Irish Tax Institute

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Election 2020 Tax Briefing Papers

For more information please contact:

Cathy Herbert
Director of Corporate Affairs
Direct: +353 6631706
Email: cherbert@taxinstitute.ie

Anne Gunnell
Director of Tax Policy & Representations
Direct: +353 1 6631750
Email: agunnell@taxinstitute.ie

Graphics available on request.

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Summary of Recommendations

- Do nothing to narrow the personal tax base. Future budgets should focus on reducing overall income tax rates rather than exemptions. A broader base where the load is spread according to means is fair and sustainable.
- Raise the entry point to the higher rate of tax to make our economy more competitive internationally.
- Rescue LPT from atrophy as a matter of urgency and ensure it is reviewed regularly to avoid spikes in valuations.
- Unless social insurance payments are reduced or PRSI contributions are increased in the medium term, substantial payments from the exchequer will be required to meet the exponential cost of an ageing population.
- Reduce the general CGT rate to incentivise entrepreneurship, increase business activity, and increase revenue for the exchequer.
- Refine existing SME tax measures to make them more effective and accessible and supportive of entrepreneurship.
- Well designed environmental tax measures will be an essential part of any plan to tackle climate change.
- Other sources of revenue must be found to replace the €3.5bn (2018) raised by carbon tax, excise and VAT on all products subject to a carbon charge.
- Tax certainty for business:
  - Give more time for pre-legislative scrutiny in the Finance Bill legislative process.
  - Ensure taxpayers whose appeals are unsuccessful are not charged penal interest rates due to delays in the appeals system.
  - Crisis era changes to the tax treatment of professional subscriptions should be reversed. Charges on membership of professional bodies is a tax on professional competence and ethical standards in the professions.
  - In line with the successful move to real time reporting in the PAYE system, the current, paper-based administration of Professional Services Withholding Tax should be modernised to end the cash flow difficulties experienced by many businesses because of the delay in processing such claims.
  - A system of independent oversight would reinforce confidence in our tax system.

Introduction

Taxation is a fundamental component of any programme for government. It pays for public services; it facilitates the redistribution of income; it is used to promote economic growth and protect jobs; and it is an important policy tool to encourage behaviours that are in the common good. A good tax system should be broadly based, simple and fair.

As political parties set out their policy proposals, the question of how they will be funded and their implications for our existing tax regime will come to the fore. In this context, the Irish Tax Institute decided to take stock of our current tax system and to examine how it has developed since the financial crisis.

Most of the changes made since 2011 have been focussed on reducing personal tax. In the main, their impact has been to lower the burden on lower and middle income earners, which has narrowed the personal tax base that had been broadened through the introduction in Budget 2011 of the Universal Social Charge (USC), a tax on all income over €4,000.

Support for business through taxation

The economy recovered quickly and strongly following the crisis and the government moved to support business through some welcome tax measures aimed at SMEs in particular. However, the crisis-era increases to the capital gains tax rate have not been reversed and much work remains to be done to make our tax system more supportive of indigenous enterprise.

Using the tax system to tackle climate change

Apart from an increase in carbon tax in the last budget, the climate emergency, declared last year by the outgoing Dáil, has had little impact on our environmental tax regime. Yet it is clear that tackling this most pressing global challenge demands action on several fronts, including taxation. **Well designed, targeted environmental tax measures will be needed** to effect the behavioural changes required to decarbonise our economy.

A tax system fit for a new decade

At the start of this new decade, **a new government should bring forward a new, inclusive process to review our entire tax system to ensure that it is fair, sustainable and equal to the challenges facing our country.** Chief among those challenges are climate change, the economic uncertainty caused by Brexit, international trade tensions, and global tax reform. This review should also consider the impact of demographic changes and, in particular, the implications of our ageing population for taxation.

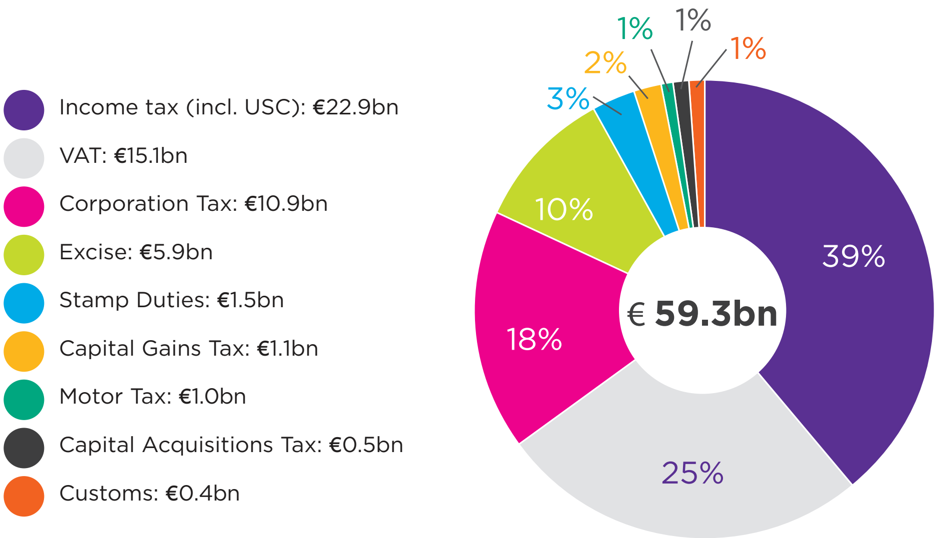
Clarity and transparency are key attributes of a fair tax system. Both engender trust in the tax system and compliance among taxpayers. **The review should extend to the legislative process and to the administration of the tax system to ensure that taxpayers have certainty over their tax affairs.** This requires clear tax rules, comprehensive Revenue guidance, consistent tax administration and effective dispute resolution mechanisms. Reinforcing confidence in our tax system is a good thing for government, for the Revenue Commissioners and for taxpayers.

The purpose of this document is to provide a comprehensive picture of the current state of our tax system as it has evolved over the last decade. We hope this will inform public debate during the campaign and assist political parties in their deliberations on how Ireland is to be governed in the first half of the 2020's.

The Tax Base

Size and Composition of Ireland's Tax Base

Ireland's Tax base - 2019 reported[1]



"Taxes on labour"
€ 35.1bn

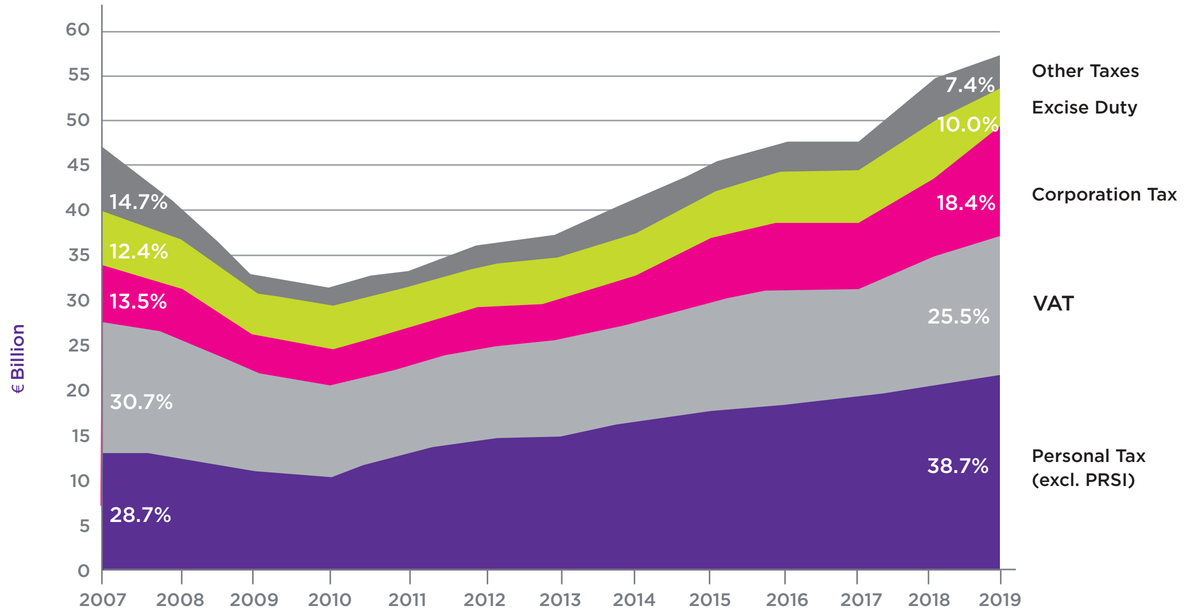
(Income tax (incl. USC) € 22.9bn + PRSI € 12.2bn)

- Income tax (including USC) yields most for the exchequer. Revenue collected €22.9bn in 2019.
- Total PRSI contributions were €12.2bn in 2019. This is equivalent to 53% of the total personal tax yield (income tax + USC) for 2019 (€22.9bn).
- It is important to note that PRSI contributions amounting to €12.2bn for 2019 were received in addition to the total exchequer tax yield of €59.3bn[1] for the year, resulting in total monies collected for the exchequer (including PRSI) of €71.5bn for 2019.

