Irish Tax Institute

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Pre-Budget 2020 Briefing Papers

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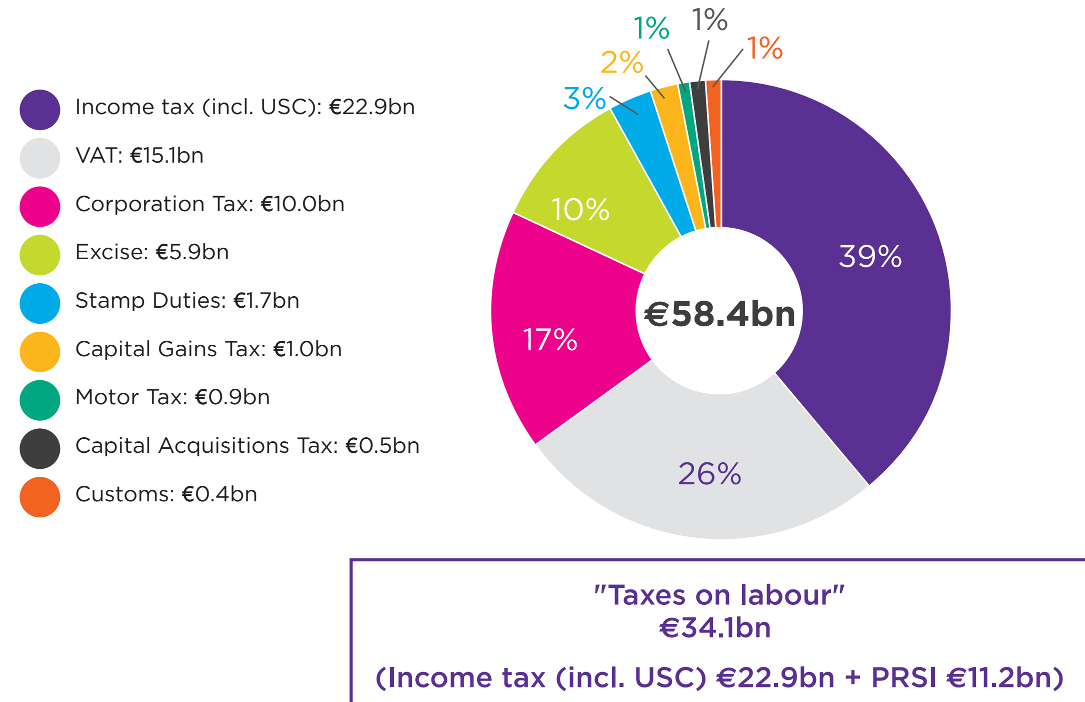
Chapter 1

The Tax Base

Size and Composition of Ireland's Tax Base

Ireland's Tax base - 2019 projected

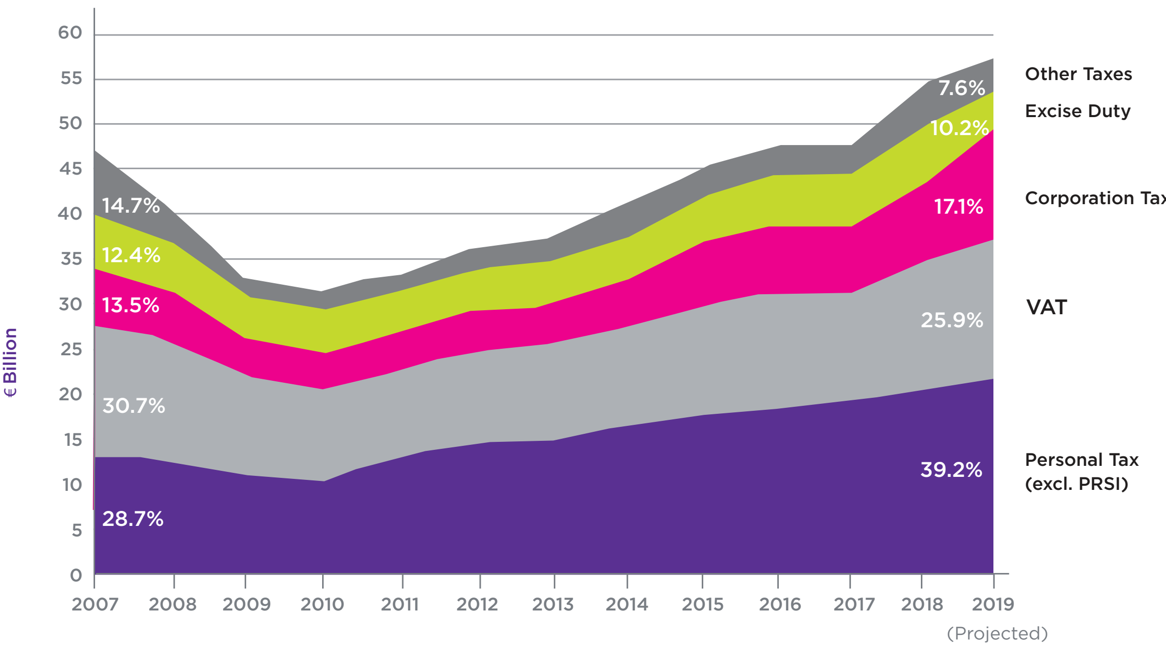


- Income tax (including USC) yields most for the Exchequer. They are estimated to total €22.9bn in 2019.
- Total PRSI contributions are expected to rise to €11.2bn in 2019. This is equivalent to 49% of the total estimated personal tax yield (income tax + USC) for 2019 (€22.9bn).
- It is important to note that the estimated PRSI contributions amounting to €11.2bn for 2019 are received in addition to the projected total Exchequer tax yield of €58.4bn[1] for the year.
- The total monies collected for the Exchequer (including PRSI) estimated for 2019 is €69.6bn.

[1] Ireland's Stability Programme, April 2019 Update, Department of Finance. (Figures rounded to one decimal point).

Exchequer reliance on personal tax has increased

Change in the composition of the tax base 2007 – 2019



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

- 'Income tax + USC' now account for 39.2% of the total tax yield.

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

- Corporation tax is the third largest tax head accounting for a projected 17% of total tax receipts in 2019 (compared to 13.5% in 2007).

Capital Gains Tax

- Capital gains tax (CGT) receipts are expected to account for just 1.7% of total Exchequer receipts in 2019.
- The Tax Strategy Group previously acknowledged that a change in the overall rate of 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]

Exchequer receipts from CGT over the last 25 years

[2] Tax Strategy Group, TSG 18/10 Capital and Savings Taxes.
[3] On 15/10/08 the rate increased from 20% to 22%. On 08/04/09 the CGT rate increased from 22% to 25%. On 07/12/11 the rate increased from 25% to 30%. On 06/12/12 the rate increased from 30% to 33%.

Local Property Tax

- Local Property Tax (LPT) came into effect in 2013. The yield has remained relatively flat since its introduction, fluctuating between €463m and €491m in the years 2014 to 2018.[4] LPT receipts are paid into the Local Government Fund rather than the Exchequer.
- When LPT was first introduced, the date on which property owners were required to establish the market value of their properties for calculating their LPT liabilities was 1 May 2013.[5]
- The second valuation of residential properties was due to take place on 1 November 2016. However, the Government has postponed the revaluation date for the LPT, initially to 1 November 2019 and most recently to 1 November 2020.
- This postponement has resulted in property owners continuing to have their properties valued for LPT purposes based on their 1 May 2013 declared valuations.
- A regular review of the valuation bands is necessary to avoid unexpected spikes or falls in LPT yields in the years to come. To manage these fluctuations, it may be appropriate to also review the rates and/or band structures as well as the valuation. There is a range of policy levers that can be chosen by Government but action needs to be taken as a matter of urgency. If LPT is to survive as an arm in our tax system, it must be reviewed regularly so that it remains current.
- It is important that the LPT is broadly based and to consider whether current, albeit limited, exemptions remain appropriate. For example, the exemption for individuals who were first-time buyers in 2013 has been widely flagged as an issue to be reconsidered.
- It is essential that low income property owners are allowed to defer payment of LPT. However, the relevant income thresholds should be periodically reviewed and revised in line with the Consumer Price Index.[6]

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

Chapter 2

The Personal Tax Base

The Minster for Finance's decision to write his forthcoming budget on the assumption of a no deal Brexit is prudent. He has ruled out cuts in personal taxation, concluding that resources should be preserved to support those sectors of the economy that will be most impacted by an abrupt departure of the UK from the EU.

The Institute supports that decision as a necessary, short-term response to a looming economic shock. But Ireland's system of personal taxation needs more than a twelve-month respite from increases. If our small open economy is to withstand this period of global uncertainty, we need a robust and stable taxation system that is not over dependent on any group or sector.

