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Government of Ireland

Budget 2022
Tax Policy Changes

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BUDGET 2022

Tax Policy Changes

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Budget 2022

Tax Policy Changes

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Summary of 2022 Budget Measures

Policy Changes

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Summary of Budget 2022 Measures – Policy Changes

Taxation Measures for Introduction in 2022

Measure	Yield/Cost 2022	Yield/Cost Full Year
Personal Income Tax		
Income Tax An increase of €1,500 in the income tax standard rate band for all earners, from €35,300 to €36,800 for single individuals and from €44,300 to €45,800 for married couples / civil partners with one earner. An increase in the Personal Tax Credit from €1,650 to €1,700 An increase in the Employee Tax Credit from €1,650 to €1,700 An increase in the Earned Income Credit from €1,650 to €1,700	-€520m	-€597m
Sea-going Naval Personnel Tax Credit Extension of the Sea-going Naval Personnel Tax Credit to 31 December 2022	-€0.5m	-€0.5m
USC The following changes to USC will apply from 1 January 2022. • €608 increase to €21,295 band ceiling The increase in the 2% rate band ceiling will ensure that a full-time adult worker who benefits from the increase in the hourly minimum wage rate from €10.20 to €10.50 will remain outside the top rates of USC. The USC Rates & Bands from 1 January 2022 will be: Incomes of €13,000 are exempt. Otherwise: • €0 – €12,012 @ 0.5% • €12,013 – €21,295 @ 2% • €21,296 – €70,044 @ 4.5% • €70,045+ @ 8% • Self-employed income over €100,000: 3% surcharge The reduced rate of USC for medical card holders is being extended for a further year, at an estimated cost of €62m in 2022 and €72m per annum thereafter. This measure is revenue neutral as it is already included in the tax base.	-€22m	-€26m

Work from Home Measure In light of Government policy to facilitate and support remote working, the current tax arrangements for working from home will be enhanced and formalised so that an income tax deduction amounting to 30% of the cost of vouched expenses for heat, electricity and broadband in respect of those days spent working from home can be claimed by taxpayers.	-€10m	-€11m
Measures to support Enterprise/SMEs/Agri-sector		
Employment Wage Subsidy Scheme The Employment Wage Subsidy Scheme will be extended until 30 April 2022, in a graduated form. The following are the broad parameters of this extension: • no change to EWSS for the months of October and November, • businesses availing of the EWSS on the 31st of December 2021 will continue to be supported until the 30th of April 2022, • across December, January and February, the original two-rate structure of €151.50 and €203 will apply, • for March and April 2022, a flat rate subsidy of €100 will be put in place. In addition, the reduced rate of Employers' PRSI will no longer apply for these two months, and • the scheme will close to new employers from 1 January 2022. The estimated cost of extending the EWSS from November 2021 to 30 April 2022 is in the region of €1.26 billion, which is funded by the Vote for the Department of Social Protection.		
Taxation of International Flight Crew Section 127B of the Taxes Consolidation Act 1997 provides for the tax treatment of flight crew in international traffic. An amendment will be introduced in the Finance Bill to exclude non-resident air crew where certain conditions are satisfied.	-€10m	-€12m
Measures to support Enterprise Finance Bill 2021 will introduce a new tax credit for the digital gaming sector. The relief will be available at a rate of 32%, on eligible expenditure of up to a maximum limit of €25 million per project.	-€2m	-€6m
The relief for certain start-up companies will be extended in Finance Bill 2021, for a period of five years. The relief will also be amended such that companies may avail of the relief within their first five years of trading, an increase from the current three year claim window.	-€5.7m	-€10m
Employment Investment Incentive (EII) Extension and expansion of the Employment Investment Incentive scheme to end-2024.	-€10m	-€10m

Stock Relief Extension of stock relief (sections 666, 667B, 667C of Taxes Consolidation Act).	-€8m	-€8m
Extension of Young Trained Farmer (Stamp Duty) Relief to the end of 2022	-€15m	-€15m
Expansion of Warehousing of tax liabilities The tax debt warehousing scheme will be expanded to allow self-assessed income taxpayers with employment income who have a material interest in their employer company to warehouse income tax liabilities relating to their Schedule E income from that employer company.		
Housing		
Extension of Help to Buy to end-2022 The Help to Buy measures is being extended at the enhanced rate of support to end 2022.	-€83m[1]	-€83m
Extension of pre-letting expenses for landlords to end 2024 (S97A) This measure relating to of pre-letting expenses for landlords is being extended to end 2024.	-€3m	-€3m
Climate and Environmental measures		
Tax treatment of income from micro-generation of electricity A tax disregard (€200) is being introduced in respect of personal income received by households who sell residual electricity that they generate back to the grid.	-€1m	-€1m
Carbon Tax[2] As set out in Finance Act 2020, the rate of carbon tax will increase by €7.50 from €33.50 to €41.00 per tonne of carbon dioxide emitted. This applies from budget night for auto fuels and 1 May 2022 for all other fuels.	+€109m	+€148m
Vehicle Registration Tax VRT new rates table and extension of relief for BEVs	+€82m	+€82m

[1] Full cost of measure is estimated to be in the region of €175m of which €92m is in the tax base

[2] Carbon tax revenues are fully hypothecated to specific spending commitments. For details please see the Expenditure Report 2022

Accelerated Capital Allowances The Accelerated Capital Allowance scheme for Energy Efficient Equipment, which allows an accelerated deduction when businesses invest in highly energy efficient equipment, is being amended to prohibit equipment directly operated by fossil fuels from qualifying for the scheme.	€nil	€nil
The Accelerated Capital Allowance scheme for Gas Vehicles and Refuelling Equipment allows an accelerated deduction when businesses invest in vehicles powered by natural gas / biogas and related refuelling equipment. The scheme is being extended to end 2024 and is being amended to include hydrogen powered vehicles and refuelling equipment. It provides for the acceleration of existing allowances and therefore is cost-neutral over the lifespan of the assets.	-€2m	-€nil
Anti-Avoidance		
Completion of ATAD Transposition Introduction of new Interest Limitation Rule in line with Article 4 of the Anti-Tax Avoidance Directive (ATAD). This measure will place a limit on deductible interest expenses of 30% of EBITDA for companies within scope of the measure. Disallowed interest may be carried forward and may be deducted in future years if the company has sufficient interest capacity. Full details of the measure will be contained in the Finance Bill.	€nil	€nil
Introduction of new anti-reverse-hybrid rules in line with Article 9(a) ATAD. This measure will bring certain tax transparent entities (such as partnerships) within scope of Irish tax where the entity is 50% or more owned/controlled by entities resident in a jurisdiction that regard it as tax opaque and, as a result of this hybridity, double non-taxation occurs. Full details of the measure will be contained in the Finance Bill.	€nil	€nil
Additional Taxation Measures		
VAT Decrease in the Farmers Flat Rate Addition from 5.6% to 5.5%	+€5.8m	+€7m
Tobacco Products Tax Increase in 50c on pack of 20 cigarettes with pro-rata increase on other tobacco products.	+€56m	+€56m
Bank Levy extended to the end of 2022	+€87m	+€87m

Employer's PRSI From 1 January 2022 the weekly income threshold for the higher rate of employer's PRSI will increase from €398 to €410. This follows a recommendation of the Low Pay Commission to ensure that the increase in the hourly minimum wage does not lead to work disincentives for workers, in particular those seeking to work full-time.	-€10.6m	-€12.5m

Taxation Annexes to the Summary of 2022 Budget Measures

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Annex A

Description of Taxation Measures for Introduction in 2022

Measure

Personal Income Tax

Income Tax
An increase of €1,500 in the income tax standard rate band for all earners:

- Single, widowed or surviving civil partner from €35,300 to €36,800;
- Single, widowed or surviving civil partners, qualifying for the Single Person Child Carer Credit from €39,300 to €40,800;
- Married couples or civil partners (one income) from €44,300 to €45,800;
- Married couples or civil partners (two incomes) from €44,300 to €45,800 (with an increase of €27,800 max[3]).

An increase of €50 in the Personal Tax Credit from €1,650 to €1,700.

An increase of €50 in the Employee Tax Credit from €1,650 to €1,700.

An increase of €50 in the Earned Income Credit from €1,650 to €1,700.

Sea-going Naval Personnel Tax Credit
The Sea-going Naval Personnel tax credit is being extended by one further year to the end of 2022.

USC

The ceiling for the 2% rate of USC will be increased by €608 from €20,687 to €21,295.

The increase in the 2% rate band ceiling will ensure that a full-time adult worker who benefits from the increase in the hourly minimum wage rate from €10.20 to €10.50 will remain outside the top rates of USC.

The USC Rates & Bands from 1 January 2022 will be**:**

Incomes of €13,000 are exempt. Otherwise:

- €0 – €12,012 @ 0.5%
- €12,013 – €21,295 @ 2%
- €21,296 – €70,044 @ 4.5%
- €70,045+ @ 8%
- Self-employed income over €100,000: 3% surcharge

The reduced rate of USC for medical card holders is being extended for a further year.