[1] Headline Results 2019, January 2020, Revenue Commissioners & Fiscal Monitor Incorporating the Exchequer Statement, December 2019, Department of Finance (Figures rounded to one decimal point).

Exchequer reliance on personal tax has increased

Change in the composition of the tax base 2007 – 2019



- In 2007 and 2008, VAT was the highest contributor to the exchequer. Following the financial crisis in 2009, VAT was overtaken by personal tax and the gap has continued to widen ever since.

- 'Income tax + USC' now account for 38.7% of the total tax yield.

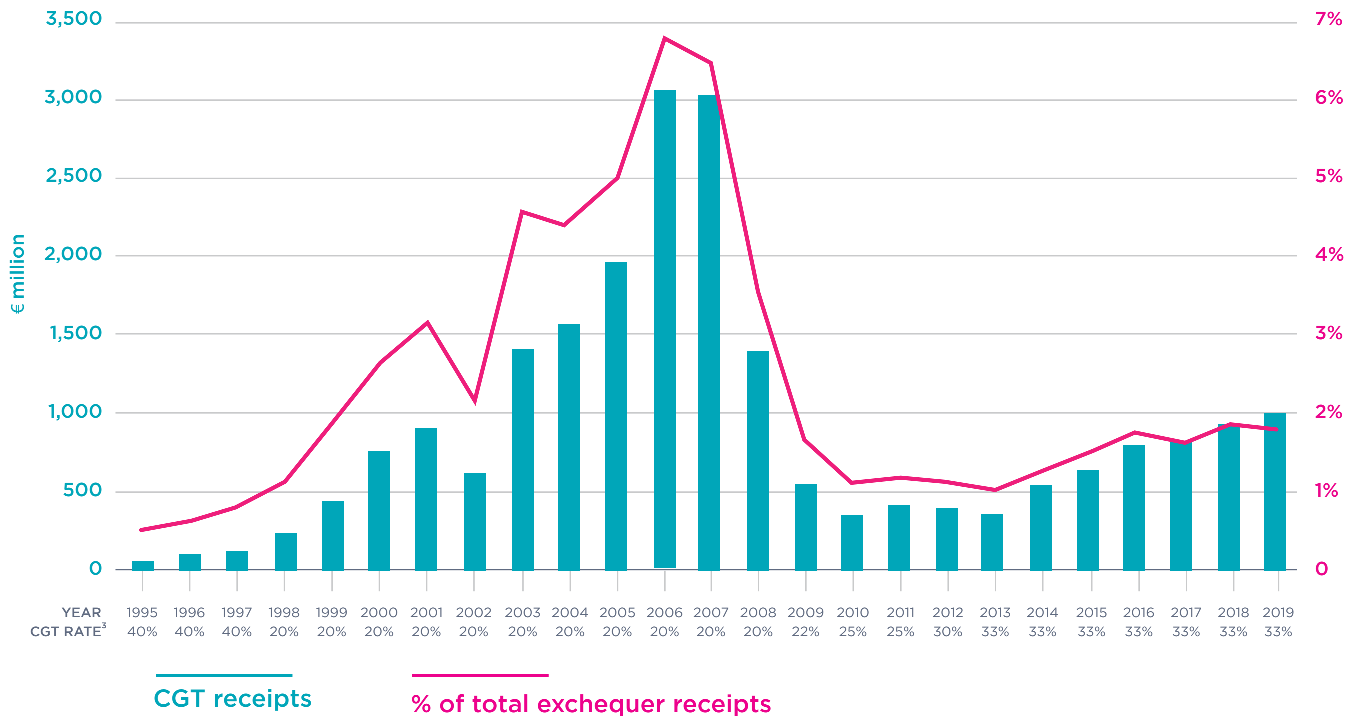
- Taxes on income were €13.6bn in 2007 versus a figure of €22.9bn for 2019.

- Corporation tax is the third largest tax head accounting for 18% of total tax receipts in 2019 (compared to 13.5% in 2007). The Irish Fiscal Advisory Council has warned that between €2bn and €6bn of these receipts may be temporary. In an update to Budget 2020 forecasts in January 2020, the Department of Finance said the changes to global tax arising out of the OECD Base Erosion Profit Shifting (BEPS) related reforms, could reduce corporation tax receipts in Ireland by up to €2bn in the longer term.

Capital Gains Tax

- Capital gains tax (CGT) receipts accounted for just 1.8% of total exchequer receipts in 2019.
- **The Institute agrees with the assessment of the Tax Strategy Group in 2018, that a reduction in the overall rate of CGT could result in an improved environment for SMEs leading to an increase in transactions and exchequer revenues.**[2] The graph below backs up this assessment. Given the low level receipts, the risk to the exchequer of cutting the rate is minimal.

Exchequer receipts from CGT over the last 25 years



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[2] Tax Strategy Group, TSG 18/10 Capital and Savings Taxes.

[3] On 15/10/08 the rate increased from 20% to 22%. On 08/04/09 the CGT rate increased from 22% to 25%. On 07/12/11 the rate increased from 25% to 30%. On 06/12/12 the rate increased from 30% to 33%.

Local Property Tax

- Local Property Tax (LPT) came into effect in 2013. The yield has remained relatively flat since its introduction, fluctuating between €463m and €491m in the years 2014 to 2018.[4] LPT receipts fell to €473m in 2019. LPT receipts are paid into the Local Government Fund rather than the Exchequer.
- When LPT was first introduced, the date on which property owners were required to establish the market value of their properties for calculating their LPT liabilities was 1 May 2013.[5]
- The second valuation of residential properties was due to take place on 1 November 2016. However, the last government postponed the revaluation date for the LPT, initially to 1 November 2019 and most recently to 1 November 2020.
- This postponement has resulted in property owners continuing to have their properties valued for LPT purposes based on their 1 May 2013 declared valuations. An exemption applied at the time of its introduction in 2013 means that all houses built since then are excluded from LPT.
- Failure to act over the last 7 years has left the next government with the task of reforming the LPT regime. An interdepartmental review outlined a number of options, none of them politically easy. A more fundamental change supported by the Green Party is to replace the LPT with a Site Value Tax. Whatever option is chosen, a decision must be taken as a matter of urgency. Property tax is a feature of all progressive tax systems. It broadens the tax base and reduces the burden on labour taxes. **If LPT is to survive as an arm of our tax system, it must be reviewed regularly so that it remains current, avoiding spikes in valuations**.
- It is essential that low income property owners are allowed to defer payment of LPT. However, the relevant income thresholds should be periodically reviewed and revised in line with the Consumer Price Index.[6]

[4] Review of Local Property Tax, The report of the Interdepartmental Group – March 2019, Department of Finance.
[5] Part 4, Finance (Local Property Tax) Act 2012.
[6] As proposed by the Review of the Local Property Tax, Dr Don Thornhill, July 2015.

