The Irish Taxation System: *trends over time and international comparisons*[a]

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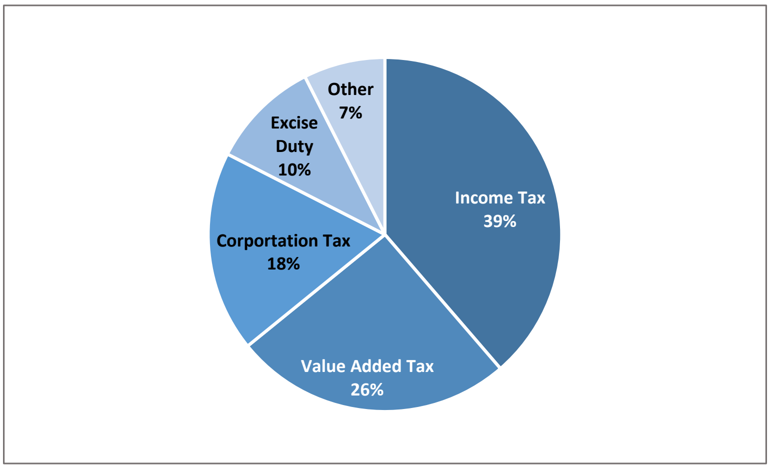
Key Point:

Tax revenue fell substantially during the Great Recession: decreasing by €15bn or 33% from €47bn in 2007 to a low point of €32bn in 2010. As the economy stabilised after 2011, tax revenues also recovered at an annual average rate of 7% per year – reaching almost €60bn in 2019. As a share of national income, Ireland had the lowest tax burden in the EU in 2018 at 23% in Gross Domestic Product (GDP) terms, compared to the EU-28 average of 40%. However, using modified Gross National Income (GNI*) as an alternative benchmark, the Irish tax burden is closer to the EU-28 average at 37.5%. Moreover, the modified GNI* tax-to-income ratio puts the Irish taxation of 'income and wealth' at 17% in 2018, exceeding the EU-28 GDP average of 13%. However, Ireland remains an outlier in the 'net social contributions' tax category at almost 7% (of modified GNI*), compared to the EU-28 average of 13% of GDP in 2018.

Aggregate Trends in Taxation Receipts 2007-2019

Figure 1 shows the distribution of the total tax revenue of almost €60bn in 2019. Income tax receipts accounted for the biggest share in total revenue at 39%. This was followed by value added tax (26%), corporation tax (18%), excise duties (10%) and 'other', which mainly consists of stamp duties, capital taxes and customs duties (7%).

Figure 1: Share of Irish Taxation Revenue, 2019

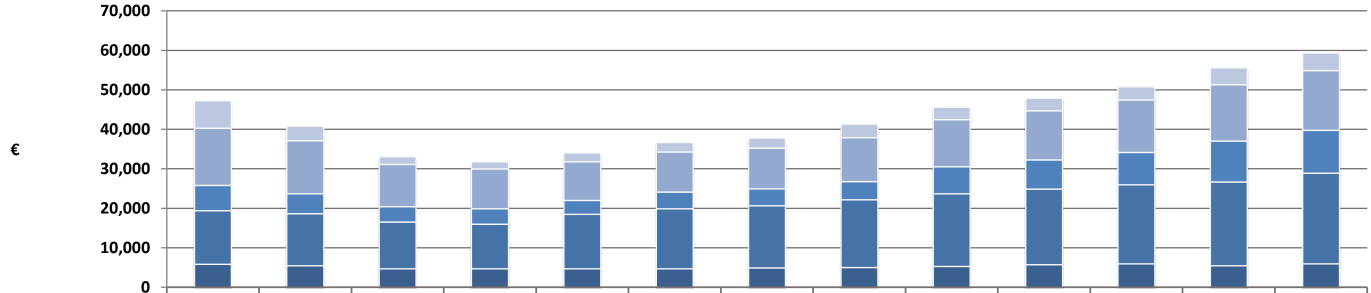


Source: Department of Finance (2020a)

During the Great Recession there was substantial fall in tax revenue: with a decrease of €15bn (-33%) from €47bn in 2007 to €32bn in 2010. Figure 2 shows the trends in aggregate taxation receipts by taxation category – income tax, value added tax (VAT), corporation tax, excise duties and other. The onset of the economic crisis had a significant impact on taxation receipts, with sharp decreases recorded across all major tax heads – except for excise duties. The tax category which saw the biggest proportional fall in revenue was the 'other' category: with a decrease of over €5bn or 75% from €6.9bn in 2007 to €1.7bn in 2010. Much of the cause for this decline was directly related to the contraction of the domestic property marked (Department of Finance, 2020b). Substantial decreases were also recorded in VAT (-€4.4bn), corporation tax (-€2.5bn) and income tax (-€2.3bn).

