

Ireland's Tax Expenditure System:

International comparisons and a reform agenda

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Irish tax expenditures

	Number of tax expenditures	Number with available costs	Estimated Cost €m
Children	8	8	723
Housing	6	6	3,256
Health	10	7	579
Philanthropy	16	7	89
Enterprise	28	12	457
Employment	28	18	2,816
Savings and investment	8	6	2,995
Age-related and other	7	5	144
Property investment	20	20	435
Total	131	89	11,494

Source: Commission on Taxation, Dáil Question



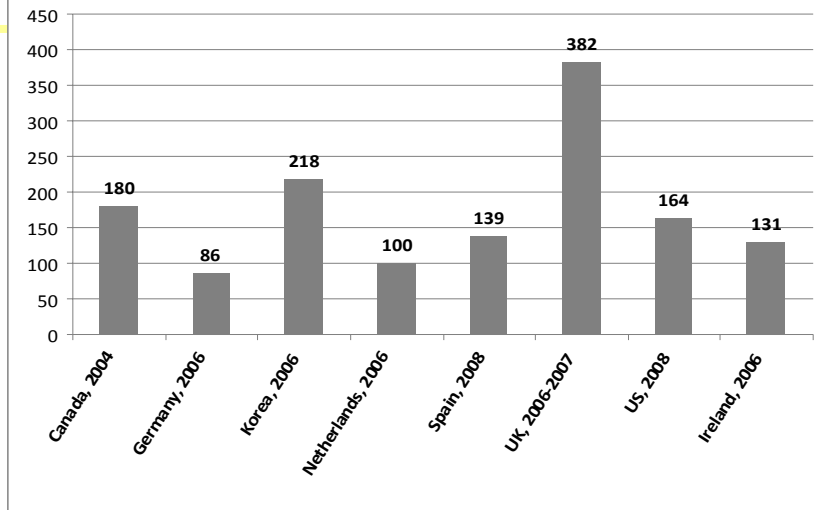
Tax expenditures

- Appendix 1: Full list of Ireland's tax expenditures
- Appendix 2: Provisions that form part of Ireland's benchmark tax system

Annual cost of Top 10 tax expenditures

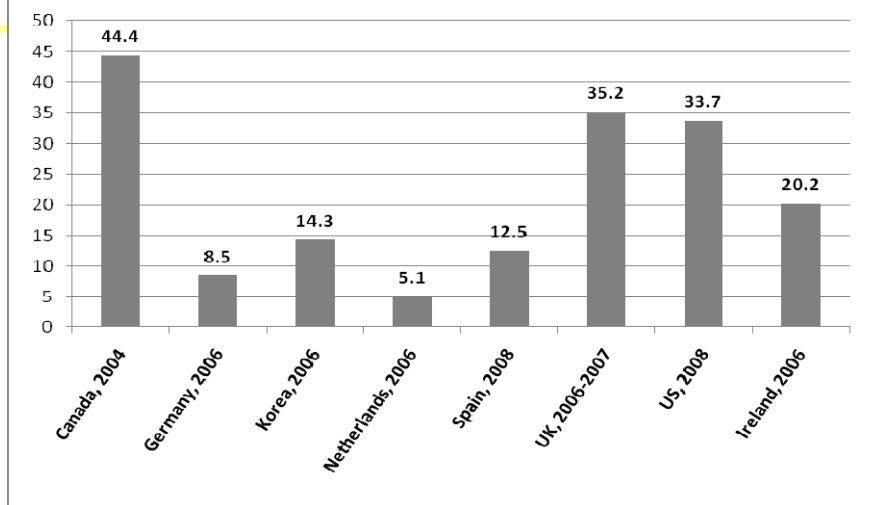
		€m	% GDP	% Total Tax Take
1	Pension tax reliefs	2,900	1.64	5.09
2	Employee tax credit	2,522	1.42	4.43
3	CGT exemption on principal private residence	2,440	1.38	4.29
4	Mortgage interest relief	705	0.40	1.24
5	Property tax incentives	435	0.25	0.76
6	Child benefit tax exemption	427	0.24	0.75
7	Medical insurance relief	321	0.18	0.56
8	Agricultural relief for CAT	100	0.06	0.18
9	Tax exemption on patent royalties	84	0.05	0.15
10	Stamp duty relief for young trained farmers	71	0.04	0.12
	Total	10,005	5.64	17.58

