%	11.5%	10.2%	9.4%	10.4%	13.4%	14.2%	14.2%	14.9%	14.9%	14.5%	12.9%	12.1%	
60,000	25.3%	25.1%	24.8%	23.9%	22.5%	20.8%	19.8%	20.5%	24.0%	26.2%	26.2%	26.6%	26.6%	25.7%	24.1%	23.5%	
100,000	32.8%	32.8%	32.6%	32.0%	31.2%	29.7%	29.2%	30.0%	34.6%	36.5%	36.5%	36.8%	36.8%	36.1%	35.0%	34.6%	
120,000	34.7%	34.6%	34.5%	34.0%	33.3%	32.0%	31.6%	32.6%	37.2%	39.1%	39.1%	39.3%	39.3%	38.8%	37.9%	37.5%	

*Average Effective Tax Rates 2001-2010: Total of Income Tax, Levies (Income and Health) and PRSI as a proportion of gross income.

Average Effective Tax Rates 2011-2015: 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															
	2002	2003	2004	2005	2006	2007	2008	2009	2009 (s)/2010	2011	2012	2013	2014	2015	2016	2017
Gross Income €																
15,000	12.9%	12.9%	12.9%	12.5%	12.1%	11.3%	10.8%	10.8%	10.8%	15.7%	15.7%	15.7%	15.7%	14.9%	10.7%	7.6%
20,000	17.4%	17.4%	17.4%	15.1%	14.9%	14.2%	13.9%	14.9%	15.9%	19.3%	19.3%	19.3%	19.3%	18.5%	15.0%	12.5%
25,000	18.9%	18.9%	18.9%	18.7%	18.5%	18.0%	15.7%	16.7%	17.7%	21.7%	21.7%	21.7%	21.7%	21.0%	17.9%	15.8%
30,000	21.4%	21.4%	21.4%	20.2%	19.6%	19.1%	18.9%	19.9%	22.9%	23.2%	23.2%	23.2%	23.2%	22.6%	19.8%	18.0%
40,000	27.8%	27.8%	27.8%	26.9%	25.3%	23.8%	22.8%	23.3%	26.3%	29.0%	29.0%	29.0%	29.0%	27.8%	25.3%	23.8%
60,000	34.2%	34.2%	34.2%	33.6%	32.6%	31.2%	30.6%	31.2%	34.2%	36.6%	36.6%	36.6%	36.6%	35.6%	33.4%	32.2%
100,000	39.3%	39.3%	39.3%	39.0%	38.3%	37.1%	36.7%	37.5%	41.3%	42.8%	42.8%	42.8%	42.8%	42.0%	40.6%	39.8%
120,000	40.6%	40.6%	40.6%	40.3%	39.8%	38.7%	38.4%	39.4%	43.2%	44.8%	44.8%	44.8%	44.8%	44.2%	43.0%	42.4%

SELF EMPLOYED	MARRIED/CIVIL PARTNER ONE INCOME TWO CHILDREN															
	2002	2003	2004	2005	2006	2007	2008	2009	2009 (s)/2010	2011	2012	2013	2014	2015	2016	2017
Gross Income €																
15,000	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	6.7%	6.7%	6.7%	6.7%	5.9%	5.4%	4.9%
20,000	6.0%	6.0%	6.0%	3.4%	3.0%	3.0%	3.0%	4.0%	5.0%	7.6%	7.6%	7.6%	7.6%	6.7%	6.0%	5.5%
25,000	9.8%	9.8%	9.8%	9.3%	8.9%	7.8%	4.8%	5.8%	6.8%	11.8%	11.8%	11.8%	11.8%	11.1%	7.3%	6.2%
30,000	12.3%	12.3%	12.3%	11.9%	11.6%	10.7%	9.8%	10.8%	13.8%	15.0%	15.0%	15.0%	15.0%	14.4%	11.0%	8.8%
40,000	17.1%	17.1%	17.1%	16.1%	14.9%	14.3%	13.6%	14.6%	17.6%	19.0%	19.0%	19.0%	19.0%	18.6%	15.6%	13.9%
60,000	27.1%	27.1%	27.1%	26.4%	25.3%	23.8%	22.9%	23.5%	26.5%	29.4%	29.4%	29.4%	29.4%	28.5%	26.0%	24.6%
100,000	35.1%	35.1%	35.1%	34.6%	34.0%	32.7%	32.1%	32.9%	36.7%	38.4%	38.4%	38.4%	38.4%	37.8%	36.1%	35.3%
120,000	37.0%	37.0%	37.0%	36.7%	36.1%	35.0%	34.5%	35.5%	39.4%	41.2%	41.2%	41.2%	41.2%	40.6%	39.3%	38.6%

*Average Effective Tax Rates 2001-2010: Total of Income Tax, Levies (Income and Health) and PRSI as a proportion of gross income.