As the economy began to stabilise after 2011 the total tax revenue increased at an annual average rate of 7%, reaching almost €60bn in 2019. During these years, income tax saw the greatest rise increase: from €11.3bn in 2010 to €23bn in 2019. Substantial increases were also seen in the areas of corporation tax (+€7bn) and VAT (+€5bn). Excise receipts exhibited a modest decline during the crisis years and returned to slightly above their pre-crisis levels in 2019. While the 'other' tax category has increased by €2.6bn from €1.7bn in 2010, it has not returned to levels observed immediately prior to the crisis.

Figure 2: Trends in Taxation Revenue, 2007-2019



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Other	6,951.8	3,661.5	1,935.4	1,773.7	2,291.4	2,376.8	2,550.5	3,366.0	3,134.8	3,212.4	3,297.7	4,278.4	4,433.6
Value Added Tax	14,496.6	13,429.6	10,669.6	10,101.3	9,740.5	10,170.8	10,336.0	11,152.9	11,944.0	12,420.5	13,303.1	14,234.3	15,117.6
Corportation Tax	6,390.6	5,065.9	3,900.3	3,923.6	3,520.2	4,215.7	4,270.3	4,614.5	6,871.6	7,351.1	8,201.4	10,385.2	10,887.6
Income Tax	13,572.4	13,176.8	11,835.2	11,276.1	13,797.5	15,175.8	15,757.9	17,157.5	18,359.2	19,169.0	20,009.0	21,241.7	22,934.5
Excise Duty	5,837.9	5,443.3	4,702.5	4,678.0	4,677.6	4,707.0	4,891.1	4,991.1	5,291.8	5,711.5	5,925.3	5,417.8	5,940.4

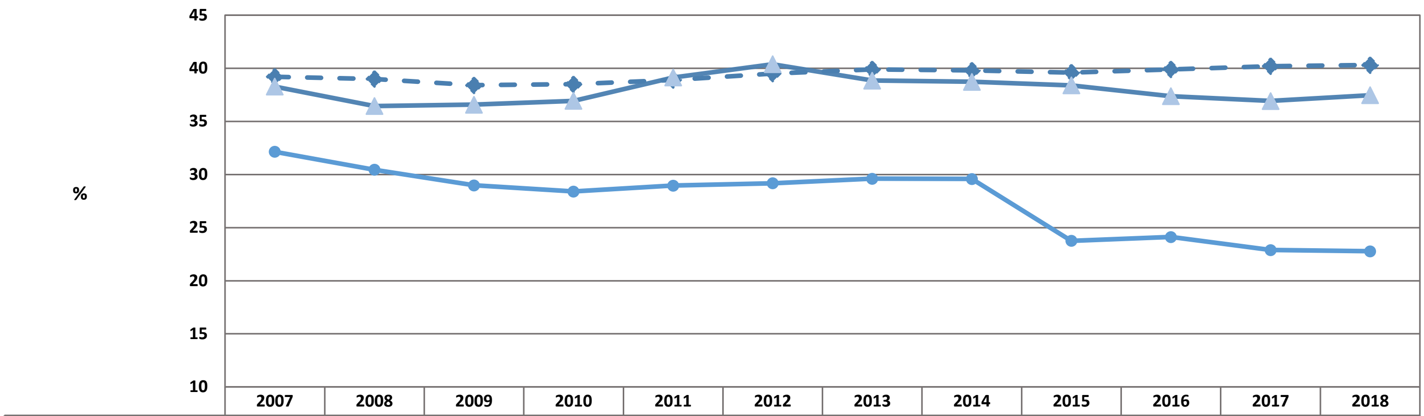
Source: Department of Finance (2020a)

Taxation revenue as a share of national income

Measuring tax revenue as a share of national income is a commonly used metric to assess the burden of taxation over time and across countries. Figure 3 shows the tax-to-national income ratio for Ireland and the EU-28 Member States average between the years 2007 and 2018. The European Commission provides data on the tax-to-GDP ratio for each of the EU Member States. During the years 2007-18, the EU-28 average of tax-to-GDP ratio was relatively flat, increasing marginally to 40% in 2018. The Irish tax-to-GDP ratio decreased during the crisis from 32% in 2007 to 28% in 2010, increased to almost 30% in 2014 and fell sharply to less than 24% in 2015. The tax-to-GDP ratio was 23% in 2018: by this measure the Irish tax burden was far lower than the EU-28 average of 40%. However, it is well documented that the large multinational presence in Ireland has led to the GDP metric overstating Irish income levels – with the disconnect between measured GDP and actual income levels increasing in recent years (Department of Finance, 2020b).

