ISME is grateful for the opportunity to make a submission to the Commission. It is 13 years since the last Commission sat. It is interesting to consider how many of the 2009 Commission's proposals[1] have been enacted. The introduction of local property tax was one of the stand-out reforms introduced afterwards, yet that imposed no LPT on new houses, and no recalibration of the bands was conducted until the budget of 2021.

ISME has long-sought to progress the integration of the taxation and social welfare issues, as they are inherently intertwined for the taxpayer-citizen. We therefore greatly welcome the fact that this Commission explicitly addresses the two. ISME's submission below therefore addresses the tax aspects first, and the social protection elements second. This does not constitute a relative order of priority; and indeed as we will describe, for workers below the average industrial wage we consider the social protection issues to be of a higher order of priority than taxation issues. ISME wishes to thank Felim O'Rourke, who wrote the "Jobs Kill Zone Report," upon which the Social Protection element of this submission is based.

Finally, we consider it of exceptional importance that the recommendations of this Commission are considered by the Oireachtas with a critical urgency. ISME believes the pace of tax and social welfare reform in Ireland to be too slow. Hopefully this Commission will impress upon the legislature the priority that must be devoted to reform.

SUMMARY OF RECOMMENDATIONS

1. Raise the Standard Rate Cut-Off Point to 95% of the average industrial wage as soon as possible.
2. Pending removal of the 3% USC surcharge on the self-employed earning over €100,000, apply this surcharge to all workers earning over €100,000.
3. In order to encourage the stated goal of increasing private sector pension coverage, end the discrimination against private sector pension savers in the amount of income they can save for pensions, maintain marginal rate relief and extend it to all savers, and allow private sector workers with a chargeable excess tax liability to discharge it in the same manner as a public sector worker.
4. Reduce the rate of Capital Gains Tax to 25%.
5. Reform and index our Capital Acquisitions Tax regime.
6. Incentivise upskilling of our SME owner/manager base via a tax-incentivised "Blue Cert" in basic business knowledge.
7. Reform or scrap the Key Employee Engagement Program.
8. Introduce a new flat rate of tax on dividends, decoupled from the income tax system.
9. Reform EIIS to permit relief for losses against CGT.
10. Extend the qualification for SURE.
11. Introduce a simplified SARP program to allow SMEs hire specialist talent from abroad.
12. Reform and simplify our R&D tax credit and Knowledge Development Box relief to allow domestic enterprises to participate in them.

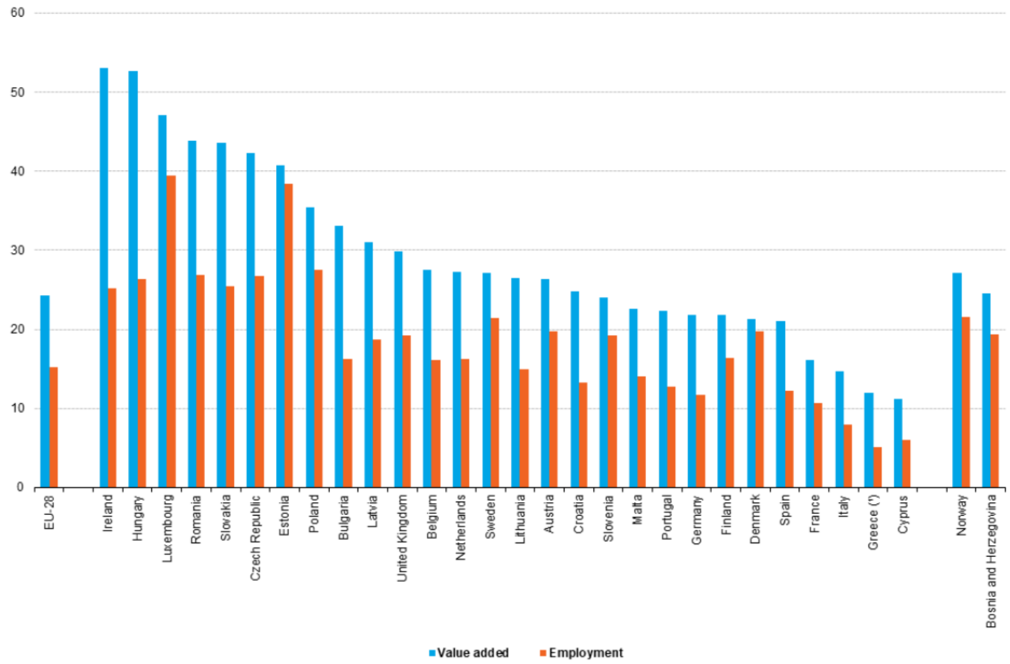
[1] https://researchrepository.ucd.ie/bitstream/10197/1447/1/Commission_on_Taxation_Report_2009.pdf

