Comparing Irish Income Taxation Rates with other EU Member States

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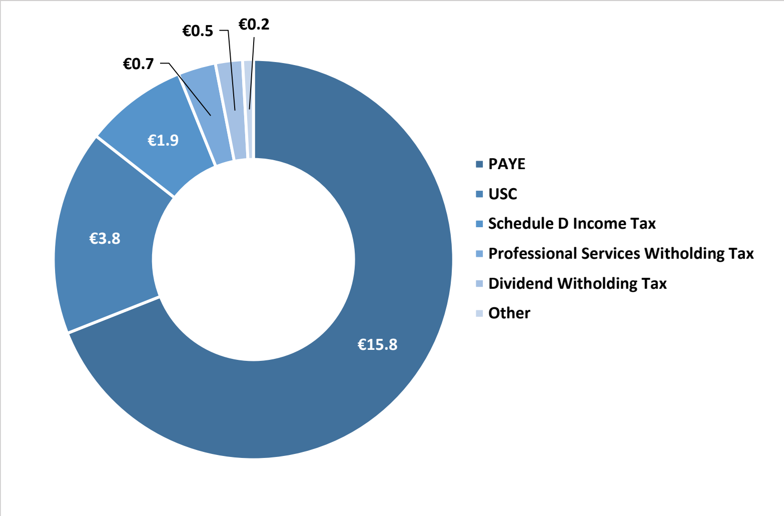
Key Point:

In 2019 Irish income tax revenue accounted for €23bn or 40% of total tax receipts. Taxation of labour income accounts for the greatest share of total income tax receipts: with Pay As You Earn (PAYE) and the Universal Social Charge (USC) amounting to €16 billion and €4 billion respectively in 2019. At average incomes and below, the Irish income tax burden is relatively low when compared to other EU Member States (MS). In 2019, the income tax rate for a single person on a low income in Ireland was 16%, compared to the EU average of 25%. Similarly, for a married couple (with two children) on average earnings the income tax rate was 22%, compared to the EU average of 25% in 2019. The Irish tax and welfare system is the most progressive and redistributive in the EU – in terms of offsetting household and market income inequalities.

Policy context

Income tax accounts for the single largest revenue stream for the state, accounting for €23bn or 40% of total tax receipts in 2019. Figure 1 shows the distribution of income tax receipts in 2019. Income tax receipts contain several components which include: taxes on labour income, on self-employed income and 'unearned income'. Taxation of labour income accounts for the greatest share of income tax receipts: with revenue from PAYE amounting to almost €16bn (70%) of all income receipts in 2019. Total receipts from the USC amounted to almost €4bn (17%), while self-assessed income (Section D) amounted to almost €2bn (8%) last year. The Professional Services Withholding Tax (paid by public bodies for certain professional services €0.7bn (3%) and the Dividend Withholding Tax (paid by State-resident companies on dividend payments) amounted to €0.5bn (2%) of overall income tax in 2019. The 'Other' category of income receipts (i.e. Deposit Interest Retention Tax and Life Assurance Exit Tax) amounted to €0.2bn (1%) in 2019.