[3] The increase in the rate band is capped at the lower of €27,800 or the income of the lower earner.

Work from Home Measure

In light of Government policy to facilitate and support remote working, the current tax arrangements for working from home will be enhanced and formalised so that an income tax deduction amounting to 30% of the cost of vouched expenses for heat, electricity and broadband in respect of those days spent working from home can be claimed by taxpayers.

Measures to Support Enterprise/SMEs/Agri-sector

Employment Wage Subsidy Scheme

The Employment Wage Subsidy Scheme will be extended until 30 April 2022, in a graduated form. The following are the broad parameters of this extension:

- current arrangements for EWSS remain in place until end-November 2021;
- for the three months December 2021 to February 2022, the original two-rate subsidy per employee per week (€151.50 and €203) will apply;
- for the two months March 2022 and April 2022, a single flat rate of €100 per week will apply;
- the existing reduced rate of Employers' PRSI (0.5%) will continue to apply until the end of February 2022. The full Employers' PRSI contribution will be reintroduced from 1 March 2022 until the scheme ends;
- scheme to conclude on 30 April 2022.

Eligibility for the scheme will continue to be a 30% reduction in turnover/customer orders in the full year 2021 as compared to the full year 2019. The scheme will close to new employer entrants with effect from 1 January 2022.

The estimated cost of extending the EWSS from November 2021 to 30 April 2022 is in the region of €1.26 billion, which is funded by the Vote for the Department of Social Protection.

Taxation of International Flight Crew

An amendment will be introduced to section 127B of the Taxes Consolidation Act 1997, which provides for the tax treatment of flight crew in international traffic. The current provision, that any individual who is employed aboard an aircraft that is operated by an enterprise whose effective place of management is in the State is within the scope of Irish Income Tax, will be amended to exclude non-resident flight crew in certain circumstances, where a number of conditions are satisfied. Further details will be provided in Finance Bill 2021.

Employment Investment Incentive (EII)

The EII scheme is being extended and, a number of important further modifications to the scheme are being introduced. The most significant of these is to open up the scheme to a wider range of investment funds in order to attract more investors into the scheme. It is also proposed to allow greater capacity for investors to redeem their capital without penalty - the so called 'capital redemption window' - and to remove the rule that 30% of an investment in an EII company must be spent before relief can be claimed.

Stock Relief

Section 666 of the Taxes Consolidation Act (TCA) 1997 is being extended for a further three years. This section provides for stock relief at a rate of 25% of the amount by which the value of farm trading stock at the end of an accounting period exceeds the value of farm trading stock at the beginning of the accounting period.

Sections 667B TCA 1997, and sections 667C TCA 1997, which provide for, respectively, enhanced stock relief at a rate of 100% for young trained farmers; and at the rate of 50% for farmers who are partners in registered farm partnerships are being extended for a further year.

Extension of Young Trained Farmer (stamp duty) Relief

This measure extends the full relief from stamp duty on the conveyance of farm land available (which would normally be charged at 7.5%) to eligible young (i.e. not yet 35 years old) trained farmers, provided for under section 81AA of the Stamp Duties Consolidation Act 1999 (SDCA 1999), to the end of 2022.

Tax Credit for Digital Games

This new relief will support digital games development companies by providing a refundable corporation tax credit for expenditure incurred on the design, production and testing of a digital game. The relief will be available at a rate of 32%, on eligible expenditure of up to a maximum limit of €25 million per project. A claim for the tax credit for digital games can only be made in respect of a digital game which has been issued with a cultural certificate from the Minister for Tourism, Culture, Arts, Gaeltacht, Sport and Media. Relief will not be available for digital games produced mainly for the purposes of advertising or gambling. As European State Aid approval is required, the credit will be introduced subject to a commencement order. Further details on the measure are set out in Annex C.

Relief for certain start-up companies

Finance (No. 2) Act 2008 introduced Section 486C into the Taxes Consolidation Act 1997, to provide relief from corporation tax for start-up companies in their first three years of trading. The objective is to support new business ventures in their critical early years of trading, thereby supporting the creation of additional employment and economic activity in the State. The relief is granted by reducing the corporation tax payable on the profits of the new trade and gains on the disposal of any assets used for the purposes of the new trade. The amount of relief available is directly linked to the amount of Employers' PRSI paid.

The relief will be extended in Finance Bill 2021, for a period of five years until 31 December 2026. In view of the challenges companies currently face in utilising the relief due to the impact that pandemic-related supports have had on Employers' PRSI payments, the relief will also be amended such that start-up companies will be able to avail of the relief for up to five years, in place of the current three years. These changes will provide greater certainty to recently established companies and to those seeking to commence trading as Ireland emerges from the pandemic.

Expansion of Warehousing of tax liabilities

The tax debt warehousing scheme will be expanded to allow self-assessed income taxpayers with employment income who have a material interest in their employer company to warehouse income tax liabilities relating to their Schedule E income from that employer company.

Housing

Help to Buy

The Help-to-Buy scheme will be extended in its current "enhanced" form for 2022. The extension aligns in broad terms with the Housing for All Strategy and will allow time for other similar measures in the same policy space within the Strategy, e.g. Shared Equity Scheme, to become established over the next year or so.

Pre-letting expenses
Section 97A Taxes Consolidation Act (TCA) 1997 provides for a deduction (capped at €5,000 per premises) from rental income for certain pre-letting expenditure. It will be extended for a further three years, to the end of 2024.

Climate and Environmental Measures

Tax treatment of income from micro-generation of electricity
A tax disregard of €200 is being introduced in respect of personal income received by households who sell residual electricity, which they generate, back to the grid.

Vehicle Registration Tax
From January 2022 a revised vehicle registration tax table is being introduced. The 20 band table will remain with an uplift in rates beginning with a 1% increase for vehicles that fall between bands 9-12; 2% for bands 13-15; and then a 4% increase for bands 16-20 (see Annex B). The €5,000 relief for Battery Electric vehicles is being extended to end 2023.

Extension of BIK exemption for EVs
The BIK exemption for battery electric vehicles will be extended out to 2025 with a tapering effect on the vehicle value. This measure will take effect from 2023. For BIK purposes, the original market value of an electric vehicle will be reduced by €35,000 for 2023; €20,000 for 2024; and €10,000 for 2025.

Accelerated Capital Allowance scheme for Energy Efficient Equipment
The Accelerated Capital Allowance (ACA) scheme for energy efficient equipment is designed to encourage improved energy efficiency among Irish companies and unincorporated businesses. The ACA scheme allows taxpayers to deduct the full cost of expenditure on highly energy efficient equipment from taxable profits in the year of purchase. The scheme is also being amended to prohibit equipment directly operated by fossil fuels from qualifying for accelerated capital allowances.

Accelerated Capital Allowance scheme for Gas Vehicles and Refuelling Equipment
The Accelerated Capital Allowance Scheme for Gas Vehicles and Refuelling Equipment was introduced in Finance Act 2018. The scheme allows taxpayers to deduct the full cost of expenditure on eligible equipment from taxable profits in the year of purchase. It provides for the acceleration of existing allowances and therefore is cost-neutral over the lifespan of the assets.

The use of natural gas and biogas is an environmentally friendly, lower carbon-emission alternative to diesel and petrol for large vehicles such as Heavy Goods Vehicles and busses. The scheme is designed to contribute to the transition toward a low carbon economy by supporting the transition to lower-emission fuels, particularly in the heavy-duty land transport sector. The Bill extends the scheme from its current end date of 31 December 2021 to 31 December 2024. In addition, the scheme will be expanded to encompass hydrogen-powered vehicles and refuelling equipment. Hydrogen offers significant carbon savings as a carbon neutral renewable energy and has been identified as a key element of a wider cross-sectoral shift to a net-zero carbon future for Europe.

Anti-Avoidance

Corporation Tax – Completion of ATAD Implementation

Ireland will complete transposition of the Anti-Tax Avoidance Directives (ATADs) in Finance Bill 2021 through the introduction of two new measures, an interest limitation rule and anti-reverse-hybrid rules.

<u>Interest Limitation Rule</u>

Finance Bill 2021 will introduce a limit on deductible interest expenses of 30% of EBITDA for companies within scope of the measure, for accounting periods commencing on or after 1 January 2022. Disallowed interest may be carried forward and may be deducted in future years if the company has sufficient interest capacity.

In line with the provisions of Article 4 ATAD, a de-minimis rule will apply where net interest deductions are below €3 million, and exemptions will apply for standalone entities, legacy debt the terms of which were agreed before 17 June 2016, and certain long-term infrastructure projects. Companies may operate the restriction on a single entity or local group basis, and certain group reliefs may apply where the Irish taxpayer is part of a consolidated worldwide group for accounting purposes.