Average Effective Tax Rates 2011-2015: Total of Income Tax, PRSI and Universal Social Charge as a proportion of gross income.

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

(s)Supplementary Budget 2009

(iii) ESTIMATED DISTRIBUTION OF INCOME EARNERS ON THE INCOME TAX FILE FOR 2016 AND 2017

	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
2016	918,400 37.3%	1,064,900 43.3%	476,900 19.4%	2,460,200
2017 on a post budget basis	920,700 36.6%	1,079,500 42.9%	517,100 20.5%	2,517,300

B.16

Notes:

1. Distributions for 2017 are estimates from the Revenue tax-forecasting model using actual data for the year 2014, adjusted as necessary for income and employment trends in the interim.
2. Figures are provisional and likely to be revised
3. A jointly assessed married couple/civil partnership is treated as one tax unit.

(iv) ILLUSTRATIVE CASES

These cases deal with basic personal tax credits, the employee tax credit, earned income tax credit, the home carer credit, the age credit, the age exemption limits, the standard rate bands, PRSI and the Universal Social Charge (USC). Social welfare payments such as the State Pension and Child Benefit are included, where relevant. Additional tax reliefs such as Mortgage Interest Relief and Rent Relief are not taken into account. Some figures are rounded to the nearest euro

Example 1

Ian and Jennifer are married. Jennifer is self-employed and earns €50,000 per annum. Ian works in the tourism industry and earns €40,000 per annum. They each pay pension contributions of 4.5% of gross income. The couple will see a gain of €855 in their annual net income due to this Budget

	2016	2017
	€	€
Gross Income	90,000	90,000
Pension Contributions	<u>4,050</u>	<u>4,050</u>
Taxable income	85,950	85,950
Income tax liability	15,360	14,960
PRSI liability	3,600	3,600
USC liability	<u>3,536</u>	<u>3,081</u>
Total tax liability	22,496	21,641
Net Income	63,454	64,309
Annual Gain		855
Change as a % of net income		1.35%

Example 2

Seamus is single and working full time on the minimum wage. Seamus will see a gain of €208 in his annual net income due to this Budget.

	2016	2017
	€	€
Gross Income	18,556	18,556
Minimum wage increase		<u>203</u>
New gross income		18,759
Income tax liability	411	452
PRSI liability	160	202
USC liability	<u>317</u>	<u>229</u>
Total tax liability	888	883
Net Income	17,668	17,876
Annual Gain		208
Change as a % of net income		1.18%

Example 3

Páraic and Joyce are married and have three children, Aoife, Oscar and Úna, all aged under 12. Joyce has a part-time job and earns €6,500 per annum. Páraic is employed as a chef earning €40,000 per annum. The couple will see a gain of €303 in their annual net income due to this Budget.

	2016	2017
	€	€
Gross Income	46,500	46,500
Income tax liability	2,050	1,950
PRSI liability	1,600	1,600
USC liability	<u>1,493</u>	<u>1,290</u>
Total tax liability	5,143	4,840
Child Benefit	5,040	5,040
Net Income	46,397	46,700
Annual Gain		303
Change as a % of net income		0.65%

Example 4

Róisín is a self-employed entrepreneur earning €60,000. Róisín will see a gain of €703 in her annual net income due to this Budget.

	2016	2017
	€	€
Gross Income	60,000	60,000
Income tax liability	15,040	14,640
PRSI liability	2,400	2,400
USC liability	<u>2,593</u>	<u>2,290</u>
Total tax liability	20,033	19,330
Net Income	39,967	40,670
Annual Gain		703
Change as a % of net income		1.76%

Example 5

Alan and Ray are married with two children, Annemarie aged 10 and Rory aged 8. Alan is employed in the retail sector earning €36,000. Ray works in the family home. The family will see a gain of €283 in their annual net income due to this Budget.

