Irish Tax Institute

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Pre-Budget 2019 Briefing Papers

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Contents

Did You Know?		**5**
Chapter 1	**The Economy and Who Said What**	**10**
	Ireland Economic Growth Forecasts	10
	Who is saying what on tax?	10
Chapter 2	**Documents Influencing the Budget**	**14**
	Programme for Partnership Government	14
	Confidence and Supply Arrangement	15
	Tax Strategy Group Papers	15
Chapter 3	**Tax Options for Budget 2019 – A Selection of Measures**	**16**
	The Tax Package – Selection of Options for Budget 2019	16
	Reduce the Capital Gains Tax rate	17
	Where the money could come from	18
	– Revert the 9% rate	18
	– Raise excise on the "old reliables" – alcohol and cigarettes	21
	– Carbon tax increase	22
	– Equalise excise rates applying to petrol and diesel	23
	– Increase in PRSI contributions	23
Chapter 4	**The Tax Base**	**24**
	Size and Composition of Ireland's Tax Base	24
	Exchequer Reliance on Personal Tax has Increased	25
	The Moving Parts of the Personal Tax System	26
Chapter 5	**The Personal Tax Story – Income Tax, USC and PRSI**	**28**
	Who Pays What?	28
	Taxpayers across all salary levels paying more tax now, than a decade ago	30
	Progressivity in the tax system increasing year after year	31
	The Gini Coefficient – Analysis from the Tax Strategy Group	33
	Tax Freedom Day	34
	Budget 2019 Income Tax considerations – As outlined by the Tax Strategy Group	36
	The USC Story	41
	Budget 2019 USC considerations – As outlined by the Tax Strategy Group	44
	Budget 2019 Options for PRSI – As outlined by the Tax Strategy Group	50

Chapter 6 **Corporation Tax - Trends and Developments** **52**

Corporation tax trends 52

Recent corporation tax developments 53

Ireland has undertaken extensive work on corporate tax reform 59

Chapter 7 **Preparing SMEs for a Post Brexit World – Institute's Tax Recommendations** **60**

What do Irish businesses need to increase productivity? 60

- Business environment with tax certainty 60
- Access to finance 60
- Managerial capability and human capital 61
- Innovation and R&D 62

Appendix **63**

1. Rates and Bands 2018 63
2. Tax Freedom Day Calendar 2008 65
3. Changes made to USC since its introduction in 2011 – Analysis Budget by Budget 66
4. Reduced USC rates for medical card holders and those aged over 70 68
5. Additional extracts from the Revenue Ready Reckoner Pre-Budget 2019 69
6. Description of people covered by each of the eleven PRSI classes and applicable rates 72
7. PRSI classes and corresponding benefits 74
8. List of goods and services that can be subject to reduced VAT rates under EU law (Annex III) 75

International Tax Tables 2018 in association with KPMG

Did You Know?

Personal Tax

- In 2018 the top 26% of income earners will pay 85% of the total income tax and USC. The remaining 74% of income earners will pay 15% of the total income tax and USC[1].
- The personal tax yield is increasing but the % of taxpayers contributing is falling:
  - In 2011 88% of income earners were in tax net and the yield was €13.8bn.
  - In 2018 just 71% of income earners were in the tax net and the yield was €21.4bn.

Taxpayers across all salary levels are paying more tax than they did 10 years ago

- All types of earners are impacted from single earners and one income families to families with two incomes.
- The more you earn the greater the percentage decrease in net pay.
- There has been an extensive programme of personal reductions over the past 7 years that include: three increases to the USC entry point, 11 USC rate reductions, 6 USC band widenings, two increases in the entry point into the Top Rate of income tax (40%) and a 1% decrease to that top rate.
- However, the benefit of the income tax reduction was not passed on to all taxpayers as a new 8% USC rate was introduced on PAYE income over €70,044 and a new 11% rate was introduced on self-employed income over €100,000.
- The employee PRSI ceiling of €75,036 was also abolished during that period, increasing the PRSI bill for income earners over that salary level.

Progressivity and redistribution through personal tax

- "Ireland has one of the most progressive personal income tax systems, which plays a crucial role in the process of income redistribution."[2]
- The entry point to the higher income tax rate was increased twice in recent Budgets – by €1,000 in Budget 2015 (from €32,800 to €33,800) and by €750 in Budget 2018 (from €33,800 to €34,550).
- Our income tax regime drives high effective rates for those above the average industrial wage because the rate doubles from 20% to 40% on income above €34,550.
- "Average wages are now comparable with the top tier of OECD countries and income inequality is reduced through the highly redistributive tax and transfer system."[3]
- The latest data from the OECD (for 2017), shows that Ireland had the largest reduction in the Gini coefficient between market and disposable income for OECD countries for which data is available.
- The Irish tax system is strongly progressive and the tax and social welfare systems combined contribute substantially to the redistribution of income and to the reduction of income inequality.
- Ireland's tax system has consistently reduced the Gini coefficient (i.e. increased the equality of income distribution) to a greater extent than is the case with tax systems in other OECD countries.
- The contribution of the tax system to reducing market income inequality has been increasing in Ireland since 2004[4].

Progressivity in the Irish personal tax system – USC the main driver in past 6 years

- A comparison of the personal tax bill of workers at different salary levels over the past six years shows the increasing progressivity in the Irish personal tax system. The USC has been central in making it so.
- The combination of USC reductions being targeted at lower to middle income earners and the introduction of a new 8% USC rate on earnings over €70,044 has driven progressivity.
- In 2012 a person on €75,000 paid almost 8 times the USC of someone on €18,000 in 2012 and they now pay almost 17 times.
- An individual earning €100,000 now pays almost 28 times (up from 11 times in 2012) the amount of USC of a person on €18,000.
- Taking a salary level close to the average wage also highlights the role of the USC in progressivity. A worker on €75,000 used to pay 2.6 times the USC of someone on €35,000 in 2012. That has now increased to 3.2 times.
- A worker on €100,000 used to pay 3.6 times the USC of someone on €35,000 in 2012 and that has now increased to 5.3 times.
- The estimated cost of the reductions in the USC over the past four Budgets is €1.5bn, which is well in excess of the additional amounts raised when the USC was introduced.[5]
- While the main function of the USC has been to broaden the personal tax base, 29% of income earners are now exempt from the USC.

PRSI

- An employee PRSI ceiling of €75,036 applied until Budget 2011, when it was abolished. The result is that Employee PRSI is now uncapped.
- The removal of the PRSI ceiling in 2011 increased the amount of PRSI paid by some taxpayers by up to 60%.

Tax Freedom Day

- The Irish Tax Institute has examined progressivity through another lens called 'Tax Freedom Day'. Taking the calendar year, the Institute calculates if workers paid their personal taxes to the Exchequer up front, on what date would they meet their tax obligations and then start earning for themselves.
- The Institute of course recognises that taxpayers are not and will never be required to pay their taxes up front and the 'Tax Freedom Day' calculation is just another way of demonstrating how progressive the personal tax system is.
- Those workers on €18,000 meet their personal tax obligations to the state by 11th January while workers on €35,000 work until 7th March before they earn for themselves.
- Workers on €55,000 take until 17th April before they can count their earnings as their own and those on €75,000 take until 7th May before they are 'tax free'.
- Those on €150,000 work until 8th June before their personal tax bill is paid and their earnings are their own.

The Tax Base

- "Taxes" on labour (income tax, USC and PRSI) are projected to total €31.7bn for 2018.
- Income tax (including USC) yields most for the Exchequer – estimated €21.4bn for 2018.
- Total PRSI contributions are expected to rise to €10.3bn in 2018. They were €9.8bn in 2017.
- The estimated PRSI contributions amounting to €10.3bn for 2018 are received in addition to the projected total Exchequer tax yield of €54.2bn for the year.
- In 2007 and 2008, VAT was the highest contributor to the Exchequer. But in 2009, personal taxes outstripped VAT and the gap has continued to widen.
- 'Income tax + USC' now account for 39.6% of the total tax yield.
- Corporation tax receipts were €6.8bn[6] in 2007 versus a projected figure of €8.5bn for 2018.
- Irish Fiscal Advisory Council projections do not forecast Capital Gains Tax going beyond 1.5% of tax receipts between 2018 and 2021.

VAT

- The 9% VAT rate was introduced with effect from 1 July 2011, as part of the Government's Jobs Initiative, and is over 7 years in existence.
- The policy was initially designed as a temporary measure and was due to expire at the end of 2013 (after 2 ½ years).
- The estimated cost to exchequer of the 9% reduced VAT rate since its introduction in 2011 to the end of 2017 is €2.6bn.[7]
- In July, the Department of Finance published a second review[8] of the 9% reduced VAT rate. It concluded that the scale of cumulative costs of the reduced rate, against the limited benefits, point to significant deadweight.
- The reduced rate of 9% applies to 14% of the activity in the economy and represents 8% of the VAT receipts.[9]
- EU Member States may also apply either one or two reduced rates in addition to their standard VAT rate.[10]
- Ireland currently applies two reduced rates of 9% and 13.5%.

Alcohol and tobacco

- Ireland has some of the highest rates of excise duty on alcohol products in the EU.[11]
- A 10c duty increase on a pint of beer, half a glass of spirits and a pint of cider could yield a total of €116m for the Exchequer.[12]
- Ireland has the highest rates of duty on tobacco products in the EU.[13]
- The price of a pack of 20 cigarettes now stands at €12.20, €9.56 of which is tax (i.e. €7.28 of excise duty and €2.28 in VAT).[14]
- A duty increase of 50c on a pack of 20 cigarettes could yield €57.8m for the Exchequer.[15]

Excise on Petrol and Diesel

- Excise rates on both petrol and diesel have remained the same since 2012.[16]
- The excise rate in Ireland on petrol is the 12th highest in the EU, while diesel is the 10th highest.[17]
- The equalisation of excise rates over five years would have a cumulative yield of €353m. [18]

Carbon Tax

- Carbon tax was introduced for the first time in Ireland in 2010.
- Carbon taxes are calculated using the underlying charge of €20 per tonne of CO_2 that Government imposes on fuels generally.
- According to the Tax Strategy Group, an increase in the rate of the carbon tax by €5 per tonne of CO_2 emitted would raise in the region of €106m.[19]
- The ESRI found that a €5 carbon tax increase would cost households on average €1.30 a week (about €69 a year).[20]

Capital Gains Tax

- At 33% Ireland has the 3rd highest CGT rate in the OECD.
- The Tax Strategy Group paper states that a change in the overall rate of capital gains tax (CGT) could result in an improved environment for business, which would enhance economic growth, increase transactions, increase Exchequer revenues and assist in new company formation.[21]

Corporate Tax

- Corporation tax is the third largest tax head and receipts have risen steadily over the last five years.
- Net receipts from the 10 largest payers in 2017 were €3.3bn (17.2% higher than receipts from the top 10 companies in 2016).[22]
- The top 100 companies accounted for 72% of net receipts in 2017 of which:
    - 51 were US companies paying €4.25bn
    - Less than 10 were UK companies paying €128m
    - Just over 10 were Irish companies paying €370m[23].
- Foreign owned multinationals paid 80% of corporation tax receipts in 2017[24].
- There were 6,200 foreign owned multinationals and approximately 300 Irish owned multinationals from a total of 153,700 companies active on Revenue records[25].
- 42% of companies were micro companies accounting for 10% of corporation tax receipts.
- 1% of companies were large companies (over 250 employments) accounting for 43% of corporation tax receipts.[26]
- While Ireland has one of the lowest corporation tax rates of OECD member countries, corporation tax as a percentage of total tax receipts in 2016 was about 4% higher than the OECD average.[27]
- Manufacturing was the largest sector in 2017 accounting for 27% of corporation tax receipts.[28]
- "Irish corporation tax is highly concentrated, with the top 10 payers contributing close to 40% of this tax."[29]
- "Foreign-owned multi-national corporations (MNCs) are concentrated in Ireland's most competitive export sectors, such as modern manufacturing and information & communications."[30]

References

1 Tax Strategy Group – TSG 18/02 Income Tax and USC.

2 IMF, *Ireland: 2018 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Ireland*, June 2018.

3 OECD, *OECD Economic Surveys Ireland*, March 2018.

4 Tax Strategy Group – TSG 18/02 Income Tax and USC.

5 Tax Strategy Group – TSG 18/02 Income Tax and USC.

6 Figure taken from table prepared by the Department of Finance for statement on corporation tax receipts in Ireland to the Budgetary Oversight Committee on 14 June 2017.

7 Review of the 9% VAT Rate, Analysis of Economic and Sectoral Developments, Department of Finance, July 2018.

8 Review of the 9% VAT Rate, Analysis of Economic and Sectoral Developments, Department of Finance, July 2018.

9 Revenue's Ready Reckoner - Pre Budget 2019, August 2018.

10 Article 98, Council Directive 2006/1125/EC.

11 Tax Strategy Group – TSG 18/06 – General Excise paper.

12 Tax Strategy Group – TSG 18/06 – General Excise paper.

13 Tax Strategy Group – TSG 18/06 – General Excise paper

14 Tax Strategy Group – TSG 18/06 – General Excise paper.

15 Tax Strategy Group – TSG 18/06 – General Excise paper.

16 Tax Strategy Group – TSG 18/07 – Energy and Environmental Taxes.

17 Tax Strategy Group – TSG 18/07 – Energy and Environmental Taxes.

18 Tax Strategy Group – TSG 18/07 – Energy and Environmental Taxes.

19 Tax Strategy Group – TSG 18/07 – Energy and Environmental Taxes.

20 Tax Strategy Group – TSG 18/07 – Energy and Environmental Taxes (re ESRI carbon tax research paper).

21 Tax Strategy Group, TSG 18/10 Capital and Savings Taxes.

22 Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.

23 Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.

24 Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.

25 Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.

26 Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.

27 Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.

28 Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.

29 Department of the Taoiseach, *National Risk Assessment 2018 – Overview of Strategic Risks.*

30 Department of the Taoiseach, *National Risk Assessment 2018 – Overview of Strategic Risks.*

Chapter 1
The Economy and Who Said What

Ireland Economic Growth Forecasts

Who?	When?	GDP Growth		GNP Growth	
		2018	2019	2018	2019
Department of Finance[1]	Summer Economic Statement (June 2018)	7.8	5.6	6.6	5.6
Irish Fiscal Advisory Council[2]	Fiscal Assessment Report (June 2018)	5.6	4.0	_	_
Central Bank[3]	Quarterly Bulletin Q3 (July 2018)	4.7	4.2	4.2	4.0
ESRI[4]	Quarterly Economic Commentary (June 2018)	4.7	3.9	5.3	3.9
European Commission[5]	Post-Programme Surveillance Update (July 2018)	5.7	4.1	4.4	3.4
OECD[6]	OECD Economic Outlook (May 2018)	4.0	2.9	_	_
IMF[7]	Ireland Country Report (June 2018)	5.0	4.1	_	_

Note: All growth rates are "Real" (i.e. adjusted for inflation). While both GDP and GNP are inflated by US multinationals, the modified GNI* has also been quite volatile. Most organisations do not provide GNI* growth estimates. In Budget 2018, the Department of Finance used GNP growth figures to forecast GNI*.

Who is saying what on tax?

Macro-economic outlook

ESRI, *Quarterly Economic Commentary*, Summer 2018, June 2018

"With both domestic and external sources of growth registering significant increases, the Irish economy is on course to experience another robust performance in 2018. While the rate of decline in unemployment has slowed marginally over the past six months, the underlying trends in taxation receipts and overall consumer and producer sentiment indicate strong growth in 2018 and 2019."

Irish Fiscal Advisory Council, *Pre-Budget 2019 Statement*, September 2018

"The economy looks set to continue to grow at a rapid pace. A number of indicators show that the Irish economy is still growing rapidly. Forecasts assume that this pace of expansion in the domestic economy will only gradually moderate and the current outlook for Ireland's main trading partners remains reasonably strong."

1 Department of Finance, *Summer Economic Statement,* June 2018 (Table 1, Page 9. Note: Forecasts here are the same as the Stability Program Update in Spring 2018).
2 Irish Fiscal Advisory Council, *Fiscal Assessment Report*, June 2018 (Note: real GNP growth for 2018 and 2019 is nominal GNP growth adjusted for inflation with IFAC's GDP deflator forecast).
3 Central Bank, *Quarterly Bulletin No.3 2018*, July 2018, Page 8.
4 ESRI, *Quarterly Economic Commentary, Summer 2018,* June 2018, Page ii.
5 European Commission, *Post Programme Surveillance Report Ireland, Spring 2018*, July 2018, Page 13, Table 2.1.
6 OECD, *Ireland – Economic forecast summary (May 2018),* May 2018.
7 IMF, *Ireland: 2018 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Ireland*, June 2018.

Sustainability of the tax base

Department of Finance, *Summer Economic Statement*, June 2018

"We must maintain a broad tax base that generates a sustainable revenue stream necessary to fund public services. We cannot build permanent expenditure commitments on revenues that may not be sustainable."

Department of the Taoiseach, *National Risk Assessment 2018 – Overview of Strategic Risks*, 2018

"As the Exchequer moves into surplus, continued vigilance is required to ensure tax and revenue remains on a sustainable footing and that pro-cyclical budgetary decisions are avoided."