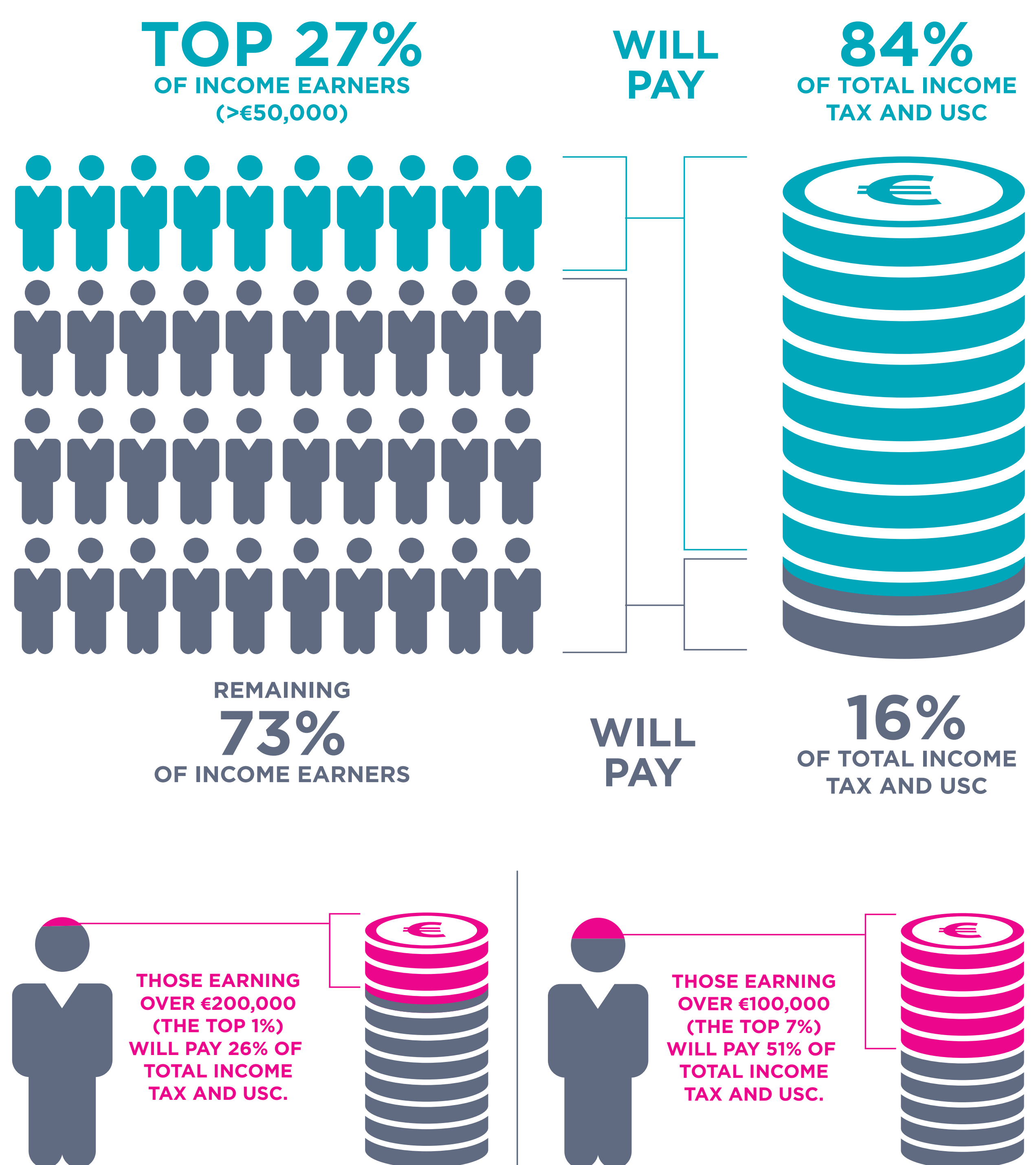
In that context, Ireland's personal tax regime should be broadly based, simple, fair and transparent. It should support economic growth while redistributing income to lower paid workers. The Institute believes that everybody who works should contribute to the Exchequer according to their means and that those who earn most, must contribute most. At the same time, we believe our personal tax system must be internationally competitive and must incentivise work.

In this chapter, we look at the current state of personal taxes and analyse options for their future direction.

Who pays what?

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

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



Number of income tax payers and USC payers

Income Tax Rates	Number of income earners in 2020	% of income earners in 2020
Exempt	943,500	34%
20% Standard rate	1,233,400	44%
40% Higher rate	603,300	22%
Total income earners	**2,780,300**	

Source: Revenue Ready Reckoner – Pre Budget 2020, August 2019. (Figures should tot to €2,780,200 - assume difference in total, as per the Revenue Ready Reckoner, is due to rounding).

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

Source: Revenue Ready Reckoner – Pre Budget 2020, August 2019.
Note: There were 23,570[3] income earners in 2019 who paid the higher 11% USC rate on non-PAYE income over €100,000 – equating to 1% of income earners in 2019

[1] A taxpayer will only pay the 0.5% USC rate where they earn more than the USC entry point of €13,000. In that case, they pay 0.5% on the first €12,012 and 2% on the balance up to €19,874.
[2] A maximum 2% rate applies to income over €19,874 if an individual is a full medical card holder or is aged 70 or older (with or without a medical card), provided their total income is less than €60,000.
[3] Tax Strategy Group – TSG 19/03 Income Tax.

Progressivity in the tax system

Successive Irish governments over the last two decades have used the tax system, combined with social welfare payments, to reduce income inequality. OECD data going back to 2004 show a steady pattern of increasing income redistribution[4] while the most recent data indicates that the Irish tax system is the most progressive within EU members of the OECD.

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

The Step-effect				
Income Level	**Top Marginal Tax Rate**	**Top Income Tax**	**Top USC Rate**	**Top PRSI Rate**
€18,000	22% =	20%	2%	0%
€25,000	28.5% =	20%	4.5%	4%
€40,038.96 (average wage[5])	48.5% =	40%	4.5%	4%
€70,044	52% =	40%	8%	4%
€100,000 (self-employed income)	55% =	40%	11%	4%

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

The multiples (salary levels v tax levels)

Personal Tax

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

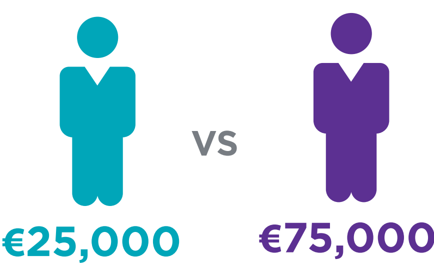
USC and the cap at €70,044

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

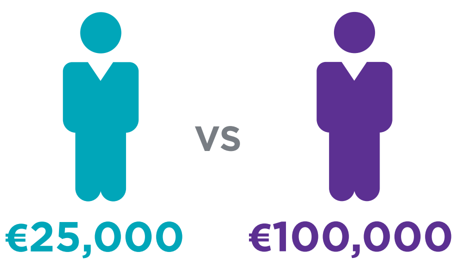
[4] See Appendix 2.
[5] Figure based on average weekly earnings of €769.98 in Ireland in Q1, 2019 per CSO.

The multiples (salary levels v tax levels)

- 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 7 years.
- We take €25,000 as a salary level for the purposes of this analysis.



Salary of €25,000 versus €75,000	2012	2016	2019
Earning X times the salary of an individual on €25,000	3	3	3
Paying X times the personal tax (income tax, USC and PRSI) of an individual on €25,000	8	7.9	8.1
Looking at income tax on its own, a person on €75,000 pays X times the income tax of an individual on €25,000	12.1	11.7	11.6
Looking at USC on its own, a person on €75,000 pays X times the USC of an individual on €25,000	4.3	5.3	6.4



Salary of €25,000 versus €100,000	2012	2016	2019
Earning X times the salary of an individual on €25,000 (The multiples)	4	4	4
Paying X times the personal tax (income tax, USC and PRSI) of an individual on €25,000	11.6	11.7	12.2
Looking at income tax on its own, a person on €100,000 pays X times the income tax of an individual on €25,000	18.1	17.6	17.4
Looking at USC on its own, a person on €100,000 pays X times the USC of an individual on €25,000	5.9	8.3	10.9

The change in the personal tax base since 2010

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

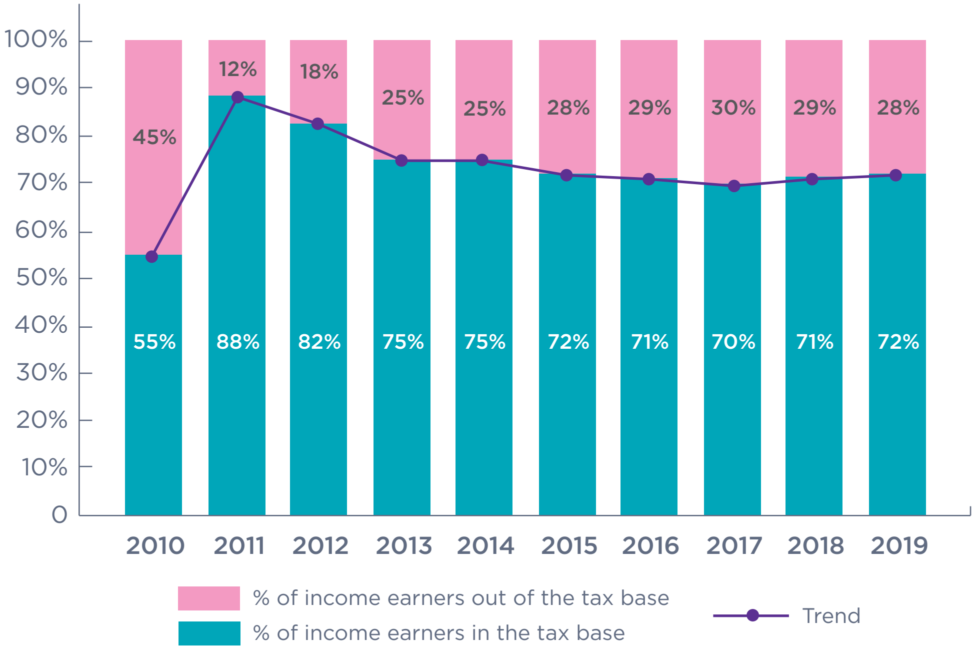
Initially, there were three rates: 2%, 4% and 7%. In Budget 2015, concerned about how much higher income earners might gain from tax reductions in any individual budget, the Government introduced a new 8% USC rate on incomes over €70,044. Simultaneously, the top income tax rate was reduced by 1%. As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

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

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

When first introduced, the USC replaced the Income Levy and the Health Levy. It was intended to broaden and rebuild an income tax base that had been hollowed out to the point where 45% of income earners were outside of the tax net. Initially, just 12% of taxpayers were exempt from the charge: 8 years later, 28% are exempt. As the Tax Strategy Group concluded: *"It could be argued … that further significant modifications to the USC could undermine the restructuring of the income tax system."*[6]

The change in the personal tax base since 2010



[6] Tax Strategy Group - TSG 19/03 Income Tax p18.