13. Reform both Local Property Tax and Commercial Rates by using a site valuation to calculate both; applying a levy to road frontage; and introducing a fixed periodic review of property tax, possibly at census time.
14. Restore interest payable on tax refunded to a taxpayer following a successful appeal to the Tax Appeals Commission.
15. Review our high VAT rates, and how they are applied, in those areas where high costs impact citizens the most such as housing and energy.
16. Reintroduce tax incentives to encourage the construction of accommodation.
17. Adjust PRSI calculation to eliminate the very high marginal PRSI rate on additional income in the PRSI Transition Zone from €18,304 to €22,048 per annum.
18. Set the basic rate for qualifying for the medical card at more than 30% above the comparable Jobseekers assistance rate.
19. Replace the child element in the Jobseekers' payments and all other welfare schemes by substantially increasing Child Benefit, phasing out Working Family Benefit, and at the same time making the Child Benefit taxable.
20. Significantly increase the income thresholds for access to social housing. Reform or remove the link between income and local authority rent.
21. Stop unjustified and inequitable additions to the social insurance burden of the self-employed.

TAXES ON INCOME

ISME commends the "Future Tax Strategy to Grow Irish Indigenous Exports" report by the Irish Tax Institute[2] to the Commission. While the Irish economy continues to expand at an impressive rate by comparison with peer countries, that expansion is excessively dependant on the activities of a small number of foreign multinationals and cannot be presumed into the future. We must start to adopt tax policies to encourage and stimulate the indigenous enterprise base.

[2] https://taxinstitute.ie/wp-content/uploads/2018/03/Irish-Tax-Institute-Exports-Report-June-2017.pdf



(¹) Provisional.
Source: Eurostat (online data code: fats_g1a_08)

The Eurostat graph above[3] shows the extraordinary success of foreign multinationals creating employment and value-added in Ireland. Coupled with the exceptional yields of corporation tax Ireland has benefited from in recent years, it is tempting to conclude that we have the right policy prescription for Ireland. In ISME's view we do not. The crowding effects of both a foreign multinational sector attracting the weight of Government support, together with a public service which pays consistently higher than all areas of the private sector (and 38% more than the small enterprise sector) mean that Ireland is seriously over-dependant on its FMC sector, and is failing to develop its indigenous enterprise base.