Figure 1: Distribution Of Income Tax Receipts (€Billions), 2019

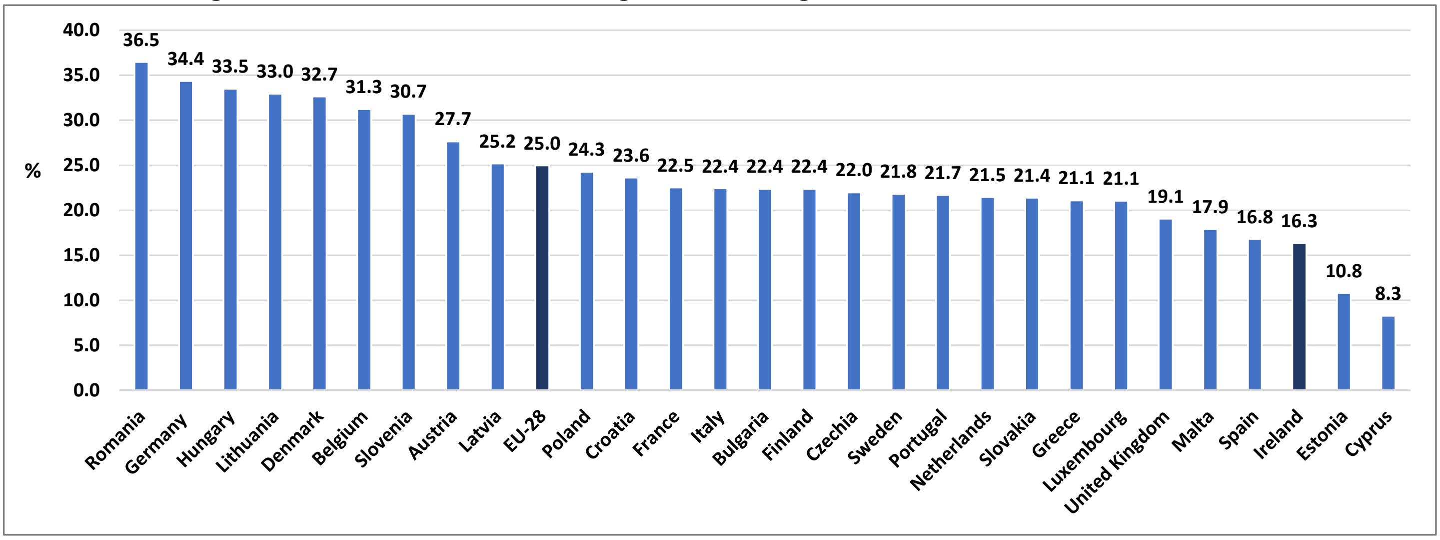


Source: Department of Finance (2020: 8)

Income Tax Rates of Single and Married Persons: *A European Comparison*

The tax rate indicator measures the burden of income tax on gross earnings plus employee's social contributions. When compared to other EU MS, the tax burden in Ireland is relatively low on those with average incomes and below. Figure 2 compares the income tax rates across the EU for a single person without children earning a low income – two thirds (67%) of the average earnings of a worker in the business economy. The average tax rate of the EU-28 for low income earners was 25%. Seven EU MS had income tax rates above 30%: Romania (37%), Germany (34%), Hungary (34%), Lithuania (33%), Denmark (33%), Belgium (31%) and Slovenia (31%). In 2019, low wage earners in Ireland had the third lowest tax rate in the EU at 16%. Cyprus had the lowest tax rate for this income group at almost 8% in 2019.

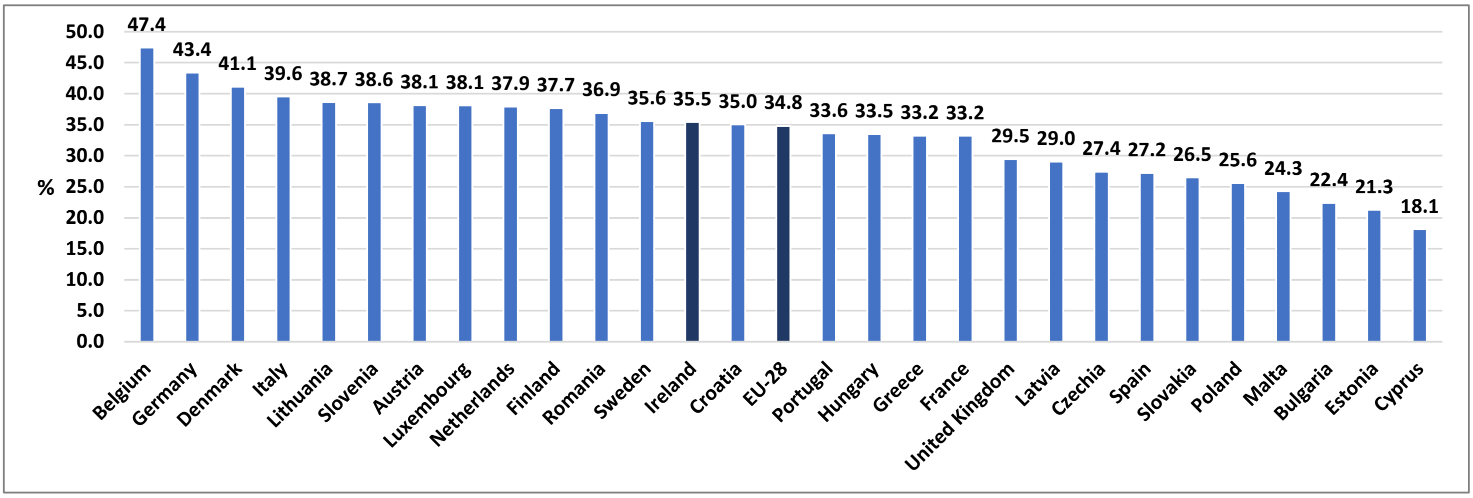
Figure 2: Income Tax Rate Of 'Low' Wage Workers - Single Persons Without Children, 2019