Full details of the measure will be contained in the Finance Bill.

<u>Anti-Reverse-Hybrid Rules</u>

Finance Bill 2021 will also complete transposition of the ATAD2 anti-hybrid rules, through the introduction of new anti-reverse-hybrid rules in line with Article 9(a) of the Directive. This measure will bring certain tax transparent entities (such as partnerships) within scope of Irish tax where the entity is 50% or more owned/controlled by entities resident in a jurisdiction that regard it as tax opaque and, as a result of this hybridity, double non-taxation occurs.

In such cases, the profits of the Irish entity which would otherwise have gone untaxed due to hybridity will be brought into the charge to tax in Ireland, under corporation tax rules.

ATAD2 specifies that Collective Investment Vehicles that are widely held, hold a diversified portfolio of securities and are subject to investor-protection regulation in the country of establishment are not within scope of the measure.

Full details of the measure will be contained in the Finance Bill.

Additional Taxation Measures

VAT - Farmers Flat Rate Scheme to the end of 2022

The flat-rate scheme compensates un-registered farmers on an overall basis for VAT incurred on their farming inputs. Based on macro-economic data, a decrease in the farmers' flat rate addition from the current 5.6% to 5.5% is warranted for the year 2022.

Bank Levy extended to the end of 2022

The Bank Levy, which was due to expire in 2021, is being extended for one further year. However, it will apply to a reduced number of institutions, as, Ulster Bank Ireland DAC and KBC Bank Ireland plc are being excluded from its scope due to the fact that they are exiting the market. The Banks who the levy will continue to apply to will not pay any more in 2022 than they did in 2021, thus explaining why the level collected will be in the region of €87m.

Tobacco Products Tax

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

Employer’s PRSI

From 1 January 2022 the weekly income threshold for the higher rate of employer’s PRSI will increase from €398 to €410.

This follows a recommendation of the Low Pay Commission to ensure that the increase in the hourly minimum wage does not lead to work disincentives for workers, in particular those seeking to work full-time.

Annex B

Budget 2022 Changes to Vehicle Registration and Motor Tax - Technical note

Budget 2022 will see increases in the rates of VRT, beginning with a 1% increase for vehicles that fall between bands 9-12; 2% for bands 13-15; and then a 4% increase for bands 16-20. This will reinforce the environmental rationale behind the VRT system and is set out below:

	CO2 g/km (WLTP)		**OMSP x**
BAND	**FROM**	**TO**	**Rate**
1	0	50	7.00%
2	51	80	9.00%
3	81	85	9.75%
4	86	90	10.50%
5	91	95	11.25%
6	96	100	12.00%
7	101	105	12.75%
8	106	110	13.50%
9	111	115	15.25%
10	116	120	16.00%
11	121	125	16.75%
12	126	130	17.50%
13	131	135	19.25%
14	136	140	20.00%
15	141	145	21.50%
16	146	150	25.00%
17	151	155	27.50%
18	156	170	30.00%
19	171	190	35.00%
20	191	-	41.00%

The VRT relief on Battery Electric Vehicles will be extended a further two years.

Annex C

Tax Credit for Digital Games

Introduction

This year's Budget will introduce a new tax credit for the digital gaming sector. Digital gaming is a sector that has seen exponential global growth in the past decade. However employment growth in the sector in Ireland has not matched this global trend. The introduction of a tax credit specific to the gaming sector, allied to synergies with our established film and animation sectors, will support quality employment in creative and digital arts in Ireland.

The relief will take the form of a refundable corporation tax credit available to digital games development companies for qualifying expenditure incurred on the design, production and testing of a digital game. It will be available at a rate of 32% of eligible expenditure up to a maximum limit of €25 million per project and there will also be a per project minimum spend requirement of €100,000.

A claim for the tax credit can only be made in respect of a digital game which has been issued with a cultural certificate from the Minister for Tourism, Culture, Arts, Gaeltacht, Sport and Media. Claims under the credit may be made for expenditure incurred on an annual basis. It will therefore not be necessary to wait for the completion of a project in order to make a claim.

Relief will not be available for digital games produced mainly for the purposes of advertising or gambling. A claimant will not be allowed to qualify for additional relief under Section 481 (Film Relief) or the Research and Development tax credit.

A digital game development company will also be required to sign an undertaking in respect of quality employment. This provision is similar to the requirements in place under the Section 481 Film Tax Credit.

As European State aid approval is required for the credit it will be introduced subject to a commencement order. Further details on the measure will be available upon publication of the Finance Bill.

Annex D

A distributional analysis of Budget 2022 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 a 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 2022 – 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 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 2006 to 2022.

Information is also provided on the distribution of income earners for Income Tax purposes on a 2021 and a post-Budget 2022 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 as set out in Annex E of this document.

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

Example 1

Single person, no children, private sector employee taxed under PAYE, Full rate PRSI contributor

Gross Income			Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income	Effective Tax Rate	
Existing	Min Wage	New	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	Increase	€	€	€	€	€	€	€	€	€		%	%
12,000	353	12,353	0	0	0	0	0	0	353	7	2.9%	0.0%	0.0%
15,000	441	15,441	0	0	0	0	120	129	432	8	2.9%	0.8%	0.8%
18,000	529	18,529	300	306	0	155	180	190	358	7	2.0%	2.7%	3.5%
20,000	588	20,588	700	718	459	580	220	232	437	8	2.3%	6.9%	7.4%
25,000	0	25,000	1,700	1,600	1,000	1,000	428	412	115	2	0.5%	12.5%	12.0%
30,000	0	30,000	2,700	2,600	1,200	1,200	653	637	115	2	0.5%	15.2%	14.8%
35,000	0	35,000	3,700	3,600	1,400	1,400	878	862	115	2	0.4%	17.1%	16.7%
45,000	0	45,000	7,640	7,240	1,800	1,800	1,328	1,312	415	8	1.2%	23.9%	23.0%
55,000	0	55,000	11,640	11,240	2,200	2,200	1,778	1,762	415	8	1.1%	28.4%	27.6%
70,000	0	70,000	17,640	17,240	2,800	2,800	2,453	2,437	415	8	0.9%	32.7%	32.1%
100,000	0	100,000	29,640	29,240	4,000	4,000	4,851	4,836	415	8	0.7%	38.5%	38.1%
150,000	0	150,000	49,640	49,240	6,000	6,000	8,851	8,836	415	8	0.5%	43.0%	42.7%
170,000	0	170,000	57,640	57,240	6,800	6,800	10,451	10,436	415	8	0.4%	44.1%	43.8%

Note 1: Assuming that employees currently earning less than €20,687 p.a. earn all their income at the minimum wage and will therefore benefit from an increase in the National Minimum Wage.

Note 2: Variations can arise due to rounding.

Example 2

Married couple, one income, no children, private sector employee taxed under PAYE, Full rate PRSI contributor

Gross Income			Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income	Effective Tax Rate	
Existing	Min Wage	New	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	Increase	€	€	€	€	€	€	€	€	€		%	%
12,000	353	12,353	0	0	0	0	0	0	353	7	2.9%	0.0%	0.0%
15,000	441	15,441	0	0	0	0	120	129	432	8	2.9%	0.8%	0.8%
18,000	529	18,529	0	0	0	155	180	190	364	7	2.0%	1.0%	1.9%
20,000	588	20,588	0	0	459	580	220	232	455	9	2.4%	3.4%	3.9%
25,000	0	25,000	50	0	1,000	1,000	428	412	65	1	0.3%	5.9%	5.6%
30,000	0	30,000	1,050	900	1,200	1,200	653	637	165	3	0.6%	9.7%	9.1%
35,000	0	35,000	2,050	1,900	1,400	1,400	878	862	165	3	0.5%	12.4%	11.9%
45,000	0	45,000	4,190	3,900	1,800	1,800	1,328	1,312	305	6	0.8%	16.3%	15.6%
55,000	0	55,000	8,190	7,740	2,200	2,200	1,778	1,762	465	9	1.1%	22.1%	21.3%
70,000	0	70,000	14,190	13,740	2,800	2,800	2,453	2,437	465	9	0.9%	27.8%	27.1%
100,000	0	100,000	26,190	25,740	4,000	4,000	4,851	4,836	465	9	0.7%	35.0%	34.6%
150,000	0	150,000	46,190	45,740	6,000	6,000	8,851	8,836	465	9	0.5%	40.7%	40.4%
170,000	0	170,000	54,190	53,740	6,800	6,800	10,451	10,436	465	9	0.5%	42.0%	41.8%

Note 1: Assuming that employees currently earning less than €20,687 p.a. earn all their income at the minimum wage and will therefore benefit from an increase in the National Minimum Wage.