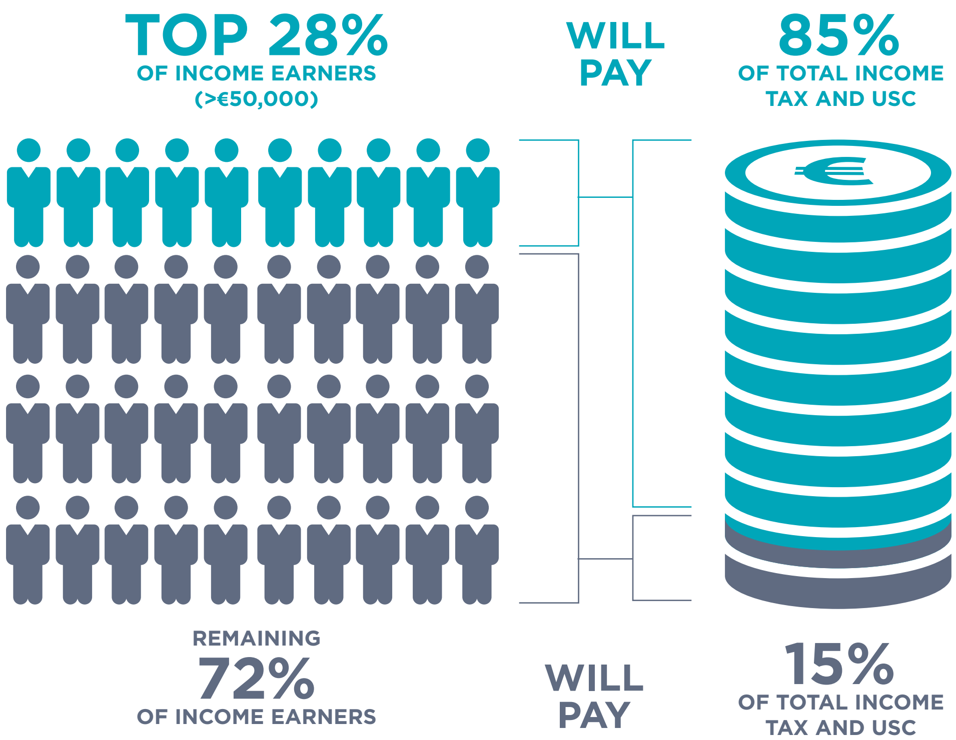
The Personal Tax Base

Ireland's personal tax regime should be broadly based, simple, fair and transparent. It should support economic growth while redistributing income to lower paid workers. At the same time, we believe our personal tax system must be internationally competitive and must incentivise work. That is why we believe the entry point to the top tax rate must be raised.

Who pays what?

Ireland has a highly progressive tax system with the top quartile of earners paying more than 80% of total income tax and USC.

The top 1% (incomes over €200,000) pay over a quarter of income tax and USC, while those earning over €100,000 pay half.



Number of income tax payers and USC payers

Income Tax Rates	Number of income earners in 2020	% of income earners in 2020
Exempt	947,000	34%
20% Standard rate	1,230,400	44%
40% Higher rate	602,900	22%
Total income earners	**2,780,300**	

Source: Revenue Ready Reckoner – Post Budget 2020, October 2019.

USC Rates	Band	Number of income earners in 2020	% of income earners in 2020
Exempt	Income less than €13,000	773,100	28%
0.5%	All income up to €12,012	0[1]	0%
2%	€12,013 to €19,874	539,300	19%
4.5%[2]	€19,875 to €70,044	1,205,900	43%
8%	€70,045 and above	262,000	9%
Total income earners		**2,780,300**	

Source: Revenue Ready Reckoner – Post Budget 2020, October 2019.

Note 1: There were 23,570[3] income earners in 2019 who paid the higher 11% USC rate on non-PAYE income over €100,000 – equating to 1% of income earners in 2019

Note 2: Following on from a government announcement in December to increase the National Minimum Wage by 30c from €9.80 to €10.10 per hour from 1 February 2020, a change to USC thresholds was announced by the Minister for Finance & Public Expenditure and Reform, Paschal Donohoe TD on 10 January 2020. The 2% USC threshold will increase from €19,874 to €20,484. This will ensure that the 2% rate remains the highest rate of USC charged on the income of full time minimum wage workers.

[1] A taxpayer will only pay the 0.5% USC rate where they earn more than the USC entry point of €13,000. In that case, they pay 0.5% on the first €12,012 and 2% on the balance up to €19,874. From 1 February 2020 the 2% USC threshold will increase from €19,874 to €20,484.

[2] A maximum 2% rate applies to income over €19,874 (€20,484 from 1 February 2020) if an individual is a full medical card holder or is aged 70 or older (with or without a medical card), provided their total income is less than €60,000.

[3] Tax Strategy Group – TSG 19/03 Income Tax.

The change in the personal tax base since 2010

The USC has been at the centre of budgetary attention since its introduction in 2011. Changes in all but one of the budgets since then have exempted growing numbers from the charge by increasing the threshold and by lowering the rates for those remaining within the net.

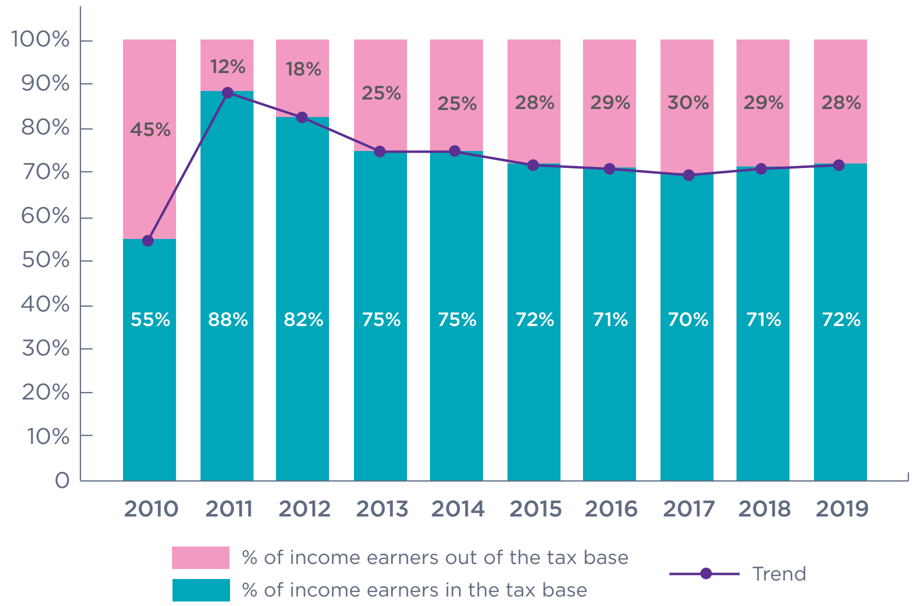
Initially, there were three rates: 2%, 4% and 7%. In Budget 2015, concerned about how much higher income earners might gain from tax reductions in any individual budget, the government introduced a new 8% USC rate on incomes over €70,044. Simultaneously, the top income tax rate was reduced by 1%. As a result, any income over €70,044 could not benefit from the reduction in the income tax rate.

In line with this policy, the USC changes in recent years have been targeted at the lower rates and bands, with the result that the USC gains were capped on a definitive amount of income each year. In this way, the USC has been an agent for progressivity in the system.

The changes to the USC in recent years are estimated to have cost over €1.6bn. Notwithstanding this, the USC continues to be a significant contributor to the exchequer (€3.7bn in 2018) and remains the broadest component of our personal tax system.

When first introduced, the USC replaced the Income Levy and the Health Levy. It was intended to broaden and rebuild an income tax base that had been hollowed out to the point where 45% of income earners were outside of the tax net. Initially, just 12% of taxpayers were exempt from the charge: 8 years later, 28% are exempt. As the Tax Strategy Group concluded: "*It could be argued … that further significant modifications to the USC could undermine the restructuring of the income tax system.*"[4]

The change in the personal tax base since 2010



The IMF has noted that the changes to the USC since 2014 mean it no longer materially increases the tax base compared to income tax.[5] However, wage increases over the last two years have brought more people into the USC net.