	2016	2017
	€	€
Gross Income	36,000	36,000
Income tax liability	1,250	1,150
PRSI liability	1,440	1,440
USC liability	<u>1,273</u>	<u>1,090</u>
Total tax liability	3,963	3,680
Child Benefit	3,360	3,360
Net Income	35,397	35,680
Annual Gain		283
Change as a % of net income		0.8%

Example 6

Gareth and Heather are married with three children, Georgia, Grace and Conor, who are aged 6, 8 and 10 years. Gareth is self-employed and earns €50,000. Heather works in the family home. The family will see a gain of €753 in their annual net income due to this Budget

	2016	2017
	€	€
Gross Income	50,000	50,000
Income tax liability	6,590	6,090
PRSI liability	2,000	2,000
USC liability	<u>2,043</u>	<u>1,790</u>
Total tax liability	10,633	9,880
Child Benefit	5,040	5,040
Net Income	44,407	45,160
Annual Gain		753
Change as a % of net income		1.7%

Example 7

Abbie is a single parent and is the primary carer of her daughter, Nessa aged 3. She joined the public service in 2005 and earns €42,000. Abbie will see a gain of €521 in her annual net income due to this Budget, including changes to the Pension Related Deduction as part of the Lansdowne Road Agreement.

	2016	2017
	€	€
Gross Income	42,000	42,000
Lansdowne Road Increase		<u>333</u>
New Gross Income		42,333
Pension contribution	1,881	1,884
Pension Related Deduction	<u>1,592</u>	<u>1,358</u>
Taxable Income	38,528	39,091
Income tax liability	2,901	3,126
PRSI liability	1,680	1,693
USC liability	<u>1,603</u>	<u>1,407</u>
Total tax liability	6,184	6,227
Child Benefit	1,680	1,680
Net Income	34,023	34,544
Annual Gain		521
Change as a % of net income		1.53%

Example 8

Dónal is 72 and receives the full Contributory State Pension in addition to an occupational pension of €15,000 per annum. Donal will see a gain of €247 in his annual net income due to this Budget.

	2016	2017
	€	€
Occupational Pension	15,000	15,000
Contributory Old Age Pension*	<u>12,132</u>	<u>12,347</u>
Total Income	27,132	27,347
Income tax liability	1,881	1,924
PRSI liability	0	0
USC liability	<u>210</u>	<u>135</u>
Total tax liability	2,091	2,059
Net Income	25,041	25,288
Annual Gain		247
Change as a % of net income		0.99%

*2017 State Pension assumes rate of €233.30 for 9 weeks and €238.30 for 43 weeks

ANNEX B

Income Tax and Progressivity Issues

Introduction

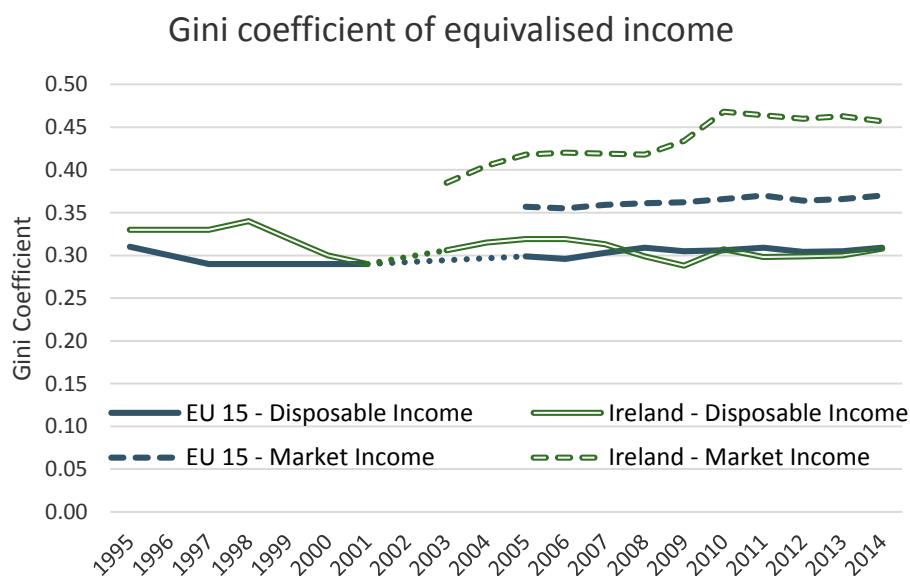
In a recent study² the OECD set out a range of channels through which taxes can affect the income distribution. These included:

- reducing higher incomes to a greater extent than lower incomes,
- redistributing to lower incomes,
- financing public spending which reduces inequality,
- redistributing income across an individual's life-cycle, and
- impacting labour market participation and education decisions.