Example 3

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 and Child Benefit)		Change as % of Net Income	Effective Tax Rate	
Existing	Min Wage	New	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	Increase	€	€	€	€	€	€	€	€	€	€	€	€	€		%	%
12,000	353	12,353	0	0	0	0	0	0	12,844	12,948	3,360	3,360	457	9	1.8%	0.0%	0.0%
15,000	441	15,441	0	0	0	0	120	129	11,128	11,180	3,360	3,360	484	9	1.9%	0.8%	0.8%
18,000	529	18,529	0	0	0	155	180	190	9,360	9,464	3,360	3,360	468	9	1.7%	1.0%	1.9%
20,000	588	20,588	0	0	459	580	220	232	8,476	8,528	3,360	3,360	507	10	1.8%	3.4%	3.9%
25,000	0	25,000	0	0	1,000	1,000	428	412	5,928	6,240	3,360	3,360	327	6	1.1%	5.7%	5.6%
30,000	0	30,000	0	0	1,200	1,200	653	637	3,172	3,484	3,360	3,360	327	6	1.0%	6.2%	6.1%
45,000	0	45,000	2,590	2,300	1,800	1,800	1,328	1,312	0	0	3,360	3,360	305	6	0.8%	12.7%	12.0%
55,000	0	55,000	6,590	6,140	2,200	2,200	1,778	1,762	0	0	3,360	3,360	465	9	1.0%	19.2%	18.4%
70,000	0	70,000	12,590	12,140	2,800	2,800	2,453	2,437	0	0	3,360	3,360	465	9	0.9%	25.5%	24.8%
100,000	0	100,000	24,590	24,140	4,000	4,000	4,851	4,836	0	0	3,360	3,360	465	9	0.7%	33.4%	33.0%
150,000	0	150,000	44,590	44,140	6,000	6,000	8,851	8,836	0	0	3,360	3,360	465	9	0.5%	39.6%	39.3%
170,000	0	170,000	52,590	52,140	6,800	6,800	10,451	10,436	0	0	3,360	3,360	465	9	0.5%	41.1%	40.8%

Note 1: Assuming that employees currently earning less than €20,687 p.a. earn all their income at the minimum wage and will therefore benefit from an increase in the National Minimum Wage.

Note 2: Includes the impact of the Working Family Payment where relevant.

Note 3: For illustrative purposes, assumes Working Family Payment applies for 52 weeks in 2022.

Note 4: Variations can arise due to rounding.

Example 4

Single person, no children, taxed under Schedule D (self-employed)

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income	Effective Tax Rate	
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	€	€		%	%
12,000	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	300	200	720	720	180	180	100	2	0.6%	6.7%	6.1%
20,000	700	600	800	800	220	220	100	2	0.5%	8.6%	8.1%
25,000	1,700	1,600	1,000	1,000	428	412	115	2	0.5%	12.5%	12.0%
30,000	2,700	2,600	1,200	1,200	653	637	115	2	0.5%	15.2%	14.8%
35,000	3,700	3,600	1,400	1,400	878	862	115	2	0.4%	17.1%	16.7%
45,000	7,640	7,240	1,800	1,800	1,328	1,312	415	8	1.2%	23.9%	23.0%
55,000	11,640	11,240	2,200	2,200	1,778	1,762	415	8	1.1%	28.4%	27.6%
70,000	17,640	17,240	2,800	2,800	2,453	2,437	415	8	0.9%	32.7%	32.1%
100,000	29,640	29,240	4,000	4,000	4,851	4,836	415	8	0.7%	38.5%	38.1%
150,000	49,640	49,240	6,000	6,000	10,351	10,336	415	8	0.5%	44.0%	43.7%
175,000	59,640	59,240	7,000	7,000	13,101	13,086	415	8	0.4%	45.6%	45.3%

Note: Variations can arise due to rounding

Example 5

Married couple, one income, 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	220	220	0	0	0.0%	5.1%	5.1%
25,000	50	0	1,000	1,000	428	412	65	1	0.3%	5.9%	5.6%
30,000	1,050	900	1,200	1,200	653	637	165	3	0.6%	9.7%	9.1%
35,000	2,050	1,900	1,400	1,400	878	862	165	3	0.5%	12.4%	11.9%
45,000	4,190	3,900	1,800	1,800	1,328	1,312	305	6	0.8%	16.3%	15.6%
55,000	8,190	7,740	2,200	2,200	1,778	1,762	465	9	1.1%	22.1%	21.3%
70,000	14,190	13,740	2,800	2,800	2,453	2,437	465	9	0.9%	27.8%	27.1%
100,000	26,190	25,740	4,000	4,000	4,851	4,836	465	9	0.7%	35.0%	34.6%
150,000	46,190	45,740	6,000	6,000	10,351	10,336	465	9	0.5%	41.7%	41.4%
175,000	56,190	55,740	7,000	7,000	13,101	13,086	465	9	0.5%	43.6%	43.3%

Note: Variations can arise due to rounding

Example 6

Married couple, one income, two children, taxed under Schedule D (self-employed)

Gross Income	Income Tax		PRSI		Universal Social Charge		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	220	220	3,360	3,360	0	0	0.0%	5.1%	5.1%
25,000	0	0	1,000	1,000	428	412	3,360	3,360	15	0	0.1%	5.7%	5.6%
30,000	0	0	1,200	1,200	653	637	3,360	3,360	15	0	0.0%	6.2%	6.1%
35,000	450	300	1,400	1,400	878	862	3,360	3,360	165	3	0.5%	7.8%	7.3%
45,000	2,590	2,300	1,800	1,800	1,328	1,312	3,360	3,360	305	6	0.7%	12.7%	12.0%
55,000	6,590	6,140	2,200	2,200	1,778	1,762	3,360	3,360	465	9	1.0%	19.2%	18.4%
70,000	12,590	12,140	2,800	2,800	2,453	2,437	3,360	3,360	465	9	0.8%	25.5%	24.8%
100,000	24,590	24,140	4,000	4,000	4,851	4,836	3,360	3,360	465	9	0.7%	33.4%	33.0%
150,000	44,590	44,140	6,000	6,000	10,351	10,336	3,360	3,360	465	9	0.5%	40.6%	40.3%
175,000	54,590	54,140	7,000	7,000	13,101	13,086	3,360	3,360	465	9	0.4%	42.7%	42.4%

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 €	**2007**	**2008**	**2009**	**2010**	**2010(s) /2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
15,000	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%	0.8%	0.8%
20,000	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%	6.9%	6.4%
25,000	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%	12.5%	12.5%	12.0%
30,000	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%	15.2%	14.8%
40,000	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%	20.9%	19.8%
60,000	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%	30.1%	29.4%
100,000	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%	38.5%	38.1%
120,000	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%	40.7%	40.7%	40.4%

FULL RATE PRSI

FULL RATE PRSI	MARRIED / CIVIL PARTNER, ONE INCOME, TWO CHILDREN															
Gross Income €	**2007**	**2008**	**2009**	**2010**	**2010(s) /2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
15,000	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%	0.8%	0.8%
20,000	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%	3.4%	3.4%
25,000	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%	5.7%	5.6%
30,000	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%	6.2%	6.1%
40,000	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%	10.4%	10.0%
60,000	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%	21.7%	20.9%
100,000	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%	33.4%	33.0%
120,000	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%	36.5%	36.1%

*Average Effective Tax Rates 2007-2010: Total of Income Tax, Levies (Income and Health) and PRSI as a proportion of gross income.
Average Effective Tax Rates 2011-2022: 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 €	**2007**	**2008**	**2009**	**2010**	**2010(s) /2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
15,000	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%	4.8%	4.8%
20,000	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%	8.6%	8.1%
25,000	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%	12.5%	12.0%
30,000	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%	15.2%	14.8%
40,000	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%	20.9%	19.8%
60,000	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%	30.1%	29.4%
100,000	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%	38.5%	38.1%
120,000	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%	41.2%	40.9%

SELF EMPLOYED

SELF EMPLOYED	MARRIED / CIVIL PARTNER, ONE INCOME, TWO CHILDREN															
Gross Income €	**2007**	**2008**	**2009**	**2010**	**2010(s) /2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
15,000	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%	4.8%	4.8%
20,000	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%	5.1%	5.1%
25,000	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%	5.7%	5.6%
30,000	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%	6.2%	6.1%
40,000	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%	10.4%	10.0%
60,000	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%	21.7%	20.9%
100,000	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%	33.4%	33.0%
120,000	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%	37.0%	36.6%

*Average Effective Tax Rates 2007-2010: Total of Income Tax, Levies (Income and Health) and PRSI as a proportion of gross income.
Average Effective Tax Rates 2011-2022: 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 2021 AND 2022

	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
2021	932,000 34%	1,193,400 43%	632,600 23%	2,758,000 100%
2022 on a post budget basis	975,500 34%	1,244,000 43%	647,200 23%	2,866,700 100%

Note 1: Distributions are estimates from the Revenue tax-forecasting model using actual data for the year 2018, adjusted as necessary for income and employment trends in the interim.