Source: Eurostat (2020)

The income tax rate is higher for a single person on a high income across the EU. Figure 3 compares the income tax rates across the EU-28 for a single person without children on two-thirds or 167% above the average earnings. In 2019, Belgium had the highest tax rate at 47% and was followed by Germany (43%), Denmark (41%), Italy (40%), Lithuania (39%), Slovenia (39%), Austria (38%) and Luxembourg (38%). By comparison, high earners in the Irish case had a tax rate just above the EU-28 average at 36%. The EU MS with the lowest tax rates for high income earners were Bulgaria (22%), Estonia (21%) and Cyprus (18%).

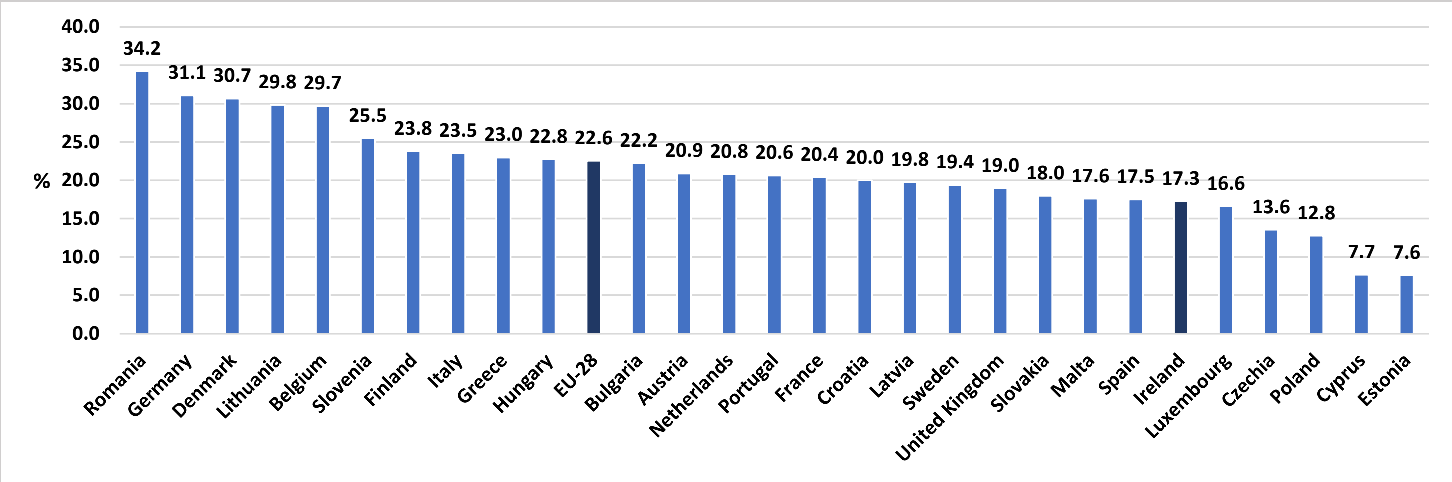
Figure 3: Income Tax Rate Of 'High' Wage Earners - Single Persons Without Children, 2019



Source: Eurostat (2020)

Similarly, the Irish tax burden for married couples with two children on average incomes and below is relatively low by comparison to other EU MS. Figure 4 compares the personal income tax rate of a married couple with two children – where one person is earning the average wage (100%) and the other is a low-wage earner on two-thirds (67%) average earnings. In 2019, the EU-28 average income tax rate for such a low wage married couple was almost 23%. Romania had the highest income tax rate at 34% and was followed by Germany (31%), Denmark (31%), Lithuania (30%) and Belgium (30%). By comparison, the income tax rate of a low waged married couple in Ireland is the seventh lowest in the EU at 17% in 2019. The lowest rate occurred in Cyprus and Estonia at 8% respectively.

