Rialtas na hÉireann
Government of Ireland

Budget 2020
Tax Policy Changes

Prepared by the Department of Finance
gov.ie/budget | #Budget2020

BUDGET 2020

Tax Policy Changes

Le ceannach díreach ó FOILSEACHÁIN RIALTAIS
52 FAICHE STIABHNA, BAILE ÁTHA CLIATH 2
(Teil: 076 1106 834 nó Riomhphost: publications@opw.ie)
nó trí aon díoltóir leabhar

To be purchased from GOVERNMENT PUBLICATIONS
52 ST. STEPHEN'S GREEN, DUBLIN 2
(Tel: 076 – 1106 834 or Email: publications@opw.ie)
or through any bookseller

Price €5.00

Budget 2020

Tax Policy Changes

Contents

Additional information and related documents are available on the Budget 2020 website (www.budget.gov.ie)

SUMMARY OF 2020 BUDGET MEASURES

POLICY CHANGES

CONTENTS

Summary of Budget 2020 Measures – Policy Changes

Taxation Measures for Introduction in 2020

Measure	Yield/Cost 2020	Yield/Cost Full Year
Personal Income Tax		
Income Tax		
An increase in the Home Carer Tax Credit from €1,500 to €1,600	-€7m	-€8m
An increase in the Earned Income Credit from €1,350 to €1,500	-€20m	-€35m
USC		
1 year extension of reduced rate of USC for medical card holders	-	-
Measures to support Enterprise/SMEs/Agri-sector	-€30m	-€80m
Key Employee Engagement Programme (KEEP)		
Enhancements to the programme		
Employment and Investment (EII)		
Enhancements to the programme		
Special Assignee Relief Programme (SARP)		
Extension in its present format until 31 December 2022.		
Foreign Earnings Deduction		
Extension in its present format until 31 December 2022.		
Research and Development Tax credit		
• Enhancements to credit for small and micro companies. • Increase third level outsourcing limit.		
Microbrewery relief		
Production ceiling for qualification raised from 40,000hl to 50,000hl		
Diesel Rebate Scheme		
Relief for users of the scheme from increase in carbon tax		
Betting Tax		
Introduction of a relief from betting duty and betting intermediary duty up to a limit of €50,000 per calendar year. This relief only applies to single undertakings.		
Extension of Section 604B Capital Gains Tax Relief for Farm Restructuring		

Housing		
Help to Buy (HTB) Extension in its present format until 31 December 2021.	-€40m[1]	-€40m
Living City Initiative Extension in its present format until 31 December 2022	-	-
Climate and Environmental measures		
Carbon Tax Increase the rate by €6 to 26 euro per tonne	+€90m	+€130m
Electricity Tax Equalise the rate for businesses with that of non-business	+€2.5m	+€2.5m
Vehicle Registration Tax VRT Environmental Health (NOx) Surcharge	+€25m	+€25m
Extension of VRT relief for hybrids and plug-in hybrid electric vehicles	-	-
Anti-Avoidance		
Allowance for capital expenditure on scientific research • Correction of unintended additional relief	+€4m	+€4m
Corporation Tax – Collective Property Investment **Corporation Tax – Compliance Measures** • Irish Real Estate Funds (IREFs) and Section 110 anti-avoidance • Real Estate Investment Trusts (REITs) – capital disposals	+€80m	+€80m
Corporation Tax – BEPS Implementation • Introduction of Anti-Hybrid Rules (EU Anti-Tax Avoidance Directive – ATAD) • Modernisation of Transfer Pricing rules	+€10m	+€10m
Stamp Duty on Schemes of Arrangement involving a 'Cancellation Scheme' where used for the sale of a Company The Stamp Duties Consolidation Act 1999 will be amended by financial resolution to provide that a stamp duty charge of 1% is applicable where a scheme of arrangement, in accordance with Part 9 of the Companies Act 2014, is used for the acquisition of a company.		

[1] Full cost of this measure is estimated to be €100 million of which €60 million is in the tax base.