Note 2: Figures are provisional and likely to be revised.

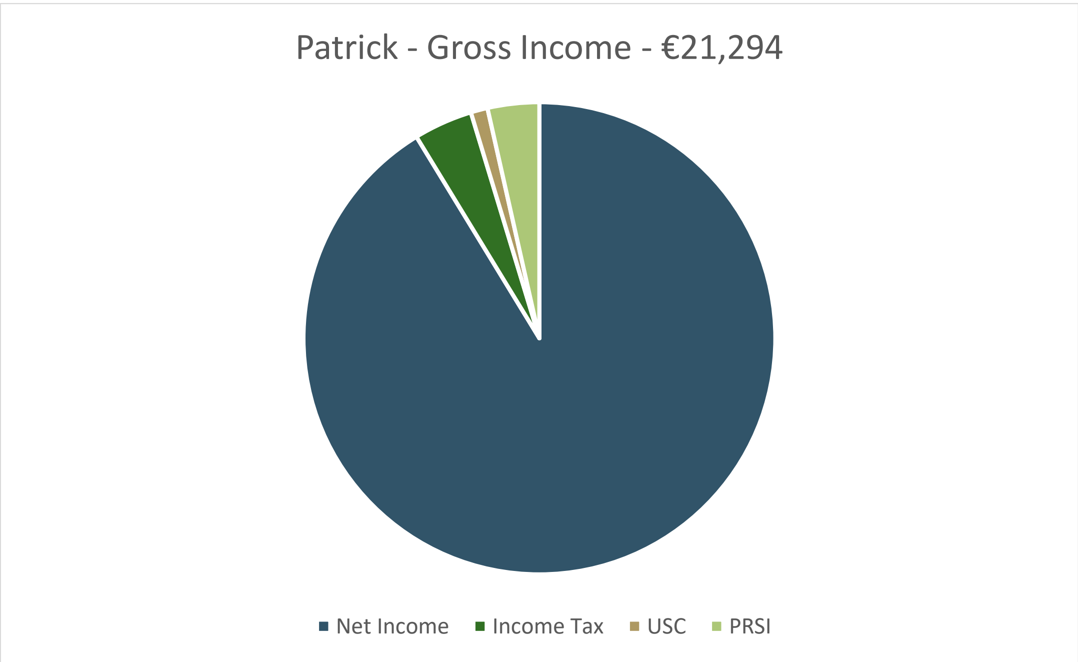
Note 3: A jointly assessed married couple/civil partnership is treated as one tax unit.

(iv) ILLUSTRATIVE CASES

Example 1

Patrick is single and working 39 hours a week (approximately) on the minimum wage as a call centre operator. Patrick will see a gain of €421 in his annual net income due to this Budget.

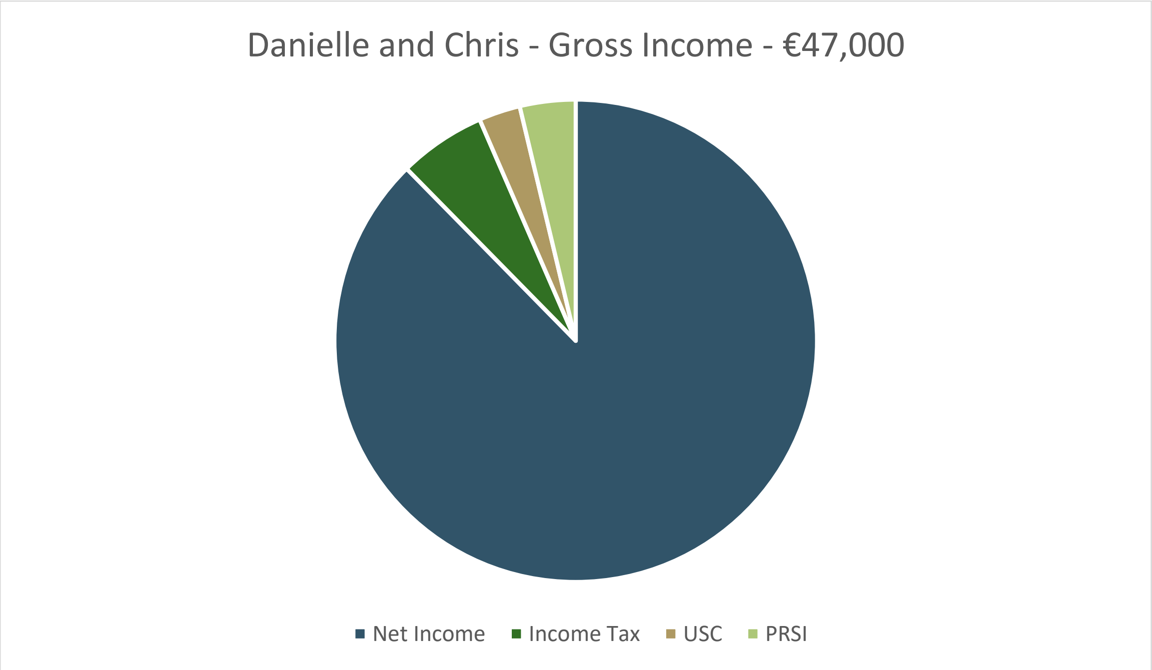
	2021	2022
	€	**€**
Gross Income	20,686	20,686
Minimum wage increase		608
New gross income		21,294
Income tax liability	837	859
PRSI liability	600	753
USC liability	234	246
Total tax liability	1,671	1,858
Net Income	19,015	19,436
Annual Gain		421
Change as a % of net income		2.2%



Example 2

Danielle and Chris are married with two children, Molly aged 10 and Alanna aged 13. Danielle is employed in the tourism sector earning €47,000. Chris works in the family home. The family will see a gain of €465 in their annual net income due to this Budget.

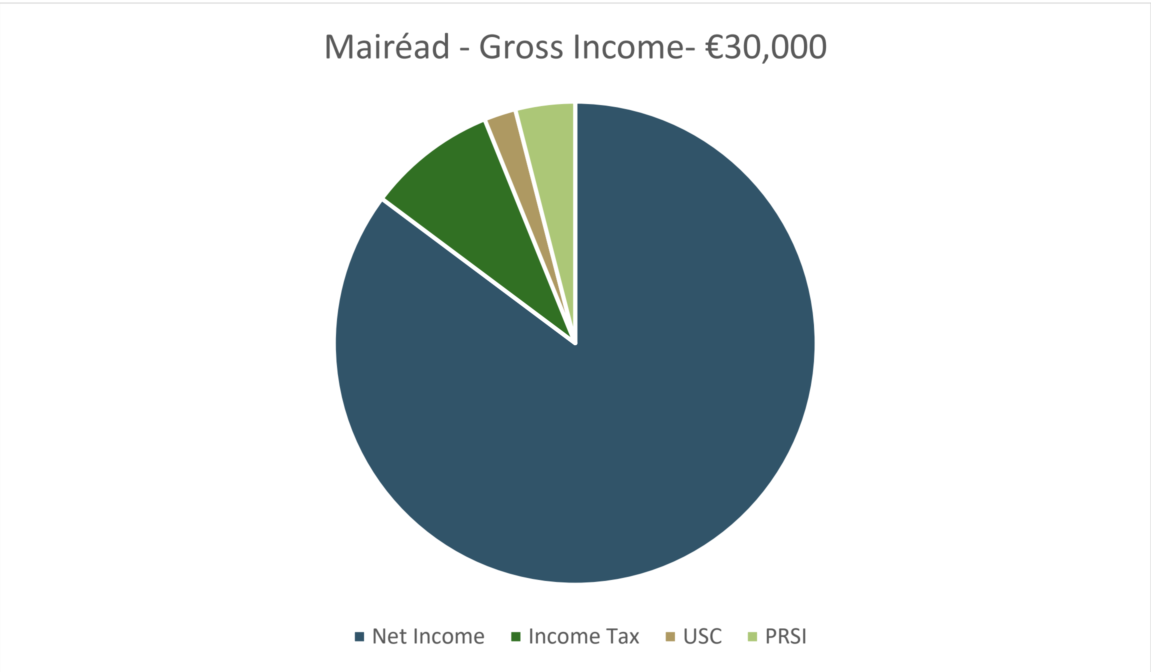
	2021	2022
	€	€
Gross Income	47,000	47,000
Income tax liability	3,390	2,940
PRSI liability	1,880	1,880
USC liability	1,418	1,402
Total tax liability	6,688	6,222
Child Benefit	3,360	3,360
Net Income	43,672	44,138
Annual Gain		465
Change as a % of net income		1.1%



Example 3

Mairéad is single and works in the hospitality sector earning €30,000 a year. Mairéad will see a gain of €115 in her annual net income due to this Budget.