This annex considers the role of the first two of these, in particular focusing on the progressivity in the Irish income tax system. Under a progressive income tax, the proportion of income paid in tax rises as income rises. This progressivity causes those on higher incomes to pay proportionately more of their income in tax than those on lower incomes.

Context – Income Distribution in Ireland

The Gini coefficient is a measure of the distribution of income where 0 represents a situation where all households have an equal income and 1 indicates that one household has all national income. The Gini coefficients presented here are on the basis of equivalised household income.³



Source: Eurostat [ilc_di12]

² Brys, Bert, et al. (2016) "Tax Design for Inclusive Economic Growth." OECD Taxation Working Papers, No. 26

³ Equivalisation adjusts household income on the basis of household size and composition. Eurostat uses a scale of 1 for the first adult, 0.5 for subsequent adults and 0.3 for children (aged under 14). In this way the income of all households is expressed in the same terms. A single adult household with an actual income of 100 ($100 \div 1 = 100$) is said to have the same equivalised income as a two adult household with an income of 150 ($150 \div \{1+0.5\} = 100$).

Using Eurostat data, it is possible to compare Ireland’s Gini coefficient since 1995 to that for the then EU 15 member states. As shown above, for both Ireland and the EU 15, the Gini coefficient for disposable income has been remarkably stable, with inequality measured on this basis in Ireland close to that of the EU 15 over the entire period. For the second half of the 1990s, the dispersion of incomes in Ireland was slightly greater than the EU-15 figure with the gap narrowing after 2000. For more recent years up to and including 2014, the Gini coefficient in Ireland has been more or less the same as for the EU-15.

It should be noted that the Gini coefficient for market income – household income before taxes and transfers are accounted for – is considerably higher than for disposable income, both for the EU-15 and particularly for Ireland. In Ireland, this difference grew substantially when the economy contracted post-2007. The difference between the market and disposable income measures indicates the strong redistributive character of the Irish tax and welfare systems.

Reduction in Income Inequality through the Tax and Welfare Systems

Using OECD data, the extent to which taxation and welfare respectively contribute to the narrowing of the income distribution, measured by the reduction from the initial market Gini coefficient, can be examined.⁴

The graph below shows that from 2004 to 2007, the Gini for market income in Ireland was stable. Following a step increase in 2009, the market Gini held steady at a higher level. In a similar pattern, the redistributive impact of tax and welfare systems also experienced a step change which counteracted the increase in the market Gini. Reflecting these developments, the Gini for disposable income (after taxes and transfers) held at a slightly lower level more recently. As is evident from the graph the welfare system makes a greater contribution than the tax system in reducing income inequality. This is also the case across the OECD.