Additional Taxation Measures		
Tobacco Products Tax Increase in 50c on pack of 20 cigarettes with pro-rata increase on other tobacco products	+€57.1m	+€57.1m
Increase in Stamp Duty on Non-residential Property The rate of stamp duty applicable to non-residential property transactions will be raised from 6% to 7.5% from Budget night. This will be subject to transitional arrangements whereby the existing 6% rate will apply to instruments executed before 1 January 2020 where a binding contract existed prior to Budget day (8th October 2019). Consequential amendments will also be made to the legislation relating to the repayment of stamp duty where the land involved is subsequently used for residential development, so as to ensure that the rate of stamp duty chargeable after a full refund remains at 2%.	+€141m	+€141m
Amendment to section 126AA of SDCA 1999 – Further Levy on Certain Financial Institutions (Bank Levy) Section 126AA of the Stamp Duties Consolidation Act 1999 will be amended by Financial Resolution in order to increase the rate of the "Bank Levy" from 59% of DIRT in base year 2015 to 170% of DIRT for base year 2017 in order to protect the €150m yield in 2019 and 2020.	-	-
Capital Acquisitions Tax The current Group A tax free threshold which applies primarily to gifts and inheritances from parents to their children is being increased from €320,000 to €335,000. This increase applies in respect of gifts or inheritances received on or after the 9th of October.	-€9.6m	-€11.2m
Compliance		
Increase rate of Dividend Withholding Tax from 20% to 25% from 1 January 2020 As the first step in a two-stage process, the rate of Dividend Withholding Tax (DWT) will be increased from 20% to 25% from 1 January 2020. This will better align the amount of tax remitted by companies with the income tax and USC that is ultimately payable by the individual taxpayer. The 25% rate is considered to be a reasonable combination of the standard 20% rate of income tax and the most common rate of USC which is the 4.5% that applies to income between €19,874 and €70,044. In the event that the 25% rate results in an overpayment of tax, the relevant amounts will be refunded, as is the normal procedure. It is important to highlight that this measure does not alter the underlying liability to tax for Irish tax residents.	+€80m	+€80m

The second step is to introduce a modified Dividend Withholding tax regime from 1 January 2021. Utilising real-time data collected under the newly modernised PAYE system, it is intended that Revenue will apply a personalised rate of DWT to each individual taxpayer based on the rate of tax that they pay on their PAYE income. Revenue will shortly be launching a consultation in order to engage with stakeholders on how the proposed new system will operate.		

TAXATION ANNEXES TO THE SUMMARY OF 2020 BUDGET MEASURES

CONTENTS

Annex A

Description of Taxation Measures for Introduction in 2020

Measure

Personal Income Tax

Home Carer Tax Credit

An increase in the Home Carer Tax Credit from €1,500 to €1,600

Earned Income Credit

An increase in the Earned Income Credit from €1,350 to €1,500

USC

The reduced rate USC for medical card holders is being extended for a further year, at an estimated cost of €59m in 2020 and €68m per annum thereafter. This measure is revenue neutral as it is already included in the tax base

Measures to Support Enterprise

Key Employee Engagement Programme (KEEP)

KEEP is an incentive to facilitate the use of share-based remuneration by unquoted SME companies to attract key employees. Gains arising to employees on the exercise of KEEP share options are liable to Capital Gains Tax on disposal of the shares, in place of a liability to income tax, USC and PRSI on exercise. This incentive is available for qualifying share options granted between 1 January 2018 and 31 December 2023. The Scheme is being amended as follows:

- Definitions within the legislation relating to a qualifying companies and holding companies are to be amended so as to allow companies who operate through a group structure to qualify for KEEP.
- Definitions within the legislation relating to the conditions for a qualifying employee are to be amended to allow for part-time/flexible working and movement within group structures (as business needs dictate).
- The legislation is to be amended to allow existing shares to qualify for KEEP.

Employment and Investment (EII)

EII provides individual investors with tax relief for risk capital investments in qualifying SMEs.

A range of proposals are being brought forward to enhance the scheme including a number of technical adjustments to improve its operation. The main changes are as follows:

- The level of relief: full income tax relief (40%) to be provided in the year in which the investment is made. This compares with current arrangements where 30% relief is provided upon the initial investment and a further 10% is given after Year 3 subject to certain conditions;

- The investment limit: the annual investment limit will be increased from €150k to €250K and to €500k in the case of those who invest for a minimum period of 10 years.

Special Assignee Relief Programme

SARP is an income tax relief measure which aims to reduce the cost to employers of assigning skilled individuals in their companies from abroad to take up positions in their Irish based operations, thereby facilitating the creation of jobs and the development/expansion of business. Existing SARP legislation had a sunset clause of 31 December 2020. It is proposed to extend the scheme until 31 December 2022 (three years 2020-2022).