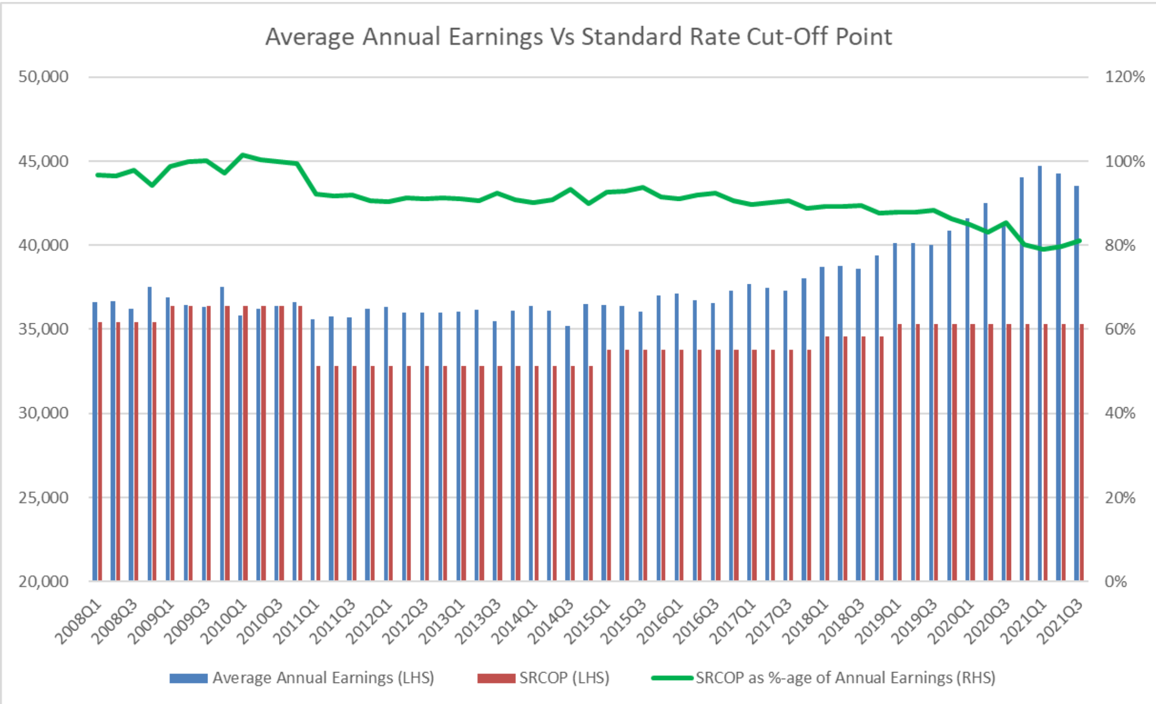
Ireland's marginal rates of taxation are not unusually high by international standards, but the point at which Irish workers enter the top or marginal rate of taxation is extremely low, both by reference to peer countries and by reference to average wages. We have gone from a position where the Standard Rate Cut-Off Point (SRCOP) was 97% of the average industrial wage in 2008 (and in fact was above the average industrial wage in 2010), to a position in a rising wage environment where the SRCOP is around 80% of the average industrial wage and is trending lower. This is one of a number of very significant disincentives to upskilling, personal advancement and more productive working that is retarding the Irish workforce. We need to prioritise the lifting of the SRCOP (currently €36,800) to at least 95% of the average industrial wage as quickly as possible.

Ireland's tax system is lauded for its "progressivity." Workers enter the marginal tax rate at a relatively low rate of income, and their deductions climb relatively quickly to PAYE/PRSI/USC deductions of 52% at a gross income of €70,044.01. For self-employed workers, marginal deductions increase to 55% with

[3] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Share_of_value_added_and_employment_accounted_for_by_foreign-controlled_enterprises,_non-financial_business_economy,_2014_(%25)_YB17.png&oldid=345876

the USC surcharge applied to those earning over €100,000. However, as we descend the income ladder, deductions from income fall far below European norms. This had the advantage during the pandemic that income tax levels were maintained (and rose) but it comes at the cost that the source of income tax in Ireland is highly concentrated among higher income earners.

The contrast with a country such as Germany, which we tend to think of as high tax, is stark. Germans[4] pay no tax below €9,408, 14% from €9,409 to €57,057 (excluding solidarity tax of 5.5% and Church tax of 8%-9%), and 45% at income of 270,501 and over. Crucially though, this implies a rate of 27.5% all the way from €9.5k to €270k, where the higher marginal rate kicks in. The significant disincentives to earn extra income inherent in the Irish system are absent in Germany's.

