

Consultation on Ireland's Personal Tax System

Submission by the Citizens Information Board

Introduction

The Citizens Information Board (CIB) welcomes the opportunity to make a submission to the Department of Finance regarding the review of the personal tax system being conducted by the Department.

CIB, funded by the Department of Social Protection (DSP), is the national agency responsible for supporting the provision of information, advice, including money advice, and advocacy on social and public services. In so doing, we complement the role of the Revenue Commissioners, the Department of Finance and the Department of Social Protection as well as other public sector agencies by enabling people to navigate the welfare and taxation systems and access the benefits and services to which they are entitled and to assert their rights as citizens. CIB-funded services -- Citizens Information Services (CISs), the Citizens Information Phone Service (CIPS), Money Advice and Budgeting Services (MABS) and the National Advocacy Service (NAS) for people with disabilities play an active role as intermediaries for citizens in their engagement with public services and provide 'assisted digital' services – helping users to access online services where they experience obstacles in doing this directly.

A breakdown of queries to CISs shows that people have information, advice and advocacy needs right across the life cycle. A significant number of CIS clients¹ are from low income working households or are dependent on social welfare, with an average of 44% of all queries relating to social welfare over the past few years. A further 5% of queries relate to issues connected with personal taxation.

While recognising that a substantial proportion of the personal taxation queries dealt with by CISs relate to the *administration* of the Irish taxation system as opposed to the *policy* aspects of the system – the focus of the current review – the feedback from CISs does provide insight into aspects of taxation policy that are important and relevant.

This submission is set out in four sections. Section One discusses some overarching considerations relevant to personal taxation. Section Two outlines some specific issues identified by CISs arising from the processing of queries and dealing with clients. Section Three addresses the specific questions contained in the consultation document and Section Four presents an overview of the CIB perspective on personal taxation.

Section One: Key overarching considerations

CIB recognises that Ireland has a relatively progressive taxation and financial redistribution system. Low-income households have benefitted from changes in tax and welfare policy over the past 25-year period and income inequality has remained fairly stable compared to other developed

¹ CISs and the Citizens Information Phone Service dealt with over half a million callers and almost 800,000 queries in 2022 on all aspects of rights and entitlements.

countries where it has grown². While the social protection and tax system has worked relatively well in terms of reducing poverty and inequality, the lack of investment in public services has impacted to a considerable extent on low-income families and has impeded participation in the labour market. It has been observed that our system has historically developed cash benefits more than services³ and this is an important consideration when looking at the amount of tax required to deliver both adequate social services and social welfare benefits.

CIB notes that rates of poverty show significant variation across household types. For example, older-person households have had positive outcomes while others, such as people with disabilities and children in single parent households, have fared less well. SILC 2022 data⁴ shows that persons living in households comprised of one adult aged less than 65 years and persons living in one adult households with children had the highest consistent poverty rates (14.5% and 14.1% respectively). (The overall consistent poverty rate was 5.3%). The consistent poverty rate was highest among persons unable to work due to long-standing health problems (19.7%).

CIB recognises the importance of ensuring that the taxation and welfare codes complement each other and act to provide support and work incentives to people who are at risk of poverty and social exclusion. This matter has been discussed comprehensively by CIB in its submission to the Commission on Taxation and Welfare⁵.

The personal taxation system

CIB is cognisant of the fact that the overall level of revenues raised from various forms of personal taxation and Pay Related Social Insurance (PRSI), as a proportion of overall tax receipts, will have to increase over the coming years. However, CIB believes that such increases should – to the maximum extent possible – be focused on non-income tax measures. The balance of taxation needs to shift away from taxes on labour and towards taxes on capital, wealth and consumption.

It is evident that higher income enables better access to education, job opportunities, housing and health. However, in Ireland, wealth remains concentrated in the upper income groupings. For example, SILC data shows that the richest 20% have four times the income of the poorest 20%.⁶ A key question that should be addressed in considering the personal taxation system is whether this level of income disparity is acceptable from an equality and social justice perspective and whether and how the personal taxation system might be used to address this disparity.

It is the CIB view that additional taxation of wealth should be considered in order to increase the overall progressivity in the taxation system, for example, additional taxes on inheritance and gifts. However, we acknowledge the point made by the Commission on Tax and Welfare that once-off tax does not provide a sustainable response to long-term funding challenges and has a higher administrative cost.