Foreign Earnings Deduction

FED is intended to support Irish companies who endeavour to expand their exports into new markets. It provides relief from income tax on up to €35,000 of salary for employees who travel out of State to certain qualifying countries for extended periods on behalf of their employer. Existing FED legislation had a sunset clause of 31 December 2020. It is proposed to extend to extend the scheme until 31 December 2022 (three years 2020-2022).

Research & Development Tax Credit

The R&D credit is being amended for micro and small companies to increase the 25% R&D credit to 30% and to enhance the existing limits on the payable credit. A new provision is being introduced to allow micro and small companies conducting pre-trading R&D to claim the credit before trading commences, limited to offset against VAT and payroll tax liabilities only. These measures for micro and small companies are both subject to State aid approval.

In respect of all claimants, the current limit on outsourcing to third level institutes of education will be increased from 5% to 15%.

Microbrewery relief

Production ceiling for qualification raised from 40,000hl to 50,000hl.

Diesel Rebate Scheme

Relief for users of the scheme from increase in carbon tax.

Betting Tax

Introduction of a relief from betting duty and betting intermediary duty up to a limit of €50,000 per calendar year. This relief only applies to single undertakings.

Extension of Section 604B Capital Gains Tax Relief for Farm Restructuring

The current scheme provides for capital gains tax relief where an individual disposes of and purchases land and/or exchanges land with another farmer in order to consolidate an existing farm. The scheme which is due to expire on 31 December 2019 is being extended to 31 December 2022 subject to state aid approval.

Housing

Help to Buy (HTB)

HTB is an income tax incentive measure designed to assist first-time buyers with the deposit required to purchase or self-build a new house or apartment to live in as their home; the legislation contains a sunset clause for 31 December 2019. It is proposed to amend s477C of the Taxes Consolidation Act 1997 to extend HTB (in its present format) until 31 December 2021.

Living City Initiative

LCI is a scheme of property tax incentives aimed at the regeneration of certain 'Special Regeneration Areas' in the historic centres of Cork, Dublin, Galway, Kilkenny, Limerick and Waterford; the legislation contains a sunset clause for 4 May 2020. It is proposed to amend the Taxes Consolidation Act to extend the scheme, in its present format, until 31 December 2022.

Climate and Environmental Measures

Carbon Tax

Increase the rate to 26 euro per tonne.

Electricity Tax

Equalise the rate for businesses with that of non-business.

VRT Environmental Health (NOx) Surcharge.

Extension of VRT relief for hybrids and plug-in hybrid electric vehicles.

Anti-Avoidance

Allowance for Capital Expenditure on Scientific Research

Section 765 of the Taxes Consolidation Act 1997 provides allowances for capital expenditure on scientific research. An anomaly has been identified whereby the interaction of this section with other provisions can create the potential for unintended additional claims to relief. This was not the policy intention of the legislation and is being corrected in Finance Bill 2019.

Irish Real Estate Funds (IREFs) and Section 110 Companies

Following analysis of the first sets of financial statements filed by Irish Real Estate Funds (IREFs), Revenue have identified aggressive activities by some IREFs including the use of excessive interest charges to avoid the payment of tax in respect of profits from Irish property. A number of anti-avoidance measures are being introduced to address these issues, including the introduction of limitations on interest expenses based on debt to property cost and on an income to interest ratio. These measures will be brought in via Financial Resolution on Budget night

Anti-avoidance provisions in section 110 TCA 1997 are also being strengthened to ensure that they operate as intended. These changes will be brought in as part of Finance Bill 2019.

Real Estate Investment Trust companies (REITs)

A number of amendments are being made to the REIT framework to ensure that the appropriate level of tax is being collected from the regime, particularly in the area of capital gains. The distribution of proceeds from the disposal of a rental property will be subject to dividend withholding tax upon distribution. An existing provision whereby a deemed disposal and re-basing of property values occurs should a company cease to be a REIT is being limited to apply only where the REIT has been in operation for a minimum of 15 years, in line with the original policy intention of encouraging stable long-term investment in the rental property market. These changes will be brought in via Financial Resolution on budget night.

Corporation Tax – BEPS Implementation

As part of Ireland's commitment to implementing the Anti-Tax Avoidance Directive, the Bill will provide for new ATAD compliant anti-hybrid rules to apply to all corporate taxpayers from 1 January 2020. The purpose of anti-hybrid rules is to prevent arrangements that exploit differences in the tax treatment of an instrument or entity under the tax laws of two or more jurisdictions to generate a tax advantage. Consequential provisions are also being introduced to ensure that the existing treatment of Stocklending and Repo transactions, and of Investment Limited Partnerships, is clear in legislation.