The IMF has noted that the changes to the USC since 2014 mean it no longer materially increases the tax base compared to income tax.[7] However, wage increases over the last two years have brought more people into the USC net. We expect that trend to continue in 2020 given the Minister's statement that there are to be no tax reductions in the forthcoming budget.

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

Future Options for USC

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

According to the Tax Strategy Group, the Report, which has not been published, found that all of options examined by the Working Group involved a trade-off between simplicity in design, loss of revenue to the State overall and losses/gains to taxpayers, with middle income earners losing out and higher earners gaining.[8]

The Tax Strategy Group suggests that, as an alternative to amalgamation with PRSI, the Government might now turn its attention to an IMF proposal for a "*recalibrated income tax*" that would incorporate some of the characteristics of the USC – progressivity, individualisation and stability – into the income tax system.[9]

The IMF proposes the replacement of the USC by a redesigned income tax system with rates of 24.4% and 48% that it says would preserve the current yield from both the USC and income tax.[10] The major benefit of such a unified system is simplification but the Tax Strategy Group cautions that the process envisaged by the IMF may not be straightforward.

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

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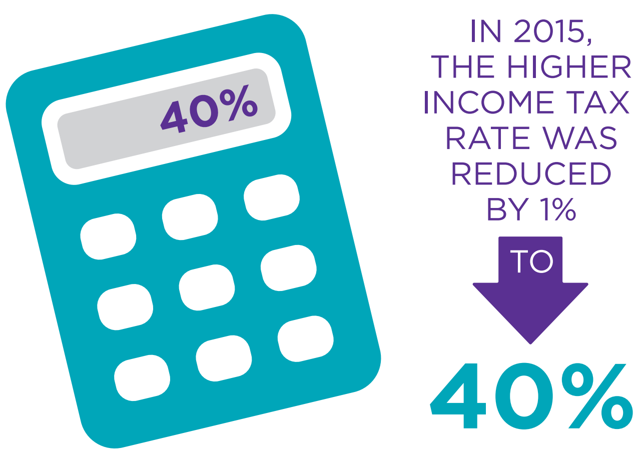
[7] IMF Country Report No 19/165.
[8] Tax Strategy Group - TSG 19/03.
[9] Ibid.
[10] IMF Country Report No 19/165.

Alterations to income tax rates and credits

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



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

TO

40%

A new **Earned Income Credit** of €550 for all self-employed earners was introduced in Budget 2016. This credit has been increased in each subsequent budget and now stands at €1,350.

The **Home Carer Credit,** available to families where one spouse/civil partner works primarily in the home caring for children or dependents, has increased from €810 in 2015 to €1,500 in Budget 2019. The income threshold to qualify for the credit also increased from €5,080 to €7,200.

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

How does Ireland's entry point to the top income tax rate compare with other countries?[11]

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

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

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

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

Entry point to the higher rate of income tax

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

In 2018, the Taoiseach and Minister for Finance made a commitment to increase the standard rate cut off point (currently €35,300) to €50,000 over 5 years. The decision to rule out personal tax reductions in the forthcoming budget has stalled that plan. But the problem remains: workers in Ireland pay tax at the higher rate of 40% on income over €35,300. This damages our international competitiveness and action to raise the threshold must remain at the top of the Government's agenda.

Individualisation

In an individualised tax system, liability is determined on the basis of a person's own income and personal circumstances. In Ireland, USC and PRSI are calculated and payable on an individualised basis. However, income tax is only partially individualised, and one spouse may be assessed on the joint income of both individuals and tax credits and bands may be (partially) transferred between spouses. The standard rate cut off point for a single person is €35,300 whereas the cut-off point is increased to €44,300 for a married couple with one earner.

Up to 2000, Ireland had a system of joint taxation for married couples, which allowed a working spouse to use the tax allowances, credits and bands of a non-working spouse. Budget 2000 introduced a partly individualised system by making part of the standard rate band non-transferable. The objective of this change was to encourage non-earning spouses, typically women, to return to work. Research shows that the labour force participation rate of married women increased by 5-6 percentage points in the wake of the partial individualisation of the system.[12]

Research conducted for the European Commission on labour force participation by women found that the tax and welfare systems are not a financial barrier to women returning to work. However, the cost of childcare is a significant disincentive.[13] In its Future Jobs Ireland Plan 2019, the Government committed to *"consider income tax arrangements for second earners that optimise financial incentive to work, taking account of the impact that the income tax system may have on female participation in the workforce"*.

As suggested by the Tax Strategy Group, advancing to full individualisation of income tax, in fulfilment of the above commitment could reduce the cost of increasing the standard rate cut-off point. This could be achieved by increasing the married one earner band at a slower pace over the five years until the individual tax band catches up. For example, if the married one earner was increased by €1,000 while the other bands increased by €3000, it is estimated that the cost would fall from €610m to €463m in a full year.

[12] Taxation, Work and Gender Equality in Ireland, April 2018, IZA Institute of Labor Economics https://www.esri.ie/system/files/media/file-uploads/2018-06/OPEA162.pdf
[13] https://ec.europa.eu/info/sites/info/files/150511_secondary_earners_en.pdf

Home Carer Credit

The Home Carer Credit was introduced in 2001 as part of the move towards full individualisation to benefit families where one spouse/civil partner works primarily in the home caring for children or other dependants.

It has increased from €810 in 2015 to €1,500 in 2019 and may be claimed in full where the home carer's income is below €7,200 per year, and on a reduced tapered basis where the home carer earns less than €10,200 per year.

In its report on last year's budget, the Parliamentary Budget Office said further increases to the Home Carer Credit risked undermining labour market activation in contravention of the European Commission Country Specific Recommendation to pursue labour market activation policies.[14]

Who claims the Home Carer Credit?

>10%
of claimants have gross incomes over €100,000 p.a.

c.25%
of claimants have gross incomes of less than €30,000 p.a. indicating that the majority of claimants have above average incomes[15]

The Home Carer Credit is being reviewed as part of the Department of Finance Tax Expenditure Review, following a commitment in the Government's early childhood care plan[16] to look at who benefits from the measure and to assess its effectiveness in supporting working families. The full results of the review will be published as part of Budget 2020.

[14] Budgetary Issues in the Finance Bill 2018, Parliamentary Budget Office
[15] Tax Strategy Group - TSG 19/03 p23.
[16] First Five: Whole of Government Strategy for Babies, Young Children and Their Families

Earned Income Tax Credit (for the self employed) - what has happened?

The Earned Income Tax Credit was introduced for all self-employed individuals and proprietary directors in Budget 2016 at the initial rate of €550. Its purpose is to reduce the disparity between the tax treatment of the self-employed and PAYE workers whose long-standing credit stands at €1,650.

The Programme for Partnership Government committed to increasing the Earned Income Tax Credit, to match the value of the PAYE Tax Credit by 2018.

Since its introduction, the Earned Income Tax Credit has been increased in every budget and currently stands at €1,350. Increasing the credit by €150 over the next two budgets would complete the Government's commitment. At a cost of €35m in a full year, it could consider this tax change as a targeted measure.

In 2017, 217,400 taxpayers claimed the credit at a total cost of €209.7m.[17]

The Programme for Partnership Government committed to increasing the Earned Income Tax Credit, to match the value of the PAYE Tax Credit by 2018.

[17] Latest data available is for 2017 per Revenue's Cost of Tax Allowances, Credits, Exemptions and Reliefs.

The Social Insurance Fund

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

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

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

Tax Strategy Group: Potential options for increasing PRSI rates

The Tax Strategy Group suggests a phased increase in PRSI contribution rates over a 5 – 10-year period with an annual increase of 0.25% to 0.5%. An increase of 0.5% for both employee (Class A) and the self-employed (Class S) would yield €445.1m per year.

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

Once an employee's earnings exceed €386 per week, the rate at which employer PRSI applies increases from 8.7% to 10.95% on all earnings, not just the amount over the €386 threshold. This could potentially act as a disincentive to increase wages or working hours. The Tax Strategy Group paper proposes increasing this threshold to take account of any further increase in the national minimum wage.[18]

PRSI and the self-employed

- As a result of the extension of social insurance benefits to the self-employed in recent budgets, this sector of the workforce now has access to 93%[19] of the benefits available to employees. However, the self-employed pay PRSI contributions at a rate of 4% while employees and their employers contribute a combined rate of 14.95%[20].
- The Tax Strategy Group paper[21] proposes a number of changes for the self-employed:
  - Changing the basis for the self-employed rate from that of employee (4%) to that of employer (8.7% or 10.95% if income exceeds €386 per week).
  - Increasing the minimum contribution from €500 to €3,500 per year over the next three years. As a first step, an increase of €1,000 could be imposed, yielding €146m per year.
  - In return for their increased contributions, self-employed taxpayers should be entitled to claim all social insurance benefits, including Illness Benefit and Carer's Benefit.