The Institute welcomes this broadening of the base as a stabilising influence on the personal tax system, making it more resilient in the face of increasing uncertainty in the global economy. **Our strong advice is that future budgets should focus on reducing overall income tax rates rather than exempting more people from the tax base. A broader base where the load is spread according to means is fair and sustainable.**

[4] Tax Strategy Group - TSG 19/03 Income Tax p18.
[5] IMF Country Report No 19/165.

The future for USC

Though threatened with abolition in 2016, the idea of amalgamating the USC with PRSI in the medium term became settled government policy in 2017. A Working Group was established and its report, submitted to Minister for Finance in September 2018, concluded that amalgamation would be a complex process.

According to a Tax Strategy Group paper, the Report which has not been published, found that all of the options examined by the Working Group involved a trade-off between simplicity in design, loss of revenue to the State overall and losses/gains to taxpayers, with middle income earners losing out and higher earners gaining.[6]

Whatever the fate of the USC in the longer term, it is essential, in the view of the Institute, that its contribution to broadening the base of our personal taxes is not lost to the overall system.

Progressivity in the tax system

Successive Irish governments over the last two decades have used the tax system, combined with social welfare payments, to reduce income inequality. OECD data going back to 2004 show a steady pattern of increasing income redistribution[7] while the most recent data indicates that the Irish tax system is the most progressive within EU members of the OECD.

The combination of the 40% income tax rate and the entry point at the relatively modest income level of €35,300 drives progressivity.

The Step-effect				
Income Level	**Top Marginal Tax Rate**	**Top Income Tax**	**Top USC Rate**	**Top PRSI Rate**
€18,000	22% =	20%	2%	0%
€25,000	28.5% =	20%	4.5%	4%
€39,943.28 (average wage[8])	48.5% =	40%	4.5%	4%
€70,044	52% =	40%	8%	4%
€100,000 (self-employed income)	55% =	40%	11%	4%

Note: There are three strands to personal tax in Ireland – income tax, USC and PRSI.

6 Tax Strategy Group - TSG 19/03.
7 Tax Strategy Group - TSG 19/03 Income Tax.
8 Figure based on average weekly earnings of €768.14 in Ireland in Q3, 2019 per CSO.

The multiples (salary levels v tax levels)

- In the tables below, we examine the extent to which progressivity has increased over the last 8 years. We take €25,000 as a salary level for the purposes of this analysis.
- The multiples take account of the increase in the 2% USC threshold from €19,874 to €20,484 which Revenue have agreed to implement on an administrative basis for 2020.[9]

Salary of €25,000 versus €75,000	2012	2016	2020
Earning X times the salary of an individual on €25,000	3	3	3
Paying X times the personal tax (income tax, USC and PRSI) of an individual on €25,000	8	7.9	8.1
Looking at income tax on its own, a person on €75,000 pays X times the income tax of an individual on €25,000	12.1	11.7	11.6
Looking at USC on its own, a person on €75,000 pays X times the USC of an individual on €25,000	4.3	5.3	6.6

Salary of €25,000 versus €100,000	2012	2016	2020
Earning X times the salary of an individual on €25,000 (The multiples)	4	4	4
Paying X times the personal tax (income tax, USC and PRSI) of an individual on €25,000	11.6	11.7	12.3
Looking at income tax on its own, a person on €100,000 pays X times the income tax of an individual on €25,000	18.1	17.6	17.4
Looking at USC on its own, a person on €100,000 pays X times the USC of an individual on €25,000	5.9	8.3	11.2

Personal Tax

In the current tax year, a person earning €75,000 will pay a multiple of 8 times more personal tax (income tax, USC and PRSI) than someone earning €25,000. A person earning €100,000 pays a multiple of 12 times more personal tax than someone earning €25,000.

USC and the cap at €70,044

The increasing gap in the USC multiples is due to a combination of USC reductions that benefit lower to middle income earners and the 1% increase in the top rate to 8% for those earning over €70,044 (Budget 2015). Shifting the burden of the charge from lower earners to higher earners has made the tax system more progressive.

[9] Department of Finance press release, 10 January 2020 https://www.gov.ie/en/news/e1b79f-minister-donohoe-announced-change-to-usc-to-as-a-result-of-the-incre/

Alterations to income tax rates and credits

Most of the personal tax reductions in recent years have focussed on the USC. But there have been some alterations to income tax rates and credits.

IN 2015, THE HIGHER INCOME TAX RATE WAS REDUCED BY 1%

TO

40%

A new **Earned Income Credit** of €550 for all self-employed earners was introduced in Budget 2016. This credit has been increased in each subsequent budget and now stands at €1,500. The Earned Income Credit has not yet been equalised with the PAYE Tax Credit of €1,650.

The **Home Carer Credit,** available to families where one spouse/civil partner works primarily in the home caring for children or dependents, has increased from €810 in 2015 to €1,600 in Budget 2020. The income threshold to qualify for the credit also increased from €5,080 to €7,200.

The **entry point** to the higher income tax rate was increased by a total of €2,500 from €32,800 to €35,300 over the course of three Budgets – by €1,000 in Budget 2015 by €750 in Budget 2018 and by a further €750 in Budget 2019.

How does Ireland's entry point to the top income tax rate compare with other countries?[10]

Country	Income tax rate applying at €35,301 income level	Rates applying to income over €35,300
Denmark*	42%	56% over €72,692
Netherlands	41%	52% over €68,507
Ireland	40%	40% over €35,300
Germany	31%	42% over €54,950 & 45% over €260,533
France	30%	41% over €72,617 & 45% over €153,783
Malta	25%	35% over €60,000
Latvia	23%	31.4% over €55,000
UK**	20%	40% over €53,987 & 45% over €162,000
Estonia	20%	Flat rate (20%)
Finland	17%	21% over €42,400 & 31% over €74,200
Lithuania	15%	Flat rate (15%)
Sweden ***	0%	20% over €43,681 & 25% over €62,973

*Note: €1 = 7.46 DKK (as at 12/08/2019)
**Note: €1 = 0.92615 GBP (as at 12/08/2019)
***Note: €1 = 10.7315 SEK (as at 12/08/2019)

See our Global Tax Report in association with KPMG for the international comparisons on personal taxes.

[10] Source: EY Worldwide Personal Tax and Immigration Guide 2018 – 2019 with the exception of information relating to the UK where, due to timing reasons, information is taken from https://www.gov.uk/government/organisations/hm-revenue-customs Caution must be exercised when comparing rates of income tax on a cross country level as such a simple comparison does not take account of differences between tax systems. For example, a number of these countries have local municipal and "church" charges that are not included in this comparison.

Entry point to the higher rate of income tax

Ireland's high effective tax rate is driven by income tax which doubles from 20% to 40% on earnings above €35,300 (the standard rate cut-off point). While effective in redistributing income, high marginal tax rates can make it difficult to attract skilled workers, particularly in a tight labour market. This is especially pertinent in Ireland, given our reliance on foreign direct investment.

In 2018, the last government made a commitment to increase the standard rate cut off point (currently €35,300) to €50,000 over 5 years. The decision to rule out personal tax reductions in Budget 2020 stalled that plan. But the problem remains: **workers in Ireland pay tax at the higher rate of 40% on income over €35,300. This damages our international competitiveness and action to raise the threshold should be a top priority for the next government.**

The **entry point** to the higher income tax rate was increased by a total of €2,500 from €32,800 to €35,300 over the course of three Budgets – by €1,000 in Budget 2015 by €750 in Budget 2018 and by a further €750 in Budget 2019.

The Social Insurance Fund

Most employers and employees (over 16 years of age) pay social insurance contributions (PRSI) into the national Social Insurance Fund (SIF) which is used to fund benefits such as Jobseekers Benefit, Maternity Benefit, State Pension.

When the Fund is insufficient to cover the cost of all the social insurance benefits, the Exchequer makes up the shortfall. The SIF currently has a small surplus but is expected to have a deficit in 2020.