Transfer pricing rules are being modernised in line with the Recommendations in the Coffey Review of the Irish Corporation Tax Code. These changes include the incorporation the OECD 2017 Transfer Pricing Guidelines into Irish legislation and the extension of rules to cover cross-border non-trading, and material capital transactions. The legislation will also extend the application of transfer pricing rules to SMEs, subject to a Ministerial Commencement Order.

Stamp Duty on Schemes of Arrangement involving a 'Cancellation Scheme' where used for the sale of a Company

An amendment is being made to the Stamp Duties Consolidation Act 1999 to provide that a stamp duty charge of 1% is applicable where a scheme of arrangement, in accordance with Part 9 of the Companies Act 2014, is used for the acquisition of a company.

It has been established that in certain circumstances where a company is restructured in accordance with a scheme of arrangement under Chapter 1 of Part 9 of the Companies Act, no stamp duty applies. Under such arrangements the company being acquired would cancel its existing shares and re-issue new shares to the acquiring company. In such a situation stamp duty would not apply as there is no transfer or conveyance on sale of shares. This measure aims to correct that anomaly.

This will made subject to a Financial Resolution so as to have immediate effect tonight. As this is a transactional measure it is difficult to establish a basis to estimate yield.

Additional Taxation Measures

Tobacco Products Tax

Increase of 50c on pack of 20 cigarettes with pro-rata increase on other tobacco products.

Capital Acquisitions Tax

The current Group A tax free threshold which applies primarily to gifts and inheritances from parents to their children is being increased from €320,000 to €335,000. This increase applies in respect of gifts or inheritances received on or after the 9th of October.

INCREASE IN STAMP DUTY ON NON-RESIDENTIAL PROPERTY

The rate of stamp duty applicable to non-residential property transactions will be raised from 6% to 7.5% from Budget night.

This will be subject to transitional arrangements whereby the existing 6% rate will apply to instruments executed before 1 January 2020 where a binding contract existed prior to Budget day (8th October 2019).

Consequential amendments will also be made to the legislation relating to the repayment of stamp duty where the land involved is subsequently used for residential development, so as to ensure that the rate of stamp duty chargeable after a full refund remains at 2%.

Amendment to section 126AA of SDCA 1999 – Further Levy on Certain Financial Institutions (Bank Levy)

It will be necessary to amend Section 126AA of the Stamp Duties Consolidation Act 1999 in order to increase the rate of the "Bank Levy" from 59% of DIRT in base year 2015 to 170% of DIRT for base year 2017 in order to protect the €150m yield in 2019 and 2020.

When the Financial Institutions ("Bank") Levy was introduced in 2016, with the purpose of enabling the banking sector to contribute to economic recovery, it was decided that the yield from the levy would be constant every year irrespective of which base year applied. Therefore, it is necessary to change the rate whenever the base year changes.

This will be made subject to a Financial Resolution so as to ensure sufficient time for the banks to pay their portion of the levy in 2019. No additional revenue arises, as this is a revenue protecting measure.

Compliance

Increase rate of Dividend Withholding Tax from 20% to 25% from 1 January 2020.

Note: As announced in last year's budget, from the 1st January 2020, there will be a 0.1% increase (from 0.9% to 1.0%) in the National Training Fund Levy, payable by employers in respect of reckonable earnings of employees in Class A and Class H employments

Annex B

A distributional analysis of Budget 2020 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 2020 – 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 age credit and age exemption limits, 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 2005 to 2020.

Information is also provided on the distribution of income earners for Income Tax purposes on a 2019 and a post-Budget 2020 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 (Annex C).