Spending and Tax Balance

ESRI, *Quarterly Economic Commentary*, Summer 2018, June 2018

"Given the very strong domestic performance at present, it is imperative that fiscal policy does not risk overheating the domestic economy. Therefore, given the Government's commitment to the NDP in the medium term, it would appear there is little or no scope for taxation policy to additionally stimulate the Irish economy."

Irish Fiscal Advisory Council, *Fiscal Assessment Report*, June 2018

"The scope for new initiatives in Budget 2019 will be limited. If additional priorities are to be addressed, these should be funded by additional tax increases or through re-allocations of existing spending."

Irish Fiscal Advisory Council, *Pre-Budget 2019 Statement*, September 2018

"The Government should reinforce its medium-term plans to ensure that these are credible. Focusing on the right budgetary stance and being prepared to be more cautious than the fiscal rules allow is the correct approach for the Government to follow over the medium term."

"An earlier move to a small budget surplus than planned would be warranted if cyclical growth and corporation tax receipts continue to exceed expectations. Any unexpected increases in tax revenues or lower interest costs that arise this year or in 2019 should not be used to fund budgetary measures beyond those currently planned."

Personal Tax and Progressivity

IMF, *Ireland: 2018 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Ireland, June 2018*

"Among advanced economies, Ireland has one of the most progressive personal income tax systems, which plays a crucial role in the process of income redistribution."

"In Ireland, income earners at the top decile pay about 59 percent of total income tax, although their share of market income is about 37 percent."

"The difference in the average tax rate between individuals earning 67 percent of the average wage and those earning 167 percent of the average wage is the one of the highest."

"*Relatively large share of exempted income earners:* Notwithstanding the measures introduced since the inception of the crisis to broaden the tax basis, thus reverting the pre-crisis trend, the income tax base remains relatively narrow."

OECD, *OECD Economic Surveys Ireland*, March 2018

"Average wages are now comparable with the top tier of OECD countries and income inequality is reduced through the highly redistributive tax and transfer system."

Corporate Tax and FDI

Central Bank, *Quarterly Bulletin No.3 2018*, July 2018

"The unexpected surge in corporation tax revenues may have some one-off elements, indicating that some part of these revenues should be categorised as a windfall."

Department of the Taoiseach, *National Risk Assessment 2018 – Overview of Strategic Risks*

"FDI in the Irish economy is concentrated in sectors that represent a large proportion of economic activity in Ireland. This means firstly that the Irish economy and its revenue base are significantly dependent on non-Irish firms, and the risk of relocation."

"Irish corporation tax is highly concentrated, with the top 10 payers contributing close to 40% of this tax."

"The rising share of corporation tax receipts within overall taxation (16% of total revenue) and the concentration of receipts within a small number of firms poses a significant risk to the public finances."

"Foreign-owned multi-national corporations (MNCs) are concentrated in Ireland's most competitive export sectors, such as modern manufacturing and information & communications and accounts for a disproportionately large share of output, value-added and productivity."

"Ireland's relationship with FDI is likely to be complicated by the emergence of challenges to Ireland's corporation tax regime and rising anti-globalisation and protectionist sentiments, in particular in the US and UK."

European Commission, *Post-Programme Surveillance Report Spring 2018*, July 2018

"A high degree of unpredictability remains linked to the activities of multinationals, which could drive headline GDP growth in either direction."

Irish Fiscal Advisory Council, *Pre-Budget 2019 Statement*, September 2018

"Corporation tax receipts have already grown rapidly in recent years and could register a record share of Exchequer tax revenues this year if the current over-performance relative to forecasts is sustained. The high volatility and strong concentration of corporation tax receipts in few companies pose significant risks of sharp revenue falls."

IMF, *Ireland: 2018 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Ireland, June 2018*

"Changes in the international taxation landscape may affect the operations of the multinationals in Ireland, with repercussions for the economy and public finances."

OECD, *OECD Economic Surveys Ireland*, March 2018

"The rise in the share of corporate tax in total tax revenue over recent years suggests that the exchequer's total tax take will be more subject to volatility going forward."

National Debt

Central Bank, *Quarterly Bulletin No.3 2018*, July 2018

"With the latest national accounts data indicating that the Gross Government debt-to-GNI* ratio stood at 111 per cent in 2017, a key priority remains the need to reduce the level of public indebtedness in order to create room to respond to any future adverse shocks."

Irish Fiscal Advisory Council, *Pre-Budget 2019 Statement*, September 2018

"Ireland's debt burden is still among the highest in the OECD. When set against a more appropriate measure of national income like GNI*, Ireland's net debt burden for 2017 is equivalent to 96 per cent, the fourth highest in the OECD behind only Portugal, Italy and Japan."

Global Trade and Vulnerability

Central Bank, *Quarterly Bulletin No.3 2018*, July 2018

"While the central forecast is positive, given the degree of openness of the Irish economy and the scale of Ireland's trade, technological and financial linkages to the broader international economy, unexpected events can prompt significant upward or downward changes to the growth path of the economy relative to any forecast. It is important that policymakers are mindful of such vulnerabilities in order to ensure that the Irish economy remains resilient if any of these tail risks arise."

Irish Fiscal Advisory Council, *Pre-Budget 2019 Statement*, September 2018

"It is inevitable that adverse shocks will occur in coming years. Further ahead, three major sources of potential downside risks to Ireland are apparent: Brexit, rising protectionism, and the international tax environment."

The Tax Base/Broad Tax Base

Department of Finance, *Summer Economic Statement*, June 2018

"Changes to the taxation regime must be sustainable and should not result in a narrowing of the taxation base."

European Commission, *Post-Programme Surveillance Report Spring 2018*, July 2018

"In view of the heightened external risks, reducing tax expenditures and broadening the tax base would be prudent. Reducing the number of tax expenditures and broadening the tax base could support the public finances in the event of a negative shock, while not distorting the efficient allocation of resources. It is less painful to revamp the tax system when the economy is experiencing an upswing."

Chapter 2

Documents Influencing the Budget

1. Programme for Partnership Government
2. Confidence and Supply Arrangement
3. Tax Strategy Group Papers

1 Programme for Partnership Government

- The Programme for Partnership Government (PPG) was agreed by Fine Gael, members of the Independent Alliance, and several other independent TDs to form a Government in May 2016.
- The PPG outlines the Government's commitments to public finances and taxation.
- The PPG recognises the need to keep a broad tax base, while reducing the rate of tax on work and other activities to achieve full employment, more housing and urban and rural regeneration.
- The PPG commits to at least a 2:1 spilt between public spending and tax reductions in each Budget.

The Tax-related Commitments under the PPG

Personal taxes

1. Continue the phasing out of USC, which will be largely funded through:
   - Extra revenues from not indexing personal tax credits and bands.
   - The removal of the PAYE Tax Credit for high earners and other measures to ensure the tax system remains fair and progressive.
   - Higher excise duties on cigarettes and increased enforcement and sanctions on the illegal importation and sale of cigarettes.
   - Increase enforcement and sanction of fuel laundering.
   - A new tax on sugar sweetened drinks.
   - Improving tax compliance.
2. Introduce reductions on a fair basis with an emphasis on low and middle-income earners.
3. Support parents who choose to stay at home and care for their children through an increase in the Home Carer Tax Credit.
4. Increase the Earned Income Tax Credit from €550 to €1,650 for the self-employed, to match the PAYE Tax Credit by 2018.
5. Retain mortgage interest relief beyond the end date of December 2017 on a tapered basis.
6. Explore mechanisms through which SMEs can reward key employees with share options in a tax-efficient manner.
7. Seek to introduce a PRSI scheme for the self-employed and provide a supportive tax regime for entrepreneurs and the self-employed.

Corporation tax

8. Maintain Ireland's 12.5% corporation tax rate.
9. Engage constructively with any measures to work towards international tax reform while critically analysing proposals that may not be in Ireland's long-term interests.
10. Work with international partners in tackling aggressive international tax planning through the OECD's Base Erosion and Profit Shifting (BEPS) initiative.
11. Closely monitor the introduction of the Knowledge Development Box (KDB) to encourage both Irish and multi-national companies to develop their knowledge-based capital in Ireland.
12. Maintain the three-year tax relief for certain start-up companies until the end of 2018 which is an important support for entrepreneurs and local job creation.

Capital Gains Tax (CGT)

13. Reduce the rate of CGT for new start-ups to 10% from 2017 (held for five years and subject to a €10 million cap on gains).

Capital Acquisitions Tax (CAT)

14. Raise the Band A CAT Threshold to €500,000, which includes all gifts and inheritances from parents to their children.

Tourism tax-related measures

15. Maintain 0% Airport Travel Tax

16. Retain the 9% VAT rate on tourism related services, providing that prices remain competitive.

Agri-taxation

17. Committed to using the taxation system strategically to encourage greater land mobility, increased productivity and greater profitability at farm level.

18. Investigate taxation measures aimed at supporting farmers through periods of volatility.

2 Confidence and Supply Arrangement

Fianna Fáil agreed to facilitate the Fine Gael-led Minority Government under a Confidence and Supply Arrangement.

The Tax-related Commitments under the Confidence and Supply Arrangement

1. Introduce Budgets that will involve at least a 2:1 split between investment in public spending and tax reductions.

2. Reductions in the USC on a fair basis with an emphasis on low and middle-income earners.

3. Maintain Ireland's 12.5% corporation tax rate and engage constructively with any measures to work towards international tax reform while critically analysing proposals that may not be in Ireland's long-term interests.

4. Seek to introduce a PRSI scheme for the self-employed and provide a supportive tax regime for entrepreneurs and the self-employed.

3 Tax Strategy Group Papers

The 2018 Tax Strategy Group Papers were published by the Department of Finance in July. The 10 papers explore various options for tax policy changes in Budget 2019.

The potential tax policy considerations in the Tax Strategy Papers are framed in line with the commitments under the PPG.

Chapter 3

Tax Options for 2019 – A Selection of Measures

- The Government has indicated there will be €800m[1] for further allocation in Budget 2019, which will be allocated 2:1 between public spending and tax reductions under the Programme for Partnership Government.
- Based on the €800m figure, the tax allocation is estimated to be in the region of €267m. If the Minister wishes to spend more on tax reductions, he may look to revenue raising measures elsewhere.

<table>
<tr><th colspan="4">The Tax Package
Selection of Options for Budget 2019</th></tr>
<tr><th colspan="2">Tax Reduction Options</th><th colspan="2">Revenue Raising Options</th></tr>
<tr><td>Increase the entry point to the higher rate of income tax of 40% by €1,000:
• For a single person from €34,550 to €35,550
• For a married couple (one income) from €43,550 to €44,550
• For a married couple (two incomes) from €69,100 to €71,100.</td><td>Cost €213m</td><td>Revert the 9% VAT rate back to 13.5% for all sectors that currently can avail of the 9% rate
(a full list of the range of goods and services which qualify for the 9% rate is outlined overleaf)</td><td>Revenue €520m</td></tr>
<tr><td>Increase the Earned Income Credit for the self-employed by €500 from €1,150 to €1,650 to match the PAYE Tax Credit</td><td>Cost €46m</td><td>Raise excise on the “old reliables” - alcohol and cigarettes:
• 10c duty increase on a pint of beer, half a glass of spirits and a pint of cider
• 50c duty increase on a bottle of wine
• 50c duty increase on a pack of 20 cigarettes</td><td>Revenue €204m</td></tr>
<tr><td>Increase the second USC (2%) rate band from €19,372 to €20,372</td><td>Cost €43m</td><td>Carbon tax increase of €5 per tonne of CO_2 emitted from €20 to €25</td><td>Revenue €106m</td></tr>
<tr><td>Reduce the 8% USC rate to 7%</td><td>Cost €171m</td><td>Equalise the excise rates applying to both petrol and diesel over 5 years (current excise rate on diesel is €47.9c versus €58.7c for petrol)</td><td>Total Revenue €353m (€71m each over 5 years)</td></tr>
<tr><td>Reduce the 33% CGT rate to 30% (Option 1) – in one year or phased in over 2 years</td><td>Cost €102m in one year
(or €51m each over 2 years)</td><td rowspan="2">Increase PRSI contributions by 0.5% for employees (Class A) and self-employed (Class S) from 4% to 4.5%</td><td rowspan="2">Revenue €415m (employee PRSI €358m & self-employed PRSI €57m)</td></tr>
<tr><td>Reduce the 33% CGT rate to 25% (Option 2) – phased in over 2 years or 4 years</td><td>Total cost €272m (€136m each over 2 years or €68m each over 4 years)</td></tr>
</table>

These options are selected from the Tax Strategy Group considerations for Budget 2019 and the corresponding costs and revenues are based on figures from the Tax Strategy Group Budget 2019 papers and Revenue's Ready Reckoner – Pre-Budget 2019.

[1] *Summer Economic Statement*, Government of Ireland, June 2018.

Reduce the Capital Gains Tax rate

- The Tax Strategy Group paper states that a change in the overall rate of capital gains tax (CGT) could result in an improved environment for business (start-ups and mature companies), which would enhance economic growth, increase transactions, increase Exchequer revenues and assist in new company formation.[2]
- A straight reduction in the current 33% CGT rate would address the need to bring the rate down nearer to European averages.
- Two options are put forward as part of the Tax Strategy Group considerations:

CGT

Option 1

33% → 30%

Over 1 year

33% – 30% in 1 year (Cost €102m)

or

Over 2 years

33% – 31.5% Year 1 (Cost €51m)

31.5% – 30% Year 2 (Cost €51m)

Option 2

33% → 25%

Over 2 years

33% – 29% Year 1 (Cost €136m)

29% – 25% Year 2 (Cost €136m)

or

Over 4 years

33% – 31% Year 1 (Cost €68m)

31% – 29% Year 2 (Cost €68m)

29% – 27% Year 3 (Cost €68m)

27% – 25% Year 4 (Cost €68m)

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

Where the money could come from

1. **Revert the 9% VAT rate**
2. **Raise excise on the "old reliables" – alcohol and cigarettes**
3. **Carbon tax increase**
4. **Equalise excise rates applying to petrol and diesel**
5. **Increase in PRSI contributions**

1. Revert the 9% VAT rate

- The 9% VAT rate was introduced with effect from 1 July 2011, as part of the Government's Jobs Initiative, and is over 7 years in existence.
- The rate of VAT of 9% applies to the following range of goods and services:
    - Hotel and holiday accommodation
    - Tour guide services
    - Hotel and restaurant meals
    - Admissions to cinemas, cabaret, certain live theatrical and musical performances and to certain exhibitions
    - Admissions to open farms
    - Use of commercial sporting facilities
    - Use of sporting facilities provided by the state and public bodies in certain circumstances
    - Certain green fees
    - Brochure, periodicals and newspapers
    - Cooked food purchased at take away, supermarket, garage or other outlet
    - Hairdressing
    - Supply of race horses and other horses (not intended for use in farming/agriculture production or for use in the preparation of food stuffs)
- The policy was initially designed as a temporary measure and was due to expire at the end of 2013 (after 2 ½ years). However, the Government has extended the lifetime of the 9% rate as part of successive Budgets since then.
- The Department of Finance published a review[3] of the 9% rate in 2012. The Department's report concluded at the time that the 9% reduced VAT rate appeared to have had the desired impact both in terms of price pass through and by contributing to employment gains.
- The estimated cost to exchequer of the 9% reduced VAT rate since its introduction in 2011 to the end of 2017 is €2.6bn.[4]

[3] *Measuring the impact of the Jobs Initiative: Was the VAT reduction passed on and were jobs created?*, Brendan O'Connor, Economics Division, Department of Finance, November 2012.

[4] Review of the 9% VAT Rate, Analysis of Economic and Sectoral Developments, Department of Finance, July 2018.

- In July, the Department of Finance published a second review[5] of the 9% reduced VAT rate. The Department's report concluded that the scale of cumulative costs of the reduced rate, against the limited benefits, point to significant deadweight.
- The reduced rate of 9% applies to 14% of the activity in the economy and represents 8% of the VAT receipts.[6]

Budget 2019 Options: What the Government can and can't do on VAT?

✓ Given that the 9% VAT rate is **one** of the two reduced rates allowed, the Government can:

1. move all the items currently at 9% back to 13.5% or
2. move some of the items currently at 9% back to 13.5% (still keeping two reduced rates) or
3. move all the items currently at 9% to a new lower rate, which is greater than 5%, for example, a 10% reduced VAT rate, so that Ireland would now have two reduced VAT rates of 10% and 13.5%, instead of 9% and 13.5% (currently).

The most recent estimate for reverting the reduced 9% VAT rate back to 13.5% is that it would result in extra revenue in the region of €520m[7] in 2018.

✗ It cannot:

1. move some of the items currently at 9% to a new reduced rate of 10%, which would result in three lower rates in Ireland i.e. 9%, 10% and 13.5%.
2. alter the description of the activities that fall within Annex III of the Directive which qualify for reduced VAT rates.

The process required to change the 9% reduced VAT rate

- The Government can proceed with any of the three options listed above without seeking approval from the European Commission.
- Instead, the Government can implement any of the options outlined above through the Finance Bill 2018 process.

[5] Review of the 9% VAT Rate, Analysis of Economic and Sectoral Developments, Department of Finance, July 2018.
[6] Revenue's Ready Reckoner - Pre Budget 2019, August 2018.
[7] Review of the 9% VAT Rate, Analysis of Economic and Sectoral Developments, Department of Finance, July 2018.