² [*Social Insurance and the Welfare System: Towards a Sustainable Developmental Welfare State, NESC Background Paper 151/1, Johnston, H., McGauran, A.M. \(2021\)*](#)

³ [*OECD \(2015\), Breaking the Barriers, cited in NESC \(2020\), The Future of the Irish Social Welfare System: Participation and Protection. Report No. 151.*](#)

⁴ [*CSO \(2023\). Survey on Income and Living Conditions \(SILC\) 2022.*](#)

⁵ [*CIB Submission on Public Consultation by the Commission on Taxation and Welfare,*](#)

⁶ [*CSO \(2023\). Survey on Income and Living Conditions \(SILC\) 2022.*](#)

CIB acknowledges that wealth taxes can create problems for some people. The treatment of persons whose placement on the distribution of wealth does not correspond to their place in the distribution of income, and who would face difficulties in liquidating assets to meet wealth tax liabilities, can be an issue. However, the Commission On Taxation and Welfare has made the point that similar challenges have been surmounted in the past and that it may be possible to address this issue through the introduction and use of deferral arrangements.

The personal taxation system as progressive and redistributive

CIB believes that the current situation where the burden of personal income tax mostly falls on higher-paid taxpayers is correct in that progressivity of the income tax system is clearly positive from an equity perspective. While the reliance on a small proportion of higher income earners may give rise to concerns from a fiscal sustainability perspective, CIB takes the view that taxation should reflect the principle that those with resources should support those with less means in order to ensure a more equitable and socially inclusive society. The existing progressive approach to personal taxation in Ireland is appropriate and necessary in order to offset the relatively high levels of income inequality.

In situations where increases in taxation, of any kind, are likely to impact on low-income households, it will be crucial that such measures are introduced in a manner that is gradual as opposed to short-term and sudden. It will also be important that balancing measures in the social welfare code are put in place. While accepting that there is value in considering increases in taxes based on consumption such as VAT, it is necessary to allow for the fact that in general terms, such increases have the potential to be regressive due to the relatively higher proportion of disposable income that low-income households tend to spend relative to their income.

CIB believes that the personal taxation system, in tandem with the social welfare system, should aim, *inter alia*, to contribute to meeting the objective of achieving greater equality in society and of preventing poverty. The personal taxation system, therefore, needs to be redistributive as well as progressive. It should contribute to enabling all citizens to participate in society, and to foster social cohesion. The system of taxation, combined with the social welfare income maintenance system, needs to be facilitative of people participating in the labour market and of being able to improve their income without encountering cliff-edges, poverty traps and disincentives to joining or continuing in the workforce.

CIB agrees with the Commission on Taxation and Welfare⁷ that “preferential Income Tax or Universal Social Charge (USC) treatment based on factors such as age or personal characteristics should be phased out. As far as possible, and with limited exceptions, Income Tax and PRSI charges should be based on income only, and different types of income should be treated equally.”

PRSI

A strengthening and reform of the PRSI system is required, as are changes to the Universal Social Charge (USC). Current rates of PRSI paid by employees, employers and particularly by the self-employed are low relative to other EU and OECD countries. CIB believes that there is potential for increased income to the state through an upward move on PRSI rates. However, caution will need to be exercised with regard to people on low or precarious incomes. In such cases, a lower and incremental scale of contributions will be required in order to avoid hardship and/or a disincentive regarding employment. CIB also notes the developments in technology and the platform and gig economy that have contributed to the growth in atypical employment, particularly in the area of self-employment and specifically including ‘false’ self-employment. Reform of PRSI should, as well as

⁷ [Foundations for the Future: Report of the Commission on Taxation and Welfare \(2022\)](#)

meeting other aims, attempt to ensure appropriate contribution by self-employed (Class S) workers and by employers of exploited 'self-employed' employees.

The principle of individualisation

Given changes in social norms and family structures, individualisation should be progressed in both the taxation and welfare systems (although this term means different things in each system). Given changes in family formation over recent decades, including the increasing age at which people get married, the proportion of children born to parents who are not married, the level of marital separation and divorce and the number of families with children from more than one union, relying on marital status for tax and social welfare assessment purposes is unsatisfactory and ill-suited to modern circumstances.