In the absence of any action, annual shortfalls for the SIF are projected to increase from 2021 onwards as the cost of an ageing population rises.

PRSI and employees

At present, Irish workers with weekly earnings of over €38 qualify for social welfare benefits. This means that someone on the national minimum wage only has to work four hours a week to be entitled to claim benefits. This earnings threshold has not been increased since 1991: the Consumer Price Index (CPI) has increased by about 68% in the same period. This would cost the Exchequer €20.9m per year. The Tax Strategy Group had suggested the threshold should be raised to a minimum of 12 hours per week or €118 per week (€6,136 per year).

Once an employee's earnings exceed €386 per week, the rate at which employer PRSI applies increases from 8.8% and 11.05% on all earnings, not just the amount over the €386 threshold. On 1 February 2020 the weekly income threshold will increase to €395 per week. The Class A employer higher rate threshold of €386 per week will in turn increase to €395 per week from 1 February 2020. Weekly earnings up to and including €395 per week will attract the lower employer Class A rate.[11] These changes to the PRSI weekly thresholds are being made on foot of the decision to increase the National Minimum Wage from 1 February 2020.

PRSI and the self-employed

- As a result of the extension of social insurance benefits to the self-employed in recent budgets, this sector of the workforce now has access to 93%[12] of the benefits available to employees. However, the self-employed pay PRSI contributions at a rate of 4% while employees and their employers contribute a combined rate of 15.05%[13].
- A Tax Strategy Group paper[14] proposed a number of changes for the self-employed:
  - Changing the basis for the self-employed rate from that of employee (4%) to that of employer (8.8% and 11.05% if income exceeds €386 per week or €395 per week from 1 February 2020).
  - Increasing the minimum contribution from €500 to €3,500 per year over the next three years. As a first step, an increase of €1,000 could be imposed, yielding €146m per year.
  - In return for their increased contributions, self-employed taxpayers should be entitled to claim all social insurance benefits, including Illness Benefit and Carer's Benefit.

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[11] http://www.welfare.ie/en/pdf/Advance-Notice-for-Budget-2020.pdf
[12] Tax Strategy Group - Pay Related Social Insurance, July 2018.
[13] Class A employees pay a combined rate of 15.05% which includes an employee PRSI charge of 4% and employer PRSI of 11.05% (where earnings exceed €386 per week or €395 per week from 1 February 2020).
[14] Tax Strategy Group – Pay Related Social Insurance, July 2018.

Ageing Ireland and taxation

Ireland's rapidly changing demographic profile has significant implications for government policy across the spectrum, including taxation.

The population over State Pension Age (SPA) is projected to increase from 12% of the total population in 2015 to 17% in 2035 to 23% in 2055, resulting in a significant increase in pension-related expenditure.

Simultaneously, the numbers of working age relative to those of retirement age (66+ years), the pensioner support ratio, is projected to decline from 4.9 workers for every individual over age 66 in 2015 to 2.9 workers in 2035 and to 2.0 workers by 2055. (This position is slightly improved by the proposed increase in the SPA to 67 and 68 in 2021 and 2028).

The Social Insurance Fund is facing a deficit next year. In 2018, pensions accounted for 71% of the Fund's expenditure.[15] With the population over the State Pension Age set to grow very significantly[16], it is not surprising that the deficit in the Social Insurance Fund is projected to increase out to 2071.[17]

Unless social insurance payments are reduced or PRSI contributions are increased in the medium term, substantial payments from the exchequer will be required to meet the exponential cost of an ageing population.

Meanwhile, pensioners are among the main beneficiaries of tax exemptions and credits.

Tax exemptions and credits for pensioners

- Those aged 65 and over are exempt from income tax if their annual income is less than €18,001 (single) and €36,001 (married couple).
- In addition to their personal credits, over 65's can claim an annual Age Tax Credit of €245 for a single person or €490 for a married couple.
- From the age of 66, pensioners are exempt from PRSI on all income.
- The state pension, like all welfare payments, is exempt from USC.
- From the age of 70, pensioners pay a maximum USC rate of 2% provided their total income is not more than €60,000 per year. This income cap excludes the state pension which is exempt from USC. This reduced rate was extended to the end of 2020 in the last budget.

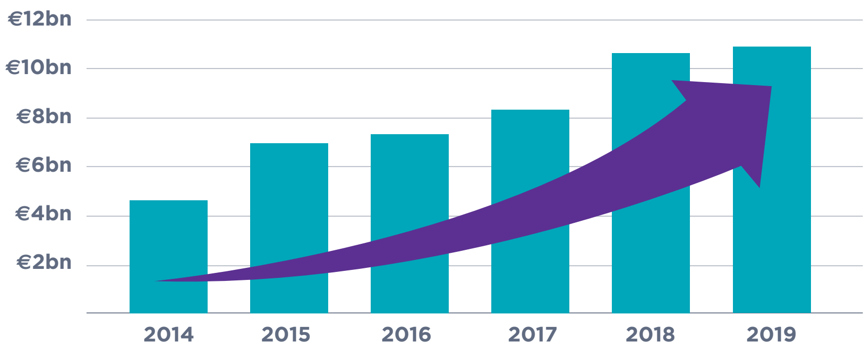
[15] https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2018/2018-05-14_an-overview-of-the-social-insurance-fund-sif_en.pdf
[16] https://www.cso.ie/en/releasesandpublications/ep/p-plfp/populationandlabourforceprojections2017-2051 populationprojectionsresults/
[17] KPMG, *Actuarial Review of the Social Insurance Fund: 2015* (September 2017).

Corporation Tax Trends and Developments

Corporation tax trends

Corporation tax is the third largest tax head and receipts have risen steadily over the last five years.

Corporation tax receipts



In 2019, corporation tax receipts were €10.9bn, accounting for 18% of the overall tax yield and representing a year on year increase of €0.5bn or approximately 5%.

Corporation tax receipts for 2018 were €10.4bn representing a year on year increase of €2.2bn or approximately 27%. Receipts for 2018 were initially projected to be €8.5bn. The over performance by €1.9bn arose from a combination of:

- improved profitability arising from enhanced trading conditions and increased sales (including sales by large multinationals based in Ireland);
- certain one-off factors such as the implementation of IFRS 15 accounting standard; and
- other factors including a reduction in the corporate losses carried forward from the crisis and new corporation tax payers.[1]

The Department of Finance's recently updated growth forecast for 2020 assumes a reduction of €500m per annum in corporation tax receipts from 2022 onwards, as a result of the implementation of the OECD's Base Erosion and Profit Shifting (BEPS) initiative. While there is some uncertainty surrounding this figure, it is the Department's best assessment, based on ongoing work being carried out by the Revenue Commissioners, that the overall risk from BEPS-related changes could be in the range of €800m to €2bn.[2]

Revenue's analysis of corporation tax payments in 2017 shows an increase in trading profits of €238m from 2016 to 2017 with little change in profitability across the majority of sectors. Reduced claims in respect of R&D tax credits and reduced deductions by companies were the main drivers behind the increase in corporation tax receipts in 2017.[3]

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[1] Tax Strategy Paper – TSG 19/01 Corporation Tax.
[2] https://www.gov.ie/en/news/9260ac-minister-donohoe-updates-budget-2020-forecasts-makes-provision-for-c/
[3] Revenue Report: Corporation Tax 2018 Payments and 2017 Returns, May 2019.

In 2018:

- Net receipts from the 10 largest payers in 2018 were €4.7bn or 45% of total net corporation tax receipts (up from 39% in 2017). The once-off change in accounting standards (IFRS 15) led to additional receipts in 2018 of €350m.

- The top 100 companies accounted for 73% of net receipts in 2018.