How VAT works in EU Member States

- The EU VAT Directive[8] sets out the rules for all Member States.
- Every Member State is required under the EU VAT Directive to apply a standard VAT rate[9].
- The standard VAT rate in any Member State must **not** be less than 15%[10] but, there is no maximum.
- The standard VAT rate in Ireland is currently 23%.
- Member States may also apply **either one or two reduced rates**, but only to the goods and services listed in **Annex III** of the VAT Directive ("Rule 2")[11]. A list of Annex III activities is included in Appendix 8.
- The reduced rate applicable to Annex III activities may not be less than 5%.[12]
- The reduced rates that can be imposed by Members States on activities listed in Annex III can range between 5% and 15%.[13]
- Ireland currently applies **two** reduced rates of 9% and 13.5% to some of the activities listed in Annex III of the EU VAT Directive.

The 1991 rule and the exceptions:

- If a Member State applied a reduced rate on 1 January 1991 to the supply of goods and services, which were **not** specified in Annex III, they can continue to apply the reduced rate to those goods and services, provided the rate is not less than 12%.[14] For example, Ireland continues to apply a reduced rate to supplies of energy for heating and light, immovable property, and services relating to the care of the human body.

[8] Council Directive 2006/112/EC – Articles 93 to 130 and Annex III and IV.

[9] Article 96, Council Directive 2006/112/EC provides that "*Member States shall apply a standard rate of VAT, which shall be fixed by each Member State as a percentage of the taxable amount and which shall be the same for the supply of goods and for the supply of services.*"

[10] Article 97, Council Directive 2006/1125/EC provides that "*From 1 January 2016 until 31 December 2017 the standard rate may not be less than 15%.*" (Note: the dates change regularly).

[11] Article 98, Council Directive 2006/1125/EC.

[12] Article 99, Council Directive 2006/1125/EC.

[13] Reduced rate cannot be less than 5% per Article 99 and cannot be greater than 15% i.e. the minimum level standard rate in the EU per Article 97.

[14] Article 118, Council Directive 2006/1125/EC.

2. Raise excise on the "old reliables" – alcohol and cigarettes

Tax on alcohol products (€146m approx.)

- Ireland has a long-standing policy of levying high rates of excise duty on alcohol products and has some of the highest rates of excise duty in the EU.[15]
- According to the Tax Strategy Group, a 10c duty increase on a pint of beer, half a glass of spirits and a pint of cider could yield a total of **€116m**[16] for the Exchequer.
- A duty increase of 50c on a bottle of wine could yield **€30m**[17] for the Exchequer.

Tax on tobacco products (€57.8m approx.)

- As of January 2018, Ireland has the highest rates of duty on tobacco products in the EU.[18]
- This reflects a long-standing policy of levying high rates of excise duty on tobacco products.
- The price of a pack of 20 cigarettes in the most popular price category now stands at €12.20, €9.56 of which is tax (i.e. €7.28 of excise duty and €2.28 in VAT).[19]
- According to the Tax Strategy Group, a duty increase of 50c on a pack of 20 cigarettes could yield **€57.8m**[20] for the Exchequer.

[15] Tax Strategy Group – TSG 18/06 – General Excise paper.
[16] Tax Strategy Group – TSG 18/06 – General Excise paper.
[17] Tax Strategy Group – TSG 18/06 – General Excise paper.
[18] Tax Strategy Group – TSG 18/06 – General Excise paper.
[19] Tax Strategy Group – TSG 18/06 – General Excise paper.
[20] Tax Strategy Group – TSG 18/06 – General Excise paper.

3. Carbon tax increase

- Carbon tax was introduced for the first time in Ireland in 2010. It is a tax on carbon emissions released from energy products consumed in Ireland.
- Carbon tax applies to fuels, for example, kerosene, marked gas oil, liquid petroleum gas, fuel oil, natural gas and solid fuels.
- Carbon taxes are calculated using the underlying charge of €20 per tonne of CO_2 that Government imposes on fuels generally. This underlying charge has a knock-on effect for the carbon tax imposed on each individual fuel product.
- According to the Tax Strategy Group, an increase in the rate of the carbon tax by €5 per tonne of CO_2 emitted would raise in the region of **€106m**.[21]
- An €5 increase in the carbon tax is estimated to reduce the non-ETS CO_2 annual emissions by -1.677 (percentage reduction in emissions)[22], which would help reduce the potential cost of purchasing compliance for failing to achieve Ireland's binding Europe 2020 targets.
- The ESRI[23] found that a €5 carbon tax increase would cost households on average €1.30 a week (about €69 a year). While a €10 carbon tax rise would cost €2.70 a week (€140 a year).

Impact of €5 increase in carbon tax (including VAT)		
Product	**Unit**	**€5 increase**
Petrol	Litre	1.40c
Diesel	Litre	1.64c
Coal	40kg bag	60c
Peat briquettes	Bale	13c
Natural Gas	MWh (megawatt)	20.8

History of Ireland's carbon tax yield		
Year	**Rate per tonne**	**Yield**
2010	€15	€223m
2011	€15	€298m
2012	€20	€354m
2013	€20	€388m
2014	€20	€385m
2015	€20	€419m
2016	€20	€430m
2017	€20	€420m
2018	€20	€435m (estimated)

[21] Tax Strategy Group – TSG 18/07 – Energy and Environmental Taxes.
[22] Tax Strategy Group – TSG 18/07 – Energy and Environmental Taxes (re ESRI carbon tax research paper).
[23] Tax Strategy Group – TSG 18/07 – Energy and Environmental Taxes (re ESRI carbon tax research paper).

4. Equalise 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: 58.7c per litre of petrol and 47.9c per litre of diesel.[24]
- The rate in Ireland on petrol is the 12th highest in the EU, while diesel is the 10th highest.[25]
- According to the Tax Strategy Group, there is a strong environmental rationale for the elimination of the gap in excise rates between diesel and petrol, supported by the European Commission and the OECD.
- The Tax Strategy Group consider the equalisation of excise rates should be implemented over 5 years, resulting in an additional **€71m per year** and a cumulative yield of **€353m over the 5-year period**.[26]

5. Increase in PRSI contributions

- Further details on potential increases in PRSI contributions are outlined in Chapter 5: The Personal Tax Story – Income Tax, USC and PRSI.

[24] Tax Strategy Group – TSG 18/07 – Energy and Environmental Taxes.
[25] Tax Strategy Group – TSG 18/07 – Energy and Environmental Taxes.
[26] Tax Strategy Group – TSG 18/07 – Energy and Environmental Taxes.

Chapter 4
The Tax Base

Size and Composition of Ireland's Tax Base

Ireland's Tax Base – 2018 projected

Income Tax (incl. USC)	€21.4bn	39%
VAT	€14.1bn	26%
Corporate Tax	€8.5bn	16%
Excise	€5.8bn	11%
Stamp Duty	€1.7bn	3%
Motor Tax	€1bn	2%
Capital Gains Tax	€0.8bn	1%
Capital Acquisition Tax	€0.5bn	1%
Customs	€0.4bn	1%
Total Tax Yield	**€54.2bn**	**100%**

PRSI
+ €10.3bn

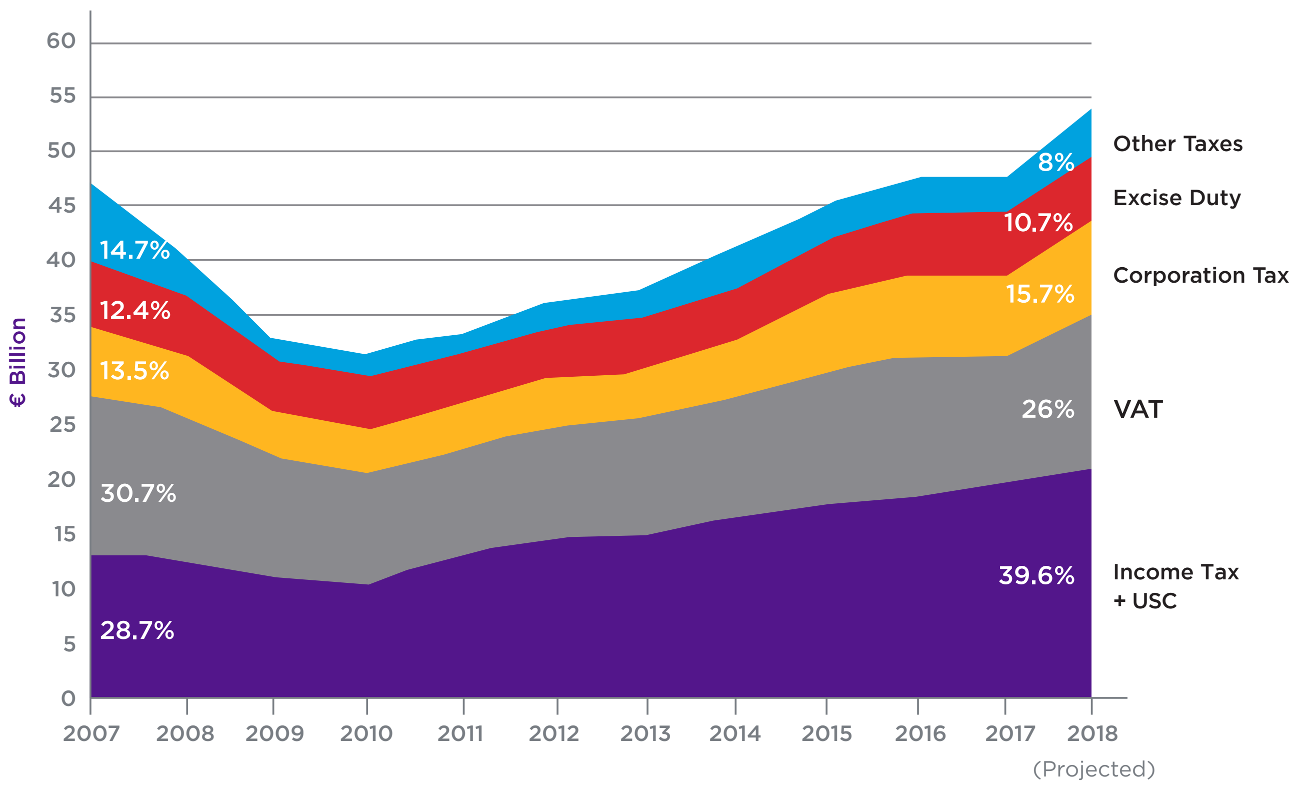
"Taxes" on Labour €31.7bn

- Income tax (including USC) yields most for the Exchequer – estimated €21.4bn for 2018.
- Total PRSI contributions are expected to rise to €10.3bn in 2018. They were €9.8bn in 2017.
- PRSI collected by the State in 2017 was equivalent to:
  - 60% of the income tax take (€16.3bn) and
  - 265% of the amount raised by USC (€3.7bn).
- It is important to note that the estimated PRSI contributions amounting to €10.3bn for 2018 are received **in addition** to the projected total Exchequer tax yield of €54.2bn for the year.
- The total monies collected for the Exchequer (including PRSI) estimated for 2018 is €64.5bn.
- It is interesting to note that the projected PRSI figure of €10.3bn is equivalent to 48% of the total estimated personal tax yield (income tax + USC) for 2018 (€21.4bn).

"Income tax (including USC) yields most for the Exchequer – estimated €21.4bn for 2018."

Exchequer Reliance on Personal Tax has Increased

Change in the composition of the tax base 2007 - 2018



- In 2007 and 2008, VAT was the highest contributor to the Exchequer. But in 2009, personal taxes outstripped VAT and the gap has continued to widen.
- 'Income tax + USC' now account for 39.6% of the total tax yield.
- Taxes on income were €13.6bn in 2007 (USC was not in existence then) versus a projected figure of €21.4bn for 2018.
- Corporation tax receipts were €6.8bn[1] in 2007 versus a projected figure of €8.5bn for 2018.
- Corporation tax is the third largest tax head accounting for a projected 15.7% of total tax receipts in 2018.
- Irish Fiscal Advisory Council projections do not forecast Capital Gains Tax going beyond 1.5% of tax receipts between 2018 and 2021.

"Taxes on income were €13.6bn in 2007 (USC was not in existence then) versus a projected figure of €21.4bn for 2018."

[1] Figure taken from table prepared by the Department of Finance for statement on corporation tax receipts in Ireland to the Budgetary Oversight Committee on 14 June 2017.

The Moving Parts of the Personal Tax System

	Income Tax	USC	PRSI
Entry Point	€16,500 for employee. €14,000 for self-employed. €24,750 for single income couple/ single parent. €33,000 for two income couple (employees).	€13,000	€18,304 for employees. €5,000 for self-employed.
Rates and Bands	20% standard rate on income up to €34,550. 40% marginal rate on income over €34,550.	0.5% on first €12,012. 2% on €12,013 - €19,372. 4.75% on €19,373 - €70,044. 8% on €70,045 and above. 11% rate for self-employed on income over €100,000.	Class A (Employee) 4% on earnings over €352 per week. Class A (Employer) 8.6% on earnings €376 per week or less. 10.85% for all other employees. Class S (Self-employed) 4% on annual income over €5,000.
Exemptions	Individuals aged 65 and over where income is below €18,000 (single) and €36,000 (married). Artists income (max €50,000). Rent-a-room relief (max €14,000). Childcare service relief (max €15,000). Child Benefit and certain means-tested social welfare benefits. Statutory redundancy payments. Relief for ex-gratia termination/pension payments subject to certain limits.	All social welfare income. Income subject to DIRT. Maximum rate of 2% for full medical card holders and individuals aged 70 years (and over), with total income that does not exceed €60,000. Rent-a-room relief (max €14,000). Childcare service relief (max €15,000). Statutory redundancy payments. Relief for ex-gratia termination payments subject to certain limits.	All social welfare income. Individuals aged 66 or over. Payments out of occupational pensions. Rent-a-room relief (max €14,000). Redundancy and ex-gratia termination payments. Certain assignees who retain social security coverage in their home country.

The Moving Parts of the Personal Tax System

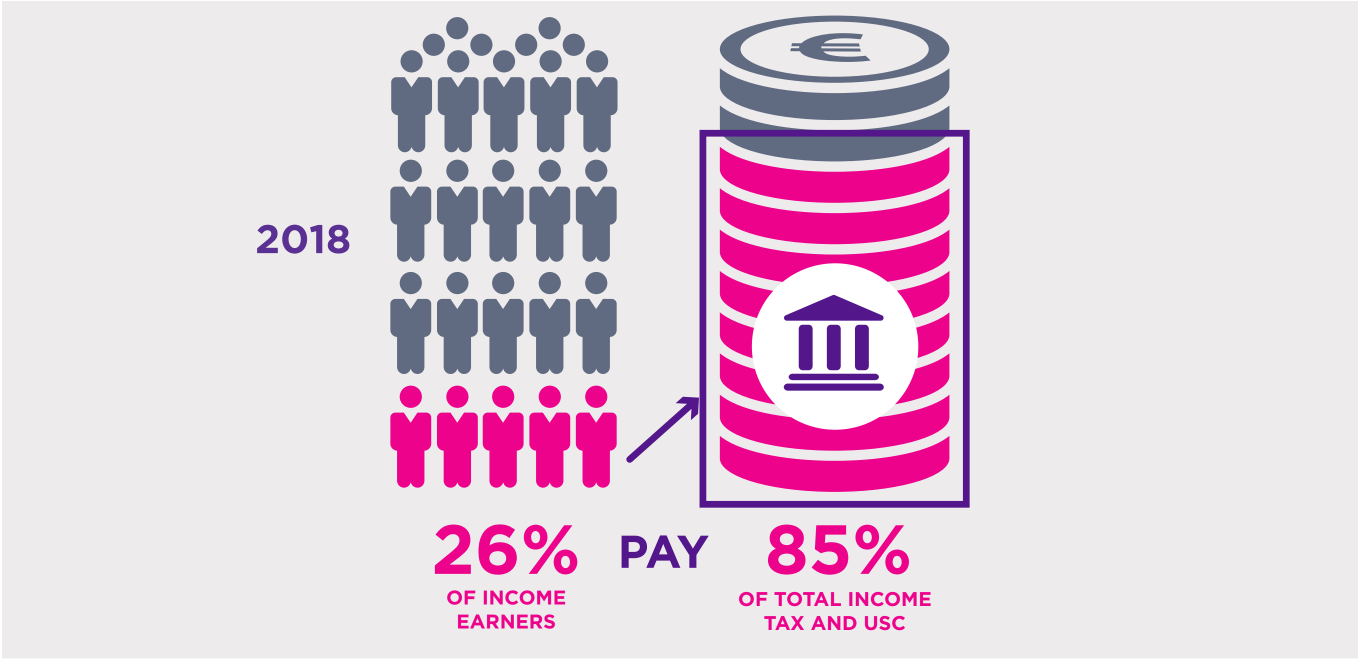
	Income Tax	USC	PRSI
Pension contributions	Relief at marginal rate, subject to limits.	No relief	No relief
Medical expenses	Relief at standard rate.	No relief	No relief
Medical insurance	Relief at standard rate, subject to limits.	No relief	No relief
Mortgage interest relief	Relief at standard rate, subject to limits, for qualifying 2004 - 2012 loans.	No relief	No relief
Employment & Investment Incentive	Relief for investments up to €150,000.	No relief	No relief
Special Assignee Relief Programme	Relief on portion of income over €75,000.	No relief	No relief (see note under exemptions).
Foreign Earnings Deduction	Relief for income earned while working in a qualifying country.	No relief	No relief
Home Renovation Incentive	Tax credit for 13.5% qualifying renovation works. (Due to expire 31 December 2018).	No relief	No relief
Living City Initiative	Relief for refurbishment cost of older buildings in qualifying cities.	No relief	No relief
Start Your Own Business Relief	Exemption for profits of up to €40,000 p.a. for 2 years for previously unemployed person who sets up a qualifying business.	No relief	No relief
TaxSaver Commuter Tickets	Relief at marginal rate.	Relief from USC	Relief from PRSI

Chapter 5

The Personal Tax Story – Income Tax, USC and PRSI

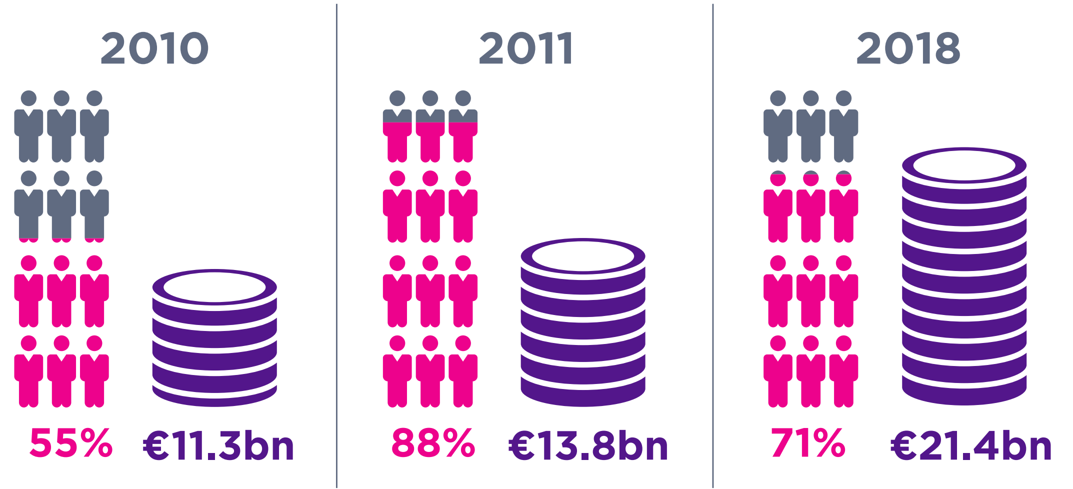
Who Pays What?