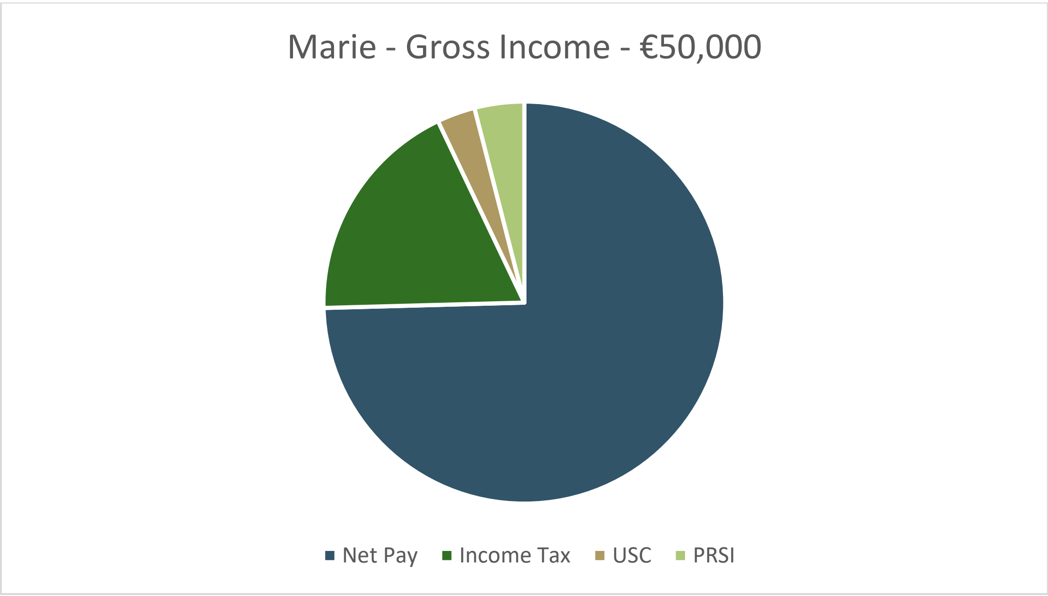
	2021	2022
	€	€
Gross Income	30,000	30,000
Income tax liability	2,700	2,600
PRSI liability	1200	1,200
USC liability	653	637
Total tax liability	4,553	4,437
Net Income	25,447	25,563
Annual Gain		115
Change as a % of net income		0.5%



Example 4

Marie is single and works as a HR advisor earning €50,000 a year. She is currently working from home and works from home 100 days in the year. Her electricity and heating bill for the year is €1500 and her broadband for the year is €480. Marie claims her remote working expenses as vouched expenses. Marie will see a gain of €449 in her annual net income due to this Budget, of which €33 is additional tax relief for remote working.

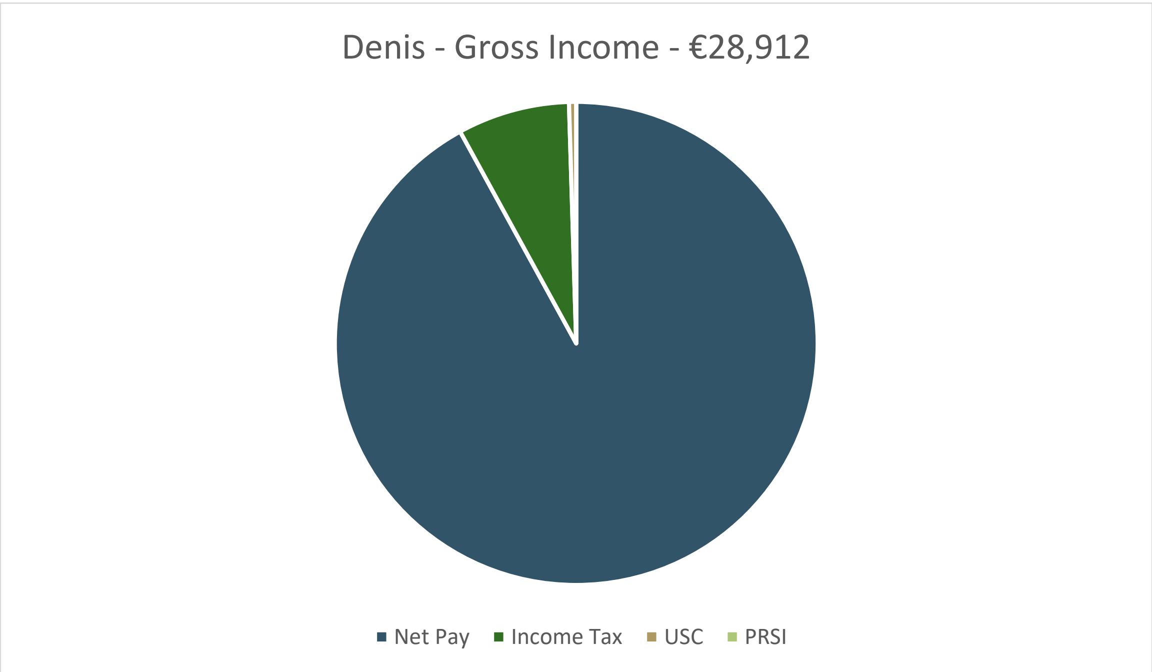
	2021	**2022**
	€	**€**
Gross Income	50,000	50,000
Income tax liability	9,608	9,175
PRSI liability	2,000	2,000
USC liability	1,553	1,537
Total tax liability	13,161	12,712
Net Income	36,839	37,288
Annual Gain		449
Change as a % of net income		1.2%



Example 5

Denis is 68 years old and retired. He receives the Contributory State Pension and has a private pension of €16,000 per annum. He will see a gain of €308 in his annual net income due to this Budget.

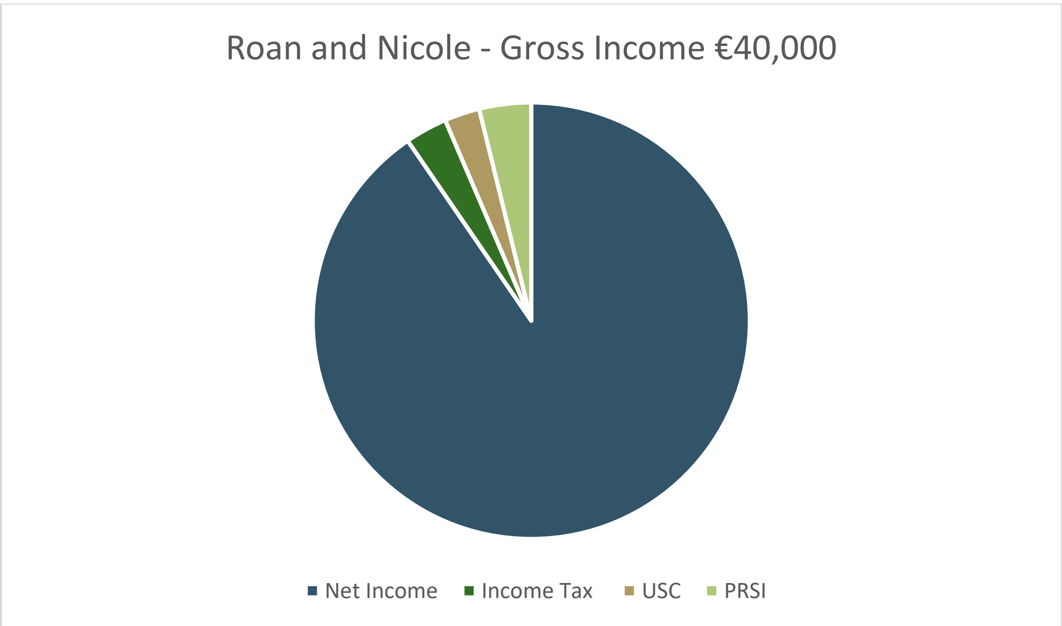
	2021	2022
	€	€
Gross Income	28,912	28,912
State Pension increase		260
New gross income		29,172
Income tax liability	2237	2,189
PRSI liability	Nil	Nil
USC liability	140	140
Total tax liability	2,377	2,329
Net Income	26,535	26,843
Annual Gain		308
Change as a % of net income		1.2%



Example 6

Roan and Nicole are married with one child, Joseph, aged 7. Roan is self-employed and earns €40,000. Nicole works in the family home. The family will see a gain of €165 in their annual net income due to this Budget.