The Commission on Taxation and Welfare recommendation for a phased move towards individualisation of the Standard Rate Cut off Point as a step towards addressing disparities in the Income Tax system is important, particularly in the context of decreasing the gap in the employment rate between men and women. CIB, therefore, strongly supports the principle of further individualisation in the income tax system and believes that more progress is necessary in this area. In particular, conferring income tax advantages on the basis of marital status alone is questionable as a feature of Ireland's taxation system in the future.

Section Two: Specific issues relating to personal taxation identified by CISs

As previously stated, most of the queries dealt with by CISs in relation to personal tax refer to the *administration* of the Irish taxation system as opposed to the *policy* aspects of the system. There are, however, a number of recurring issues which are relevant to the current review.

Disparities between the income tax and social welfare systems

CIB has over the years regularly highlighted ⁸ disparities in the taxation and social welfare systems that result in damaging anomalies in how certain groups of people are treated. This problem arises, in particular, for non-marital co-habiting couples. Cohabiting couples are jointly assessed for social welfare purposes, (e.g., in assessing means for Carer's Allowance) but as separate, unconnected individuals in the context of income tax assessment. This means that tax credits cannot be transferred between partners as is the case for married couples or those in civil partnerships.

Cohabitants are also treated as belonging to Group C for capital acquisitions tax which means that provision in wills for the surviving partner is subject to a substantial tax bill, which may necessitate, for example, a primary residence having to be sold.

CISs receive many queries from people who feel that the current situation for cohabiting couples with differing treatment in tax and welfare codes is unfair and anomalous. Cohabiting couples miss out on valuable tax credits where only one person is working in the household. It is noted that the Minister for Social Protection has stated, in a reply to a Parliamentary Question in February 2022, that "Officials in my Department are in the process of carrying out a review into the treatment of cohabiting couples in the Social Welfare system."⁹

Case Examples submitted by CISs

A CIS client presented to the service seeking information on available tax credits. Client is cohabiting with their partner, who is working full time. Client wanted to transfer their tax credits to their

⁸See submission to Commission on Taxation and welfare, for example

⁹ See Parliamentary Question here.

partner. As the couple are cohabiting (not married or in a civil partnership) they cannot avail of the opportunity to transfer their unused tax credits between them.

This may be in contravention of the Equal Status Acts (2000-2018). Had the couple been married or in a civil partnership, they would have been eligible to opt for joint assessment.

A couple have 3 children and one of them is a full time carer for one of their children. The other is working full time. They cannot avail of the benefit of joint assessment on the gross income of €36,000 from employment because they are not married. This is causing financial hardship and puts them in a less favourable position to families when couples are married.

Home Carer Tax Credit

A married or civil partner caring for one or more dependent persons (who are not the spouse or partner) can claim the Home Carer Tax Credit, but this is not available to non-marital couples.

Tax treatment after separation or divorce

Separation or divorce can result in disparities in income tax assessment. How a couple is taxed after separation depends on how they were taxed as a couple before separation. In some instances, it may be more beneficial for a couple to remain taxed as a married couple after separation rather than as single people.

The payment of maintenance has implications for tax treatment and decisions on how a couple will be taxed after separation. Voluntary maintenance payments are ignored for tax purposes and legally enforceable maintenance payments are ignored if they are for the benefit of a child but maintenance for the benefit of a separated spouse is taxable.

Single Person Child Carer Tax Credit

CISs regularly highlight the limitations of the Single Person Child Carer tax credit. In some instances, where there is shared parenting, the secondary carer is unable to claim the credit when the main carer is cohabiting or chooses not to relinquish the credit to them (even though they may be making a significant financial contribution to the upkeep of the child).

Qualified Adults and Employee Tax Credit

Qualified Adults' social welfare recipients are given an Employee Tax Credit in addition to normal tax credits. If social welfare is the only source of income, most people will not pay tax because their liability is less than their tax credits. However, the Employee Tax Credit is given to the person claiming the social welfare payment and not to the qualified adult even if the payment is made directly to the qualified adult. This reflects an historical male breadwinner perspective in both the tax and social welfare codes. It can create financial vulnerabilities when couples separate and in situations of domestic violence. It is a matter that needs to be addressed.