(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 Incom	Effective Tax Rate	
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	€	€	€	€	€	€		%	%
12,000	0	0	0	0	0	0	12,220	12,532	3,360	3,360	312	6	1.3%	0.0%	0.0%
14,000	0	0	0	0	100	100	11,076	11,388	3,360	3,360	312	6	1.2%	0.7%	0.7%
18,000	0	0	0	0	180	180	8,736	9,048	3,360	3,360	312	6	1.2%	1.0%	1.0%
20,000	0	0	459	459	223	223	7,852	8,164	3,360	3,360	312	6	1.1%	3.4%	3.4%
25,000	0	0	1,000	1,000	448	448	5,304	5,616	3,360	3,360	312	6	1.1%	5.8%	5.8%
35,000	550	450	1,400	1,400	898	898	1,040	1,040	3,360	3,360	100	2	0.3%	8.1%	7.9%
45,000	2,690	2,590	1,800	1,800	1,348	1,348	0	0	3,360	3,360	100	2	0.3%	13.0%	12.8%
55,000	6,690	6,590	2,200	2,200	1,798	1,798	0	0	3,360	3,360	100	2	0.2%	19.4%	19.3%
70,000	12,690	12,590	2,800	2,800	2,473	2,473	0	0	3,360	3,360	100	2	0.2%	25.7%	25.5%
100,000	24,690	24,590	4,000	4,000	4,871	4,871	0	0	3,360	3,360	100	2	0.2%	33.6%	33.5%
150,000	44,690	44,590	6,000	6,000	8,871	8,871	0	0	3,360	3,360	100	2	0.1%	39.7%	39.6%
175,000	54,690	54,590	7,000	7,000	10,871	10,871	0	0	3,360	3,360	100	2	0.1%	41.5%	41.4%

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 2020.

Note 3: Variations can arise due to rounding.

Example 2

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	600	450	720	720	180	180	150	3	0.9%	8.3%	7.5%
20,000	1,000	850	800	800	223	223	150	3	0.8%	10.1%	9.4%
25,000	2,000	1,850	1,000	1,000	448	448	150	3	0.7%	13.8%	13.2%
30,000	3,000	2,850	1,200	1,200	673	673	150	3	0.6%	16.2%	15.7%
35,000	4,000	3,850	1,400	1,400	898	898	150	3	0.5%	18.0%	17.6%
45,000	7,940	7,790	1,800	1,800	1,348	1,348	150	3	0.4%	24.6%	24.3%
55,000	11,940	11,790	2,200	2,200	1,798	1,798	150	3	0.4%	29.0%	28.7%
70,000	17,940	17,790	2,800	2,800	2,473	2,473	150	3	0.3%	33.2%	32.9%
100,000	29,940	29,790	4,000	4,000	4,871	4,871	150	3	0.2%	38.8%	38.7%
150,000	49,940	49,790	6,000	6,000	10,371	10,371	150	3	0.2%	44.2%	44.1%
175,000	59,940	59,790	7,000	7,000	13,121	13,121	150	3	0.2%	45.7%	45.7%

Note: Variations can arise due to rounding

Example 3

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	223	223	0	0	0.0%	5.1%	5.1%
25,000	350	200	1,000	1,000	448	448	150	3	0.6%	7.2%	6.6%
30,000	1,350	1,200	1,200	1,200	673	673	150	3	0.6%	10.7%	10.2%
35,000	2,350	2,200	1,400	1,400	898	898	150	3	0.5%	13.3%	12.9%
45,000	4,490	4,340	1,800	1,800	1,348	1,348	150	3	0.4%	17.0%	16.6%
55,000	8,490	8,340	2,200	2,200	1,798	1,798	150	3	0.4%	22.7%	22.4%
70,000	14,490	14,340	2,800	2,800	2,473	2,473	150	3	0.3%	28.2%	28.0%
100,000	26,490	26,340	4,000	4,000	4,871	4,871	150	3	0.2%	35.4%	35.2%
150,000	46,490	46,340	6,000	6,000	10,371	10,371	150	3	0.2%	41.9%	41.8%
175,000	56,490	56,340	7,000	7,000	13,121	13,121	150	3	0.2%	43.8%	43.7%

Note: Variations can arise due to rounding

Example 4

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	223	223	3,360	3,360	0	0	0.0%	5.1%	5.1%
25,000	0	0	1,000	1,000	448	448	3,360	3,360	0	0	0.0%	5.8%	5.8%
30,000	0	0	1,200	1,200	673	673	3,360	3,360	0	0	0.0%	6.2%	6.2%
35,000	850	600	1,400	1,400	898	898	3,360	3,360	250	5	0.7%	9.0%	8.3%
45,000	1,850	1,600	1,600	1,600	1,123	1,123	3,360	3,360	250	5	0.6%	11.4%	10.8%
55,000	6,990	6,740	2,200	2,200	1,798	1,798	3,360	3,360	250	5	0.5%	20.0%	19.5%
70,000	12,990	12,740	2,800	2,800	2,473	2,473	3,360	3,360	250	5	0.5%	26.1%	25.7%
100,000	24,990	24,740	4,000	4,000	4,871	4,871	3,360	3,360	250	5	0.4%	33.9%	33.6%
150,000	44,990	44,740	6,000	6,000	10,371	10,371	3,360	3,360	250	5	0.3%	40.9%	40.7%
175,000	54,990	54,740	7,000	7,000	13,121	13,121	3,360	3,360	250	5	0.2%	42.9%	42.8%