Composition of Gini Coefficient

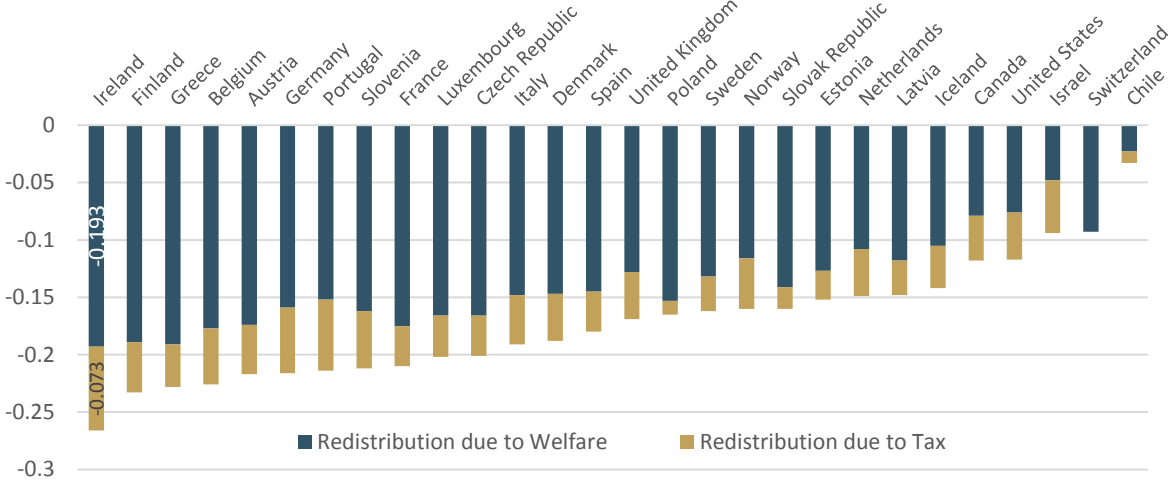


Source: OECD, Income Distribution and Poverty Dataset

⁴ The OECD’s equivalence scale differs slightly from the one used by Eurostat and the Central Statistics Office.

The latest OECD data (2013) show that Ireland had the largest absolute reduction in the Gini coefficient between market and disposable income among the 29 OECD countries for which data are available. The Irish tax and welfare systems reduced the initial market Gini by nearly half (-46%) from 0.58 to a disposable income Gini of 0.31. Finland was the only country with a proportionately greater reduction in the Gini coefficient (-47%). Over one quarter (27%) of the reduction in Ireland in 2013 was attributable to the tax system, a proportion exceeded in only seven OECD countries. The absolute size of the reduction in the Gini coefficient due to tax in Ireland was the largest in the OECD.

Reduction in Gini Coefficient due to Tax & Welfare 2013



Source: OECD, Income Distribution and Poverty Dataset

When looked at over a slightly longer time period and taking a more limited sample of countries for which data are available, it is evident that Ireland’s tax system has consistently reduced the Gini coefficient to greater extent than is the case with tax systems in other OECD countries (see below). The absolute contribution of the tax system to narrowing the dispersion of incomes has been increasing since 2004 both in Ireland and in the 16 other OECD countries for which the data are available. In proportionate terms, the relative contribution of the tax system has been increasing in Ireland since 2008 but has not changed in the 16 other OECD countries.

Reduction in the Gini Coefficient due to Taxation

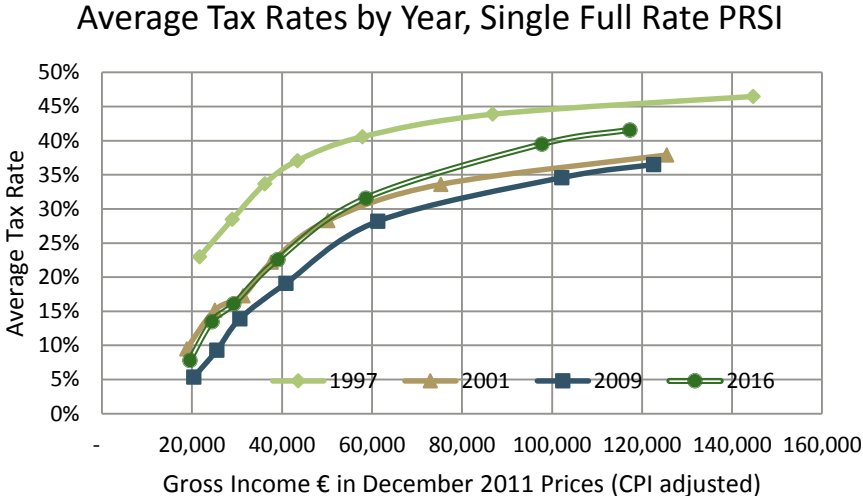


Source: Department of Finance Analysis of OECD Income Distribution and Poverty Dataset

Factors which determine the reduction in the Gini coefficient include the initial distribution of income and the progressivity of the taxation system.