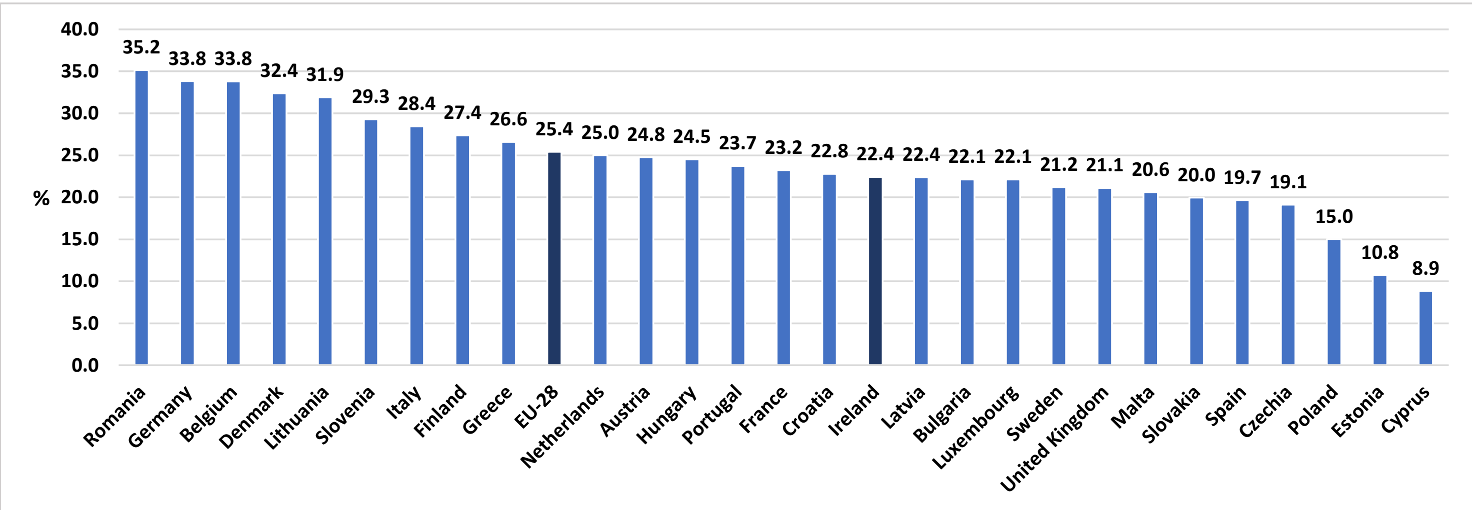
Figure 4: Income Tax Rate Of ‘Low’ Wage Earners – Married Couple (with two children), 2019



Source: (Eurostat, 2020)

By comparison to married couples on low incomes, the tax burden for a married couple (with two children) on ‘average earnings’ was higher across all EU MS: with a EU-28 average tax rate of 25% in 2019 (as shown in Figure 5). The EU MS with the highest income tax was Romania at 35% and was followed by Germany (34%), Belgium (34%) and Denmark (32%). Ireland had the thirteenth lowest income tax rate at 22%, compared to a low income married couple at 17%. Estonia and Cyprus again had the lowest income tax rate of 11% and 9% respectively.

Figure 5: Income tax rate of ‘average’ wage earners – Married Couple (with two children), 2019



Source: Eurostat (2020)

Notwithstanding the lower income tax burden in Ireland relative to other EU MS, the OECD has highlighted that the Irish tax and welfare system is the most progressive and redistributive in offsetting market income inequalities (i.e. earnings from employment and self-employment, rents and investment incomes) (OECD, 2020). Two features of the Irish tax system stand out in achieving this: the five-rate Universal Social Charge levied on a broad income base; and the early starting point to paying the higher rate of income tax. Therefore, the redistributive tax and transfer system has helped in bringing the level of inequality in take-home income very close to the EU average distribution of post-tax income (Roantree, 2020; Callan et al., 2018).

References

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