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 €	**2005**	**2006**	**2007**	**2008**	**2009**	**2009(s) /2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
15,000	3.2%	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%
20,000	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%	7.0%	6.9%	6.9%
25,000	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%	12.7%	12.6%	12.6%
30,000	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%	15.4%	15.2%	15.2%
40,000	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%	21.4%	20.9%	20.9%
60,000	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%	30.5%	30.1%	30.1%
100,000	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%	38.8%	38.5%	38.5%
120,000	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%	41.0%	40.8%	40.8%

FULL RATE PRSI

FULL RATE PRSI	MARRIED / CIVIL PARTNER, ONE INCOME, TWO CHILDREN														
Gross Income €	**2005**	**2006**	**2007**	**2008**	**2009**	**2009(s) /2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
15,000	2.2%	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%
20,000	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%	3.5%	3.4%	3.4%
25,000	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%	5.9%	5.8%	5.8%
30,000	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%	6.4%	6.2%	6.2%
40,000	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%	11.6%	10.7%	10.4%
60,000	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%	22.8%	21.9%	21.7%
100,000	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%	34.2%	33.6%	33.5%
120,000	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%	37.1%	36.6%	36.6%

*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 2011-2020: 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 €	**2005**	**2006**	**2007**	**2008**	**2009**	**2009(s) /2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
15,000	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%	6.1%	4.8%	4.8%
20,000	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%	11.2%	10.1%	9.4%
25,000	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%	14.7%	13.8%	13.2%
30,000	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%	17.0%	16.2%	15.7%
40,000	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%	22.7%	21.7%	21.3%
60,000	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%	31.4%	30.6%	30.4%
100,000	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%	39.3%	38.8%	38.7%
120,000	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%	41.9%	41.5%	41.4%

SELF EMPLOYED

SELF EMPLOYED	MARRIED / CIVIL PARTNER, ONE INCOME, TWO CHILDREN														
Gross Income €	**2005**	**2006**	**2007**	**2008**	**2009**	**2009(s) /2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
15,000	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%	4.8%	4.8%	4.8%
20,000	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%	5.2%	5.1%	5.1%
25,000	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%	5.9%	5.8%	5.8%
30,000	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%	7.5%	6.2%	6.2%
40,000	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%	12.8%	11.4%	10.8%
60,000	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%	23.6%	22.4%	21.9%
100,000	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%	34.7%	33.9%	33.6%
120,000	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%	38.0%	37.4%	37.2%

*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 2011-2020: 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 2019 AND 2020

	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
2019	945,200	1,215,900	556,800	2,717,900
2020 on a post budget basis	947,000	1,230,400	602,900	2,780,300

Note 1: Distributions are estimates from the Revenue tax-forecasting model using actual data for the year 2017, 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 C

Progressivity of Income Tax System.

C.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.