Progressivity of the Income Tax System

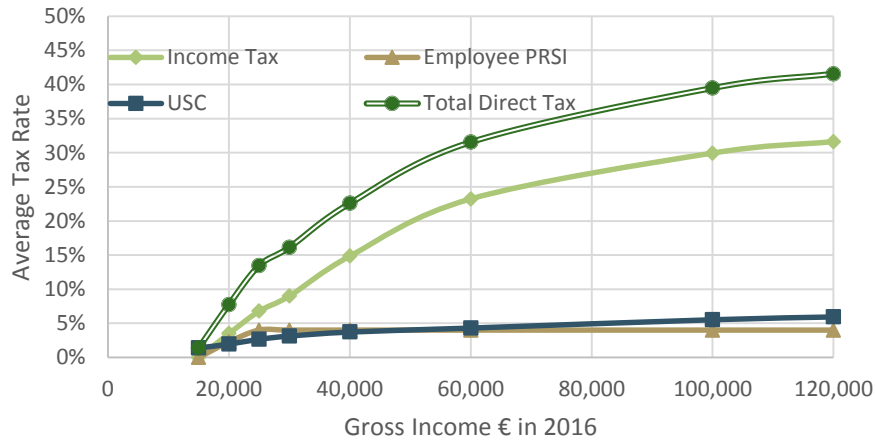
The following chart demonstrates the evolution of the progressivity of the income tax system since 1997 by highlighting the average tax rate (ATR) at different income levels. The gross incomes are adjusted using the Consumer Price Index so that the value of a euro of income is equivalent in each year. Over 1997-2009, the income tax system became more progressive, as ATRs dropped more steeply for lower incomes than higher incomes. Since 2009, ATRs have increased more for higher incomes, again raising the system’s progressivity. The slope of the ATR as gross incomes increase, is generally steeper in 2016 than in earlier years. This is particularly notable at higher levels of gross income and broadly indicates that the income tax system in Ireland has become more progressive since 1997.



Source: Budget Books, Central Statistics Office and Department of Finance analysis

Looking at 2016 in particular, it can be seen that the ATR increases from 1.4% at gross incomes of €15,000 to 41.6% at €120,000. The change in the average rate of income tax makes up the largest part of the increase in overall ATR, reflecting tax credits and the higher rates applicable on income tax. As indicated by the relative steepness of the respective lines, the greatest rate of progressivity can be seen in income tax, then USC (which makes up an increasing proportion of progressivity at higher incomes) and then Employee PRSI.

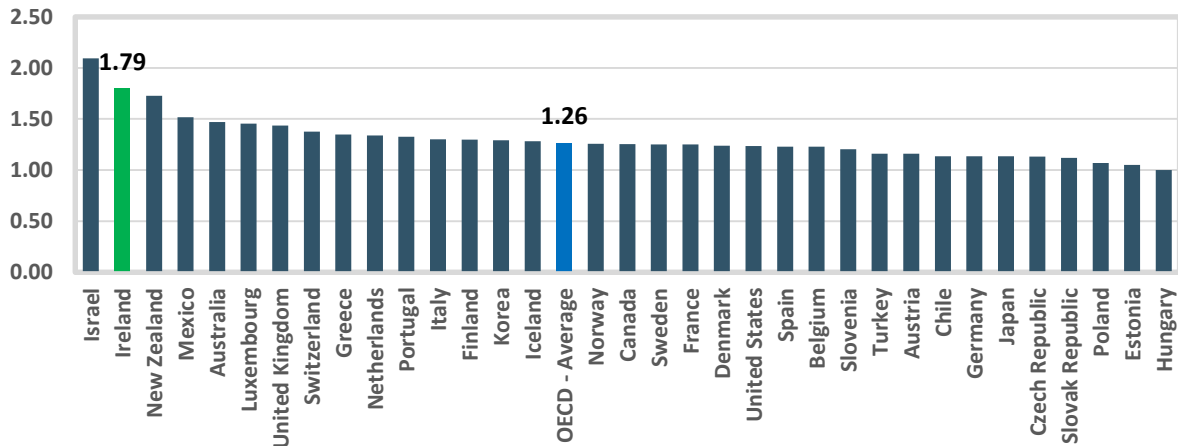
Average Tax Rates - Composition 2016



Source: Budget Books, Central Statistics Office and Department of Finance analysis

A similar picture emerges when the measure of income tax progressivity developed by the OECD is used. This measure compares the ratio of the tax wedge⁵ of individuals on 167% of the average wage and on 67% of the average wage.⁶ On this basis, estimates using OECD data show that with a score of 1.79 Ireland had the second highest progressivity outcome of OECD member countries in 2015 and the highest among EU members.

OECD Progressivity Measure - Ratio of tax wedges at 167% and 67% of Average Wage, 2015



Source: Department of Finance Analysis of OECD Taxing Wages - Comparative tables

⁵ The tax wedge is defined by the OECD as the sum of personal income tax, employee and employer social security contributions plus any payroll tax less cash transfers, expressed as a percentage of labour costs.

⁶ Based on average earnings in Ireland of €34,800 the OECD measure compares the ratio of the tax wedges of individuals earning approximately €58,200 to €23,300.