In 2018:



- The top 26% of income earners (> €50,000) will pay 85% of the total income tax and USC. The remaining 74% of income earners will pay 15% of the total income tax and USC[1].
- Those earning over €200,000 (the top 1%) will pay 28% of the total income tax and USC.
- Those earning over €100,000 (the top 7%) will pay 53% of the total income tax and USC.

Yield increasing but % of taxpayers contributing is falling



[1] Tax Strategy Group – TSG 18/02 Income Tax and USC.

The numbers by income tax payers and USC payers

Income Tax Rates	Number of income earners in 2019	% of income earners in 2019
40% Higher rate	595,900	22%
20% Standard rate	1,186,000	44%
Exempt	941,600	35%

Source: Revenue Ready Reckoner – Pre Budget 2019, August 2018

USC Rates	Band	Number of income earners in 2019	% of income earners in 2019
Exempt	Income less than €13,000	775,500	28%
0.5%	All income up to €12,012	0[2]	0%
2%	€12,013 to €19,372	521,500	19%
4.75%[3]	€19,373 to €70,044	1,183,300	43%
8%	€70,045 and above	243,300	9%

Source: Revenue Ready Reckoner – Pre Budget 2019, August 2018

[2] 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 €19,372.
[3] A maximum 2% rate applies to income over €19,372 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.

Taxpayers across all salary levels paying more tax now, than a decade ago

Single employed person on salary of:	Analysis of take-home pay arising from tax changes[4]			% decrease in take-home pay arising from tax: 2008 v 2018	Difference in take-home pay: 2008 v 2018
	2008	2012	2018		
€18,000	18,000	17,121	17,520	-3%	**-€480**
€35,000	29,824	27,933	28,860	-3%	**-€964**
€55,000	40,660	37,533	39,110	-4%	**-€1,550**
€75,000	51,999	47,133	49,199	-5%	**-€2,800**
€100,000	66,203	59,133	61,199	-8%	**-€5,004**
€120,000	77,478	68,733	70,799	-9%	**-€6,679**
€150,000	94,407	83,133	85,199	-10%	**-€9,208**

Family with 2 incomes of:	Analysis of take-home pay arising from tax changes[5]			% decrease in take-home pay arising from tax: 2008 v 2018	Difference in take-home pay: 2008 v 2018
	2008	2012	2018		
€35,000 each	59,648	55,866	57,720	-3%	**-€1,928**
€55,000 each	81,310	75,066	78,220	-4%	**-€3,090**
€75,000 each	103,988	94,266	98,398	-5%	**-€5,590**
€100,000 each	132,396	118,266	122,398	-8%	**-€9,998**

Family with one income of:	Analysis of take-home pay arising from tax changes[6]			% decrease in take-home pay arising from tax: 2008 v 2018	Difference in take-home pay: 2008 v 2018
	2008	2012	2018		
€35,000	32,554	30,855	31,800	-2%	**-€754**
€55,000	45,280	41,883	43,760	-3%	**-€1,520**
€75,000	56,614	51,483	53,849	-5%	**-€2,765**
€100,000	70,818	63,483	65,849	-7%	**-€4,969**

[4] Assuming no salary changes in the intervening period.
[5] Assuming no salary changes in the intervening period.
[6] Assuming no salary changes in the intervening period.

Progressivity in the tax system increasing year after year

The Multiples (salary levels v tax levels) 2012 - 2018

- The Irish Tax Institute has been looking at the multiples since 2012.
- In the tables below, we examine the extent to which progressivity has increased over the last 6 years.
- We take €18,000 as a salary level for the purposes of this analysis.
- These tax computations reflect the position for the tax year 2018 and compare it to the tax position in 2012 and 2016.

Salary of €18,000 versus €75,000	2012	2016	2018
Earning X times the salary of an individual on €18,000	4.2	4.2	4.2
Personal tax (income tax, USC and PRSI)			
Paying X times the personal tax of an individual on €18,000	**31.7**	**44.1**	**53.8**
Income tax			
Looking at income tax on its own, a person on €75,000 pays X times the income tax of an individual on €18,000	68.5	66.5	66.0
USC			
Looking at USC on its own, a person on €75,000 pays X times the USC of an individual on €18,000	7.9	11.8	16.7

The big driver of the increasing level of progressivity between 2012 and 2018 is the USC

Salary of €18,000 versus €100,000	2012	2016	2018
Earning X times the salary of an individual on €18,000	5.6	5.6	5.6
Personal tax (income tax, USC and PRSI)			
Paying X times the personal tax of an individual on €18,000	**46.5**	**65.8**	**80.8**
Income tax			
Looking at income tax on its own, a person on €75,000 pays X times the income tax of an individual on €18,000	102.7	99.8	99.3
USC			
Looking at USC on its own, a person on €75,000 pays X times the USC of an individual on €18,000	10.9	18.5	27.8

What do these tables show us?

About personal tax (income tax, USC and PRSI)

- In 2012, an individual on €75,000 paid a multiple of **31.7** times the personal tax of someone earning €18,000. By 2018, this multiple has increased to **53.8**. An individual earning €100,000 paid a multiple of **46.5** times the personal tax of a person on €18,000 in 2012 and this has increased to almost **81** times the tax by 2018. This highlights the increasing progressivity of Ireland's personal tax system.

About the role of USC and the cap at €70,044

- The big driver of the increasing level of progressivity between 2012 and 2018 is the USC. We see from the tables that a person on €75,000 used to pay almost 8 times the USC of someone on €18,000 and they now pay almost **17** times.
- An individual earning €100,000 now pays almost **28** times (up from **11** times in 2012) the amount of USC of a person on €18,000.
- The increasing gap in the USC multiples is a combination of USC reductions being targeted at lower to middle income earners and the introduction of a new 8% USC rate for those earning over €70,044 (Budget 2015).

About the impact of income tax reductions

- Looking at income tax on its own, an individual earning €75,000 pays **66** times the amount of income tax of a person on €18,000 – down from a multiple of **68.5** in 2012. An individual earning €100,000 pays **99.3** times the amount of income tax of a person on €18,000 – down from a multiple of **102.7** in 2012. The slight decrease in the income tax multiples arise because the top income tax rate of **41%** was reduced by 1% for all taxpayers in Budget 2015.
- In the tables below, we have included further analysis of the multiples, using a salary level of €35,000.

Salary of €75,000 versus €35,000	2012	2016	2018
Earning X times the salary of an individual on €35,000	2.1	2.1	2.1
Paying X times the personal tax (income tax, USC and PRSI) of individual on €35,000	**3.9**	**4.0**	**4.2**
Looking at income tax on its own, a person on €75,000 pays X times the income tax of an individual on €35,000	4.9	5.1	5.2
Looking at USC on its own, a person on €75,000 pays X times the USC of an individual on €35,000	2.6	2.9	3.2

Salary of €100,000 versus €35,000	2012	2016	2018
Earning X times the salary of an individual on €35,000	2.9	2.9	2.9
Paying X times the personal tax (income tax, USC and PRSI) of individual on €35,000	**5.8**	**6.0**	**6.3**
Looking at income tax on its own, a person on €75,000 pays X times the income tax of an individual on €35,000	7.4	7.6	7.9
Looking at USC on its own, a person on €75,000 pays X times the USC of an individual on €35,000	3.6	4.6	5.3

The Gini Coefficient - Analysis from the Tax Strategy Group

- The latest data from the OECD (for 2017), shows that Ireland had the largest reduction in the Gini coefficient between market and disposable income for OECD countries for which data is available.
- The Irish tax system is strongly progressive and the tax and social welfare systems combined contribute substantially to the redistribution of income and to the reduction of income inequality.
- When looked at over a slightly longer period, Ireland's tax system has consistently reduced the Gini coefficient (i.e. increased the equality of income distribution) to a greater extent than is the case with tax systems in other OECD countries.
- The contribution of the tax system to reducing market income inequality has been increasing in Ireland since 2004.[7] ”

Reduction in Gini Coefficient Due to Taxation

[7] Tax Strategy Group – TSG 18/02 Income Tax and USC.

Tax Freedom Day

Tax Freedom Day

If workers paid all their tax upfront, they would only start earning for themselves on their "Tax Freedom Day"[8].

2018 CALENDAR

SALARY	JAN	FEB	MAR	APR	MAY	JUN
€18,000	11th					
€35,000			7th			
€55,000				17th		
€75,000					7th	
€100,000					23rd	
€120,000					31st	
€150,000						8th

[8] Calculations are based on the income tax, levy/ USC and PRSI applying to a single employed person at each of the listed salary levels for the tax year 2018.

Budget 2019 Income Tax considerations
As outlined by the Tax Strategy Group

1. **Increasing the entry point to the higher rate of income tax**
2. **Increasing the Earned Income Credit**
3. **Tapered withdrawal of the PAYE Tax Credit**

Where we are now on income tax earners

Income Tax Rates	Number of income earners in 2019	% of income earners in 2019
40% Higher rate	595,900	22%
20% Standard rate	1,186,000	44%
Exempt	941,600	35%
Total income earners	2,723,500	
Source: Revenue Ready Reckoner – Pre Budget 2019, August 2018		

1. Increasing the entry point to the higher rate of income tax – the journey so far

- The entry point to the higher income tax rate was increased twice in recent Budgets – by €1,000 in Budget 2015 (from €32,800 to €33,800) and by €750 in Budget 2018 (from €33,800 to €34,550).
- All taxpayers with income above the entry point of €34,550 would benefit from the move, although the monetary benefit is capped.

The cost of increasing the entry point further in Budget 2019

Budget 2019 Option – Increase the entry point by €1,000			
Taxpayer	**Current Entry Point**	**Possible Increased Threshold Post Budget 2019**	**Exchequer Cost**
Single Person	€34,550	€35,550	€88m
Married Couple (one income)	€43,550	€44,550	€31m
Married Couple (two incomes)	€69,100[9]	€71,100[10]	€94m
			Total €213m[11]

The impact on taxpayers

The impact of €1,000 increase in the entry point into the higher income tax rate			
Taxpayer	**Current Entry Point**	**Possible Entry Point Post Budget 2019**	**Tax Saving**
Single Person earning €40,000	€34,550	€35,550	€200 per year
Married couple with two incomes totalling €80,000	€69,100	€71,100	€400 per year

The progressivity of income tax and the "Step-effect"

- There are three strands to personal tax in Ireland – income tax, USC and PRSI.
- But it is income tax that drives high effective rates for those above the average industrial wage because the rate doubles from 20% to 40% on income above €34,550.
- The combination of the 40% rate applying from a relatively modest income level of €34,550 really drives progressivity in the Irish tax system.

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	28.75% =	20%	4.75%	4%
€38,594 (average wage[12])	48.75% =	40%	4.75%	4%
€70,044	52% =	40%	8%	4%
€100,000 (self-employed income)	55% =	40%	11%	4%

[9] A band of €43,550 applies to the spouse with the highest earnings and a band of €25,550 applies to the other spouse.
[10] If the entry point is increased by €1,000, this would result in €1,000 increase in each of the bands for a married couple with two incomes.
[11] Revenue Ready Reckoner – Pre Budget 2019, August 2018.
[12] Figure based on average weekly earnings of €742.19 in Ireland in Q1, 2018 per CSO.

How Ireland's entry point to the top income tax rate compares with other countries[13]

Country		Income tax rate applying at €34,550 income level	Rates applying to income over €34,550
	Netherlands	41%	52% over €67,702
	Denmark	40.2%	56.5% over €70,401
	Ireland	**40%**	**40% over €34,550**
	Germany	31.23%	42% over €54,950 & 45% over €260,533
	France	30%	41% over €71,898 & 45% over €152,260
	Malta	25%	35% over €65,000
	Latvia	23%	31.4% over €55,000
	UK*	20%	40% over €51,872 & 45% over €167,868
	Estonia	20%	Flat rate (20%)
	Finland	17.5%	21.5% over €41,200 & 31.5% over €73,100
	Lithuania	15%	Flat rate (15%)
	Sweden	0%	20% over €42,500 & 25% over €61,800

*Note: 1 GBP FX rate to euro 1.1191 (as at 13/8/2018)

[13] Source: Data for other countries taken from Tax Strategy Group Paper – TSG 18/02 Income Tax and USC.

2. The Earned Income Tax Credit (for the Self-employed) – What has happened?

- A PAYE Tax Credit of €1,650 is available to all employees.
- The Programme for Partnership Government (PPG) committed to increasing the value of the Earned Income Tax Credit to €1,650 by 2018, to match the PAYE Tax Credit.
- In Budget 2016, an Earned Income Tax Credit of €550 was introduced for all self-employed individuals and proprietary directors who were not entitled to the PAYE Tax Credit.
- The Earned Income Tax Credit has been increased twice since then – to €950 in Budget 2017 and to €1,150 in Budget 2018 and is yet to go the full distance to meet the commitment under the PPG.
- The number of people claiming the Earned Income Tax Credit in 2016 is 191,700.[14]
- The total cost of the Earned Income Tax Credit in 2016 was €111.2m.[15]

Increasing the Earned Income Tax Credit – Budget 2019 option

Budget 2019 Option: Increase the Earned Income Credit to match the PAYE Tax Credit			
Current Earned Income Tax Credit	**Increase Credit by**	**Exchequer Cost**	**Benefit per individual**
€1,150	€500	€46m for a full year[16]	€10 per week[17]

[14] Latest data available is for 2016 per Revenue's Cost of Tax Allowances, Credits, Exemptions and Reliefs.
[15] Latest data available is for 2016 per Revenue's Cost of Tax Allowances, Credits, Exemptions and Reliefs.
[16] Revenue Ready Reckoner – Pre Budget 2019, August 2018.
[17] Tax Strategy Group – TSG 18/02 Income Tax and USC.

3. Tapered withdrawal of the PAYE Tax Credit

- Removing the PAYE Tax Credit for high earners is a stated objective of the Programme for Partnership Government.
- All individuals earning income taxable under the PAYE system are entitled to the PAYE Tax Credit.
- The current PAYE Tax Credit is €1,650.
- The PAYE Tax Credit is a credit against your total income tax bill.
- The impact of the PAYE Tax Credit is that €8,250 of an individual's PAYE income is not subject to income tax, resulting in an annual tax saving of up to €1,650.
- The number of people claiming the PAYE Tax Credit is 1,823,700.[18]
- The total cost of the PAYE Tax Credit was €3.3bn[19] in 2016.

Withdrawal of the PAYE Tax Credit on a sliding scale – how would it work?

- The Tax Strategy Group has considered withdrawing the PAYE Tax Credit from a person as they move up a salary scale (tapering), instead of abolishing the credit in its entirety once they reach a certain income level (cliff edge).
- The more gradual the tapering, the less severe the impact will be for those earning close to the threshold amount.
- The Tax Strategy Group gives an example of tapering the credit at a rate of 5% per €1,000, with the taper period commencing at income levels of €100,000 and ending at income levels over €120,000.
- If the credit is tapered for income earned between €100,000 and €120,000, then the marginal rate of tax paid on income in this €20,000 band would be 60.25%.