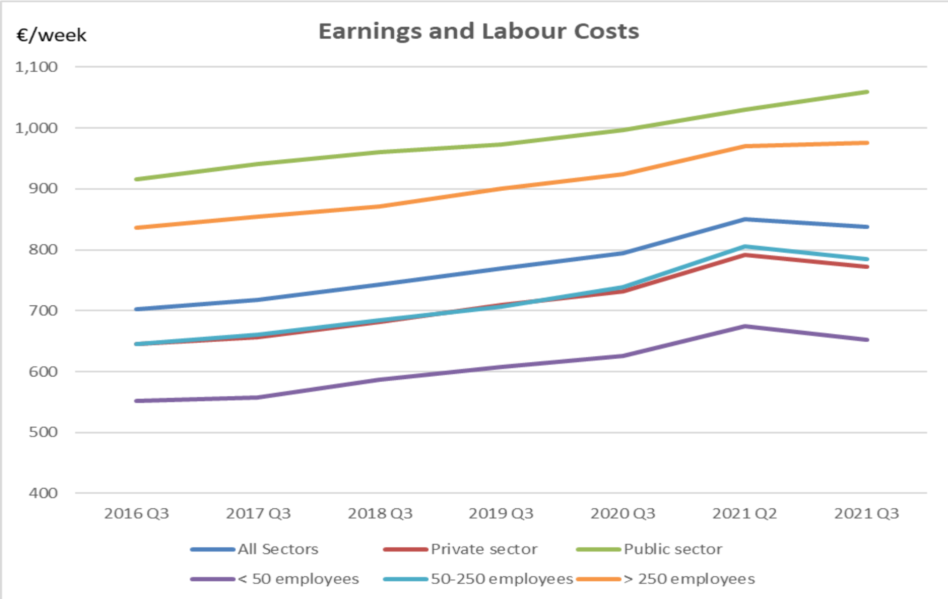


The SRCOP is especially important in the context of average private sector earnings, particularly those of workers in small (<50 employees) enterprises. The current CSO earnings data[5] show that average small business earnings equate to €652.63 per week, or €33,937 per annum, €2,863 below the current SRCOP. This represents a significant disincentive to upskill or seek promotion, unless a worker is going to enjoy a significant increase in pay. This disincentive stands independently of the disincentives we describe in the Social Protection section below.

[4] https://www.worldwide-tax.com/germany/germany-taxes.asp

[5] https://www.cso.ie/en/releasesandpublications/er/elcq/earningsandlabourcostsq22021finalq32021preliminaryestimates/

Earnings and Labour Costs Quarterly Q2 2021 (Final) Q3 2021 (Preliminary Estimates)



It is a matter of considerable frustration among both private sector employers and employees that our tax base is used to support a system which persistently maintains such a large gap between public and private sector pay. While the CSO periodically releases studies[6] which suggest that this gap is declining, and in some instances non-existent, this is on the basis of a micro-analysis of Irish data alone. Its analysis is not supported by meta-studies such as the multi-country comparison conducted by Campos et al[7] in the figure below, where only Portugal, Italy, Spain and Greece (where private sector wages are far lower) demonstrate the persistent gap between public and private sector evident in Ireland.

[6] https://www.cso.ie/en/releasesandpublications/rp/rp-eappp/eappp20152018/definitionsandinterpretationofresults/

[7] Understanding the Public Sector Pay Gap, Campos et al, IZA Journal of Labour Policy (2017)

Public-private pay differentials

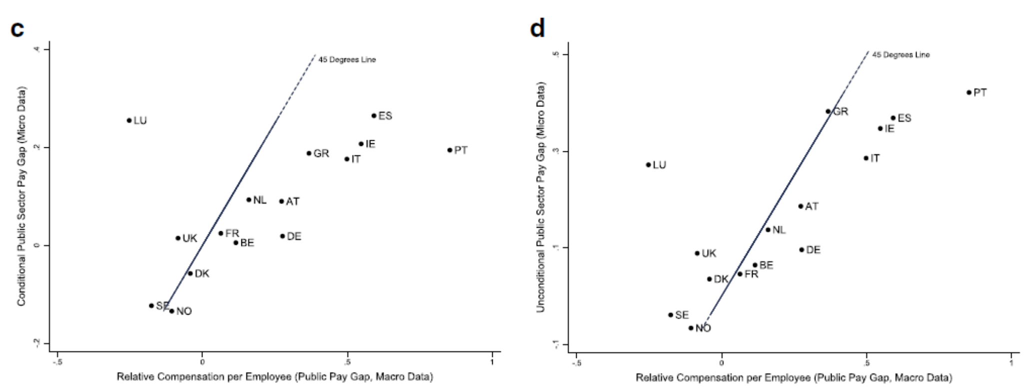


Fig. 1 Public-private pay differentials computed from macro data and comparison with micro-based pay gaps. Notes: Panels **a** and **b** show the evolution of public-private pay differentials (computed from macro data) for a selection of countries. Panel **c** compares the public sector pay gap conditional on observed worker characteristics (EU-SILC, see Eq. 1) with the wage gap computed from aggregate macro data (National Accounts). Panel **d** compares the latter with the public sector pay gap computed from micro data (EU-SILC) unconditional on observed characteristics. With the exception of Luxembourg, the cross-country patterns of micro vs. macro pay gaps are similar