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[18] This means PRSI only applies each week where the weekly earning thresholds are exceeded without regard to cumulative annual income.
[19] Tax Strategy Group - Pay Related Social Insurance, July 2018
[20] Class A employees pay a combined rate of 14.95% which includes an employee PRSI charge of 4% and employer PRSI of 10.95% (where earnings exceed €386 per week).
[21] Tax Strategy Group – Pay Related Social Insurance, July 2018

Ageing Ireland and taxation

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

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

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

The Social Insurance Fund is facing a deficit next year. In 2018, pensions accounted for 71% of the Fund's expenditure.[22] With the population over the State Pension Age set to grow very significantly[23], it is not surprising that the deficit in the Social Insurance Fund is projected to increase out to 2071.[24]

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

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

Tax exemptions and credits for pensioners

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

[22] https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2018/2018-05-14_an-overview-of-the-social-insurance-fund-sif_en.pdf

[23] https://www.cso.ie/en/releasesandpublications/ep/p-plfp/populationandlabourforceprojections2017-2051 populationprojectionsresults/

[24] KPMG, *Actuarial Review of the Social Insurance Fund: 2015* (September 2017)

The moving parts of the personal tax system

	Income Tax	USC	PRSI
Entry Point	€16,500 for employee. €15,000 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 €35,300 (single person); €45,300 (married couple - one income); €70,600 (married couple - two incomes).* 40% marginal rate on income over €35,500 (single person); €45,300 (married couple - one income); €70,600 (married couple - two incomes). *Note: A band of €44,300 applies to the spouse with the highest earnings and a band of €26,300 applies to the other spouse.	0.5% on first €12,012. 2% on €12,013 - €19,874. 4.5% on €19,875 - €70,044. 8% on €70,045 and above. 11% rate for self-employed on income over €100,000.	Class A (Employee) 4% on earning over €352 per week. Class A (Employer) 8.7% on earnings €386 per week or less. 10.95% for all other employees. Class S (Self-employed) 4% on annual income over €5,000.
Paid into	Exchequer tax revenue	Exchequer tax revenue	Social Insurance Fund
Paid by	Employees and self-employed	Employees and self-employed	Employees, employers and self-employed
Used for	General expenditure	General expenditure	Ringfenced benefits
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).	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.	All social welfare income. Individuals aged 66 or over. Payments out of occupational pensions. Rent-a-room relief (max €14,000).

The moving parts of the personal tax system

	Income Tax	USC	PRSI
Exemptions contd.	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.	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.	Redundancy and ex-gratia termination payments. Certain assignees who retain social security coverage in their home country.
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 (due to expire on 31 December 2020).	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 up to a limit of €1,000,000.	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
Living City Initiative	Relief for refurbishment cost of older buildings in qualifying cities (relief is due to expire on 4 May 2020).	No relief.	No relief.
TaxSaver Commuter Tickets	Relief at marginal rate.	Relief from USC.	Relief from PRSI.

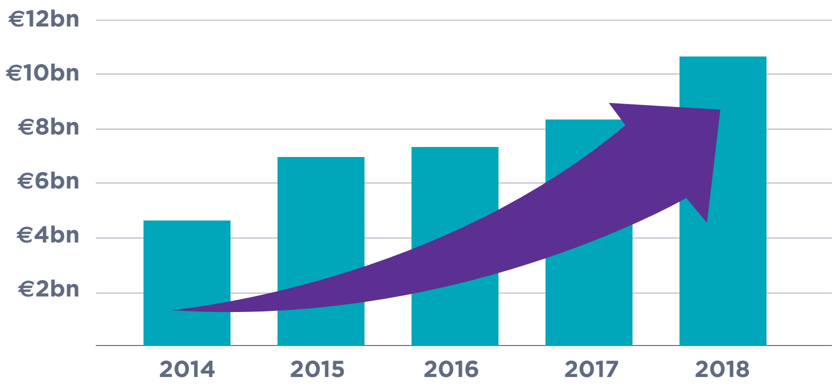
Chapter 3

Corporation Tax Trends and Developments

Corporation tax trends

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

Corporation tax receipts



In 2018, corporation tax receipts were €10.4bn, accounting for 19% of the overall tax yield and representing a year on year increase of €2.2bn or approximately 27%.

Corporation tax receipts for 2018 were initially projected to be €8.5bn. The over performance by €1.9bn arose from a combination of:

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

The projected corporation tax yield for 2019 is €9.98bn[2] and receipts are currently ahead of target.[3]

Revenue's analysis of corporation tax payments in 2017 shows an increase in trading profits of €238m from 2016 to 2017 with little change in profitability across the majority of sectors. Reduced claims in respect of R&D tax credits and reduced deductions by companies were the main drivers behind the increase in corporation tax receipts in 2017.[4]

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[1] Tax Strategy Paper – TSG 19/01 Corporation Tax
[2] Tax Strategy Paper – TSG 19/01 Corporation Tax
[3] Fiscal Monitor Incorporating the Exchequer Statement, August 2019, Department of Finance
[4] Revenue Report: Corporation Tax 2018 Payments and 2017 Returns, May 2019

In 2018:

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

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

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

- Losses carried forward by companies from earlier accounting periods into 2017 decreased by €1.65bn. Approximately 26,000 companies used losses in 2017 totalling €14.4 billion. Of the companies with losses in 2016, over 12,700 did not carry losses into their 2017 returns, most likely because earlier losses were fully utilised as a result of trading profits for these companies.[6]

- Companies held over 2 million employments in 2017, 553,300 of which were in multinational companies.[7] Companies paid income tax, USC and PRSI, totalling €18.4bn in respect of those employments (€7.9bn of which related to employees of multinational companies).[8]

- Companies that were not liable to corporation tax (for example, because they had not made a profit in a given year) were significant employers. In 2017, non-liable companies were responsible for 30% of employments[9] among companies and 44% of associated Income Tax, USC and PRSI. Foreign owned multinationals that were not liable to corporation tax accounted for 13% of total foreign multinational employments and 15% of associated income tax, USC and PRSI payments for foreign multinational companies.

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

- Manufacturing was the largest sector in 2018 accounting for 31% of corporation tax receipts followed by financial and insurance activities, and information and communication sectors.[11]

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

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 Directives 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

In September 2018, the Government released Ireland's Corporation Tax Roadmap[12], outlining how the Government intended to implement the recommendations made by Mr Seamus Coffey in his Review of Ireland's Corporation Tax Code (published June 2017), relating to updating Ireland's transfer pricing rules, moving to a territorial tax system and the implementation of the EU Anti-Tax Avoidance Directive (ATAD).

In early 2019, the Government held a public consultation on updating Ireland's transfer pricing rules. A Feedback Statement was published on 9 September, outlining proposed draft legislation to be included in the forthcoming Finance Bill.

The Government has said it is deferring a decision on moving to a territorial system of taxation until there is greater certainty about the international tax environment. 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. In line with the current trend in tax policy, most larger economies now operate territorial tax systems, including Japan, the US and the UK.

[12] Ireland's Corporation Tax Roadmap, Incorporation implementation of the Anti-Tax Avoidance Directives and recommendations of the Coffey Review, Government of Ireland, September 2018

EU Anti-Tax Avoidance Directive

On 20 June 2016, the EU Council adopted the Anti-Tax Avoidance Directive (ATAD)[13], which provides for five specific anti-avoidance measures to be transferred into the national laws of each Member State.

The five ATAD measures:

1. **Controlled Foreign Company (CFC) rules**
2. **Exit tax**
3. **General anti-abuse rule (GAAR)**
4. **Anti-hybrid rules**
5. **Interest limitation rule**

Controlled Foreign Company (CFC) rules, anti-hybrid rules and the interest limitation rule 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 exit tax and GAAR provisions are additional measures pursued by the Commission.

On 29 May 2017, the EU Council adopted a Directive to amend the anti-hybrid 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).

Implementation of ATAD in Ireland

Measures which have been implemented

1. **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.

   CFC rules were introduced in Finance Act 2018 and are effective from 1 January 2019. The rules 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.

2. **Exit tax**
   ATAD compliant exit tax provisions were introduced in Finance Act 2018 with effect from 10 October 2018.

3. **General anti-abuse rule (GAAR)**
   Ireland has had a GAAR since 1989. Following a review of the existing provisions, the Government confirmed that no amendments are needed to make the existing GAAR compliant with the ATAD provision.

[13] EU Council Directive 2016/1164

Measures that are in the process of being implemented

4. Anti-hybrid 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.

The Government held a public consultation on the implementation of anti-hybrid rules in January 2019. Given the complexity of the rules, a Feedback Statement was published in July setting out possible approaches to the legislation. The anti-hybrid rules will be introduced in Finance Bill 2019.[14]

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.

5. 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 by 1 January 2019. 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 entitled to avail of a derogation to postpone implementation of the 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 is used to assess whether national targeted rules meet the "equally effective" test. On 25 July, the European Commission announced it was sending a formal letter of notice to Ireland requesting the country to implement the ATAD interest limitation rule.

Even though the Government remains of the view that Ireland's existing rules for preventing excessive interest payments are equally effective to the ATAD interest limitation rule, they are now examining options to bring forward the process of transposition from the original planned deadline of 31 December 2023. A public consultation on the implementation of the ATAD interest limitation rule took place in January 2019.

[14] Tax Strategy Paper – TSG 19/01 Corporation Tax

OECD BEPS Multilateral Instrument

- Ireland signed the OECD BEPS Multilateral Instrument ("the MLI")[15] on 7 June 2017 and was among the first group of countries to do so. The MLI has now been signed by 89 countries.[16]
- Ireland formally deposited its Instrument of Ratification with the OECD in January 2019 which resulted in the MLI coming into effect from 1 May 2019.
- The MLI 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 MLI enables Ireland to update the majority of these treaties to ensure they comply with the BEPS recommendations, without the need for separate bilateral negotiations. So far, 58 of Ireland's tax treaty partners have signed the MLI.[17]

Digital Taxation

OECD work on taxing the digital economy

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

The Work Programme involves two pillars:

- Pillar 1 considers the development of a "new taxing right" that would change existing profit allocation and nexus rules. This work will seek to readjust the balance between countries where valuable intangible assets are owned and the markets where the users and consumers are based.
- Pillar 2 considers the global anti-base erosion (GloBE) proposal that would allow countries to "tax back" in circumstances where other jurisdictions have not exercised their primary taxing rights, or the payment has been subject to low levels of taxation. This work will attempt to define an effective minimum tax rate.