Other issues relating to personal taxation identified by CISs

- ✓ People in receipt of the an old-age pension having to pay income tax because of an increase in the pension payment which leaves them worse off in the current inflationary climate;

- ✓ People not being able to claim tax relief on rent because a landlord is not registered with the RTB or refuses to provide the tenant with an RTB registration number;
- ✓ People paying income tax on their Living Alone Allowance because the main payment is taxable – this undermines both the concept and the benefit of the extra living alone payment;
- ✓ Landlords informing CISs that the tax payable on rents is prohibitive and forcing them out of the rental market;
- ✓ No income tax relief on routine dental treatment (which could be deemed to be a public health issue);
- ✓ Fees paid to addiction services not tax refundable;
- ✓ People not being eligible for the Single Person Child Tax Credit because they are not in receipt of Child Benefit;
- ✓ People who take up a place on a work activation programme (e.g., a CE scheme) being worse off financially because of income tax charges and costs associated with the job (e.g., child care costs and transport costs);

Section Three: Consultation Questions

Q.1 Do you have any suggestions on how the personal tax system could be reformed or enhanced, while broadly maintaining the yield and ensuring it continues to provide a sustainable and stable source of revenue to the Exchequer to fund public services?

CIB agrees with the view of the Commission on Taxation and Welfare that it will be necessary to increase the contribution of taxation as a share of national income in the future and that this will require a broadening of the tax base.

However, it will be very important that taxation policy is intrinsically linked to welfare policy and with ensuring that work pays and that households that are reliant on social welfare, or on a combination of income from work and social welfare, are kept out of poverty. The related requirement to ensure that there are sufficient resources available to meet the costs of public services and supports is self-evident.

Any reform of the personal tax system should take into account the fact that relative to the OECD average¹⁰, the tax structure in Ireland has higher revenues from taxes on personal income, profits & gains and taxes on corporate income & gains; is equal to the OECD average from payroll taxes; and has a lower proportion of revenues from social security contributions, property taxes and value-added taxes.

Clearly Ireland needs to be very mindful of the inherent dangers of a heavy reliance on corporation tax and should have contingency plans in place to address any substantial reductions in this revenue stream.

¹⁰ [Revenue Statistics 2022: Ireland, OECD, 2022](#)

Q.2 Does the personal tax system sufficiently support a competitive economy to incentivise and encourage work?

While CIB is not equipped to give a detailed answer to this question, we would re-iterate our general view that the personal tax system should be capable of adequately supporting necessary economic, social and infrastructural requirements.

Clearly, the personal tax system generally plays a critical role in supporting, encouraging and facilitating a strong innovation, research and development culture and related employment creation. However, it needs to be fully aligned with principles of equity, progressiveness, social inclusion and the need to avoid household income 'cliff-edges'.

Q.3 Do you have views on the progressivity of the personal tax system?

CIB recognises that personal tax can be an emotive issue not least because it involves the State taking a proportion of people's earnings in order to finance government spending. The principles of equity, social solidarity and fairness are key to ensuring that the taxation system is acceptable to the majority of taxpayers. Horizontal equity and vertical equity respectively require the equal treatment of similar incomes and a socially acceptable degree of inequality in the treatment of different incomes.

It is clear that any tax benefits that apply only to some taxpayers (e.g., specific targeted tax reliefs) must be subsidised by all other taxpayers. There is thus a strong argument that a truly progressive tax system would ensure that all tax-payers, irrespective of their marginal tax rate, would derive similar benefit from investing some of their income in schemes that attract tax relief.

Q.4 Do you think the personal tax system operates as an effective means of income redistribution?

Under the Irish taxation system, income earned from sources other than work, such as capital gains, is treated differently than income from work. This is the case even though non-work generated income confers the beneficiary with the same spending power as income derived from work. So, two individuals with identical income may be required to make different contributions to the state because of the source of their income. This, it is suggested, is in breach of the equity principle.

The current discussion about cutting income tax, especially reducing Ireland's 40% higher tax rate requires careful consideration. The proposed beneficiaries of any changes to the higher rate of income tax would be those who already gain most from Ireland's taxation system. In order to tackle the high levels of economic inequality in Ireland, it is important that the income tax system is both progressive and can support sustainable growth and strong public services that benefit everyone.