It should be borne in mind that these comparisons are based on tax rates as set out in the income tax schedule and do not take account of income tax expenditures, for example in respect of pension contributions, which have the effect of reducing the final tax paid. Effective tax rates and the effective tax wedge are likely to be lower which would be expected to result in reduced progressivity as the greater tax liabilities of higher earners have a larger potential to be reduced. This difference between the rates set out in the income tax schedule and effective rates actually paid will exist in all countries with income tax expenditures.

Perceptions of Progressivity

It is also worth noting that there is evidence that people state different preferences regarding how progressive the tax system should be depending on whether tax liabilities are described in absolute or in relative terms. When asked how much tax should be paid at different income levels, people appear to favour more progressivity when they express liabilities as a percentage of income rather than if describing them in absolute terms (in euro terms) because they perceive percentage terms to be less progressive than euro terms (McCaffery and Baron, 2006)⁷. This implies that that the existing tax system will be perceived as more progressive when described in euro terms and more regressive when described in percentage terms.

Summary

This annex has sought to address some of the channels through which taxes can affect the income distribution. While acknowledging the necessarily static nature of the results (for example the analyses do not take into account redistribution and progressivity on a lifetime basis), it is evident that, compared to other countries, the Irish tax and welfare systems contribute substantially to the redistribution of income and a reduction in income inequality. The income tax system has become more progressive over time and ranks as one of the most progressive in the OECD.

⁷ McCaffery, E. J., & Baron, J. (2006). Thinking about tax. *Psychology, Public Policy, and Law*, 12(1), 106.

ANNEX C

Review of the Corporation Tax Code by an independent expert

Appointment of an independent expert

On 2 September, the Government decided to arrange for a review of Ireland's corporation tax code by an independent expert to be appointed by the Minister for Finance. The Minister has decided to appoint Mr. Seamus Coffey to undertake the review.

Terms of Reference

The review of the corporation tax code shall be conducted by an independent expert, to be appointed by the Minister for Finance, in respect of the following matters:

- achieving the highest international standards in tax transparency, including in the automatic exchange of information on tax rulings with other relevant jurisdictions, having regard to benefits which may accrue to developing countries from enhancing global tax transparency;
- ensuring that the corporation tax code does not provide preferential treatment to any taxpayer;
- further implementing Ireland's commitments under the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting (BEPS) project to tackle harmful tax competition and aggressive tax planning;
- delivering tax certainty for business and maintaining the competitiveness of Ireland's corporation tax offering; and,
- maintaining the 12.5% rate of corporation tax.

The review shall make recommendations to the Minister for Finance by the end of the second quarter of 2017.

The Department of Finance may, as required, facilitate a public consultation with citizens, civil society and stakeholders on any or all of the matters under review.

ANNEX D

Help to Buy

Background

As a complement to the structural actions in the Action Plan for Housing and Homelessness published on 19th July 2016, the launch of a new tax-based 'Help to Buy' incentive in the Budget was announced.

This Help to Buy incentive is aimed at assisting first time buyers of new homes to fund the deposit required under the Central Bank macro-prudential rules. It will also assist those looking to build once-off houses for their own occupation.

Outline of the Incentive

The incentive will take the form of a rebate of income tax paid over the previous four tax years as a contribution to the deposit needed to fund the purchase of a new home.

The maximum rebate available will be up to 5% of the purchase price of a new home valued at up to €400,000. Where a new homes is valued between €400,000 and €600,000, the maximum rebate (i.e. €20,000) will continue to be available. No rebate will be available for new purchases costing over €600,000.

The amount of rebate available to an applicant is calculated based on their total income tax (including DIRT) paid over the previous four tax years. No refund of USC will be available.

The property (house or apartment) must be a new build or a self-build. It must be purchased or built as the applicant's principal private residence. The relief is not available for buy-to-let properties.

In order to qualify, applicants must take out a mortgage of at least 80% of the purchase price, or in the case of a self-build, 80% of the valuation approved by the mortgage provider. Individuals who are in a position to avail of a mortgage at a lower loan to value ratio than 80% already have sufficient resources to more than meet the deposit requirements of the macro-prudential rules and thus are less in need of assistance from the Exchequer.