C.2. Income distribution in comparative context

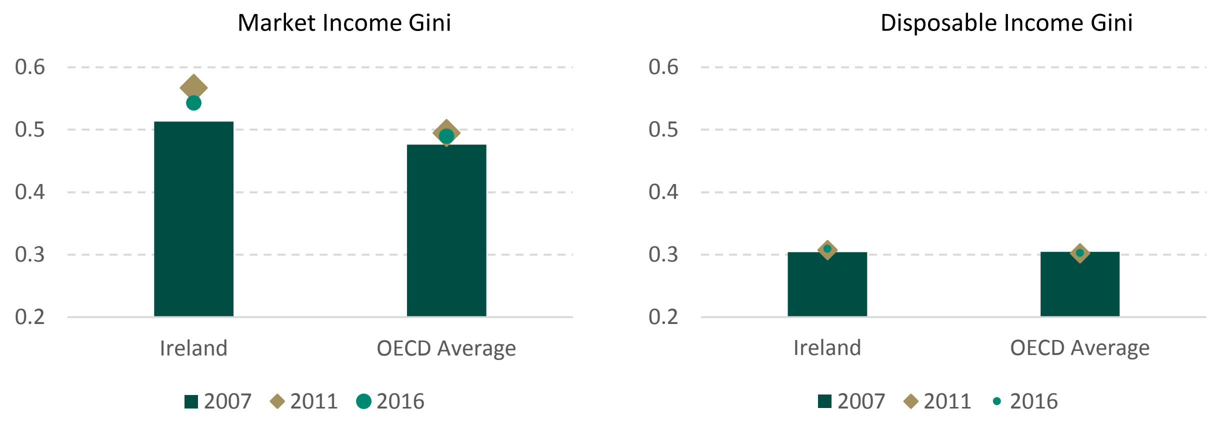
The Gini coefficient is a standardised measure of the dispersion of income where 0 represents a situation where all households have an equal income and 1 indicates that one household has all national income. This coefficient can be calculated on the basis of market income (before tax and transfers) and 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.[2] 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.

[2] 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



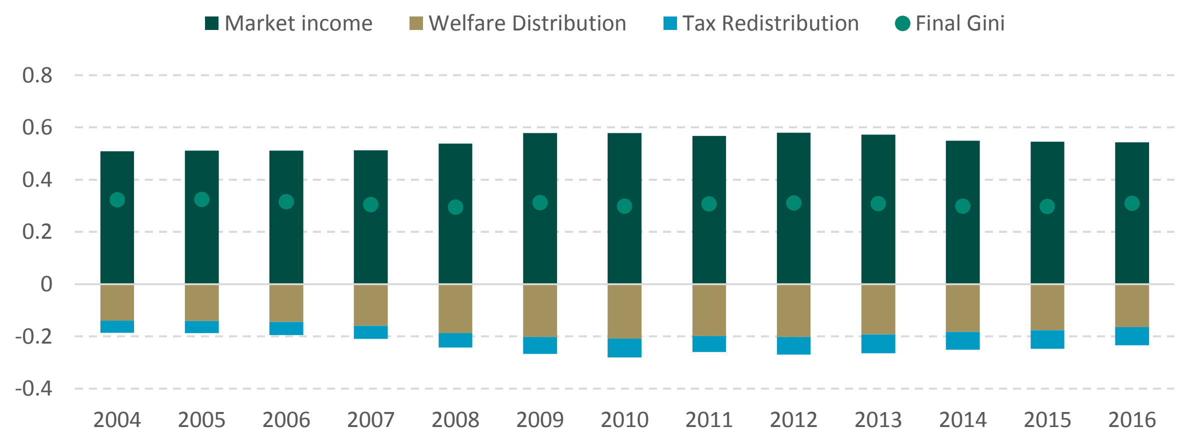
Source: OECD, Income Distribution and Poverty Dataset
Note: the OECD average refers to the 17 member countries for which a long time series of data is available.

C.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 2004 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 2016. 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.

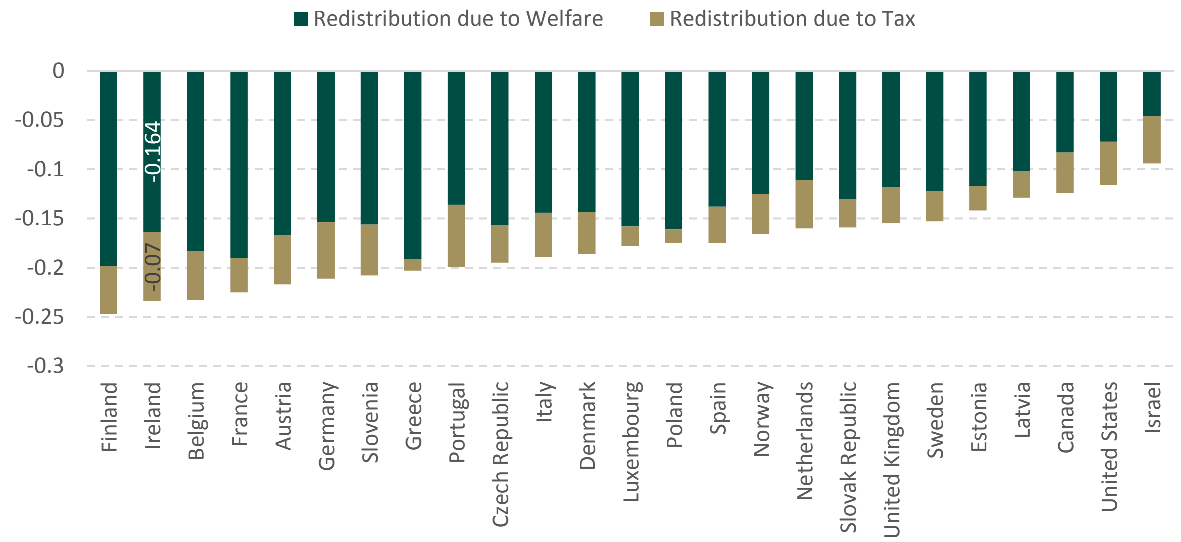
Figure B: the composition of the Gini coefficient in Ireland