	2021	2022
	€	€
Gross Income	40,000	40,000
Income tax liability	1,450	1,300
PRSI liability	1,600	1,600
USC liability	1,103	1,087
Total tax liability	4,153	3,987
Child Benefit	1,680	1,680
Net Income	37,527	37,693
Annual Gain		165
Change as a % of net income		0.45%



Example 7

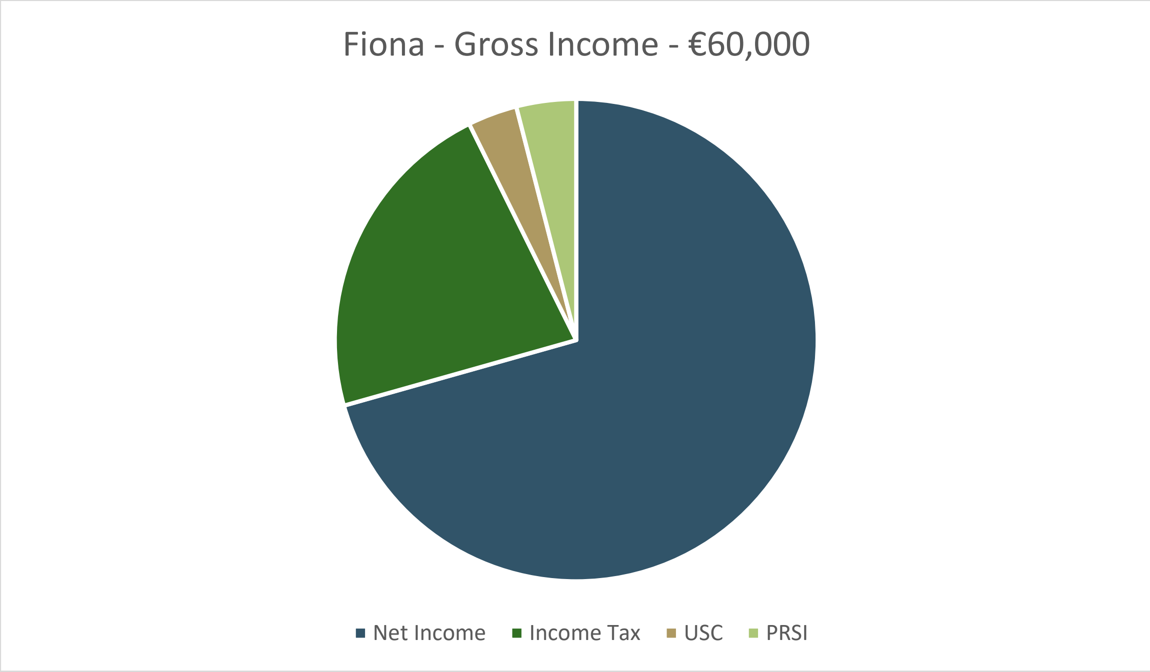
Fiona is single and works in the financial services sector earning €60,000 a year. Fiona will see a gain of €415 in her annual net income due to this Budget.

Fiona is buying a new build house in 2022 and will be availing of the Help to Buy (HTB) incentive. The HTB is a scheme to assist first-time purchasers with a deposit they need to buy or build a new house or apartment. The incentive gives a refund on Income Tax and Deposit Interest Retention Tax (DIRT) paid in the State over the previous four years, the following limits apply per property:

- €30,000
- 10% of the purchase price of a new home (For self-builds 10% of the completion value of the property), or
- the amount of Income Tax and DIRT paid in the four years before the purchase or self-build.

If Fiona qualifies for the scheme, and providing she has paid a similar amount of Income Tax over the previous 4 years she could potentially avail of a maximum of €30,000 of a refund in her income tax towards the purchase of her new house.

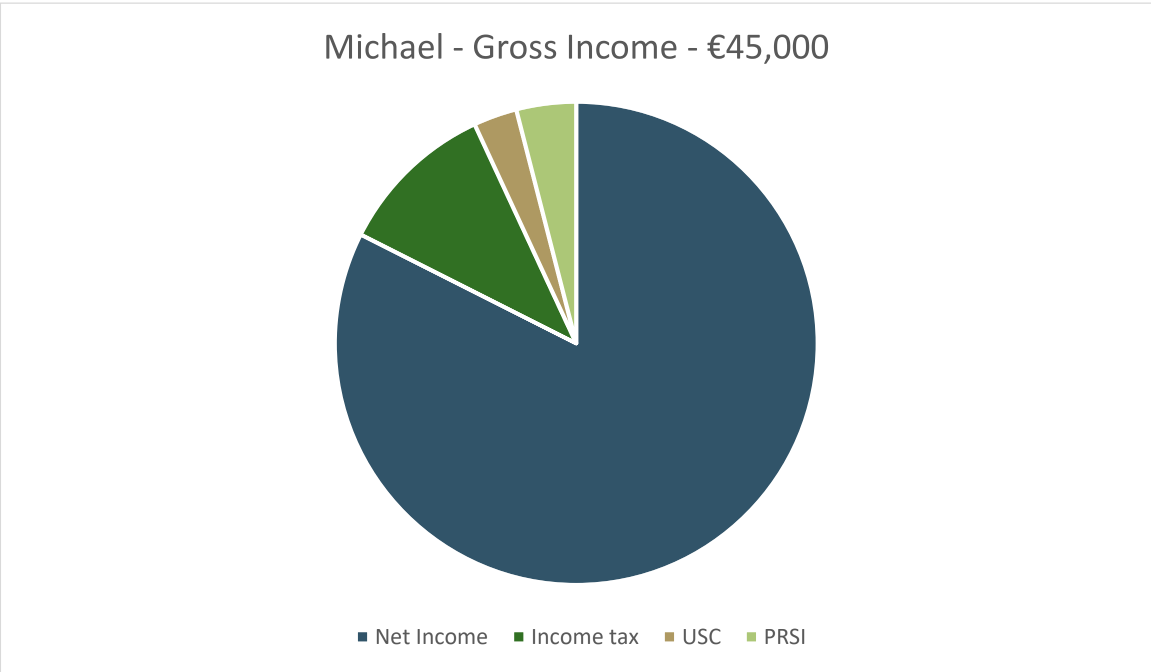
	2021	**2022**
	€	**€**
Gross Income	60,000	60,000
Income tax liability	13,640	13,240
PRSI liability	2,400	2,400
USC liability	2,003	1,987
Total tax liability	18,043	17,627
Net Income	41,957	42,373
Annual Gain		415
Change as a % of net income		1%


Fiona - Gross Income - €60,000
Net Income
Income Tax
USC
PRSI

Example 8

Michael is a single parent to Clara aged 8. He works as a self-employed mechanic earning €45,000 a year. Michael will see a gain of €415 in his annual net income due to this Budget.

	2021	2022
	€	€
Gross Income	45,000	45,000
Income tax liability	5,190	4,790
PRSI liability	1,800	1,800
USC liability	1,328	1,312
Total tax liability	8,318	7,902
Net Income	36,682	37,098
Annual Gain		415
Change as a % of net income		1.1%



Annex E

Progressivity of Income Tax System

AE.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.

AE.2. Income distribution in comparative context

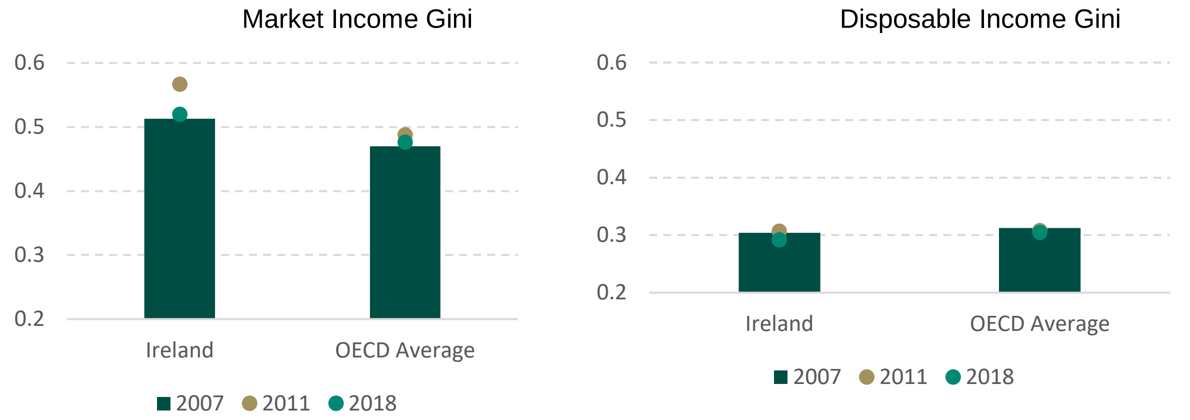
The Gini coefficient is a standardised measure of the dispersion of income where 0 represents a situation where all households have an equal income and 1 indicates that one household has all national income. This coefficient can be calculated on the basis of market income (before tax and transfers) and 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.[4] 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.