Example of the marginal tax rate resulting from a tapered withdrawal of the PAYE Tax Credit above €100,000

Salary of €110,000		8.25% Taper (between €100,000 -€120,000)
Income over €100,000		€10,000 (a)
Income tax due at the marginal rate of 52%	€5,200 (b)	
Reduction in PAYE credit (For every €1 earned above €100,000, the credit is reduced by €0.0825. At income of €110,000 the credit is reduced by €825)	€825 (c)	
Tax due on additional income [(b) + (c)]		€6,025 (d)
Marginal tax rate on additional income [(d) / (a)]		**60.25%**

- Once the credit completely tapers out, the marginal tax rate for those earning income above the tapering band would return to 52%. Although, their overall effective tax rate would have increased (as they would have no entitlement to any of the credit).

[18] Latest data available is for 2016 per Revenue's Cost of Tax Allowances, Credits, Exemptions and Reliefs.
[19] Latest data available is for 2016 per Revenue's Cost of Tax Allowances, Credits, Exemptions and Reliefs.

The USC Story

A quick flashback to where we have got to on USC

Year	Summary of changes made to USC since its introduction in 2011
USC is introduced	
Budget 2011	• When first introduced in 2011, the USC entry point was €4,004. • Rates were 2%, 4% and 7%.
USC entry point increases	
Budget 2012	• Entry point increased to €10,036.
Budget 2013	• Reduced USC rates introduced for medical card holders and those aged 70 or over, with total income of €60,000 or less per year.
Budget 2014	• No USC changes.
USC reductions begin and cap for incomes over €70,044 introduced	
Budget 2015	• Increased all bands. • Entry point increased to €12,012. • Reduced two lower USC rates to 1.5% and 3.5%. • New higher 8% rate introduced on all PAYE income over €70,044. • New higher 11% rate introduced for self-employed income over €100,000.
Budget 2016	• Entry point increased to €13,000. • Three lower USC rates reduced to 1%, 3% and 5.5%. • 3% income band extended.
Budget 2017	• Three lower USC rates reduced to 0.5%, 2.5% and 5%. • 2.5% income band extended.
Budget 2018	• 2.5% and 5% rates reduced to 2% and 4.75%. • 2% income band extended.

Note: Further details on each of these changes are set out in the appendices.

The current USC base

USC Rates	Band	Number of income earners In 2019	% of income earners in 2019
Exempt	Income less than €13,000	775,500	28%
0.5%	All income up to €12,012	0[20]	0%
2%	€12,013 to €19,372	521,500	19%
4.75%[21]	€19,373 to €70,044	1,183,300	43%
8%	€70,045 and above	243,300	9%

Source: Revenue Ready Reckoner – Pre Budget 2019, August 2018

[20] 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 €19,372.

[21] A maximum 2% rate applies to income over €19,372 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.

Facts and stats on the USC

- The USC was introduced on 1 January 2011 to replace the Income Levy and Health Levy.
- The main function of the USC was to broaden the Irish personal tax base.
- 71% of income earners pay USC (as compared with 63% who pay income tax) in 2018.[22]
- A taxpayer's first point of entry into the tax system is the USC entry point of €13,001 gross income a year.
- USC is a significant contributor to the Exchequer. It raised €3.7bn in 2017, which was approximately:
  - 7% of the total tax yield (€50.6bn) for 2017, but less than
  - one-quarter of the amount raised by income tax (€16.3bn).

Social welfare payments are exempt from USC

- One very important source of income that is exempt from USC is social welfare payments. Most of these payments are subject to income tax.
- This includes significant Exchequer payments such as the state pension, maternity benefit, illness benefit and Jobseeker's Benefit.

Important notes in relation to Pensioners:

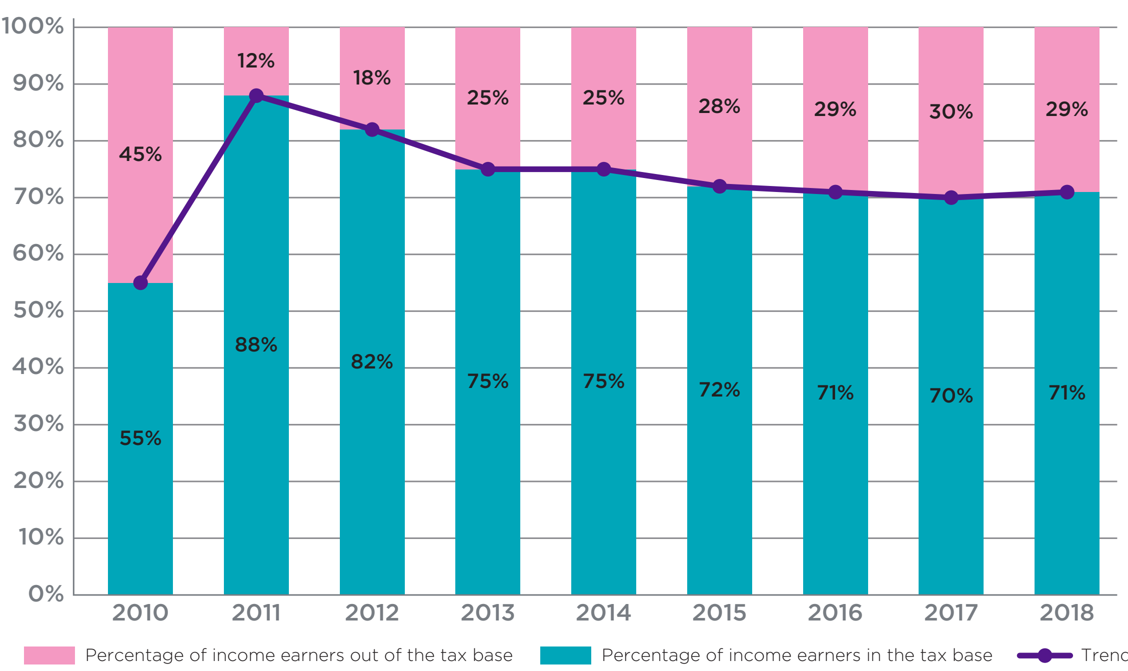
- Payments that are exempt from USC, such as the state pension, are ignored when considering the €60,000 income cap for individuals who are 70 years or older for the purposes of USC reduced rates.
- Individuals aged 65 years and over are exempt from income tax if their annual income is less than €18,001 (single) and €36,001 (married couple).
- Individuals who are 65 years or older can claim an Age Tax Credit each year of €245 (single) or €490 (married) in addition to their personal tax credit.
- Individuals aged 66 or older do not pay PRSI on their income.

[22] Tax Strategy Group – TSG 18/02 Income Tax and USC.

Observations from the Tax Strategy Group on narrowing the USC base

- The estimated cost of the reductions in the USC over the past four Budgets is €1.5bn, which is well in excess of the additional amounts raised when the USC was introduced.[23]
- Continued reductions in the USC could, in isolation, result in a further narrowing of the tax base.[24]
- While the main function of the USC has been to broaden the personal tax base, 29% of income earners are now exempt from the USC.
- There were 21,841[25] income earners in 2018 who paid the higher 11% USC rate on non-PAYE income over €100,000 – equating to 1% of income earners in 2018.

The narrowing of the personal tax base since 2012



Year	Percentage of income earners in the tax base	Percentage of income earners out of the tax base
2010	55%	45%
2011	88%	12%
2012	82%	18%
2013	75%	25%
2014	75%	25%
2015	72%	28%
2016	71%	29%
2017	70%	30%
2018	71%	29%

[23] Tax Strategy Group – TSG 18/02 Income Tax and USC.
[24] Tax Strategy Group – TSG 18/02 Income Tax and USC.
[25] Tax Strategy Group – TSG 18/02 Income Tax and USC.

Budget 2019 USC considerations
As outlined by the Tax Strategy Group

1. **Budget 2019 Option – Increasing the second USC rate band**
2. **Budget 2019 Option – Reducing the 8% USC rate and the cap effect**
3. **The amalgamation of USC and PRSI**

1. Budget 2019 Option - Increasing the second USC rate band

- The 2% USC rate currently applies to a band of income from €12,013 to €19,372. If this band is widened by €1,000, it allows you to earn another €1,000 before entering the 4.75% USC rate. This represents a saving of 2.75%.
- But, it is capped on a definite portion of income. The maximum you can get is **€28**.

Budget 2019 Option: Increase second USC rate band by €1,000		
Current Band for USC Rate of 2%	**Possible Band Post Budget 2019**	**Exchequer Cost for a full year**
€19,372	€20,372	**€43m**[26]

[26] Tax Strategy Group – TSG 18/02 Income Tax and USC.

2. Budget 2019 Option - Reducing the 8% USC rate and the cap effect

- With sensitivity around how much higher income earners might gain from tax reductions in any individual Budget, a cap was introduced in Budget 2015 on incomes over €70,044.
- In Budget 2015, the top income tax rate was reduced by 1% for all taxpayers but the top USC rate was increased by 1% (to 8%) on incomes over €70,044.
- Any income over €70,044 could not benefit from the reduction in income tax rates – the gain was capped at €747.
- Similarly, in the last three Budgets, the USC changes were targeted at the lower rates and bands, with the result that the USC gains were capped on a definitive amount of income each year.[27]
- The USC is a component factor on the top marginal tax rate in Ireland – 52% for all income over €70,044 and 55% for non-PAYE income over €100,000.
- High marginal tax rates are an impediment to international competitiveness. The Tax Strategy Group propose reducing the highest rate of USC (currently 8% on incomes over €70,044) to improve Ireland's position. It would benefit 9% of taxpayers.[28]

The cost of reducing the 8% rate

Budget 2019 Option: Reduce the 8% USC rate by 1%		
Current Rate	**Possible Rate Post Budget 2019**	**Exchequer Cost**
8% on income over €70,044	7%	**€171m[29]**

The impact on taxpayers

Single person earning	Current rate on income over €70,0044	Possible USC rate on income over €70,044 Post Budget 2019	Saving
€35,000	N/A	N/A	N/A
€75,000	8%	7%	**€50 per year**
€100,000	8%	7%	**€300 per year**

[27] In Budget 2016 capped at €902; in Budget 2017 capped at €353 and in Budget 2018 capped at €178.
[28] Tax Strategy Group – TSG 18/02 Income Tax and USC.
[29] Revenue Ready Reckoner – Pre Budget 2019, August 2018.

3. USC and PRSI - The Amalgamation Project

- At present, USC and PRSI are separately administered:
  - USC by the Department of Finance and Public Expenditure and Reform; and
  - PRSI by the Department of Employment Affairs and Social Protection.
- USC is paid into the Exchequer tax revenue to be used for general expenditure, while PRSI contributions are paid into the Social Insurance Fund and are used to pay social welfare benefits and pensions.
- There are differences in the way USC and PRSI are calculated for taxpayers.
- Currently, a Working Group[30] is examining the amalgamation of the USC and PRSI. The Group is chaired by the Department of Finance and includes officials from the Departments of the Taoiseach, Public Expenditure and Reform, Employment Affairs and Social Protection and the Revenue Commissioners.
- The amalgamation of USC and PRSI is a medium-term plan and it is expected to be a multi-annual process that will take place over three to five Budgets.[31]
- There are two elements to PRSI – the employee and the employer. Employer PRSI will not be affected by any option put forward by the Working Group, as only employee PRSI is being considered for amalgamation with USC
- The Working Group will present options for the amalgamation of USC and PRSI which seek to address:
  - the need to preserve the tax base, having regard to the need for certainty, equity and ease of compliance and administration;
  - current and future funding challenges facing the Social Insurance Fund
  - issues likely to arise from the phased implementation over a number of years of the new instrument;
  - simplification of the personal tax and social insurance systems; and
  - any other matters arising.
- The Working Group is expected to report prior to Budget 2019.

[30] Established by the Minister for Finance in February 2018.
[31] Tax Strategy Group – TSG 18/02 Income Tax and USC.

The UK experience – aligning National Insurance Contribution with income tax

- In the UK, they have been considering integrating the National Insurance Contribution (NIC) into income tax.
- The discussion began in 2007 when the Institute for Fiscal Studies published a report.[32]
- The matter was then considered by the Office of Tax Simplification in 2011[33] and 2012.[34]
- A consultation was subsequently launched by the UK government, which ultimately led to the Office of Tax Simplification's final report in March 2016.[35]
- The general theme throughout these reports is that merging would be beneficial for simplification reasons.
- However, it is a very complex task which requires careful consideration. It is something that requires a plan and would take some time to implement.
- Alignment would increase transparency for taxpayers. Simplification would present an opportunity to improve taxpayer understanding of the "contributory principle".
- The reports highlight how the differences in the two bases present difficulties. There would undoubtedly be winners and losers (some taxpayers would end up paying more NIC and others less) and this is something that requires further careful consideration.
- There has also been a lot of discussion around the differences between employees and the self-employed and how this would be addressed.
- Finally, the issue of the employer contribution element in NIC would need to be considered.
- If integration were to happen, the Office of Tax Simplification would ultimately like to see a system with the same rates and base and have four categories of taxpayers; employees, self-employed, employers and voluntary payers.

[32] IFS Report: Integrating income tax and national insurance.
[33] Office of Tax Simplification: *Small business tax review: Interim Report*, March 2011.
[34] Office of Tax Simplification Final Report, February 2012.
[35] Office of Tax Simplification: *The closer alignment of income tax and national insurance*, March 2016.

USC and PRSI – The complexity and the differences

Differences	USC	PRSI
Government Department Responsible	Department of Finance, Public Expenditure and Reform	Department of Employment Affairs and Social Protection
Collected at source by	Revenue Commissioners	Revenue Commissioners
Paid into	Exchequer tax revenue	Social Insurance Fund
Used for	General expenditure	Ringfenced benefits
Paid by	Employees and Self-employed	Employees, Self-employed and Employers
Entry Point	€13,000	€18,304 for employees €5,000 for self-employed No entry point for employers
Rates	5 different rates: 0.5% 2% 4.75% 8% 11%	12 different rates: *Employee/Self-employed PRSI* 0.9% 3.9% 3.33% 4% *Employer PRSI* 0.5% 1.85% 2.01% 2.35% 6.87% 8.6% 10.15% 10.85%
Bands/Classes	5 different bands: First €12,012 €12,013 - €19,372 €19,373 - €70,044 €70,045 and above Over €100,000 for self-employed income	11 different classes: – A – B – C – D – E – H – J – K – M – P – S (See Appendix 6 for PRSI rates applying to each class)

Differences	USC	PRSI
How it operates	Cumulative annual tax	Week by week basis[36]
Exemptions	All social welfare income Reduced rates apply to individuals aged 70 years (and over), if total income does not exceed €60,000 Statutory redundancy payments Relief for ex-gratia termination payments subject to certain limits Childcare service relief (max €15,000) Reduced rates apply for full medical holders if total income does not exceed €60,000 Income subject to DIRT Rent-a-room relief (max €14,000)	All social welfare income Individuals aged 66 or over Payments out of occupational pensions Redundancy and ex-gratia termination payments Rent-a-room relief (max €14,000)

[36] This means PRSI only applies each week where the weekly earning thresholds are exceeded without regard to cumulative annual income.

Budget 2019 Options for PRSI - As outlined by the Tax Strategy Group

1. **Increase PRSI rates for employees and the self-employed**
2. **Increase the entry threshold for social insurance cover for employees and the self-employed**
3. **A new low-rate PRSI for employees with weekly earnings between €115 and €352**

- The Tax Strategy Group paper[37] suggests there is scope to increase PRSI rates to help fund pensions and other social welfare benefits.
- The Tax Strategy Group considerations also include increasing and indexing the PRSI earnings threshold to a level equivalent to a minimum of 12 hours per week - €115 per week (€5,960 per year).
- "At present, Ireland provides social welfare entitlements to workers once weekly earnings exceed €38. Based on the national minimum wage of €9.95, an employee earning €38 per week now only has to work just less than 4 hours per week to access all benefits." (Tax Strategy Group - Pay Related Social Insurance, July 2018).
- This earnings threshold has not been increased since 1991 (CPI has increased by c.60% in the same period, while average earnings have increased by c.129%). The entry threshold of €5,950 would also apply to the self-employed and consequently, their minimum PRSI contribution would increase.
- Currently, only employer PRSI is paid on earnings below €352. The Tax Strategy Group paper also proposes a new low-rate of employee PRSI for earnings below €352 to strengthen "contributory and solidarity" principles of the PRSI system.
- Introducing a new low rate of employee PRSI would balance any reduction in employer PRSI contributions resulting from increasing the entry threshold for employee social insurance cover (outlined above) and would be consistent with the policy of aligning increases in PRSI rates with reductions in USC.