To address this, the CSO provides data on an alternative measure known as modified Gross National Income (GNI*). The modified GNI* better captures income levels in Ireland and provides an accurate depiction of activity in the domestic economy and the tax burden. When using modified GNI* as a base, the data suggests that the Irish tax burden has been consistent with EU-trends over time, not deviating from the EU average by more than 3 percentage points. In 2018, the Irish modified GNI* tax-to-income ratio was almost 37.5%, bringing the level of the Irish tax burden closer to the EU-28 tax-to-GDP ratio of 40%.

Figure 3: Tax-to-Income Ratios, 2007-2018

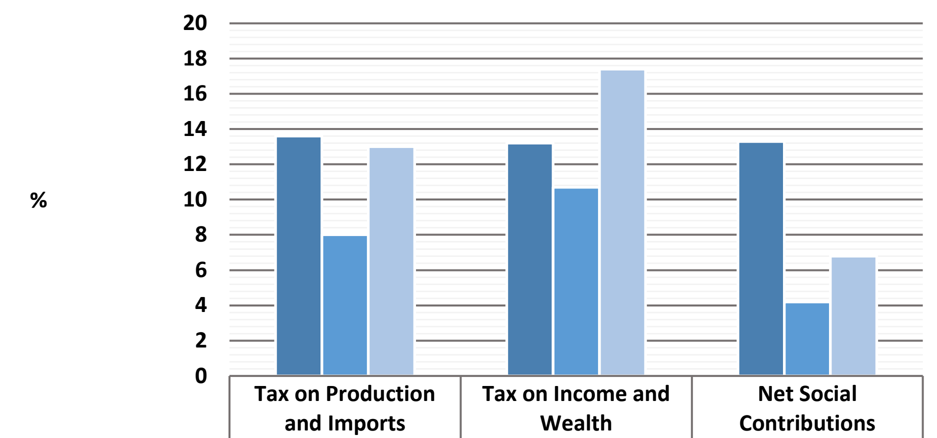


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
EU-28 Average GDP	39.2	39	38.4	38.5	38.9	39.5	39.9	39.8	39.6	39.9	40.2	40.3
Ireland GDP	32.1	30.4	29.0	28.4	29.0	29.2	29.6	29.6	23.8	24.1	22.9	22.8
Ireland *GNI	38.3	36.4	36.6	36.9	39.1	40.4	38.8	38.7	38.4	37.4	36.9	37.5

Source: Eurostat (2020a), CSO (2020). Note: the 26% real GDP growth in 2015 reduced the GDP ratio from 2015 onwards (DPER, 2020b). Data on total tax revenue based on Eurostat figures.

Figure 4 shows the main tax categories as percentage share of outputs in GDP and modified GNI* terms. In 2018, taxes on the three categories, on production and imports[b], on income and wealth, and net social contributions were each slightly greater than 13% of GDP. In the Irish case, the tax burden is close to the EU-28 average in the tax on income and wealth category at 11%, but deviates from the EU-28 average in the 'production and imports' (8%) and 'net social contributions' (4%) tax categories.

Figure 4: Tax Categories as % of GDP and Modified GNI* Output, 2018



	Tax on Production and Imports	Tax on Income and Wealth	Net Social Contributions
EU (% GDP)	13.6	13.2	13.3
Ireland (% GDP)	8	10.7	4.2
Ireland (% GNI)	13.0	17.4	6.8

Source: Eurostat (2020a) CSO (2020). Note: Data on total tax revenue based on Eurostat figures.

When using modified GNI* as a base however, Ireland's tax-to-income ratio exceeds the EU-28 average in the 'income and wealth' category at over 17%. Moreover, the Irish tax burden on production and imports is closer to the EU-28 average at 13%. However, Ireland is a significant an outlier in the 'net social contributions' tax category at almost 7%, compared to the EU-28 average of 13% in 2018.

References

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[a] Indicators using GDP and GNI* have been revised in line with CSO National Income and Expenditure data as of 28.08.2020

[b] Taxes on production and imports include value added tax (VAT), import duties, excise duties and consumption taxes, stamp taxes, payroll taxes, taxes on pollution and others (Eurostat, 2020b).