It is noted that a 2021 ESRI research paper¹¹ stated that increasing the standard and higher rates of income tax by 1 percentage point - from 20 per cent to 21 per cent and from 40 percent to 41 per cent respectively - would raise almost €1 billion per year, mostly from the highest-income third of households. This point warrants active consideration in a review of the personal taxation system.

Q. 5 What are the key areas in the personal tax system for future policy consideration?

Based on the experience of CIB-funded services, the following are identified as areas requiring policy consideration going forward:

¹¹ [Kakoulidou, T. and B. Roantree \(2021\). Options for raising tax revenue in Ireland, Budget Perspectives 2022,](#)

- ✓ Further exploration of how the personal tax system can be amended to lessen social inequality and to ensure that ‘nobody is left behind’ in the context of social solidarity, social cohesion and ensuring that the system is both fair and seen to be fair;
- ✓ The need to move expeditiously towards the full individualisation of the personal tax system;
- ✓ The need to address the anomaly where cohabiting couple are treated differently than married couples;
- ✓ The role of rent tax credit in addressing the housing issue in the short to medium-term;
- ✓ The need to broaden the personal tax base by increasing the take from other income streams, e.g., inheritance tax;
- ✓ The need to ensure that current non-taxable social welfare benefits remain;

CIB strongly supports the recommendation of the Commission on Taxation and Welfare that existing linkages between Revenue and the Department of Social Protection (DSP) be further enhanced to explore a solution that provides for application of PAYE to taxable payments made by DSP as they are being paid.

The statement by the Commission (p.443) that “In exploring such a solution, careful consideration is required to avoid undue hardship for recipients of such payments, taking account of the importance of cash payments in poverty alleviation”. Many users of CIB-funded services cannot cope with any reduction in household income because of their very precarious financial circumstances.

Section Four: Overview of CIB perspective

Reform and restructuring of the personal taxation system must adopt a value-critical perspective taking into account the social goal of creating and developing a more equitable and inclusive society and the role of income equality therein. The fact that earning a high income very often gives an individual better access to health, housing and education as well a better standard of living is a key consideration from an equality of access perspective.

CIB is of the view that, while various reforms and adjustments to the system should be implemented and can deliver positive results, there is a strong argument for a substantial rebalancing of the income from taxation that will involve some shift from income-based taxes toward taxes that are wealth oriented.

CIB is in broad agreement with the Commission on Taxation and Welfare recommendation that the overall level of revenues raised from tax and Pay Related Social Insurance as a share of national income must increase materially to meet the challenge of fiscal sustainability and that this needs to be done in a manner that minimises economic, social and environmental costs.

CIB also agrees that with the recommendation of the Commission that the Government should continue to focus on broadening the base of taxation across all categories of taxation and that the focus should remain on maintaining the progressivity of the existing personal taxes system without

further erosion of the Income Tax or Universal Social Charge base. In addition, the broadening of the PRSI base will be necessary.

The concept of horizontal equity is an important one in that it means that that people in similar circumstances should be taxed similarly. This is particularly relevant where two people earn the same amount of money in the same period, but may be required to pay different amounts of tax because of the source of that income. Horizontal equity requires that the tax treatment for all income earners should be aligned. CIB also agrees with the Commission's view that in order to treat similar activity in similar ways, the principle that the rate of Pay Related Social Insurance (PRSI) on self-employment (Class S) should be aligned over time with the employer's rate of Class A PRSI attaching to employment (currently 11.05%).

The policy of not subjecting key social welfare payments that are specifically providing basic income support to families to taxation should be continued notwithstanding the fact that Child Benefit is a universal payment. It is also important that people should never experience a loss of income (even in the short-term) by the application of PAYE to social welfare payments.

CIB believes that increasing the personal tax take over the coming years should be on a scale appropriate to maintaining and enhancing current public service provisions in the areas of housing, health, social welfare and education and including child care and other supports where their absence impacts disproportionately on low income households, while also providing the resources to build a more socially inclusive society.

Finally, and very importantly, it should be highlighted that many of the clients of CIB-funded services are outside the current personal income tax net because of their low household income. For this sector of the population, the crucially important factor is that they are not further disadvantaged by a personal tax system that is not sufficiently progressive or equitable.