1. Increase PRSI rates for employees and the self-employed

Budget 2019 Option: Increase PRSI rate by 0.5%			
Taxpayer	**Current PRSI Rate**	**Possible Rate Post Budget 2019**	**Exchequer Yield**
Employee (Class A)	4%	4.5%	**€357.7m**[38]
Self-employed (Class S)	4%	4.5%	**€56.9m**[39]

2. Increase the entry threshold for social insurance cover for employees and the self-employed

Budget 2019 Option: Increase the entry threshold to €115 per week (€5,960 p.a.)	
Taxpayer	**Exchequer Cost**
Increase the entry threshold for employee PRSI Class A from €38 to €115	**€19.5m**[40]
Increase the payment threshold for self-employed PRSI Class S from €5,000 to €5,960	**N/A**

[37] Tax Strategy Group – Pay Related Social Insurance, July 2018.
[38] Tax Strategy Group – Pay Related Social Insurance, July 2018.
[39] Tax Strategy Group – Pay Related Social Insurance, July 2018.
[40] Tax Strategy Group – Pay Related Social Insurance, July 2018.

3. A new low-rate PRSI for employees with weekly earnings between €115 and €352

Budget 2019 Option: Introduce a new 0.5% PRSI rate for employees with weekly earnings between €115 and €352				
Taxpayer	**Current PRSI Rate**	**Possible Rate Post Budget 2019**	**Gainers/ (Loser)**	**Exchequer Yield**
Employee (Class A) (Weekly earnings between €155 and €352)	0%	0.5%	**(614,547)**	**€17.9m[41]**

Increased PRSI yield following the removal of the PRSI ceiling

- An employee PRSI ceiling of €75,036 applied until Budget 2011, when it was abolished. The result is that Employee PRSI is now uncapped.
- The removal of the PRSI ceiling in 2011 increased the amount of PRSI paid by some taxpayers by up to 60%.

Removal of the PRSI ceiling				
Salary Level	**PRSI – After the celling was removed**	**PRSI – when there was a ceiling of €75,036**	**Difference per annum**	**% Increase**
€75,000	€3,000	€3,000	No change	0%
€100,000	€4,000	€3,001	€999	33%
€120,000	€4,800	€3,001	1,799	60%

See our International Tax Tables in association with KPMG for the international comparisons on personal taxes.

[41] Tax Strategy Group – Pay Related Social Insurance, July 2018.

Chapter 6
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, with the 2017 receipts of €8.2bn accounting for 16% of the overall tax yield.
- The projected corporation tax yield for 2018 is €8.5bn – remaining at 16% of the overall Exchequer revenues.
- Revenue analysis of corporation tax payments in 2017 and 2016 corporation tax returns shows an increase in trading profits of €14.7bn from 2015 to 2016 and a broad-base increase in profitability across most sectors.[1]
- Net receipts from the 10 largest payers in 2017 were €3.3bn (17.2% higher than receipts from the top 10 companies in 2016).[2]
- The top 100 companies accounted for 72% of net receipts in 2017 of which:
  - 51 were US companies paying €4.25bn
  - Less than 10 were UK companies paying €128m
  - Just over 10 were Irish companies paying €370m
  - Companies from other countries accounted for €1.11bn[3]
- Foreign owned multinationals paid 80% of corporation tax receipts in 2017. There were 6,200 foreign owned multinationals and approximately 300 Irish owned multinationals from a total of 153,700 companies active on Revenue records.[4]
- There was a reduction in the number of companies carrying forward losses from 2015 to 2016, resulting in an increase of corporation tax receipts of €261m.[5]

> "Net receipts from the 10 largest payers in 2017 were €3.3bn (17.2% higher than receipts from the top 10 companies in 2016)."

- Companies held 2m employments in 2016, 530,000 of which were in multinational companies.[6]
- In 2016, companies also paid income tax, USC and PRSI, totalling €16.7bn in respect of those 2m employments (€7.6bn of which related to employees of multinational companies).[7]
- 42% of companies were micro companies (less than 10 employments) accounting for 10% of corporation tax receipts whilst 1% of companies were large companies (over 250 employments) accounting for 43% of corporation tax receipts.[8]
- While Ireland has one of the lowest corporation tax rates of OECD member countries, corporation tax as a percentage of total tax receipts in 2016 was about 4% higher than the OECD average.[9]
- Manufacturing was the largest sector in 2017 accounting for 27% of corporation tax receipts, closely followed by financial and insurance activities, and information and communication sectors.[10]

[1] Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.
[2] Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.
[3] Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.
[4] Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.
[5] Tax Strategy Group – TSG 18/01 Corporation Tax.
[6] Tax Strategy Group – TSG 18/01 Corporation Tax.
[7] Tax Strategy Group – TSG 18/01 Corporation Tax.
[8] Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.
[9] Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.
[10] Revenue Report: Corporation Tax 2017 Payments and 2016 Returns, April 2018.

Recent corporation tax developments

The last few years have seen significant developments on corporate tax reform both in Ireland and globally, including:

- an entire review of Ireland's corporate tax code;
- the adoption of the Anti-Tax Avoidance Directive by EU Member States;
- the signing of the OECD BEPS Multilateral Instrument by over 80 countries;
- digital taxation proposals from the European Commission and the OECD; and
- the relaunch of the Common Consolidated Corporate Tax Base (CCCTB) by the European Commission.

Review of Ireland's Corporate Tax Code

On 2 September 2016, the Irish Government decided to commission a full review of Ireland's corporation tax code by an independent expert, Mr Seamus Coffey. Mr Coffey delivered his Review of the Irish Corporation Tax Code to the Minister for Finance and Public Expenditure and Reform on 30 June 2017.

Mr Coffey made 18 recommendations on a wide-range of issues, including Ireland's commitments under the OECD BEPS process, the implementation of the EU Anti-Tax Avoidance Directive (ATAD), sustainability of the corporation tax receipts, Ireland's transfer pricing rules and moving from a worldwide corporate tax regime to a territorial corporate tax regime.

Mr Coffey also recommended that the Government consult further on several matters given the technical complexity involved. The Minister subsequently held a public consultation on the Coffey Review from 10 October 2017 to 30 January 2018.

On 5 September 2018, the Government released Ireland's Corporation Tax Roadmap[11], summarising the submissions to the public consultation on the Coffey Review and outlining how the Government intends to implement the Coffey recommendations relating to Ireland's transfer pricing rules, moving to a territorial regime and the implementation of the ATAD.

With regard to updating Ireland's transfer pricing rules, the Government plans to hold a further public consultation in early 2019, with a view to introducing revised legislation in Finance Bill 2019 that would take effect from 1 January 2020.

The Government also intends to consult in early 2019 on whether Ireland should move from a worldwide tax regime to a territorial tax base, following the introduction of CFC rules in Ireland. Currently, Ireland operates a worldwide tax regime, which means a company that is tax resident in Ireland is subject to Irish tax on its worldwide profits. In order to prevent double taxation, a company can claim a credit in Ireland against its Irish corporation tax liability for any foreign tax paid on the same profits.

In contrast, under a territorial tax regime, a company is taxed only on the profits earned within that country. Most of the larger economies now operate territorial tax systems, with the recent trend in tax policy being a move towards territorial systems, for example in Japan, the UK and US.

How the Government intends to implement the ATAD is separately outlined in the paragraphs below.

EU Anti-Tax Avoidance Directive

On 20 June 2016, the EU Council adopted the Anti-Tax Avoidance Directive (ATAD)[12], which provides for five specific anti-avoidance measures to be transferred into the national laws of each Member State.

The five ATAD measures

ATAD contains five specific measures:

1. Interest limitation rule
2. Controlled Foreign Company (CFC) rules

[11] Ireland's Corporation Tax Roadmap, *Incorporating implementation of the Anti-Tax Avoidance Directives and recommendations of the Coffey Review*, Government of Ireland, September 2018.

[12] EU Council Directive 2016/1164

3. Hybrid mismatch rules
4. Exit tax
5. General anti-abuse rule (GAAR)

The first three measures stem from recommendations in the OECD/G20 Base Erosion and Profit Shifting (BEPS) 2015 Final Reports. The purpose of the ATAD is to ensure the consistent application of these BEPS recommendations across all EU Members States. The latter two are additional measures pursued by the Commission.

On 29 May 2017, the EU Council adopted a Directive to amend the hybrid mismatch measures in the ATAD. This Directive, known as ATAD2, extends the scope of ATAD to hybrid mismatches involving third countries (i.e. non-EU countries).

ATAD timeline

Most of the ATAD measures must be enacted into domestic legislation by 1 January 2019. However, Member States may derogate on the adoption of two measures;

- Member States can opt to defer the introduction of the exit taxation rules until 1 January 2020.
- Member States that have targeted rules which are "equally effective to the interest limitation rule set out in the Directive" may continue to use these rules until 1 January 2024.

Member States have until 1 January 2020 to enact the hybrid mismatch measures in ATAD2 into their domestic legislation and 1 January 2022 for the implementation of the rules relating to reverse hybrid mismatches.

Implementation of ATAD in Ireland

As outlined above, Mr Seamus Coffey recommended, as part of his review of Ireland's corporation tax code that there should be further consultation before implementing ATAD. A public consultation on the Coffey Review was launched in October 2017.

In September 2018, the Government published Ireland's Corporation Tax Roadmap[13], summarising the responses received from stakeholders[14] on the Coffey Review and outlining the next steps to implement ATAD in Ireland.

The Government intends to implement ATAD as follows:[15]

1. Interest limitation rule

Under ATAD, EU Member States must implement an interest limitation ratio rule, designed to prevent companies from using excessive interest payments to shift profits to other countries. The ATAD interest limitation rule restricts the tax deduction that can be claimed for borrowing costs in a tax period, to a maximum of 30% of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA).

However, Members States are not required to implement the ATAD interest limitation rule until 1 January 2024 (instead of 1 January 2019), if the country has "equally effective" national targeted rules to the interest limitation rule in ATAD. Ireland has applied to the European Commission for this derogation, as the Government believes Ireland's existing interest rules are at least equally effective to ATAD.

Nevertheless, the European Commission has indicated to Members States, including Ireland, that a stringent ratio-based approach will be taken to assess whether national targeted rules meet the "equally effective" test. As Ireland's national targeted rules are structurally different to the ATAD interest deduction rule, it is unclear at this stage whether Ireland will secure the derogation from the Commission.

Therefore, the timing of the legislation will be determined following further engagement with the Commission, regarding the effectiveness of Ireland's existing interest limitation rules. However, work has also begun to examine options to bring forward the implementation of the ATAD interest deduction rule into Ireland to Finance Bill 2019. Given the complexity of the existing Irish interest limitation rules, a pubic consultation on the interest limitation rule and

[13] Ireland's Corporation Tax Roadmap, *Incorporating implementation of the Anti-Tax Avoidance Directives and recommendations of the Coffey Review*, Government of Ireland, September 2018.

[14] Irish Tax Institute was one of the 22 stakeholders that responded to the public consultation.

[15] Ireland's Corporation Tax Roadmap, *Incorporating implementation of the Anti-Tax Avoidance Directives and recommendations of the Coffey Review*, Government of Ireland, September 2018.

anti-hybrid rules is scheduled to take place in Q3 2018.

2. **Controlled Foreign Company (CFC) rules**

CFC rules are anti-abuse measures, designed to prevent profits from being artificially diverted to offshore companies located in low or no tax jurisdictions. Where CFC rules apply, they have the effect of attributing the income of such a controlled company to its parent company.

Ireland does not currently have CFC rules as we operate a worldwide tax regime. Following consideration of the submissions to the Coffey Review, the Government has decided that Ireland will elect for the Option B approach when introducing CFC rules in Finance Bill 2018. This means that Irish CFC rules will target undistributed income of a CFC arising from non-genuine arrangements put in place for the essential purpose of obtaining a tax advantage and attribute that income to its parent company.[16]

The Government published a Feedback Statement in September setting out possible approaches for implementing an Option B methodology and to help facilitate the passage of CFC legislation, as part of Finance Bill 2018. The CFC rules, once enacted, will take effect from 1 January 2019.

3. **Hybrid mismatch rules**

These rules are intended to counteract tax mismatches that can arise where the same item of expenditure is deductible in more than one country or where expenditure is deductible for tax purposes in one country, but the corresponding income is not taxed in the other country.

Given the complexity of these issues, the Government intends to launch a public consultation on hybrid mismatch rules in late Q3, 2018. The legislation to implement anti-hybrid rules in Ireland will then be introduced in Finance Bill 2019. A further consultation is likely to be held in advance of the 1 January 2022 deadline to implement anti-reverse hybrid rules required under ATAD2.

4. **Exit tax**

Currently, Ireland has a limited exit tax regime. However, the ATAD exit tax provision is significantly broader in scope. Therefore, the Government intends to introduce legislation to replace the current provisions with an ATAD-compliant exit tax, to take effect no later than 1 January 2020.

5. **General anti-abuse rule (GAAR)**

Ireland has had a GAAR since 1989. Following a review of the existing provisions, the Government does not intend to take any further action at this time because no amendments are required to make the existing GAAR compliant with the ATAD provision.

OECD BEPS Multilateral Instrument

- Ireland signed the OECD BEPS Multilateral Instrument[17] on 7 June 2017, among the first group of countries to do so. The Multilateral Instrument has now been signed by 83[18] countries.
- The Multilateral Instrument is the mechanism by which countries can adopt the BEPS treaty-related measures into their existing bilateral tax treaties.
- Ireland has 74 tax treaties and the Multilateral Instrument will enable Ireland to update the majority of these treaties to ensure they comply with the BEPS recommendations, without the need for separate bilateral negotiations.
- The Multilateral Instrument must be ratified by Ireland before it can come into force for Ireland's existing tax treaties.
- Ireland took the first steps towards ratifying the Multilateral Instrument in Finance Act 2017 and the final legislative steps required to complete ratification will be taken in Finance Bill 2018.[19]
- It is anticipated that the Multilateral Instrument will start to have effect for Ireland from the beginning of 2020.

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[16] Tax Strategy Paper – TSG 18/01 Corporation Tax.

[17] Multilateral convention to Implement Tax Treaty Related Measures to Prevent BEPS.

[18] Number of signatories as at 22 August 2018.

[19] Ireland's Corporation Tax Roadmap, *Incorporating implementation of the Anti-Tax Avoidance Directives and recommendations of the Coffey Review*, Government of Ireland, September 2018.

Digital Taxation

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.
2. Impose an interim tax on certain revenues from digital activities in the EU.

1. Reform of corporate tax rules – the long-term measure

The proposed reform of corporate tax rules 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.

Under the proposal, a digital platform would be deemed to have a taxable "digital presence" or a virtual permanent establishment in an EU Member State if it satisfies one of the following criteria:

- A threshold of €7m or more in annual revenues in a Member State.
- More than 100,000 users in a Member State in a tax year.
- Over 3,000 business contracts for digital services between the company and business users in a tax year.

The Commission proposes that the new rules would change how profits are allocated to EU Member States in a way which better reflects how companies can create value online, for example, depending on where the user is based at the time of consumption. This measure could eventually be integrated into the scope of the CCCTB.

2. Digital Services Tax – the short-term measure

Under this proposal, an interim tax of 3% would apply to revenues created from certain digital activities, such as revenues:

- Created from selling online advertising space.
- Created from digital intermediary activities that allow users to interact with other users and that can facilitate the sale of goods and services between them.
- Created from the sale of data generated from user-provided information.

Tax revenues would be collected by EU Member States where the users are located and would only apply to companies with total annual worldwide revenues of €750m and EU revenues of €50m.

This Digital Services Tax would apply only as an interim measure, until the comprehensive reform of the corporate tax rules would be implemented. The Commission recommends that Member States introduce mechanisms to alleviate the possibility of double taxation.

Following committee hearings of the Joint Committee on Finance, Public Expenditure and Reform and Taoiseach, both the Dáil and Seanad issued a reasoned opinion on 15 May 2018 that the Commission's digital tax proposals were in breach of the principle of subsidiarity.

OECD work on taxing the digital economy

Action 1 of the OECD/G20 Base Erosion Profit Shifting (BEPS) project considered addressing the tax challenges of the digital economy and following two years of consultation, the final BEPS report on Action 1 was published as one of the 15 actions in October 2015.

At that time the OECD said that they would come back to addressing the tax challenges of the digital economy in 2020 after reviewing the implementation of the other BEPS measures.

Following substantial public debate, the OECD Task Force on the Digital Economy was given a renewed mandate for their work on tax and digitalisation in January 2017.

The OECD Task Force on the Digital Economy published their Interim Report on the Tax Challenges Arising from Digitalisation on 16 March 2018.

The key points to note in the OECD interim report are:

- The report was agreed by more than 110 countries.
- The OECD stressed the importance of a comprehensive, long-term solution.
- The report does not recommend the introduction of interim measures because

there is no consensus on the merits of, or the need for interim measures.

- Members agreed to work towards a consensus-based solution by 2020 by undertaking a coherent and concurrent review of two fundamental tax concepts – "nexus" and "profit allocation rules."
- A number of countries are opposed to an interim measure because they believe that it will give rise to risks and adverse consequences irrespective of any limits that may be imposed on the design of such a measure. They do not agree that features of the digital economy such as "scale and mass", a heavy reliance on intangible assets or "user contribution" provide a basis for imposing an interim measure.
- The countries who are in favour of an interim measure acknowledge these challenges but believe they do not outweigh the need to ensure tax is paid in their country on certain e-services supplied in their country and that they can mitigate some of the adverse consequences through the design of the measure.
- Countries that are in favour of the introduction of interim measures recognise the need to take the following six design considerations into account:
    1. Be compliant with a country's international obligations
    2. Be temporary
    3. Be targeted
    4. Minimise over-taxation
    5. Minimise impact on start-ups, business creation and small business more generally
    6. Minimise cost and complexity

The OECD Task Force on the Digital Economy continue their work, meeting most recently in July 2018. An update on this work will be provided to the G20 in 2019, as members work towards a consensus-based solution by 2020.