[4] 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



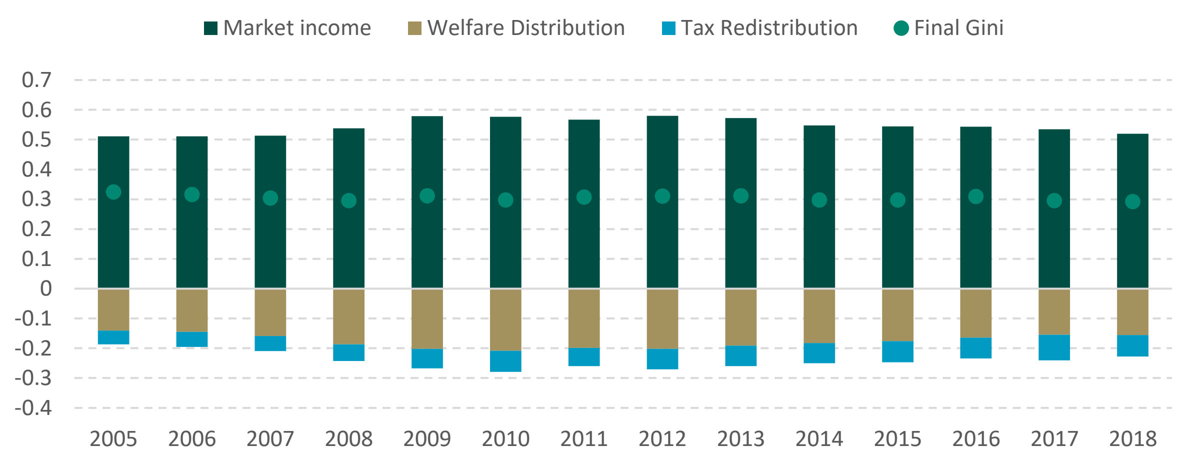
Source: OECD, Income Distribution and Poverty Dataset
Note: the OECD average refers to the 15 member countries for which a long time series of data is available.

AE.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 2005 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 2018 (the most recent year for which data are available). 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

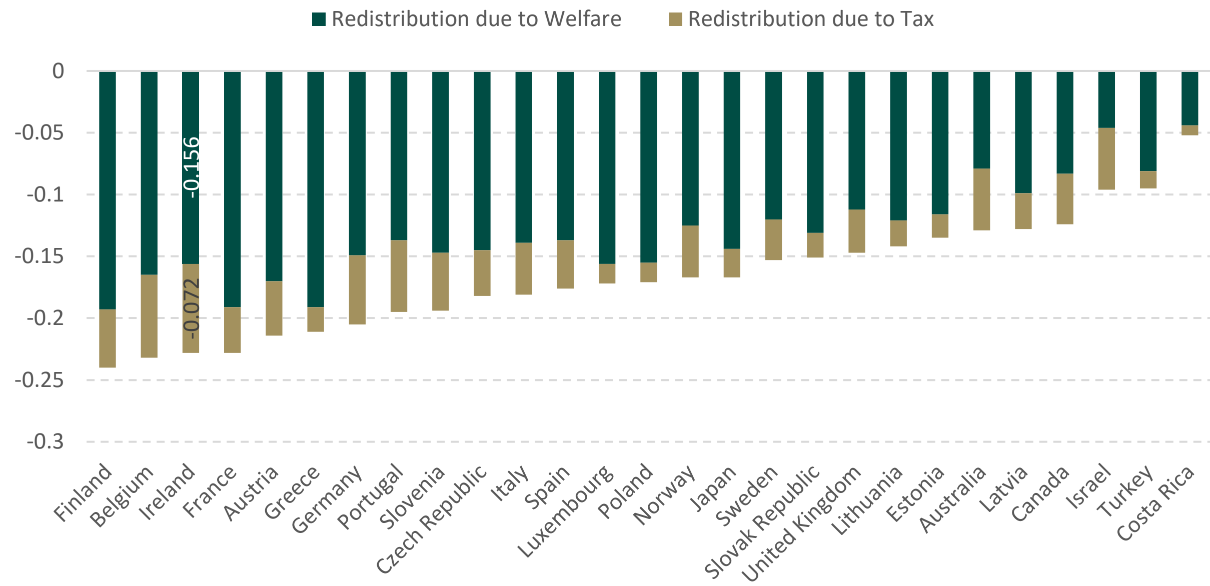


Source: OECD, Income Distribution and Poverty Dataset

The latest OECD data to 2018 show (Figure C) that Ireland recorded the third largest absolute reduction (0.23) in the Gini coefficient between market and disposable income, after Finland and Belgium. The Irish tax and welfare systems jointly reduced the market Gini by 44 per cent from 0.52 to 0.292. This improvement is the third largest proportionate reduction in the OECD. One third of the reduction in

Ireland in 2018 was attributable to the tax system, a proportion exceeded in only three 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, 2018



Source: OECD, Income Distribution and Poverty Dataset. Data available for 27 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 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, 2018

Source: OECD, Income Distribution and Poverty Dataset
Note: the OECD average refers to the 16 member countries for which a long time series of data is available

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

The OECD's annual *Taxing Wages 2021* 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.

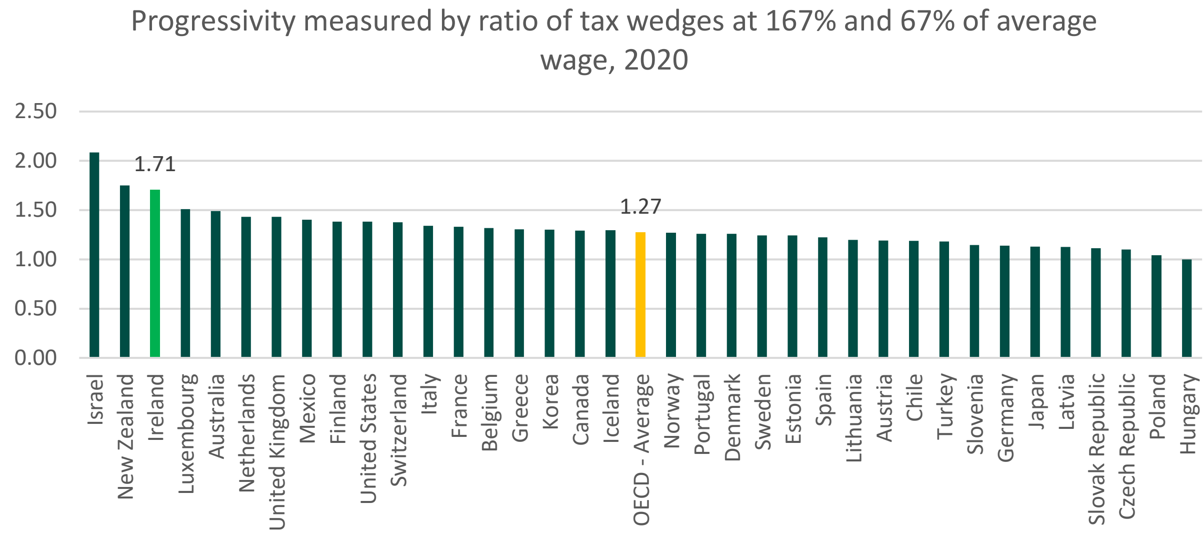
The so-called 'tax wedge' is a key determinant of labour demand and supply decisions of businesses and individuals respectively. It represents a measure of labour income that includes the tax paid by both the employer and the employee, and removes benefits received, expressing these as a share of total employer costs. In Ireland, the tax wedge for an average single worker has fallen by 3 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.[5]

In Ireland in 2020, the take-home pay of an average single worker, after tax and benefits amounted to 75.1 percent of their gross wage, identical to the 2020 OECD average. Ireland's performance relative to the OECD average differs in the case of an average worker with two children, where take-home-pay after tax and family benefits represents 93.2 per cent of gross wages, compared to an OECD average of 87.1 per cent.

[5] 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.

Figure E: progressivity measured by ratio of tax wedges at 167% and 67% of average wage, 2020



Source: OECD Taxing Wages database

AE.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)[6] 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 with regard 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.

AE.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.

[6] 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*.

Annex F

Green Budgeting Analysis of 2022 Budget Tax Measures

Table: Climate Impacting Budget 2022 Tax Measures

Budget 2022 (Full year costs)	Climate Positive Revenue Raising €m	Climate Positive Tax Expenditure €m	Total Climate Positive Measures €m	Climate Negative Revenue Raising €m	Climate Negative Tax Expenditure €m	Total Climate Negative Measures €m	Total Budget 2022 Climate Positive/Negative €m
Carbon Tax - (Increase : €33.5 - €41 per tonne)	148		148				148
VRT - New Rates & Extension of Relief	82		82				82
Income Tax – Electricity Micro Generation		1	1				1
Corporation Tax – Amendment to Energy Efficient Equipment Scheme		0	0				0
Corporation Tax - Extension of Gas Vehicles Scheme					0	0	
Total (€m)	**230**	**1**	**231**	**0**	**0**	**0**	**231***

*Budget 2022 presents a net positive climate contribution, as measured in monetary terms, of €231 million.

The methodology used for this analysis matches that undertaken in Section 3.5 of “A Review of Green Budgeting from a Tax Perspective,” published with Budget 2022 documents on Budget.gov.ie.

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