- Foreign owned multinationals paid 77% of corporation tax receipts in 2018. There were 5,900 foreign owned multinationals and approximately 350 Irish owned multinationals from a total of 156,892 companies active on Revenue records.[4]

- Losses carried forward by companies from earlier accounting periods into 2017 decreased by €1.65bn. Approximately 26,000 companies used losses in 2017 totalling €14.4bn. Of the companies with losses in 2016, over 12,700 did not carry losses into their 2017 returns, most likely because earlier losses were fully utilised as a result of trading profits for these companies.[5]

- Companies held over 2 million employments in 2017, 553,300 of which were in multinational companies.[6] Companies paid income tax, USC and PRSI, totalling €18.4bn in respect of those employments (€7.9bn of which related to employees of multinational companies - equating to 27.8% of the total personal tax yield (income tax, USC and PRSI) for the same year).[7]

- Companies that were not liable to corporation tax (for example, because they had not made a profit in a given year) were significant employers. In 2017, non-liable companies were responsible for 30% of employments[8] among companies and 44% of associated Income Tax, USC and PRSI. Foreign owned multinationals that were not liable to corporation tax accounted for 13% of total foreign multinational employments and 15% of associated income tax, USC and PRSI payments for foreign multinational companies.

- Just over half (52%) of all companies were micro (less than 10 employees). Micro companies accounted for 10% of corporation tax receipts whilst 1% of companies were large companies (over 250 employments) accounting for 45% of corporation tax receipts.[9]

- Manufacturing was the largest sector in 2018 accounting for 31% of corporation tax receipts followed by financial and insurance activities, and information and communication sectors.[10]

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[4] Revenue Report: Corporation Tax 2018 Payments and 2017 Returns, May 2019.
[5] Revenue Report: Corporation Tax 2018 Payments and 2017 Returns, May 2019.
[6] Revenue Report: Corporation Tax 2018 Payments and 2017 Returns, May 2019.
[7] Revenue Report: Corporation Tax 2018 Payments and 2017 Returns, May 2019.
[8] An employee may have more than one employment, for example, due to changing employment during the year or having a second job. Employments also includes those in receipt of occupational pensions.
[9] Revenue Report: Corporation Tax 2018 Payments and 2017 Returns, May 2019.
[10] https://www.revenue.ie/en/corporate/documents/statistics/receipts/net-receipts-by-sector.pdf

Digital Taxation

OECD work on taxing the digital economy

In March 2018, the OECD BEPS Inclusive Framework published an interim report setting out a commitment to reach a long-term consensus-based solution on the tax challenges arising from the digitalisation of the economy by 2020. In May 2019, the Framework adopted the "*Programme of Work to Develop a Consensus Solution to the Tax Challenges Arising from the Digitalisation of the Economy*", which was endorsed by G20 Finance Ministers on 9 June 2019.

The Work Programme involves two pillars:

- **Pillar One** considers the development of a "new taxing right" that would change existing profit allocation and nexus rules. This work will seek to readjust the balance between countries where valuable intangible assets are owned and the markets where the users and consumers are based.

- **Pillar Two** considers the global anti-base erosion (GloBE) proposal that would allow countries to "tax back" in circumstances where other jurisdictions have not exercised their primary taxing rights, or the payment has been subject to low levels of taxation. This work attempts to define an effective minimum tax rate.

The OECD Secretariat published two public consultation documents on Pillar One and Pillar Two in October and November 2019. In addition, the OECD held two public consultation meetings in Paris in November and December 2019, focusing on the key questions identified in the consultation documents and the issues highlighted in the written submissions received as part of the consultation process.

The Programme of Work had envisaged that a recommendation on the core elements of a long-term solution could be submitted to the members of the Inclusive Framework on BEPS for agreement at the beginning of 2020 and that the policy and technical details of a consensus-based, long-term solution to the tax challenges of the digitalisation of the economy would be contained in a final report to be delivered by the end of 2020.

However, a letter from the US Secretary of the Treasury, Steven Mnuchin, to the OECD in early December 2019 has put this timetable in doubt. The letter, understood to have been prompted by strong lobbying from US companies, indicated that the US had serious concerns about the mandatory nature of the proposed reforms under Pillar One. Mr Mnuchin suggested the proposed new rules under Pillar One could be adopted as a "safe-harbour regime", which could be optional for companies.

A meeting between the US Secretary of the Treasury and the French Finance Minister, Bruno Le Maire, is expected to take place at the World Economic Forum in Davos (from 21–24 January 2020), which could determine the future direction of travel for the OECD proposals on digital taxation and international tax reform. This will be followed by a meeting of the member countries of the Inclusive Framework on BEPS at the end of January.

Notwithstanding the concerns expressed by the US, Pascal Saint-Amans, Director of the OECD's Centre for Tax Policy and Administration has indicated that the OECD hopes to reach political agreement by June 2020 with a view to reporting progress to the G20 meeting in July 2020.

Ireland's position on the OECD proposals

On 23 May 2019, the Minister for Finance & Public Expenditure and Reform, Paschal Donohoe T.D., in an address to the Institute's Global Tax Policy Conference with the Harvard Kennedy School, Ash Center for Democratic Governance and Innovation, set out Ireland's position on the current proposals under discussion at the OECD.

On Pillar 1, he stated that any agreed outcome must:
- follow the well-established principle of aligning taxing rights with value creation;
- be modest and appropriately targeted to cause as little disruption to the long established international corporate tax framework;
- be based, to the greatest extent possible, on existing transfer pricing rules;
- ensure that the bulk of profits remain taxable in exporting countries under the existing corporate tax framework;
- not disproportionately benefit large countries at the expense of smaller ones; and
- be focused on providing certainty into the medium term for governments and for business.

Regarding the minimum effective tax rate proposal under Pillar 2, the Minister stated he "*remains to be convinced of the validity and appropriateness of this proposal*". He also commented that he believes that "*fair tax competition is a legitimate tool for small peripheral countries to balance against size, geographical location or resource advantages other countries enjoy, and this is supported by a wealth of economic research.*"

EU digital tax proposals

On 21 March 2018, the European Commission published two legislative proposals on the taxation of digital activities in the EU:

1. Reform corporate tax rules so that profits are registered and taxed where businesses have significant interaction with users through digital channels. This would enable EU Member States to tax profits that are generated in their territory, even if a company does not have a physical presence within the country.

2. An interim Digital Services Tax on certain revenues from digital activities in the EU.

Despite extensive debate on the proposals, including a modified proposal on a significant digital presence being put forward, unanimous agreement was not reached. EU Finance Ministers agreed to discuss the OECD work on the tax challenges of digitalisation concurrently at European level with a view to identifying any common perspectives and the EU law compatibility with OECD proposals. It was also agreed that work on the impact analyses of the OECD proposals should continue as a priority.

If significant progress is not made by the OECD by mid-2020, there is likely to be renewed pressure for a solution to be found at an EU level. Ursula von der Leyen, the newly elected President of the European Commission, has confirmed that corporate tax reform is one of her priorities.[11]

In addition, Germany, who are in favour of a global minimum effective tax rate, will take over the Presidency of the EU Council from Croatia in July 2020. In May 2019, the German Finance Minister, Olaf Scholz, expressed his support for a global minimum effective tax on companies and confirmed that the fair taxation of companies will be one of the priorities for Germany's EU Council presidency in the second half of 2020.[12]

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[11] https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission_en.pdf
[12] Speech by German Finance Minister, Olaf Scholz to the 6th International Tax Symposium in Berlin, 8 May 2019 – "*A minimum tax will ensure greater fairness in international tax law*"

Environmental Taxes

Action on climate change will dominate the work of the next government. Not only must it implement the current Climate Action Plan, it will also have to implement the European Green Deal, proposals for which were recently announced by the Commission.

Tackling climate change will require action on several fronts, prominent among them, taxation. Tax is a powerful tool for effecting behavioral change and well designed environmental tax measures will be an essential part of any plan to tackle climate change.

But climate action also has profound implications for the current tax base: **in 2018, the exchequer collected a combined €3.5bn from carbon tax, excise and VAT on petrol, diesel and other products that carry a carbon charge.[1] Other sources of revenue will have to be found to plug this substantial gap in our tax base as we decarbonise our economy.**

Carbon tax

Carbon tax was introduced for the first time in Ireland in 2010. It applies to fuels, such as kerosene, marked gas oil, liquid petroleum gas, fuel oil, natural gas and solid fuels.