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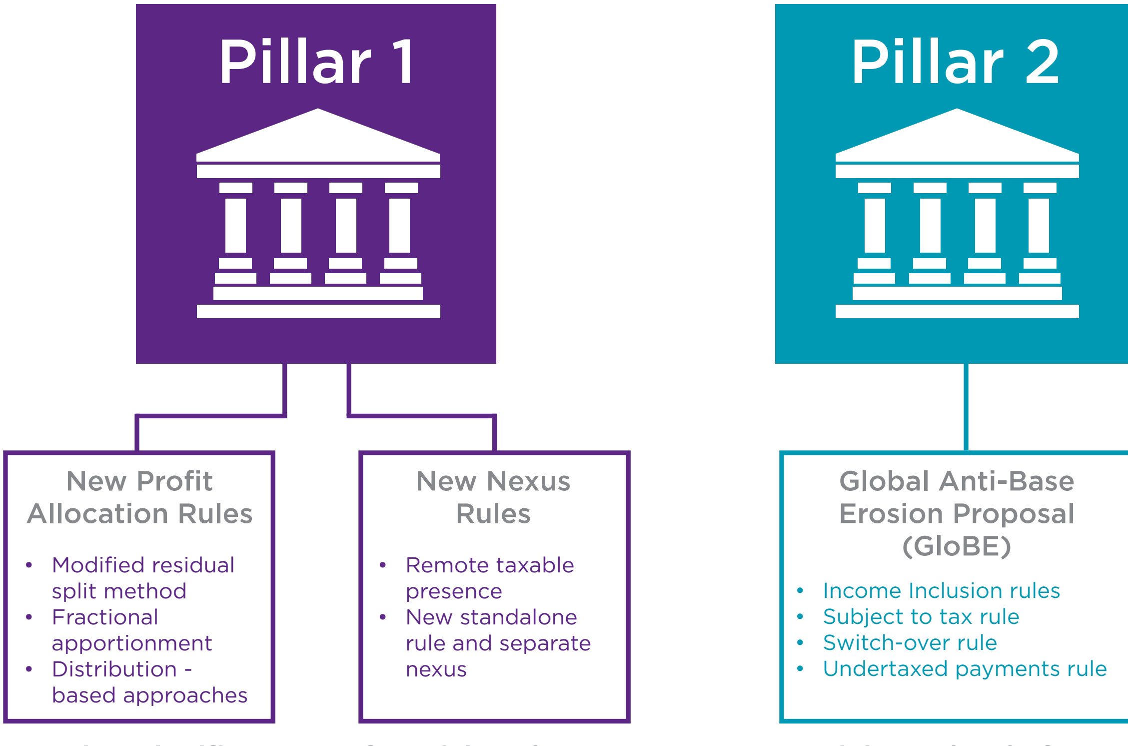
[15] Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS
[16] Number of signatories as at 7 August 2019.
[17] Tax Strategy Paper – TSG 19/01 Corporation Tax



A recommendation on the core elements of the long-term solution will be submitted to members of the OECD BEPS Inclusive Framework by January 2020. Throughout 2020, work on agreeing the policy and technical details of a consensus-based, long-term solution will take place, with a view to delivering a final report by the end of 2020.

Ireland's position on the current proposals

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

On Pillar 1, he stated that any agreed outcome must:

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

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

EU digital tax proposals

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

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

Despite extensive debate on the proposals, including a modified proposal on a significant digital presence being put forward, unanimous agreement was not reached. EU Finance Ministers have agreed to discuss the OECD work on the tax challenges of digitalisation concurrently at European level with a view to identifying any common perspectives.

Common Consolidated Corporate Tax Base

The European Commission relaunched the Common Consolidated Corporate Tax Base (CCCTB) in October 2016, proposing 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.

In June 2018, Germany and France published a joint position paper 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.

14
STOPS ON IRELAND'S ROAD TO CORPORATE TAX REFORM
1
In 1989, Ireland became one of the first countries in the world to introduce a GAAR (general anti-avoidance rule).
2
Revenue investigations into offshore matters including bogus non-resident accounts, assets, income and trusts.
3
Ireland introduced mandatory disclosure domestically in 2011 (something that many EU countries are only now adopting).
4
Ireland changed its corporation tax residency rules in 2015 to phase out "Double Irish" structures by 2020.
5
Ireland was the 4th country to adopt FATCA (exchange of financial account information with the US tax authorities) in 2012.
6
Ireland was the 1st EU country to adopt country-by-country reporting in 2016.
7
Ireland has adopted the EU Directive on Administrative Co-operation (DAC) allowing automatic exchange of financial account information, tax rulings and country-by-country reports within the EU.
8
Ireland has adopted the Common Reporting Standard (CRS) allowing automatic exchange of financial account information with 59 other countries (in addition to the EU and the US).
9
Ireland was awarded the highest rating for transparency by the OECD Peer Review in 2017.
10
Ireland signed the EU Anti-Tax Avoidance Directive (ATAD) with exit tax and CFC rules now implemented and anti-hybrid rules planned for Finance Bill 2019.
11
Ireland was among the first group of countries to sign the OECD Multilateral Instrument in June 2017 bringing in new BEPS treaty-related measures from May 2019.
12
Ireland participates fully in EU Code of Conduct Group, OECD Forum on Harmful Tax Practices and OECD Taskforce on the Digital Economy.
13
In July, Ireland implemented the Tax Dispute Resolution Mechanisms Directive, providing a binding dispute resolution process for cross-border tax disputes.
14
Ireland will update its transfer pricing rules (based on the OECD 2017 Guidelines) in Finance Bill 2019.

Chapter 4

Brexit - Tax and Duties

Brexit Preparations

From a tax and duties perspective, there are four key steps businesses trading with the UK need to take in preparation for Brexit:

1. **Register for an EORI**
   Businesses need an Economic Operators Registration and Identification (EORI) number to allow them to make customs declarations. Companies can apply for this number through ROS, Revenue's online service.

2. **Decide who will submit the customs declarations to Revenue**
   A business or their agent must be able to lodge customs declarations electronically. However, this cannot be done using ROS - specialist software is required to submit these declarations.

3. **Identify the information your business will need to supply to your customs agent**
   A customs declaration requires detailed information about the product being exported or imported, including its commodity code and value. The country of origin for imports determines the duty applied, which may not be the same country from which the product is imported. Suppliers should be able to provide this information.

4. **Consider whether your business needs to apply for 'trusted trader' status**
   Authorised Economic Operator (AEO) status, also known as a 'trusted trader', allows traders who meet certain criteria to avail of certain customs and/or security simplifications. Businesses whose product could be damaged, or otherwise compromised by delays in the supply chain, should consider applying for trusted trader status. Examples are pharmaceuticals, life sciences, food and beverages. In addition, any company with fast-moving consumer goods in its supply chain (e.g. retail, consumer) or a company that supplies or relies on "just-in-time" deliveries should they consider AEO status.

VAT - Postponed Accounting

If UK leaves the EU without a deal it will become a “a third country” for VAT purposes. This means that any goods arriving in Ireland from the UK will become liable to import VAT at the point of importation. This will affect the tax treatment of goods being sold between businesses in Ireland and the UK.

The Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Act 2019 (the Brexit Omnibus Act) includes a system of postponed accounting for import VAT. Once commenced, this provision means that the VAT due at the point of importation could be delayed by up to two months until the next VAT return is due.

This postponement means that businesses will be able to declare the import VAT and reclaim it in the same VAT return, thereby avoiding the cashflow impact.

The scheme is intended to be a transitional measure and will apply to all traders for a period.

The UK Land Bridge

The Common Transit Convention (CTC) allows goods to move between the EU and common transit countries or between the common transit countries themselves with duty being paid in the country of final destination. Import charges on goods that move under the common transit convention are suspended and collected at the Member State of destination - this means that multiple customs charges do not arise.

CTC countries include all EU Member States along with Iceland, Norway, Liechtenstein, Switzerland, Turkey, North Macedonia and Serbia.

In order to avail of the Customs Transit Procedure, it is mandatory for the trader to have in place a financial guarantee, known as the Comprehensive Financial Guarantee. The guarantee secures against any potential default of payment of customs debts and can be provided by cash deposit or an undertaking signed by a credit or financial institution or an insurance company.

On leaving the EU, the UK will accede to the Common Transit Convention (CTC). This means that no duties or taxes will apply to goods moving under the CTC from Ireland to another EU country via the UK land bridge. This also applies to goods coming to Ireland by the same route from other parts of the EU.

Duty-free shopping

The UK Government has recently announced its decision to apply an unrestricted duty-free shopping scheme in the event of a no-deal Brexit.

In response, the Department of Finance confirmed that Ireland would reciprocate the UK Government's decision and facilitate duty-free purchases for passengers travelling from Ireland to UK ports and airports.

This means that excise and VAT-free sales on purchases of tobacco and alcohol made at duty-free shops, subject to the usual personal consumption limits, would operate in relation to passengers travelling from ports and airports between Ireland and the UK.

However, duty-free shopping would not apply to passenger travel on the island of Ireland.

VAT Retail Export Scheme

- The VAT Retail Export Scheme (the 'Scheme') enables visitors to Ireland who are resident outside the EU to benefit from VAT relief on goods that are purchased in the EU which they take with them when they leave the EU. .