Ireland continues to participate in the working groups at both EU and OECD level, actively engaging in the debate to have an international tax system which will meet the challenges and opportunities of the digitalised economy.

Common Consolidated Corporate Tax Base

The European Commission relaunched the Common Consolidated Corporate Tax Base (CCCTB) in October 2016, proposing it would be done through a two-step process:

1. Member States would agree a Common Corporate Tax Base, or CCTB, and (if that was agreed);
2. Member States would move ahead to agree a method of consolidation, CCCTB.

The CCCTB would be mandatory for multinationals with annual consolidated turnover above €750m that have taxable operations in any of the EU Member States. Smaller companies could opt in to the regime.

The common base (CCTB) would provide a single set of EU rules to determine how a group's profits would be taxed throughout the EU. For example, common rules for the tax treatment of depreciation, entertainment expenses, interest, R&D expenditure, dividend income and tax losses.

Once the common base of a group has been established, these profits would then be shared out between Members States in which the group is active, using an agreed allocation formula – based on the company's assets, labour and sales in a Member State. The Member State would then apply its own country corporate tax rate to those profits. Concerns have been expressed by several countries that an allocation formula based on sales could favour countries with larger populations over countries with smaller populations.

In December 2016, the Oireachtas Joint Committee on Finance, Public Expenditure and Reform and Taoiseach issued a Reasoned Opinion that the proposals for a CCTB/CCCTB breach the principle of subsidiarity.

The Department of Finance and Revenue are carrying out an analysis of the CCTB, to identify the extent to which it would change the existing Irish tax base. The Department's initial view is that the CCTB would narrow the tax base and result in less corporation tax revenue in Ireland.[20]

[20] Tax Strategy Group – TSG 18/01 Corporation Tax.

The discussions between Member States have primarily focused on the CCTB proposals and they have not yet reached a consensus on what the common base should look like.

In June, Germany and France published a joint position paper[21] on the CCTB proposal. Both countries are in favour of the Commission's proposals and suggest it should apply to all companies, regardless of size. Both countries agree that a harmonized corporate tax base should not feature any tax incentives.

Unanimity among Member States will be required before any proposal on CCTB or CCCTB can be adopted.

[21] Germany-France Common Position Paper on CCTB proposal, 19 June 2018.

Ireland has undertaken extensive work on corporate tax reform

GAAR

- Ireland has a GAAR (general anti-avoidance rule) since 1989 – one of the first countries in the world to have one. GAAR will only be introduced in most EU countries as part of ATAD (Anti-Tax Avoidance Directive).

Revenue investigations into offshore matters

- Ireland has had numerous Revenue investigations into offshore matters (e.g. bogus non-resident accounts, offshore trusts and structures and foreign income and assets) – the most recent in Q1/Q2 of 2017.

Mandatory disclosure regime

- Ireland introduced mandatory disclosure domestically in 2011 (something the EU is now only adopting across the EU). Only UK and Portugal had one apart from Ireland. We were ahead of other countries in this regard.
- Ireland will also be exchanging mandatory disclosures reported with other countries across the EU from 2020.

Reform of corporate tax residency rules

- Ireland changed its corporation tax residency rules in 2015, to remove "Double-Irish" structures by 2020 (there was a phasing out process).

Transparency and exchange of information

- Ireland was an early adopter of FATCA (exchange of financial account information with the US tax authorities). The 4th country to adopt it in 2012.
- Ireland was the first EU country to adopt country-by-country reporting in 2016 – well ahead of others.
- Ireland has adopted all the amendments to the EU Directive on Administrative Co-operation (DAC) to date, which has introduced automatic exchange of financial account information, tax rulings and country-by-country reports within the EU.
- Ireland has also adopted the OECD Common Reporting Standards (automatic exchange of financial account information between 59 other countries outside the EU and the US).
- Ireland was awarded the highest rating for transparency by the OECD Peer Review in 2017.

ATAD

- Ireland signed the EU Anti-Tax Avoidance Directive and as part of that we will introduce Controlled Foreign Company rules from 1 January 2019 (CFC Rules); introduce anti-hybrid rules (mismatches of tax treatments between EU countries) from 2020 and expand our exit tax provisions from 2020.

BEPS Multilateral Instrument

- Ireland was among the first group of countries to sign the OECD Multilateral Instrument in June 2017 (the mechanism for countries to adopt the tax treaty-related BEPS measures i.e. the new rules that need to be worked into tax treaties).

Review of the corporate tax code

- Ireland is currently reviewing its entire corporate tax code – review carried out by independent expert, Mr Seamus Coffey[22]. Mr Coffey's Review focused on the implementation of OECD BEPS measures, the EU ATAD in Ireland and the entire Irish transfer pricing regime. Mr Coffey has recommended that Ireland introduces new transfer pricing rules (based on the OECD 2017 Guidelines).

Active participation at EU and OECD level

- Ireland actively participates in EU Code of Conduct Group, the OECD Forum on Harmful Tax Practices and the OECD Taskforce on the Digital Economy.

[22] Review of Ireland's Corporation Tax Code presented to the Minister for Finance and Public Expenditure and Reform by Mr. Seamus Coffey, June 2017.

Chapter 7

Preparing SMEs for a Post-Brexit World

Institute's Tax Recommendations

WHAT DO IRISH BUSINESSES NEED TO INCREASE PRODUCTIVITY?

- BUSINESS ENVIRONMENT WITH TAX CERTAINTY
- ACCESS TO FINANCE
- MANAGERIAL CAPABILITY AND HUMAN CAPITAL
- INNOVATION AND R&D

Irish businesses have the significant potential to increase their productivity. Supporting them to internationalise and diversify their products and markets can ensure Ireland's tax base is more resilient to global changes beyond our control. It is now time to act. Tax policies should be implemented and administered in a seamless way which is barrier free for Ireland's SMEs.

What needs to be done?

Business environment with tax certainty

1. The **Finance Bill process** is so condensed that there is insufficient time to scrutinise legislation once announced in the Budget and consider potential unintended consequences of legislative changes. Tax legislation should be published for consultation in advance of the Finance Bill.

2. An ongoing focus on high quality **responsive Revenue services** for business is vital.

   Often businesses need to obtain an opinion from Revenue where there is uncertainty over the interpretation of tax provisions. **Revenue opinions** are an inherent part of any self-assessment tax system around the world and must continue.

   A comprehensive up-to-date list of **Revenue precedents** should also be published.

3. The **Tax Appeals Commission** (TAC) has an overwhelming number of appeals on hand and this is increasing daily. It is crucial that the TAC is adequately resourced so that it can operate as intended.

   Other actions also need to be taken to improve the tax appeals process, including:

   - A 'stop' on interest until the backlog can be resolved.
   - Clarity up-front on the basis for Revenue assessments.
   - Alternative Dispute Resolution mechanisms (mediation or arbitration) should be introduced to reduce the backlog.
   - A 'small claims court' model for disputes on straightforward issues.

4. **PAYE modernisation** will result in additional obligations on businesses and minor breaches could result in substantial penalties. It is now timely and necessary to examine the **proportionality of fixed penalties**, given the introduction of the new real-time PAYE regime for employers.

Access to finance

5. The **Employment Investment Incentive (EII)** is a financing tax measure, which encourages investors to place finance in early stage and small businesses that have limited funding options. While the EII is a welcome scheme, there are policy design features that act as barriers to investment and a restrictive administrative process that is stifling its use.

Recommendations on EII:

- The Institute welcomes the current consultation being undertaken by Indecon on the EII. It would be important to ensure that an economic analysis of the impact of the General Block Exemption Regulations (GBER) on the operation of EII is carried out as part of that review.
- Provide full EII relief in year one.
- Amend EII rules to recognise R&D as a qualifying trade.
- Review the impact of the connected party rules on SME start-ups.
- Raise the €150,000 Annual Investment Limit. (The UK equivalent scheme applies a Stg£1m annual cap).
- Extend EII relief to USC and PRSI.
- Simplify the administration of EII by;
    a. committing additional resources to processing EII applications,
    b. streamlining the Revenue outline approval process for the relief,
    c. providing more clarity on the information required to support an EII claim
    d. addressing uncertainty through enhanced Revenue guidance, and
    e. allowing taxpayers to claim EII tax relief against their prior year tax liability, which would reduce the administrative strain on resources, as the timing of the investment, would not be directly linked to the relief.

6. The **Start-up Relief for Entrepreneurs (SURE)**, which is an income tax refund scheme, should be extended to include new business founders who were previously self-employed and are starting up another business, as well as those coming from employment.

7. **Revised Entrepreneur Relief** is restricted to owner-mangers and locks out much-needed external investors from the possibility of a lower CGT rate. This disparity should be removed. The €1m lifetime threshold for entrepreneur relief also needs to be increased to a minimum of €10m to compete effectively with other countries for international capital.

Managerial capability and human capital

8. Our share option regime for SMEs, the **Key Employee Engagement Programme (KEEP)** contains significant limitations.

   Recommendations on KEEP:

   - There is a cap on the value of share options that can be granted under KEEP. The third part of the test which requires the options to be below 50% of the employees' annual emoluments is restricting high-growth companies in start-up mode availing of the scheme and should be removed.
   - Employees who transfer to a group company should be allowed to retain their KEEP options.
   - Holding companies generally do not only own shares and are not always the 100% parent company, which is what is required under KEEP. The definition of a 'holding company' should be amended to adopt a similar definition to that contained within entrepreneur relief.
   - It is common for company share schemes to manage the delivery of shares to eligible employees under a trust arrangement. They will often make available shares for key recruits from a pool of existing shares set aside for that purpose. The flexibility to operate these common and accepted practices is not available under KEEP and that is significantly limiting the use of the regime.
   - A substantial challenge for SMEs wishing to operate a KEEP scheme will be to provide assured liquidity for their shares, as not all of these companies are likely to be sold or listed on a stock exchange, but the KEEP does not permit the buy-back of shares.
   - KEEP provisions should allow for CGT treatment to continue to apply where a SME undergoes a corporate reorganisation during the period in which the KEEP share option rights are outstanding.
   - 'Safe harbour' approaches to share valuation for KEEP purposes should be developed to ensure the scheme is more accessible, easily understood and capable of implementation without undue duplication of effort and cost to SMEs.

9. Consideration should be given to developing a new talent regime similar to **SARP** but targeted at SMEs, so that they can attract the talent and skills they need from outside Ireland to grow their business.

10. Uncertainty remains over the **tax treatment of travel expenses** for many home workers, freelancers, employers with staff sent abroad to build the business and those dealing with the new working patterns of the modern world. Legislation is this area urgently needs to be brought up to date to deal with this issue.

Innovation and R&D

11. The **R&D tax credit** regime restricts outsourcing and collaboration, which is at odd with best practice international standards. The outsourcing restrictions should be removed.

12. Every effort should be made to remove administrative blockers for businesses that need to claim the R&D tax credit, including:
    - A Revenue pre-approval process would bring much-needed certainty for taxpayers and subsequently prevent disagreements and costly future audits. HMRC operates an "Advance Assurance" service for small companies submitting their first claim.
    - Ireland needs an SME focused campaign and Centre of Excellence within Revenue, like the extensive and specialised R&D tax credit supports in the UK.
    - Sector specific Revenue guidance for each industry sector such as food and beverages, ICT, bio-medical, all of which engage in very different R&D processes.

The Institute highlighted these key tax issues in its Pre-Budget 2019 submission

1 Appendix

Rates and Bands 2018

Income Tax

A single employee only pays income tax once they earn more than €16,500. Once they earn above this amount they pay:

- 20% tax on income from €16,500 up to €34,550 and
- 40% tax on the remainder.

The amount of income subject to the standard rate can vary depending on the status of the taxpayer.

Personal income tax rates 2018	20% on income up to	40% on
Single person pays	€34,550	Balance
Married couple (one income)	€43,550	Balance
Married couple (two incomes)	€69,100*	Balance
One parent/widowed parent	€38,550	Balance

* For a married couple with two earners, the first person has a standard rate band of €43,550 and the second person has a maximum standard rate band of €25,550.

USC

Unlike income tax, if you earn over €13,000 you pay USC on all your income at the rates below:

2018 Rates	2018 Bands
0.5%	All income up to €12,012
2%	€12,013 to €19,372
4.75%	€19,373 to €70,044
8%	€70,045 and above
11%	Non-PAYE income that exceeds €100,000

PRSI

PRSI is divided into 11 different classes, falling broadly into five categories:

1. Employees in the private sector and certain public servants (Classes A, E and J).
2. Certain other public servants (Classes B, C, D and H).
3. Self-employed people, which includes company shareholders controlling over 50% of shares (Class S). Class P applies to certain self-employed share-fishermen.
4. People who pay no PRSI (Class M).
5. Certain Public Office Holders and employed persons with unearned income over €5,000 (Class K).

More details about the individuals covered by each of the eleven PRSI classes, together with the related employee and employer rates are set out at Appendix 6.

The corresponding benefits that an individual may qualify for under each PRSI class are outlined in Appendix 7.

PRSI for employees

PRSI Class A contributions are the most common contributions paid by employers and employees in Ireland. PRSI relating to employees is paid by both the employee themselves and their employer. It is paid at the rate set out in the two tables overleaf.

However, there are two important points to understand in relation to PRSI:

1. It applies week by week (unlike income tax or USC). This means that an employee who earns €350 one week, will not pay any employee PRSI. However, if that same employee earns €400 the following week, they will be charged employee PRSI of €12 (i.e. €400 at 4% less €4 PRSI tapered credit). Liability to employee and employer PRSI is assessed each week.
2. Employer PRSI differs from employee PRSI in that it is payable from the first euro. This means that hiring a person is expensive for small businesses because there is no exemption.

Employee PRSI (Class A)	Rate
Earnings of €352 or less per week	Exempt
Earnings over €352 per week	4%

Employer PRSI (Class A)	Rates
Earnings not exceeding €376 per week	8.6%*
Earnings over €376 per week	10.85%*

*The Class A employer PRSI rates of 8.6% and 10.85% include 0.8% relating to the National Training Fund Levy. The National Training Fund Levy was increased by 0.1% in Budget 2018 (from 0.7% to 0.8%), as part of a plan to incrementally increase the levy over 3 years to 1% by 2020.

PRSI for the self-employed

Self-employed people with total income of more than €5,000 in a tax year, pay Class S PRSI contributions at 4%.

2 Appendix

Tax Freedom Day 2008

3 Appendix

Changes made to USC since its introduction in 2011 – Analysis Budget by Budget

- The USC entry point has been changed three times over the past seven Budgets.
- Bands have also changed four times in that period.

Budget 2011

- When USC was first introduced in 2011, the entry point was €4,004 and the rates were as follows:

2011 Rates	Band
Exempt	Income less than €4,004
2%	All income up to €10,036
4%	€10,037 to €16,016
7%	€16,076 and above*

* A maximum 4% rate applied if the individual was a full medical card holder or aged 70 years or older (with or without a medical card).

Budget 2012

- In 2012, the entry point was increased to €10,036 per annum.

Budget 2013

- In 2013, restrictions were introduced to the (then) 4% rate cap for medical card holders and those aged over 70 years. Since that change, the capped rate (now 2.5%) has only been available to those taxpayers with total income for the year of €60,000 or less. This total income limit of €60,000 does not include social welfare payments that are exempt from USC.

Budget 2014

- No USC changes.

Budget 2015

- In 2015, the USC regime was significantly restructured. A number of changes were made to the rates and bands as summarised in the table below. The objective was to reduce the USC burden but in a way that was targeted at lower and middle-income earners. To do this, the Government;
- Increased all USC bands.
- Increased the entry point further from €10,036 to €12,012, which according to the Minister for Finance at the time would remove "80,000 low income earners from the charge altogether."[1] As it transpired, 91,413[2] additional income earners were outside of the USC net in 2015 according to the Tax Strategy Group.
- Reduced the two lower USC rates to 1.5% and 3.5%.
- Introduced a higher 8% rate on all PAYE income over €70,044 to effectively cap the benefit from the 1% income tax rate reduction in that year for those earning over €70,044.
- This was also the year when a new and higher rate of USC was introduced for the self-employed with incomes over €100,000.

2015 Rates	Band
Exempt	Income less than €12,012
1.5%	All income up to €12,012
3.5%	€12,013 to €17,576
7%	€17,577 to €70,044*
8%	€70,045 and above
11%	Non-PAYE income that exceeds €100,000

* A maximum 3.5% rate applied if the individual was a medical card holder or aged 70 years or older (with or without a medical card) and their total income was less than €60,000.

Budget 2016

- In 2016, the programme of USC reductions aimed at lower and middle-income earners continued. The marginal tax rate for those earning below €70,044 was reduced to below 50% (i.e. 49.5%) for the first time since 2008.

[1] Statement of the Minister for Finance, Mr Michael Noonan, T.D., 14 October 2014.
[2] Based on figures taken from Tax Strategy Group Paper - TSG 15/09.

- The entry point to USC was further increased to €13,000.
- The 1.5%, 3.5% and 7% rates were reduced to 1%, 3% and 5.5% respectively and the 3% band was extended.
- The benefits were capped for income earners above €70,044.