It is levied on the supply of fossil fuels based on their carbon content where a rate of €26[2] per tonne of CO_2 is applied.

Research conducted by the ESRI has found that carbon tax is regressive, as poorer households spend a greater proportion of their income on fuel. It also concludes that a 'carbon cheque' that would distribute the carbon tax yield equally to every household would result in a small reduction of income inequality whereas a mechanism more targeted at low income households would be more progressive and less costly to administer.

The last government's Climate Action Plan confirms that carbon tax will increase to at least €80 per tonne of CO_2 emissions by 2030. The €6 increase announced in Budget 2020 is a first step on that journey. It is expected that the yield from this measure will be used to fund new climate action measures including the part-funding of a package for ESB and Bord na Móna workers affected by the closure of two peat-burning power stations in the Midlands.

Further measures in relation to carbon tax announced in Budget 2020 included:

- Extension of Vehicle Registration Tax (VRT) relief for conventional and plug-in hybrids to 2020, subject to CO_2 thresholds.

- Reduction of qualifying CO_2 thresholds for reliefs in respect of capitals allowances and VAT reclaims on commercial vehicles.

According to the Tax Strategy Group, an increase in the rate of the carbon tax by €10 per tonne of CO_2 emitted would raise in the region of €216m.[3] While an increase in the rate by €20 per tonne of CO_2 would yield €430m.

1 Response to Parliamentary Question (138), 25 June 2019.
2 Budget 2020 increased the rate from €20 per tonne to €26 per tonne. The increased rate currently applies to auto fuels and its application to other fuels has been delayed until May 2020.
3 Climate Action and Tax Strategy Group – TSG 19/04, July 2019.

Electricity tax

Budget 2020 equalised the rate of electricity tax applying for business and non-business use. The rate is currently €1.00 per megawatt hour (MWh) (up to 31 December 2019, the rate was €0.50 for business use). The minimum rates permissible under the Energy Tax Directive are €0.50 per MWh for business use and €1.00 for non-business use.

In addition to the low rates and an exemption for household domestic use, there are several reliefs from the tax, for example, for electricity generated from renewable sources. As a result, the tax base is narrow.

Receipts from the electricity tax were €2.5 million in 2018. The Budget 2020 increase is expected to double the receipts.

Several EU Member States apply significantly higher rates for business users than Ireland. The UK's rate, for example, is about 13 times higher; the Austrian and German rate is 30 times higher, the French rate c.45 times higher and the Dutch rate c.230 times higher.

Plastic bag levy

Ireland was among the first countries in the world to introduce a plastic bag levy in 2002.

This simple and effective measure has resulted in a 90% reduction in the use of an everyday product that had blighted our landscape for years.

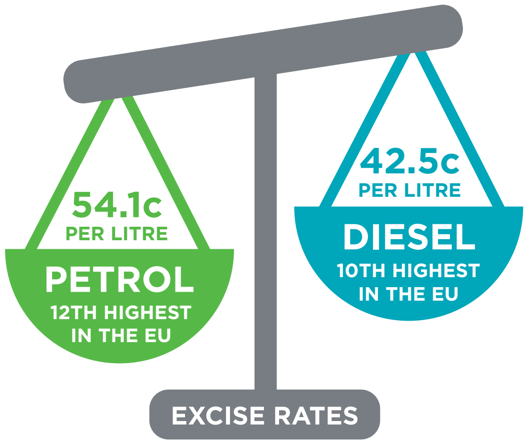
Many countries, states and cities around the world have since followed our lead, citing the success of our levy as an example.

But the original legislation contained many exemptions, including plastic bags used to wrap fresh meat, fish, fruit, vegetables and dairy products. A recent Supreme Court decision criticised the lack of clarity in the law saying it should be simplified. Given the advances in packaging perishable products since the levy was first introduced and the change in public attitudes towards the use of plastic, it may be opportune to extend the levy to all plastic bags used for food. Such a change would be in line with the recent government announcement to develop a new waste strategy that would ban single-use plastics; such as plates, cutlery and food containers and introduce fees for non-recyclable plastic food packaging in supermarkets.

Equalisation of excise rates applying to petrol and diesel

Excise rates on both petrol and diesel have remained the same since 2012. The current excise rates are: 54.1c per litre of petrol and 42.5c per litre of diesel. The excise rate in Ireland on petrol is the 12th highest in the EU, while diesel is the 10th highest.[4]

The carbon content of diesel is higher than petrol therefore if petrol and diesel were subject to excise duty purely on the basis of CO_2 content, diesel would be subject to a higher excise rate. However, diesel is more fuel efficient therefore if the excise duty were levied on the basis of fuel efficiency, diesel would be subject to a lower excise rate.[5]



From 1 January 2020 a second component will be added to the calculation of VRT. The Nitrogen Oxide (NOx) charge will be combined with the existing Carbon Dioxide rates to form the VRT payable. This charge will apply to all passenger cars registered for the first time in the State from 1 January 2020.

Businesses can claim a VAT refund on diesel and the Diesel Rebate Scheme offers a partial refund of excise duties to certain road transport operators.

The Tax Strategy Group has set out a pathway for the equalisation of excise rates over 5 years, resulting in an additional €81m per year and a cumulative yield of €397m over the 5-year period.[6]

BIK on company cars

In Budget 2018, a 0% benefit in kind (BIK) rate for electric vehicles (EVs) was provided for a period of one year.

In Budget 2020, the 0% BIK rate for EVs was extended to 2022 where the market value of such vehicles is €50,000 or less. Minister Donohoe also indicated his intention to introduce an environmental rationale for BIK on commercial vehicles.

The current system of vehicle BIK is based on the Original Market Value (OMV) of the vehicle and the annual kilometres driven. The number of kilometres driven is measured by reference to bands. The use of this measure has been the subject of criticism because it could act as an incentive to increase mileage in order to reduce liability.[7]

4 Climate Action and Tax Strategy Group – TSG 19/04, July 2019.
5 Climate Action and Tax Strategy Group – TSG 19/04, July 2019.
6 Climate Action and Tax Strategy Group – TSG 19/04, July 2019.
7 For example, see ESRI paper, February 2018 at https://www.esri.ie/pubs/BKMNEXT351.

Possible sources of replacement revenues

The Climate Action Plan envisages a move from fossil fuel to electricity over the course of the next decade. This is to be achieved through the replacement of petrol and diesel cars with electric cars and through the uptake of electricity powered heat pump systems.

In 2018, the exchequer collected €3.5bn from carbon tax, excise and VAT on diesel, petrol and other products that carry a carbon charge.

Meanwhile, the taxation of diesel and petrol motor vehicles, through VRT and motor tax, yields €2bn. A number of options have been suggested to raise replacement revenues:[8]

(i) Road usage

According to CSO data, a total of 48.5 billion kilometres was travelled on Irish roads in 2016. Therefore, a kilometre-based charging system has the potential to raise significant replacement revenues from road users. This could be achieved by:

- The extension of road tolls that operate through dynamic pricing models.
- In relation to HGVs, the application of a 'per km' type charge. This system is already applied in some Member States and may be facilitated by on board GPS technology.

(ii) Electricity Tax

The current exemption from electricity tax for householders could be reviewed. But the Tax Strategy Group says such a review would need to bear in mind that households currently pay a PSO levy of €3.48 a month. Account would also have to be taken of the mix of fossil fuels in electricity generation and whether the tax ought to be limited to this element.

(iii) Carbon Tax

An increase in carbon tax to at least €80 per tonne of CO_2 has the potential to raise significant revenues through the next decade.

[8] Climate Action and Tax Strategy Group – TSG 19/04, July 2019.

Supporting Business Through Taxation

The strength and speed of the recovery in the Irish economy from the most profound crisis in the history of the State has been remarkable. But our recent experience of the collapse has made us acutely conscious of our exposure to external shocks such as international trade tensions, global tax reform and, of course, Brexit.

The dangers of over dependence on any one sector of the economy have been well aired and there has been no shortage of advice from international bodies like the IMF, the OECD and the European Commission about the need to rebalance our economy by developing our homegrown business sector.