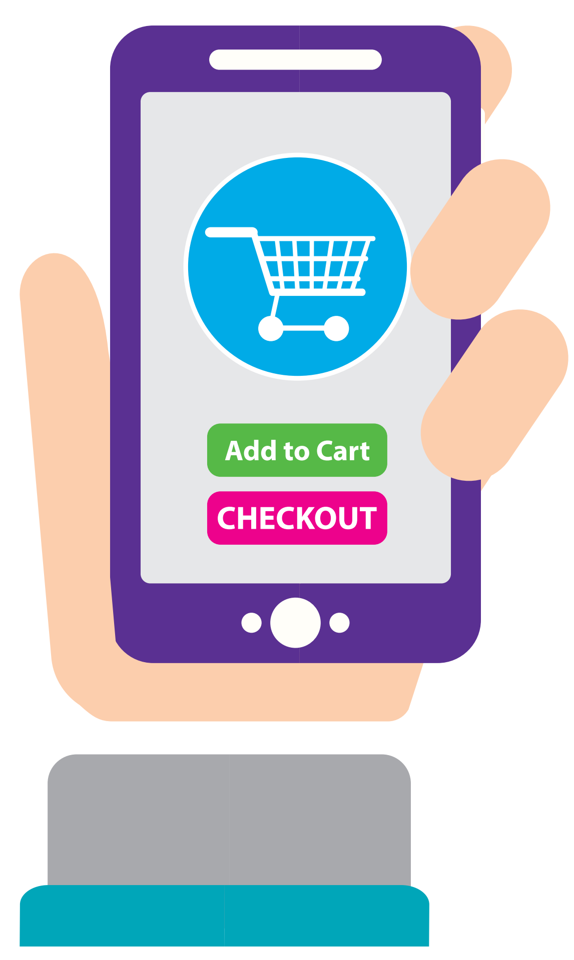
- The Government introduced contingency measures in the Brexit Omnibus Act relating to the application of the Scheme in a 'no-deal' scenario. The measures were influenced by the potential for a significant Exchequer impact as a result of the expansion of the scheme to UK visitors. The introduction of the contingency measures will be dependent on the UK's policy on the scheme which is currently unknown.

- If the UK applies an unrestricted Scheme post Brexit, Ireland will also operate an unrestricted Scheme. However, if the UK operates a restricted Scheme or does not apply it to visitors from Ireland, the following contingency measures will come into effect:

- The value of qualifying goods under the Scheme will increase and must now exceed €175 in order to be eligible for a refund. This new limit will apply to all third country visitors who seek a refund under the Scheme.

- A new requirement to prove that the goods purchased have in fact been imported into the UK will also be introduced. This will only apply to visitors resident in the UK applying for a refund. Such visitors will also have to provide proof of payment of relevant UK VAT and duties, where these arise.

Unless otherwise agreed, post Brexit, the same rules that currently apply when you buy goods from outside the EU will apply when you buy online from UK websites.



Buying goods online for private use

- Unless otherwise agreed, post Brexit, the same rules that currently apply when you buy goods from outside the EU will apply when you buy online from UK websites.
- Depending on the value of the goods, you may have to pay, customs duty, excise duty and/or Value-Added Tax (VAT).
- If your goods have:
  - a customs value[1] of €22 or less you will not have to pay Customs Duty or VAT
  - a customs value of more than €22 you will have to pay VAT
  - an intrinsic value[2] of more than €150 you will have to pay Customs Duty.

These limits are applied to the whole delivery, not just per item.

- VAT will apply on alcohol, tobacco products and perfumes, regardless of their value.
- If the VAT payable is €6 or less, it will not be collected.

[1] Customs value includes their purchase cost, delivery costs, insurance and handling charges.
[2] Intrinsic value is the value of the goods alone excluding transport, insurance and handling charges.

Chapter 5

Preparing SMEs for a Post Brexit World

The Irish economy is running on or close to full tilt, while simultaneously facing serious external risks, chief among them the existential threat of Brexit. At a time of such uncertainty, resilience is crucial. All the available economic advice is that the way to build resilience is to increase productivity in our homegrown businesses by fostering innovation and strengthening management practices. To achieve this task, an essential lever at our disposal is taxation. We already use that lever through our existing business tax measures. But these measures need to be changed to make them more effective and accessible to small businesses.

Current tax measures for SMEs and entreprenurs

Ireland's targeted CGT relief for entrepreneurs

The income tax incentive for individuals who invest in Irish business – the Employment Investment Incentive (EII) and the Start-up Capital Incentive (SCI)

The income tax refund scheme available to individuals who start their own business - the Start-up Relief for Entrepreneurs (SURE)

The employee share scheme for SMEs – the Key Employee Engagement Programme (KEEP)

The Institute broadly supports the policy objective of these measures but, as we have pointed out over the last couple of years, they contain flaws that are undermining their effectiveness. Given our high-income tax and CGT rates, it is essential that our incentives are best in class and with Brexit looming, they must be competitive.

Access to alternative finance

While access to finance from banks has improved over the last two years, there is a need to incentivise third party investment, particularly in start-ups where the level of risk is beyond the appetite of banks but where the productivity gain for the economy is high. It is important that our investor reliefs are attractive.[1]

Broadening CGT Entrepreneur Relief

According to our members and entrepreneurs we have engaged with, the current design of this relief restricts the growth and development of small companies. It also puts Ireland at a competitive disadvantage with the UK, where the equivalent relief applies to the first Stg£10m. This means the overall effective tax rate on a gain of €10 million in Ireland is 30.7% compared with just 10% in the UK.

We recommend that the €1m lifetime threshold be raised to €10m to make Ireland competitive with other countries, including the UK, for international capital.

[1] NCC Ireland's Competitiveness Challenge, December 2018.

To qualify for the relief, an investor must spend at least 50% of the working week with the company for three out of the five years prior to disposal. This condition excludes angel investors who, typically, mentor and support several companies at a time. Angel investors would bring, not just their money, but their skills, experience and high-risk appetite to our indigenous enterprises. Locking them out is unfathomable, given, as pointed out by the OECD[2], the deficit in managerial capability in Irish businesses.

We recommend that the legislation be amended to permit highly prized angel investors to avail of CGT Entrepreneur Relief.

Making the EII and SCI schemes more effective

The EII is aimed at incentivising investment in early stage and small businesses whose funding options are limited. Start-ups tend to be more innovative and competitive. Improving their access to investment will strengthen the resilience of our productivity base.[3]

The Institute welcomed the recommendations of the Indecon Evaluation of the EII and SURE. Some were adopted in Finance Act 2018, including moving the application procedure to a primarily self-certification model and the introduction of the new SCI scheme to allow family members to make qualifying investments.

We urge that the remaining recommendations of the Indecon evaluation be adopted in Budget 2020:

- **the granting of full tax relief in the year of investment;**
- **increasing the annual investment limit for longer-term EII investors and higher risk sectors; and**
- **that capital losses should be allowable for such investors.**

Self-certification will improve the EII application process, but further administrative improvements would restore investor confidence in the scheme.

- **Adequate resourcing in Revenue to deal with legacy cases, where delays in processing applications are creating uncertainty for businesses about their eligibility for the relief and as a result compromising their ability to raise EII funds.**
- **Dedicated full-time staff who understand the complicated rules of the scheme must be assigned to ensure consistency in dealing with applications.**
- **Further guidance from Revenue on its interpretation of key General Block Exemption Regulation (GBER) concepts would give taxpayers the certainty they need about their EII applications.**
- **An appropriate Revenue customer service standard should apply for EII applications.**

Extend SURE to the self-employed

The SURE income tax refund scheme for those who start their own business is restricted to former PAYE workers. Apart from discriminating against self-employed workers, this restriction acts as a significant barrier to its effectiveness.

The Institute recommends that the scheme be extended to self-employed workers who set up a new business.

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[2] OECD Economic Surveys Ireland, March 2018.

[3] NCC Ireland's Competitiveness Challenge, December 2018 page 96.

Skilled workers and managerial capacity

Recent research has found a dearth of management skills in Irish businesses.[4] With pay in multinationals up to 74% higher than in the domestic sector,[5] Irish indigenous businesses are fighting a losing battle to attract the high-skilled workers they need to make them more competitive. In our competitive pay and high-income tax environment, a well-designed share option scheme would help Irish companies to recruit the talent they need to boost productivity.[6]

Making the KEEP share scheme work for SMEs

Just 38 employees in 10 companies have availed of the KEEP since it was introduced in January 2018.

In two separate submissions last year, the Institute outlined the restrictions that were causing difficulties for SMEs: the design of the cap on share options and the narrow definition of a qualifying holding company under the scheme. We participated in the Department of Finance's recent public consultation on this important measure and we note that the proposals set out in the appendix to the consultation paper largely reflect our recommendations.

The policy objective of the KEEP - to help SMEs attract and retain key employees - is critical to sustainable economic growth.

We urge that the proposals in the Department's recent consultation paper be enacted in the forthcoming Budget.

New SARP regime to help SMEs attract overseas talent

The Special Assignee Relief Programme (SARP) is a tax measure that helps multinationals to attract talent from abroad. As the economy approaches full employment, Irish owned exporters producing products and services in knowledge intensive areas also need to recruit skilled workers from abroad.

Given the impending departure of the UK from the EU and the critical need for Irish SMEs to diversify and develop new export markets post-Brexit, the Institute recommends that a SARP-type regime focused on SMEs should be considered.

Innovation and R&D

The main drivers of productivity are innovation and research and development (R&D). Yet recent research by the ESRI found that only 7% of Irish owned companies surveyed in 2016 had invested in these critical categories.[7] Both the OECD and the European Commission have urged increased investment in R&D and innovation by the public and the private sector. Ireland has an attractive R&D tax credit, but its main beneficiaries are multinational firms.