Chart 1 - Number of tax expenditures

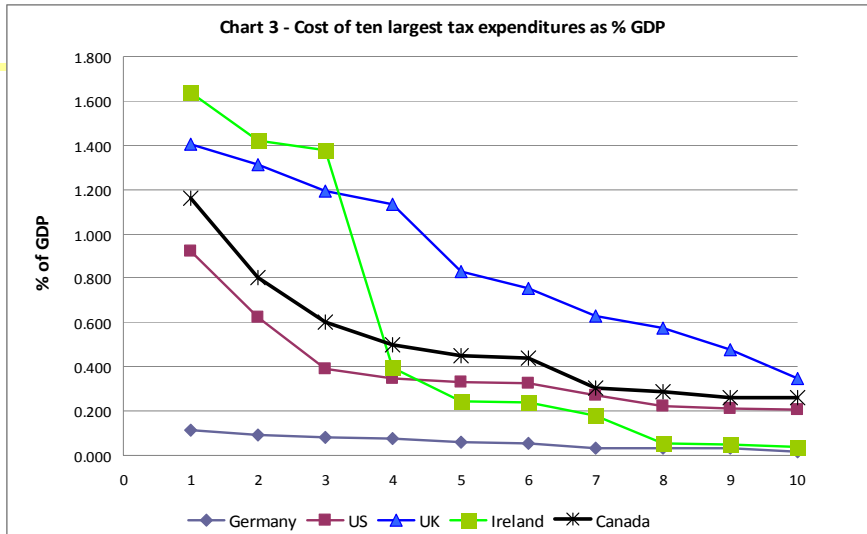


Source: OECD, Commission on Taxation

Chart 2 - All tax expenditures as % total tax revenue



Source: OECD, Commission on Taxation

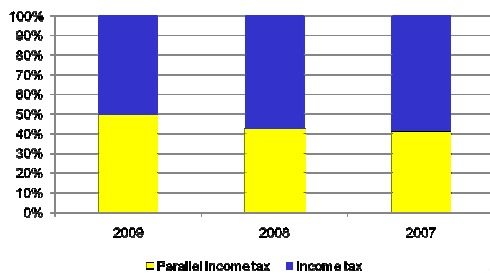


Source: OECD, Commission on Taxation

Parallel tax

	2009 €m	2008 €m	2007 €m
Income tax	10,701	13,195	13,582
Parallel income tax	10,437	9,723	9,427
Total	21,138	22,918	23,009

Chart 4 Relative contributions of Income tax and parallel tax to total receipts for taxes on income



High income restrictions

- “Alternative minimum tax”
- 2008: Increased effective tax rate to 20% for incomes over €500,000 (vs 39%)
- 2008: 423 individuals paid extra €39m
- 2010: ETR 30% for income over €400k
.....but not all shelters are included in the restriction
.....and the shelters with the highest cost are claimed across the range of income distribution

Reforming tax expenditure

- Abolish expenditure no longer justified
- Reduce tax credit rates
- Limit or defer tax expenditure
- Recapture tax expenditure at higher income levels
- Structural reform of the tax expenditure system

Reforming tax expenditure

	Tax Expenditure	Year 1	Years 1-4
1	Pension tax reliefs	€676m	€2.7b
2	Employee tax credit	€250m	€2.5b
3	CGT exemption on principal private residence	(€700m - €1b)	(€2.8b - €4b)
4	Mortgage interest relief	No change	No change
5	Property tax incentives	€400m	€1.6b
6	Child benefit tax exemption	€200m	€800m
7	Medical insurance relief	€80m	€800m
8	Agricultural relief for CAT	€20m	€200m
9	Tax exemption on patent royalties	€84m	€336m
10	Stamp duty relief for young trained farmers	€15m	€100m
	TOTAL	€2,425m	€11,836m

Pension tax reliefs

	State pension (contributory)	Private sector occupational	Public sector occupational	Self-employed
Contributions – income tax	T	E	E	E
Contributions – PRSI	T	E	E	T
Contributions – health contribution	T	E	E	T
Contributions – income levy	T	T	T	T
Fund income and gains	N/A	E	N/A	E
Tax free lump sum	N/A	E	E	E
Pension – income tax	T	T	T	T
Pension – PRSI	E	E	E	E
Pension – health contributions	E	T	T	T
Pension – income levy	E	T	T	T

Pension income in 2010 (single person)

Pension	Effective total tax rate on pension (inc health and income levy)
€15,000	0%
€20,000	4%
€25,000	7%
€35,000	16%
€50,000	24%
€75,000	32%
€100,000	36%
€150,000	41%
€250,000	45%

Including the tax free lump sum

Pension	Effective total tax rate on the aggregate of pension and notional annual income from the lump sum
€15,000	0%
€20,000	3%
€25,000	6%
€35,000	13%
€50,000	21%
€75,000	27%
€100,000	31%
€150,000	35%
€250,000	38%

Process for new tax expenditures