Source: OECD, Income Distribution and Poverty Dataset

The latest OECD data to 2016 show (Figure C) that Ireland recorded the second largest absolute reduction (0.23) in the Gini coefficient between market and disposable income, after Finland. The Irish tax and welfare systems jointly reduced the market Gini by around 40 per cent from 0.54 to 0.31. This improvement is the seventh largest proportionate reduction in the OECD. One third of the reduction in Ireland in 2016 was attributable to the tax system, a proportion exceeded in only five 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, 2016



Source: OECD, Income Distribution and Poverty Dataset. Data available for 29 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 the 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, 2016

Source: OECD, Income Distribution and Poverty Dataset
Note: the OECD average refers to the 17 member countries for which a long time series of data is available

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

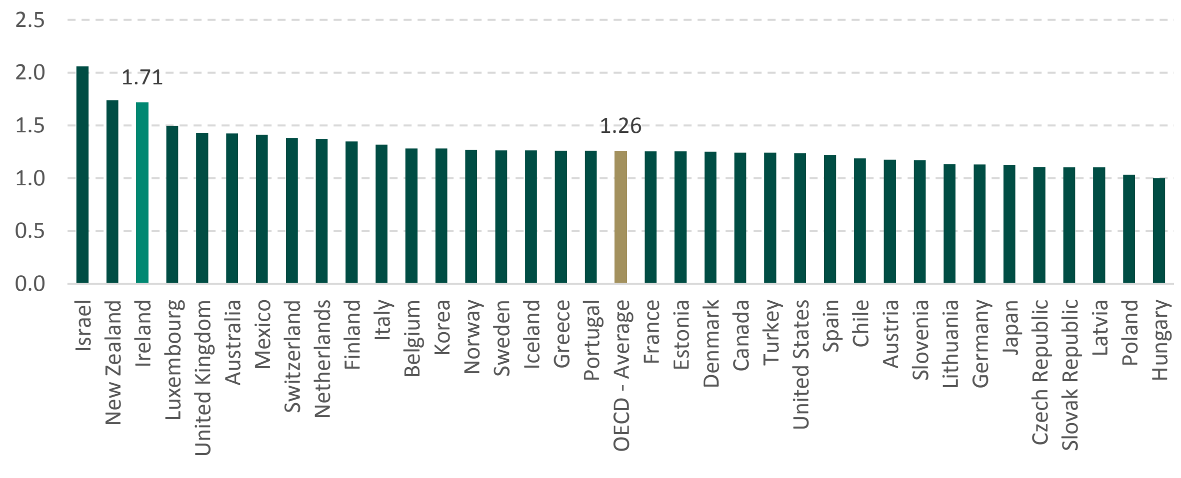
The OECD's annual *Taxing Wages 2019* Report examines how personal income tax, social security contributions, payroll taxes and family benefits impact on net household incomes across different household compositions and income levels across all 36 OECD countries.

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 2.6 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.[3]

Net average tax rates in Ireland in 2018 were only marginally below the OECD average, meaning that take-home pay of an average single worker, after tax and benefits amounted to 74.6 percent of their gross wage, compared to an OECD average of 74.5 per cent. Ireland's performance relative to the OECD average is even more pronounced in the case of an average worker with two children, where take-home-pay after tax and family benefits represents 91.7 per cent of gross wages, compared to an OECD average of 85.8 per cent.

Figure E: progressivity measured by ratio of tax wedges at 167% and 67% of average wage, 2018



Source: OECD Taxing Wages database

[3] 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.

C.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)[4] 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 of income with respect 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.

C.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.

---

[4] 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*.