Administrative blockers and the cost of claims make it unattractive to homegrown SMEs. The Institute undertook some research in May 2019 as part of its response to the Department of Finance public consultation on the R&D tax credit. It found that Irish SMEs engaged in R&D believed a pre-approval process for first-time R&D tax claims with simplified documentation would greatly increase their likelihood of availing of the credit.

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[4] OECD Economic Surveys Ireland, March 2018.
[5] European Commission Country Report Ireland, February 2019.
[6] NCC Ireland's Competitiveness Challenge, December 2018.
[7] ESRI Exploring SME Investment Patterns in Ireland, September 2018.

The restriction on outsourcing in the R&D tax credit flies in the face of international best practice, which promotes collaboration between businesses and particularly between enterprises and third level institutions. The exchange of knowledge and ideas is the very essence of innovation.[8]

The Institute believes the outsourcing restriction should be removed in line with government policy to foster collaboration between third level institutions and private business.

Overall, the Institute recommends that SME-friendly guidance be provided with step by step instructions on the claims process and practical case studies with tips on how to avoid common errors in the process.

Business environment with tax certainty

Political, economic and trade changes beyond our control make the current environment in which Irish business operates highly uncertain.

The OECD and the IMF[9] have identified practical tools to ensure tax certainty for business through improved tax policy and law design, consistency among tax administrations and effective dispute resolution mechanisms.

Global turbulence now gives urgency to this issue. Irish businesses need certainty over their tax affairs. This can only be achieved through clear tax rules, consistent tax administration and effective dispute resolution mechanisms.

Public consultation

The Institute welcomes the practice of putting existing tax measures out for public consultation. We are enthusiastic participants even when the deadline for submissions is demanding. We also value the stakeholder consultation events that have taken place as part of the consultation processes this year. Discussion is healthy and listening to each other can only be productive.

The Finance Bill process

One of the key challenges in the Irish tax policy-making process is the legislative timetable. The window between the Budget and the publication of the Finance Bill is simply too narrow for the scrutiny that might detect potential unintended consequences of legislation.

Only in very exceptional instances, is tax legislation published in draft format in advance of the publication of the Finance Bill. By and large, the legislation is publicly available in mid-October and must pass through all stages of the Oireachtas and be signed by the President before the end of the year.[10]

This allows less than three weeks for consideration of often complex tax law from the date of publication to Committee Stage in the Dáil and only two months for the entire process to be completed and the law enacted. The issue is compounded when new tax provisions are introduced into the Finance Bill at Committee and Report stages. It is difficult to find a justification for the persistence of this constrained process.

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

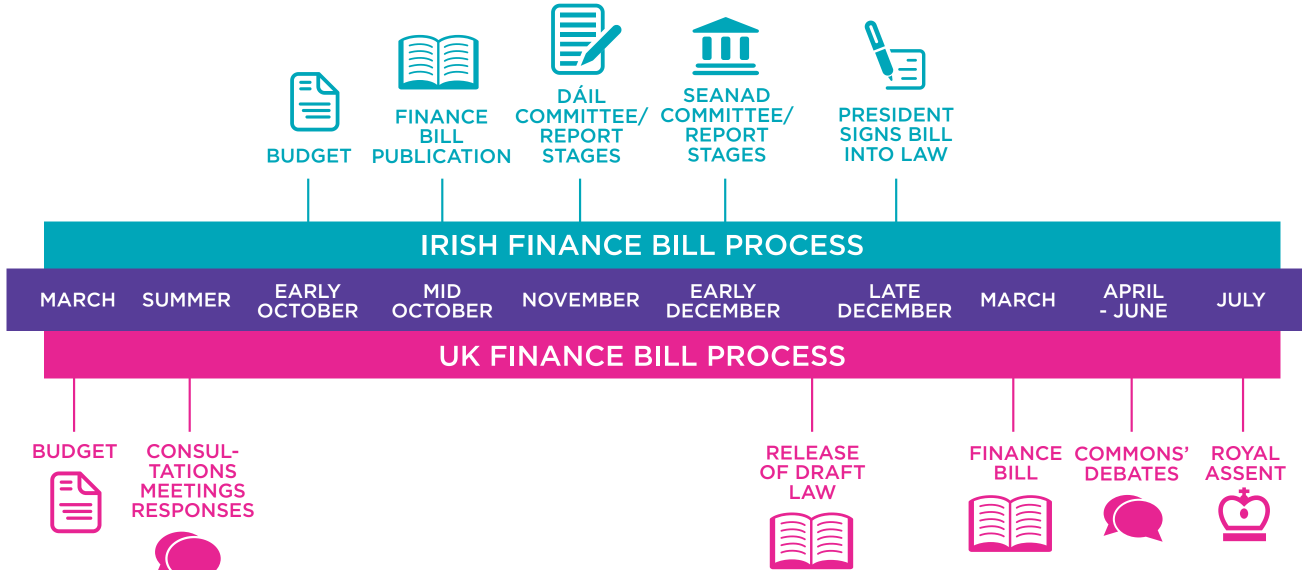
[8] The Impact and Effectiveness of Policies to Support Collaboration for R&D and Innovation, The Innovation and Policy Platform.
[9] 2019 Progress Report on Tax Certainty IMF/OECD Report for G20 Finance Ministers and Central Bank Governors.
[10] Under the EU 'Two Pack' rules. Before the 'two pack' rules, the window for scrutiny was four months under the Provisional Collection of Taxes Act.

Need for effective dispute resolution mechanisms

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

However, there is a heavy build-up of cases in the appeals system, with taxpayers waiting years to have the disputed matter resolved.

While significant additional resources have now been given to the Tax Appeals Commission to alleviate the backlog, taxpayers, whose appeals are ultimately unsuccessful, are faced with penal interest rates because of the delays they have experienced. The Institute is calling for a 'stop' on interest for these taxpayers until the backlog can be resolved.



Chapter 6

Environmental Taxes

Action on climate change has moved centre stage for policy makers in Ireland as they react to growing concern in civic society about the scale of the global environmental crisis. Tackling this global challenge from an Irish perspective, will require action on several fronts, among them, taxation. Well designed, targeted environmental tax measures can be very effective in bringing about behavioral change.

Carbon tax

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

It is levied on the supply of fossil fuels based on their carbon content where a rate of €20 per tonne of CO2 is applied.

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

The Government’s Climate Action Plan confirms that carbon tax will increase to at least €80 per tonne of CO_2 emissions by 2030. An option which could be considered is to increase the rate by €10 per tonne in 2020 and by €5 per tonne every year thereafter.

According to the Tax Strategy Group, an increase in the rate of the carbon tax by €10 per tonne of CO_2 emitted would raise in the region of €216m.[1] While an increase in the rate by €20 per tonne of CO_2 would yield €430m.

Impact of €20 increase in carbon tax (including VAT)			
Product	**Typical Fuel Bundle**	**Carbon Tax @ €20 (current rate)**	**Carbon Tax @ €40 (€20 increase)**
Petrol	60 litre fill	€3.39	€6.78
Diesel	60 litre fill	€3.93	€7.86
Coal	40kg bag	€2.40	€4.80
Peat briquettes	12.5kg bale	52c	€1.04
Natural Gas	11,000 kwh annual consumption	€46	€92

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

Electricity tax

There are currently two rates of electricity tax in Ireland: €0.50 per megawatt hour (MWh) for business use and €1.00 for non-business use. These are the minimum rates permissible under the Energy Taxation Directive which sets out the legislative framework for the application of the electricity tax in the EU.

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

Receipts from the electricity tax were €2.5 million in 2018.

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

The Government's Climate Action Plan calls for consideration of the merits of equalising electricity tax rates for business and non-business consumers. The additional receipts from such a measure would be in the region of €2.5 million, doubling the current receipts.[2]

Plastic bag levy

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

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

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

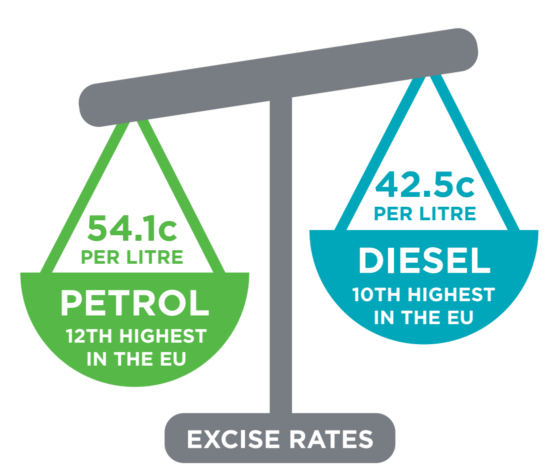
But the original legislation contained many exemptions, including plastic bags used to wrap fresh meat, fish, fruit, vegetables and dairy products. A recent Supreme Court decision criticised the lack of clarity in the law saying it should be simplified. Given the advances in packaging perishable products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

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

Equalisation of excise rates applying to petrol and diesel

Excise rates on both petrol and diesel have remained the same since 2012. The current excise rates are: 54.1c per litre of petrol and 42.5c per litre of diesel. The excise rate in Ireland on petrol is the 12th highest in the EU, while diesel is the 10th highest.[3]

The carbon content of diesel is higher than petrol therefore if petrol and diesel were subject to excise duty purely on the basis of CO_2 content, diesel would be subject to a higher excise rate. However, diesel is more fuel efficient therefore if the excise duty were levied on the basis of fuel efficiency, diesel would be subject to a lower excise rate.[4]



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

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

BIK on company cars

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

In Budget 2019, the 0% BIK rate for EVs was extended by a further 3 years where the market value of such vehicles is €50,000 or less.