An OECD Review of SME and Entrepreneurship Policy[1], requested by the Department of Business, Enterprise and Innovation, was published in late October 2019. It pointed to a lack of business dynamism and a low start-up rate; stagnation in productivity growth; weaknesses in management skills, capital investment levels, and technology adoption; and rising skills shortages in our SME sector. It recommended a unified SME and entrepreneurship strategy document to increase policy visibility. Although promised to be delivered by year end 2019, this document has yet to be published.

SMEs and tax

The Review, like others before it, acknowledged the role of tax measures in supporting entrepreneurship, capital investment and skills in small business. **The Irish Tax Institute welcomes the SME tax measures introduced by government in recent years but much needs to be done to refine these measures and make them more accessible and effective.**

For example, the Institute has raised specific issues in various consultations over the last year on:

- Key Employee Engagement Programme (KEEP) – to help SMEs to attract and retain highly skilled employees
- Employment Investment Incentive (EII) – aimed at incentivising investment in small businesses whose funding options are limited
- Start Up Relief for Entrepreneurs (SURE) – to assist individuals who start their own businesses
- R&D Tax Credit – to encourage companies to carry out research and development in Ireland
- CGT Entrepreneur Relief – a lower rate of CGT to foster entrepreneurship in Ireland

The Institute also believes the overall rate of CGT, currently 33%, should now be reviewed in light of the low receipts which came in at just 1.8% of the total tax take in 2019. Given the strength of the Irish economy, it is reasonable to ask if the high rate of CGT is having a dampening effect on productivity and growth in the SME sector.

[1] OECD (2019), SME and Entrepreneurship Policy in Ireland, OECD Studies on SMEs and Entrepreneurship, OECD Publishing, Paris, https://doi.org/10.1787/e726f46d-en

The Institute agrees with the view expressed by the Tax Strategy Group in 2018 that a reduction in the CGT rate could result in an improved environment for business which would enhance economic growth, increase transactions and raise more revenue for the State.[2]

Business environment with tax certainty

The importance of certainty and clarity in the tax system is recognised by both the IMF and the OECD. Tax certainty can be delivered through improved tax policy and law design, consistency in tax administration and effective dispute resolution mechanisms.

The Finance Bill process

The next government should review the current legislative timetable which allows less than three weeks to consider often complex tax law from the date of publication to Committee Stage in the Dáil and only two months for the entire Finance Bill process to be completed and enacted. The issue is compounded when new tax provisions are introduced into the Finance Bill at Committee and Report Stages. Inevitably, the result is law that fails to deliver on policy objectives and that requires clarification through Revenue guidance or, at worst, resort to the courts.

Apart from key income tax changes and other political or market sensitive matters, the Institute can see no reason why tax legislation should not be published for consultation in advance of the Finance Bill. In the UK, draft legislation is published five months in advance of their Finance Bill.

Need for effective dispute resolution mechanisms

According to the OECD and the IMF, an effective dispute resolution regime plays a critical role in establishing certainty for businesses. Where disputes arise over the facts of a case or the interpretation of the law, taxpayers may appeal directly to the Tax Appeals Commission.

However, there is a heavy build-up of cases in the appeals system, with taxpayers waiting years to have the disputed matter resolved. While significant additional resources have been given to the Tax Appeals Commission to alleviate the backlog, taxpayers, whose appeals are ultimately unsuccessful, are faced with penal interest rates because of the delays.

Oversight in the tax system

Independent oversight in all areas of public administration is commonplace in mature democracies. We can learn from what other countries have done to create an appropriate balance between the fair and the efficient collection of taxes. Reinforcing confidence in our tax system is a good thing for government, for the Revenue Commissioners and for taxpayers.

Supporting the maintenance of the highest standards of professional excellence through taxation

Highly qualified professionals are crucial to the economic, social and physical health of all societies and maintaining the highest standards of education and ethical behaviour among professionals is undoubtedly in the public interest.

Professional bodies play an essential role in ensuring their members are informed and up to date on all important developments, internationally and domestically, in their specialisms. They also ensure adherence to ethical and professional codes.

[2] TSG 18/10 Capital Savings Taxes.

The critical importance of this work used to be fully reflected in Ireland's tax code. If an employer paid an employee's subscriptions to professional bodies, this was specifically excluded from the usual benefit-in-kind (BIK) rules,[3] so long as those subscriptions were *"relevant to the business"* of the employer.

That position was changed in Finance Act 2011 at the height of the financial crisis. Since then, employers must collect employee BIK and pay 11.05% employer PRSI on professional subscriptions paid for their employees. This is unless they can demonstrate that the subscriptions would have been *"wholly, exclusively and necessarily"*[4] incurred if the employees had paid the cost themselves. The estimated annual saving to the exchequer was €5m.

Legislation that results in such a narrow interpretation of professional subscriptions qualifying for BIK exemption effectively impacts thousands of members of professional bodies. Furthermore, it undermines the work of those professional bodies that educate their members to international standards and that, through their codes of membership and conduct, hold their members to the strictest and highest international standards of best professional practice.

Levying a tax on membership of professional bodies is, in effect a tax on professional education and professional standards. In this respect, Ireland is out of step with countries such as the UK, Canada and Australia, that recognise the value of their professions and support professional membership in different ways through their tax codes.

The Institute firmly believes that continuing to impose an additional tax cost on the maintenance of professional competence and standards is counterproductive in the context of our economic strategy and stated government policy. We know from research and reports both here and internationally that skills, talent and human capital will be central to our economic success.

Modernisation of Professional Services Withholding Tax

Moving to real-time reporting of the Pay As You Earn (PAYE) system at the beginning of 2019 heralded the most significant reform of the administration of the PAYE system since its introduction in 1960. This reform followed other electronic developments of the tax system in recent years, including tax clearance and Revenue's debt collection system, which have helped to improve tax administration and service delivery to taxpayers. Budget 2020 signalled the intention to expand real-time reporting to Dividend Withholding Tax.

Currently, the administration of Professional Services Withholding Tax (PSWT) is fully paper based, in stark contrast with the electronic and "real-time" regimes for PAYE, tax clearance and Revenue's debt collection systems. This archaic PSWT system is severely impacting the day-to day running of many businesses, resulting in the delay of refunds and unnecessary contact with Revenue to put a stop on the collection of tax in circumstances where tax is not due in totality (as the paper based claims for PSWT deducted have not been offset within Revenue's system). **We believe it is essential that the necessary resources are invested now by government and Revenue to modernise the PSWT regime to ensure Irish businesses are not experiencing cashflow difficulties from delays in the administration of the tax.**

[3] Section 118 (5E), Taxes Consolidation Act 1997.
[4] Section 114, Taxes Consolidation Act 1997.

Conclusion

The last decade has seen significant change in corporation tax, driven largely by international reforms from the EU and OECD. By contrast, personal tax has seen only ad hoc changes since the very significant increases introduced in response to the financial crisis.

The purpose of those crisis era changes was to raise revenue to fill the gaping hole that emerged in tax receipts when the property market collapsed, and transaction taxes disappeared. But those changes also broadened the tax base, correcting the weakness of a system that had been hollowed out to the point where 45% of income earners were outside of the tax net.

The main impact of the changes introduced since the crisis has been to exempt lower income earners from USC, thereby narrowing the base. USC rates have also been reduced although with a yield of €3.7bn (in 2018), it continues to be a significant contributor to the exchequer and remains the broadest component of our tax system.

Our economy has seen a remarkable transformation in the years since the crisis and demographic changes have also gathered pace. It is now time to stop tinkering with the current system and to undertake a root and branch review of personal tax, the largest contributor to the exchequer. **We need a personal tax regime that is robust and sustainable, progressive but broadly based, fair and competitive. Our tax system should support the economy in which all who work should contribute according to their means and those who earn most should contribute most, in the best interests of all citizens.**

Irish Tax Institute

South Block
Longboat Quay
Grand Canal Harbour
Dublin 2

www.taxinstitute.ie
+353 1 663 1700
@TaxInstituteIrl

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