2016 Rates	Band
Exempt	Income less than €13,000
1%	All income up to €12,012
3%	€12,013 to €18,668
5.5%	€18,667 to €70,044*
8%	€70,045 and above
11%	Non-PAYE income that exceeds €100,000

* A maximum 3% rate applied if the individual was a medical card holder or aged 70 years or older (with or without a medical card) and their total income was less than €60,000.

Budget 2017

- The USC reduction programme below €70,044 continued in 2017, with the three lower rates reduced further and the lower band increased for a third year.

2017 Rates	Band
Exempt	Income less than €13,000
0.5%	All income up to €12,012
2.5%	€12,013 to €18,772
5%	€18,773 to €70,044*
8%	€70,045 and above
11%	Non-PAYE income that exceeds €100,000

* A maximum 2.5% rate applied if the individual was a medical card holder or aged 70 years or older (with or without a medical card) and their total income was less than €60,000.

Budget 2018

- Further reductions to the USC for lower to middle income earners, with two of the lower rates reduced and the lower band increased for a fourth year.
- However, no further steps were taken to increase the USC entry point.

2018 Rates	Band
Exempt	Income less than €13,000
0.5%	All income up to €12,012
2%	€12,013 to €19,372
4.75%	€19,373 to €70,044*
8%	€70,045 and above
11%	Non-PAYE income that exceeds €100,000

* A maximum 2% rate applies if the individual is a medical card holder or aged 70 years or older (with or without a medical card) and their total income was less than €60,000.

Appendix

Reduced USC rates for medical card holders and those aged over 70

- Individuals aged 70 years or over and those with a full medical card pay a maximum USC rate of 2% provided their total income is not more than €60,000 a year.
- In Budget 2018, the reduced rate for full medical card holders was extended for two years to the end of 2019.
- There is no time limit on the availability of the reduced rate of USC for those aged over 70.

Full Medical Card Holders		Aged 70 years and older	
Annual income < €60,000	**Annual income > €60,000**	**Annual income < €60,000[a]**	**Annual income > €60,000**
Max. USC rate 2%[b] Due to expire end of 2019	Max. USC rate 11%	Max. USC rate 2%[b] No expiry date	Max USC rate 11%

[a] The €60,000 income cap does not include payments that are exempt from USC, such as the state pension.
[b] If the reduced rate did not apply, then the maximum USC rate would be 4.75% for incomes below €60,000.

5 Appendix

Additional extracts from the Revenue Ready Reckoner Pre-Budget 2019

Income Earners by Gross Income Range in 2019

€ Range of Gross Income		Number of Taxpayer Units*	€ Million Income	€ Million Tax/USC
0	10,000	466,700	2,133	0.9
10,000	13,000	135,294	1,556	1.0
13,000	15,000	94,768	1,327	9.6
15,000	18,000	137,057	2,270	31
18,000	20,000	96,651	1,837	54
20,000	25,000	225,497	5,064	256
25,000	27,000	80,540	2,086	134
27,000	30,000	114,589	3,282	247
30,000	35,000	199,458	6,476	580
35,000	40,000	177,011	6,597	724
40,000	50,000	263,637	11,821	1,686
50,000	60,000	191,708	10,495	1,826
60,000	70,000	128,805	8,332	1,616
70,000	75,000	50,900	3,686	759
75,000	80,000	46,571	3,605	781
80,000	90,000	71,934	6,101	1,419
90,000	100,000	52,360	4,968	1,246
100,000	150,000	118,114	14,127	4,101
150,000	200,000	34,682	5,915	2,035
200,000	275,000	18,512	4,282	1,626
Over	275,000	18,748	10,050	4,341
Total		2,723,500	116,010	23,473

*Married persons or civil partners who have elected or who have been deemed to have elected for joint assessment are counted as one tax unit.

The Income Tax/USC figures do not take into account the Earned Income Credit.

Increases and Decreases to Income Tax and USC Rates

		€ Million First Year	€ Million Full Year
Cost of 1% point decrease in Income Tax rates	20% rate	-567	-660
	40% rate	-287	-348
Yield from 1% point increase in Income Tax rates	20% rate	571	664
	40% rate	286	347
Yield from introduction of 3rd rate of Income Tax of 41%	Earnings over 80,000	114	144
	Earnings over 100,000	88	113
	Earnings over 120,000	72	93
Yield from introduction of 3rd rate of Income Tax of 43%	Earnings over 80,000	341	433
	Earnings over 100,000	263	339
	Earnings over 120,000	215	280
Cost of 1% point decrease in USC rates	Decrease 0.5% rate to 0%	-117	-136
	Decrease 2% rate to 1%*	-157	-183
	Decrease 4.75% to 3.75%	-349	-408
	Decrease 8% rate to 7%**	-135	-171
Yield from 1% point increase in USC rates	Increase 0.5% rate to 1.5%	233	272
	Increase 2% rate to 3%*	157	183
	Increase 4.75% rate to 5.75%	349	408
	Increase 8% rate to 9%**	135	171

*Includes the reduced rate USC for Medical Card holders.

**Includes those paying the 3% surcharge on non-PAYE income exceeding €100,000 in a year.

Cost of Increasing Income Tax Credits

		€ Million First Year	€ Million Full Year
Increase Single Persons Credit by €100	From €1,650 to €1,750	80	92
Increase Married or in a Civil Partnership Credit by €200	From €3,300 to €3,500	128	151
Increase Widowed Person or surviving Civil Partner (without qualifying child) Credit by €100	From €2,190 to €2,290	5.9	7
Increase Single Person Child Carer Tax Credit by €100	From €1,650 to €1,750	3.2	3.7
Increase PAYE Credit by €50	From €1,650 to €1,700	89	103
Increase Earned Income Credit by €50	From €1,150 to €1,200	6.8	12.1
Increase Earned Income Credit by €150	From €1,150 to €1,300	20.0	36
Increase Earned Income Credit by €500	From €1,150 to €1,650	68	121
Increase Home Carer's Credit by €50	From €1,200 to €1,250	3.5	4
Increase Dependent Relative Credit by €20	From €70 to €90	0.6	0.7
Increase Incapacitated Child Credit by €100	From €3,300 to €3,400	1.9	2.2
Increase Blind Persons Credit (incl. Guide Dog)		0.5	0.6
By €500 for single person	From €1,650 to €2,150		
By €1,000 for both spouses/civil partners blind	From €3,300 to €4,300		
Increase Widowed Parent or surviving Civil Partner Bereavement Credit by €100		0.2	0.3
Increase Age Credit		14	16
By €50 for single/widow/surviving Civil Partner	From €245 to €295		
By €100 for married/civil partners	From €490 to €590		

Cost of Widening of Income Tax Standard Rate Bands

Single & Widowed or surviving Civil Partner - Current Band €34,550			
Band	Revised	€ Million	€ Million
€100	€34,650	7.8	9.0
€500	€35,050	39	45
€1,000	€35,550	77	88
€1,500	€36,050	113	130

Married or in a Civil Partnership, one Spouse or Civil Partner with Income - Current Band €43,550			
Band	Revised	€ Million	€ Million
€100	€43,650	2.6	3.2
€500	€44,050	13	16
€1,000	€44,550	26	31
€1,500	€45,050	39	47

Married or in a Civil Partnership, both Spouses or Civil Partners with Income - Current Bands €43,550 for Major Earner and €25,550 for Minor Earner				
Band Increase	Revised Band Major Earner	Revised Band Minor Earner	€ Million First Year Cost	€ Million Full Year Cost
€100	€43,650	€25,650	8.2	9.6
€500	€44,050	€26,050	41	47
€1,000	€44,550	€26,550	81	94
€1,500	€45,050	€27,050	119	139

Total Cost of Band Widening		
Band Increase	€ Million First Year Cost	€ Million Full Year Cost
€100	19	22
€500	93	108
€1,000	183	213
€1,500	271	316

Assumes the maximum allowable transferability of €9,000 across the board.

These costs do not take into account the Earned Income Credit

Cost of Increasing USC Rate Bands

		€ Million	
		First Year	Full Year
Income under €13,000 is exempt	Increase by €100 to €13,100	0.4	0.5
	Increase by €500 to €13,500	2.2	2.6
	Increase by €1,000 to €14,000	4.5	5.3
	Increase by €1,500 to €14,500	7	8
First €12,012 is charged at 0.5%*	Increase by €100 to €12,112	3.6	4.2
	Increase by €500 to €12,512	15	18
	Increase by €1,000 to €13,012	29	34
	Increase by €1,500 to €13,512	44	52
From €12,013 to €19,372 is charged at 2%*	Increase by €100 to €12,113 and €19,472	6.9	8.1
	Increase by €500 to €12,513 and €19,872	34	40
	Increase by €1,000 to €13,013 and €20,372	68	80
	Increase by €1,500 to €13,513 and €20,872	102	119
From €19,373 to €70,044 is charged at 4.75%*	Increase by €100 to €19,473 and €70,144	5.0	5.8
	Increase by €500 to €19,873 and €70,544	24	27
	Increase by €1,000 to €20,373 and €71,044	47	54
	Increase by €1,500 to €20,873 and €71,544	69	80
Above €70,045 is charged at 8%*	Increase by €500 to €70,545	3.7	4.4
	Increase by €1,000 to €71,045	7.6	9.0
	Increase by €2,000 to €72,045	15	18
	Increase by €5,000 to €75,045	35	42

*The €13,000 exemption threshold remains unchanged for the USC rate band increases.

Cost of Indexation

		€ Million	
		First Year	Full Year
Indexation at 1%	Personal Tax Credits (including Home Carer's Credit) with rate bands	106	124
	Exemption limits, Personal Tax Credits with rate bands	112	131
	PAYE Credit, Exemption limits, Personal Tax Credits with rate bands	143	166
	Earned Income Credit	0.7	1.2
	USC rate bands and exemption limits	18	21

Appendix

Description of people covered by each of the eleven PRSI classes and applicable rates

Class A	• Employees in industrial, commercial and service-type employment with gross earnings of €38 or more a week from all work. • Civil and public servants recruited from 6 April 1995. • Community Employment workers from 6 April 1996.	Employee Rate – 4% Employer Rate - 8.6%/10.85% (0.5% employer rate apples to community employment participants under Class A8 & A9)
Class B	• Permanent and pensionable civil servants, registered doctors and dentists employed in the civil service and Gardaí, recruited before 6 April 1995.	Employee Rate – First 1,443 at 0.9%; Balance at 4%. Employer Rate – 2.01%
Class C	• Commissioned Army Officers and members of the Army Nursing Service recruited before 6 April 1995.	Employee Rate – First 1,443 at 0.9%; Balance at 4%. Employer Rate – 1.85%
Class D	• Permanent and pensionable employees in the public service, other than those mentioned in Classes B and C, recruited before 6 April 1995.	Employee Rate – First 1,443 at 0.9%; Balance at 4%. Employer Rate – 2.35%
Class E	• Ministers of religion employed by the Church of Ireland Representative Body.	Employee Rate – 3.33% Employer Rate – 6.85%
Class H	• Non-Commissioned Officers and enlisted personnel of the Defence Forces.	Employee Rate – 3.90% Employer Rate – 10.15%
Class J	• Employees in industrial, commercial and service-type employment with gross earnings of less than €38 a week from all work. • People insured for Occupational Injuries Benefits only (e.g. employees over pensionable age). • People taking part in certain Solas training schemes insurable for Occupational Injuries Benefits only. • People whose employment is of a subsidiary nature or of inconsiderable extent (e.g. people insurable at Class B, C, D or H in their main employment and who have a second job). • Attendants at Department of Education and Skills examinations. • Presiding officers and poll clerks at elections and R.D.F members on Annual training.	Employee Rate – Nil Employer Rate – 0.50%

Class K	• Certain public office holders (the President, the holder of a 'qualifying office', members of the Oireachtas, the judiciary, certain military judges, the Attorney General, the Comptroller and Auditor General, members of a local authority and certain members of the European Parliament), who earn over €5,200 a year. These Public Office holders pay PRSI at a rate of 4% on all income. • Any of these specified public office holders who earn €5,200 a year or less (€100 a week or less) have a nil liability – see Class M. • From 1 January 2013, Class K also applies to the additional earned self-employed income over €5,000 from a trade or profession that an individual liable to PRSI under another class has and on any unearned income they have.	Employee Rate – 4% Employer Rate – Nil
	• From 1 January 2014, employed contributors and occupational pensioners aged under 66 years whose only additional income is unearned may be liable for PRSI contributions on this income.	

Class M	• People with no contribution liability such as:
	  • Employees under age 16.
	  • Over pensionable age (including those previously liable for Class S).
	  • persons in receipt of occupational pensions or lump-sum termination payments.
	  • People with Class K with a nil liability (public office holders with a weekly income of less than €100 a week).
		Nil

Class P	• Self-employed people whose main income comes from share fishing.	Self-employed Rate – 4%
Class S	• Self-employed people such as farmers, certain company directors, sole traders and certain people with income from investments, rents and maintenance, where the income is €5,000 or more a year from all sources.	Self-employed Rate – 4% Minimum contribution of €500

Note: People who are not covered by compulsory PRSI may opt to become Voluntary Contributors if they satisfy certain conditions

Appendix

PRSI Classes and Corresponding Benefits

PRSI Classes and Corresponding Benefits										
Class A Benefits	**Class B Benefits**	**Class C Benefits**	**Class D Benefits**	**Class E Benefits**	**Class H Benefits**	**Class J Benefits**	**Class K Benefits**	**Class M Benefits**	**Class S Benefits**	**Class P Benefits**
Jobseeker's Benefit Illness Benefit Maternity Benefit Adoptive Benefit Health and Safety Benefit Invalidity Pension Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) State Pension (Contributory) State Pension (Transition) Treatment Benefit Occupational Injuries Benefit Carer's Benefit Paternity Benefit Partial Capacity Benefit	Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) Limited Occupational Injuries Benefit Carer's Benefit	Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) Carer's Benefit	Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) Occupational Injuries Benefits Carer's Benefit	Illness Benefit Maternity Benefit Adoptive Benefit Health and Safety Benefit Invalidity Pension Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) State Pension (Contributory) State Pension (Transition) Treatment Benefit Carer's Benefit Paternity Benefit	Jobseeker's Benefit Illness Benefit Maternity Benefit Adoptive Benefit Health and Safety Benefit Invalidity Pension Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) State Pension (Contributory) State Pension (Transition) Treatment Benefit Carer's Benefit Paternity Benefit	Occupational Injuries Benefits	None	Occupational Injuries Benefits, in certain cases	Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) State Pension (Contributory) Maternity Benefit Adoptive Benefit Paternity Benefit Treatment Benefit (from 27 March 2017) Invalidity Pension (from December 2017)	Limited Jobseeker's Benefit Limited Illness Benefit Treatment Benefit

8 Appendix

List of goods and services that can be subject to reduced VAT rates under EU law

ANNEX III

LIST OF SUPPLIES OF GOODS AND SERVICES TO WHICH THE REDUCED RATES REFERRED TO IN ARTICLE 98 MAY BE APPLIED

(1) Foodstuffs (including beverages but excluding alcoholic beverages) for human and animal consumption; live animals, seeds, plants and ingredients normally intended for use in the preparation of foodstuffs; products normally used to supplement foodstuffs or as a substitute for foodstuffs;

(2) supply of water;

(3) pharmaceutical products of a kind normally used for health care, prevention of illnesses and as treatment for medical and veterinary purposes, including products used for contraception and sanitary protection;

(4) medical equipment, aids and other appliances normally intended to alleviate or treat disability, for the exclusive personal use of the disabled, including the repair of such goods, and supply of children's car seats;

(5) transport of passengers and their accompanying luggage;

(6) supply, including on loan by libraries, of books on all physical means of support (including brochures, leaflets and similar printed matter, children's picture, drawing or colouring books, music printed or in manuscript form, maps and hydrographic or similar charts), newspapers and periodicals, other than material wholly or predominantly devoted to advertising;

(7) admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities;

(8) reception of radio and television broadcasting services;

(9) supply of services by writers, composers and performing artists, or of the royalties due to them;

(10) provision, construction, renovation and alteration of housing, as part of a social policy;

(10a) renovation and repairing of private dwellings, excluding materials which account for a significant part of the value of the service supplied;

(10b) window-cleaning and cleaning in private households;

(11) supply of goods and services of a kind normally intended for use in agricultural production but excluding capital goods such as machinery or buildings;

(12) accommodation provided in hotels and similar establishments, including the provision of holiday accommodation and the letting of places on camping or caravan sites;

(12a) restaurant and catering services, it being possible to exclude the supply of (alcoholic and/or non-alcoholic) beverages;

(13) admission to sporting events;

(14) use of sporting facilities;

(15) supply of goods and services by organisations recognised as being devoted to social wellbeing by Member States and engaged in welfare or social security work, in so far as those transactions are not exempt pursuant to Articles 132, 135 and 136;

(16) supply of services by undertakers and cremation services, and the supply of goods related thereto;

(17) provision of medical and dental care and thermal treatment in so far as those services are not exempt pursuant to points (b) to (e) of Article 132(1);

(18) supply of services provided in connection with street cleaning, refuse collection and waste treatment, other than the supply of such services by bodies referred to in Article 13.

(19) minor repairing of bicycles, shoes and leather goods, clothing and household linen (including mending and alteration);

(20) domestic care services such as home help and care of young, elderly, sick or disabled;

(21) Hairdressing.

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