The current system of vehicle BIK is based on the Original Market Value (OMV) of the vehicle and the annual kilometres driven. The number of kilometres driven is measured by reference to bands. The use of this measure has been the subject of criticism because it could act as an incentive to increase mileage in order to reduce liability.[6] The Tax Strategy Group proposes, consideration should be given to reducing the number of bands in order to weaken any potential incentive.

The Tax Strategy Group also proposes an alternative BIK regime could be linked to CO_2 emissions so that the tax rate for the most pollutant cars is higher than that of the least pollutant cars. It proposes that a 3-year delay before the commencement of any reformed BIK regime may be necessary to take into account typical fleet renewal periods for businesses.

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

Possible sources of replacement revenues

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

The Exchequer currently receives some €2.5 billion in annual excise revenues from the taxation of fossil fuels (mineral oil tax, carbon tax) in addition to significant VAT revenues.

Meanwhile, the taxation of diesel and petrol motor vehicles, through VRT and motor tax, yields €2bn. The Tax Strategy Group suggests a number of options to raise replacement revenues:[7]

(i) Road usage

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

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

(ii) Electricity Tax

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

(iii) Carbon Tax

An increase in carbon tax to at least €80 per tonne of CO_2 has the potential to raise significant revenues through the next decade. The question of whether these taxes should be ringfenced is yet to be decided.

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

Appendix 1

Options considered by the Tax Strategy Group

- With no glimmer of light at the end of the Brexit tunnel, the Minister for Finance has signalled caution in respect of tax cuts. Even if he were to make some reductions, his room for manoeuvre could be as little as €233m.
- If the Minister wishes to spend more on tax reductions, he may look to revenue raising measures elsewhere.
- Increasing the excise duty on cigarettes is typically one of the "old reliables" as a revenue raising measures. However, Revenue has cautioned that increases in cigarette prices may drive consumers to buy non-Irish duty paid cigarettes or other substitute such as e-cigarettes.[1]

Selection of Options for Budget 2020 considered by the Tax Strategy Group			
Tax Reduction Options		**Revenue Raising Options**	
Increase the entry point to the higher rate of income tax of 40% by €1,000: • For a single person from €35,300 to €36,300 • For a married couple (one income) from €44,300 to €45,300 • For a married couple (two incomes) from €70,600 to €72,600.	Cost €216m	Raise excise on alcohol	Revenue €148m
Increase the Earned Income Credit for the self-employed by €300 from €1,350 to €1,650	Cost €70m	Carbon tax increase of €10 per tonne of CO2 emitted from €20 to €30	Revenue €216m
Increase the second USC (2%) rate band from €19,474 to €20,874	Cost €77m	Equalise the excise rates for petrol and diesel over 5 years (current excise rate on diesel is €42.5c versus €54.1 for petrol)	Total Revenue €397m (€81m each over 5 years)
Reduce the 8% USC rate to 7%	Cost € 186m	Increase entry threshold for employer PRSI from €38 per week to €118 per week	Revenue €21m
		Increase PRSI contributions by 0.5% for employees (Class A) and self-employed (Class S) from 4% to 4.5%	Revenue €445m (employee PRSI) €377m & self-employed PRSI €68m)
		Increase the minimum payment for self-employed (Class S) PRSI from €500 to €1,500	Revenue €146m

These options are selected from the measures considered by the Tax Strategy Group. The corresponding costs and revenues are based on figures from the Tax Strategy Group Budget 2020 papers and Revenue's Ready Reckoner – Pre-Budget 2020.

[1] General Excise Paper, Tax Strategy Group – TSG 19/09, July 2019

Tax reduction options considered by the Tax Strategy Group

The cost of increasing the entry point

Budget 2020 Option – Increase the entry point by €1,000			
Taxpayer	**Current Entry Point**	**Possible Increased Threshold Post Budget 2020**	**Exchequer Cost**
Single Person	€35,300	€36,300	€90m
Married Couple (one income)	€45,300	€46,300	€31m
Married Couple (two incomes)	€70,600[2]	€72,600[3]	€95m
			Total €216m[4]

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 2020**	**Tax Saving**
Single Person earning €40,000	€35,300	€36,300	€200 per year
Married couple with two incomes totalling €80,000	€70,600	€72,600	€400 per year

The cost of increasing the standard rate cut off point by €3,000 in one year is €610m. This cost could be reduced if it was combined with a policy of full individualisation for income tax purposes.

Budget 2020 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**
€1,350	€300	€70m for a full year[5]	€6 per week

Budget 2020 Option: Increase the Earned Income Credit by €150			
Current Earned Income Tax Credit	**Increase Credit by**	**Exchequer Cost**	**Benefit per individual**
€1,350	€150	€35m for a full year[6]	€3 per week

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[2] A band of €44,300 applies to the spouse with the highest earnings and a band of €26,300 applies to the other spouse.
[3] 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.
[4] Revenue Ready Reckoner – Post Budget 2020, August 2019
[5] Ibid
[6] Ibid

Budget 2020 Option – Continue increasing the second USC rate band

The 2% USC rate currently applies to income from €12,013 to €19,874. If this band is widened by €1,000 it allows you to earn another €1,000 before entering the 4.5% USC rate. This represents a saving of 2.5% or a maximum gain of €25.

Budget 2020 Option: Increase second USC rate band by €1,000		
Current Band for USC Rate of 2%	Possible Band Post Budget 2020	Exchequer Cost for a full year
€19,874	€20,874	€77m[7]

Budget 2020 Option - Reducing the 8% USC rate

Concerned about how much higher income earners might gain from tax reductions in any individual Budget, the Government introduced a new 8% USC rate in Budget 2015 on incomes over €70,044. Simultaneously, the top income tax rate was reduced by 1%. As a result, any income over €70,044 could not benefit from the reduction in the income tax rate.

- In line with this policy, USC changes in the last four budgets have been targeted at the lower rates and bands, with the result that the USC gains were capped on a definitive amount of income each year.[8]
- 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 suggest that reducing the highest rate of USC could improve Ireland's competitive advantage and could be targeted equally at employees and the self-employed. It would benefit 6.6% of taxpayers.[9] Such a move would, however, run counter to the decision in Budget 2015 and subsequent Budgets to target USC changes at lower rates and bands.

Budget 2020 Option: Reduce the 8% USC rate by 1%		
Current Rate	Possible Rate Post Budget 2020	Exchequer Cost
8% on income over €70,044	7%	€186m[10]

[7] Revenue Ready Reckoner – Pre Budget 2020, August 2019
[8] In Budget 2016 capped at €902; in Budget 2017 capped at €353, in Budget 2018 capped at €178 and in Budget 2019 capped at €139.
[9] Tax Strategy Group – TSG 19/03 Income Tax
[10] Revenue Ready Reckoner – Pre Budget 2020, August 2019

The impact on taxpayers

Budget 2020 Option: Reduce the 8% USC rate by 1%			
Single person earning	**Current rate on income over €70,044**	**Possible USC rate on income over €70,044 Post Budget 2020**	**Saving**
€35,000	N/A	N/A	N/A
€75,000	8%	7%	€50 per year
€100,000	8%	7%	€300 per year

Budget 2020 Option: Increase PRSI rate by 0.5%			
Taxpayer	**Current PRSI Rate**	**Possible Rate Post Budget 2020**	**Exchequer Yield**
Employee (Class A)	4%	4.5%	€376.9m[11]
Self-employed (Class S)	4%	4.5%	€68.2m[12]

Budget 2020 Option: Increase the entry threshold for employer PRSI			
Taxpayer	**Current entry threshold**	**Possible entry threshold Post Budget 2020**	**Exchequer Cost**
Employer (Class A)	€38	€118	€20.9m[13]

Budget 2020 Option: Increase the minimum payment for Class S PRSI by €1,000			
Taxpayer	**Current minimum payment**	**Possible minimum payment Post Budget 2020**	**Exchequer Yield**
Self-employed (Class S)	€500	€1,500	€146m[14]

[11] Tax Strategy Group, TSG – 19/06 Pay Related Social Insurance
[12] Ibid
[13] Ibid
[14] Ibid

Revenue raising measures

Raise excise on alcohol

- 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.
- A 10c duty increase on a pint of beer, half a glass of spirits and a pint of cider could yield a total of €118m for the Exchequer.
- A duty increase of 50c on a bottle of wine could yield €30m[15] for the Exchequer.

Carbon tax increase

- Government has yet to decide whether Carbon tax will be ring fenced for environmental purposes. Further details on potential increases are outlined in Chapter 6: Environmental Taxes.

Equalise excise rates applying to petrol and diesel

- Further details on potential increases are outlined in Chapter 6: Environmental Taxes.

Increase in PRSI contributions

- Further details on potential increases in PRSI contributions are outlined in Chapter 2: The Personal Tax.

[15] Revenue Ready Reckoner – Pre-Budget 2020, August 2019

Appendix 2

The Gini Coefficient - Analysis from the Tax Strategy Group

- The Gini coefficient is a measure of the distribution of income where 0 represents a situation where all households have an equal income and 1 indicates that one household has all national income.
- A reduction in the Gini coefficient means that the distribution of income has become more equal.
- 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 the OECD countries for which data are available.
- The data show that, compared to other countries, the Irish tax system is strongly progressive and that the tax and welfare systems combined contribute substantially to the redistribution of income and to the reduction of income inequality.
- When looked at over a slightly longer time 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 since 2004.[16]

[16] Tax Strategy Group - TSG19/03 Income Tax

Appendix 3

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 entry point increases	
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	• Lower bands increased. • 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.
Budget 2019	• 4.75% rate reduced to 4.5% • 2% income band extended.

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