This incentive will be open to applicants who have signed contracts to purchase their home on or after 19 July 2016. In the case of a self-build, applicants who drew down the first tranche of their mortgage on or after 19 July 2016 will also be eligible. This was the date of the launch of 'Rebuilding Ireland: Action Plan for Housing and Homelessness'. The backdating of this incentive was announced at that time with a view to avoiding any potential interruption in house sales, by purchasers who may otherwise have deferred purchases, pending the commencement of the incentive. The incentive is scheduled to run until the end of 2019.

Additional Information

To be eligible for the incentive, you must be a First Time Buyer (FTB). If you have purchased a house before, you will not be eligible for the incentive.

The maximum amount of rebate available is €20,000 per property. This can be made up of the income tax (including DIRT) paid over the previous four years by an individual or by joint purchasers.

In line with the Central Bank macro-prudential rules, a joint purchase between a FTB and a non-FTB will not be eligible for the incentive.

With a view towards incentivising the additional supply of homes, the rebate will only be available in respect of newly built property.

Self-builds are included in the incentive, although they still must meet all the other conditions as set out by the incentive, including the requirement to take out a mortgage of at least 80% of the valuation of the property.

Applicants will be able to apply online via the Revenue website to see how much of a rebate they could be entitled to under the scheme. It is expected that the electronic facility to avail of this scheme will be available from January 2017. Rebates in respect of eligible purchases made between 19 July 2016 and 31 December 2016 can also be processed from January 2017.

Some individuals may not qualify for the incentive. As with all time limited or targeted reliefs, there will always be those who just miss out. This incentive prioritises those who are struggling to raise sufficient deposits in order to purchase their first home. Any extension of the parameters of this measure could make it less targeted and indeed significantly more costly to the Exchequer.

Examples of potential applications under the Help to Buy

Example 1

Rose and Charlie signed a contract to buy a new house for €300,000 from a developer in August 2016. They paid a deposit of €38,000, in line with the minimum deposit requirement under the Central Bank macro-prudential rules. As their contract with the developer to purchase the property was put in place after 19 July 2016, they are eligible to apply to Revenue for the Help to Buy scheme, when applications begin to be accepted from January 2017. This may see them qualify for a rebate of income tax paid over the previous four years up to a maximum of 5% of the purchase price of the property, which equates to €15,000.

Example 2

Mairead and James are hoping to purchase their first home, a newly-built apartment priced at €280,000. Under the Central Bank rules they will require a minimum deposit of €34,000, which comprises €22,000 (10% of the first €220,000) and €12,000 (20% of the additional €60,000). Under the Help to Buy initiative, as first time purchasers they would be eligible for a refund of income tax paid over the previous four years of 5% of the purchase price of the property. Assuming they have

paid sufficient income tax over the previous four years, this would equate to €14,000. They can use this as part of their deposit when signing the contract to purchase their new apartment.

Example 3

Denise and Noel are looking to buy a home together valued at €350,000. Noel is a first time purchaser but Denise has bought a house previously. If they are buying the property jointly they would not qualify for the Help to Buy scheme as Denise has previously owned a house.

Example 4

Deirdre and Evan are planning to self-build their own home in 2017. They estimate that the value of the home will be €375,000 when completed. For this, provided they have paid sufficient income tax over the previous four years and they are taking out a minimum 80% mortgage, they will qualify for a rebate under the Help to Buy scheme of €18,750.

Example 5

Adam and Cillian are hoping to buy a newly-built house priced at €530,000. As first time purchasers they should qualify for the Help to Buy scheme provided they have paid income tax in the previous four years. However, as the property they hope to buy is over the €400,000 limit, the maximum rebate they can hope to receive under the scheme is €20,000.

Example 6

Amy is looking to buy her first property. The home she is considering is a new build priced at €680,000. As this is over the threshold for the Help to Buy scheme she will not qualify.

Example 7

Tom and Mary signed a contract to purchase a newly built home off the plans in May 2016. Neither of them have purchased a property before. They paid the deposit on the house at the time of contract signing but the developer is still constructing the estate and they have not moved into their new home. As they signed the contract to purchase their property prior to 19 July 2016, they will not qualify for the Help to Buy incentive.

Example 8

Simon is purchasing a second-hand home. Unfortunately, as this is not a new build it does not qualify for the Help to Buy incentive.

Example 9

Katherine is purchasing a new build home, at a value of €300,000. Katherine is not taking out a mortgage and is paying in cash. As such, she does not qualify for the Help to Buy incentive.