For reasons that have never been adequately explained, Ireland continues to impose a USC surcharge on the self-employed earning over €100,000. We consider this unjust, inequitable, and at odds with professed policies on encouraging business start-up. The just course of action would be to eliminate this surcharge. However, despite a record tax yield in 2021,[8] the Exchequer continues to run a substantial deficit, adding to what is already one of the highest per capita levels of indebtedness in the OECD. Therefore, in the medium term, we believe the most prudent course of action is to apply the 3% USC surcharge to all other PRSI classes earning over €100,000. We understand this would raise approximately €300m per full year.

TAX DISCRIMINATION AGAINST PRIVATE SECTOR PENSION SAVERS

ISME acknowledges that some of the issues affecting private sector pensions are macroeconomic in nature: low interest rates, low returns on gilts etc., others are purely demographic and effectively irreversible: increasing longevity, increasing incomes, lower fertility rates producing higher dependency rates. The interaction of these macroeconomic and demographic factors mean that not alone must the recent pattern in Ireland of restricting the ability of private sector workers to save for their pensions be ended, it must be reversed.

For that minority of the private sector workforce[9] who have a pension, the taxation system continues to discriminate against them in ways it does not for public sector workers. It is interesting that despite the detailed engagement by the 2009 Commission on the pensions issue, the only measures that have since been taken are restrictive ones for private sector workers:

- An earnings threshold was introduced at €150,000 which has since reduced to €115,000, which Revenue and ESRI suggest should be further reduced.

[8] https://www.revenue.ie/en/corporate/press-office/annual-report/2021/headline-results-2021.pdf
[9] https://www.cso.ie/en/releasesandpublications/ep/p-pens/pensioncoverage2020/

- The standard fund threshold has been reduced from €5,418,085 to the current €2,000,000, which Revenue and ESRI suggest should be further reduced.
- Revenue and ESRI are considering further restrictions in the ability for private sector workers to amass a meaningful pension such as reducing the earnings limit to €60,000.

More restrictive measures for private sector pension savers would be morally acceptable (if dubious in the context of State objectives for pension coverage) if the same actuarial strictures were applied to public sector workers in the accumulation of their pension. They do not. (1) The actuarial value of public service pensions is artificially and materially depressed by using a discount rate of 5% (which is the rate suggested by Eurostat) despite the fact that such a rate is not available on the open market. (2) Public service pension entitlements are accumulated according to income level, and are increased by promotion and increments. These are not subject to the income limit imposed on private sector workers. (3) in respect of those few private sector workers who accumulate a pension in excess of the €2m standard fund threshold, a chargeable excess tax (CET) liability arises which must be discharged in one amount within three months of the liability falling due. Public sector workers with a CET liability can discharge their liability by a monthly deduction from gross pension over 20 years; if they die within this repayment period, the liability on this interest-free loan from the Revenue dies with them. (4) While both public and private sector workers can avail of a tax-free lump sum of up to €200,000 on retirement; for private sector workers this lump sum is a charge to and reduction of their pension pot. For public sector workers, there is no pot (save that of the Exchequer) against which this sum is drawn. The lump sum is therefore an additional ex-gratia payment from the State, rather than a tax-free deduction from one's own pension fund.

The standard response regarding public sector pensions is that post-2013 joiners to the public have reformed and sustainable pension arrangements. This fails to address the fact that it will take until 2054 (approximately) for pre-2013 recruits to exit the public service. This means that the actuarial inequities between public and private sector workers will continue for a generation. In our view, three decades of pensions inequality is fundamentally unjust and unacceptable. Furthermore, in view of the unwinding of all the other elements of FEMPI over the last number of years, it is not at all clear that the 2013 pensions reforms for the public sector will be maintained.

ISME's preferred pensions model is one which does not discriminate between public and private sector workers, and is equitable to all, analogous to that provided now in Australia[10] under the Australian National Superannuation Scheme. Pending the arrival of such an equitable system, we seek the removal of those inequities between public and private sector pensions that run counter to Council Directive 2000/78/EC on equality, and subsequent decisions of the ECJ.

CAPITAL TAXES

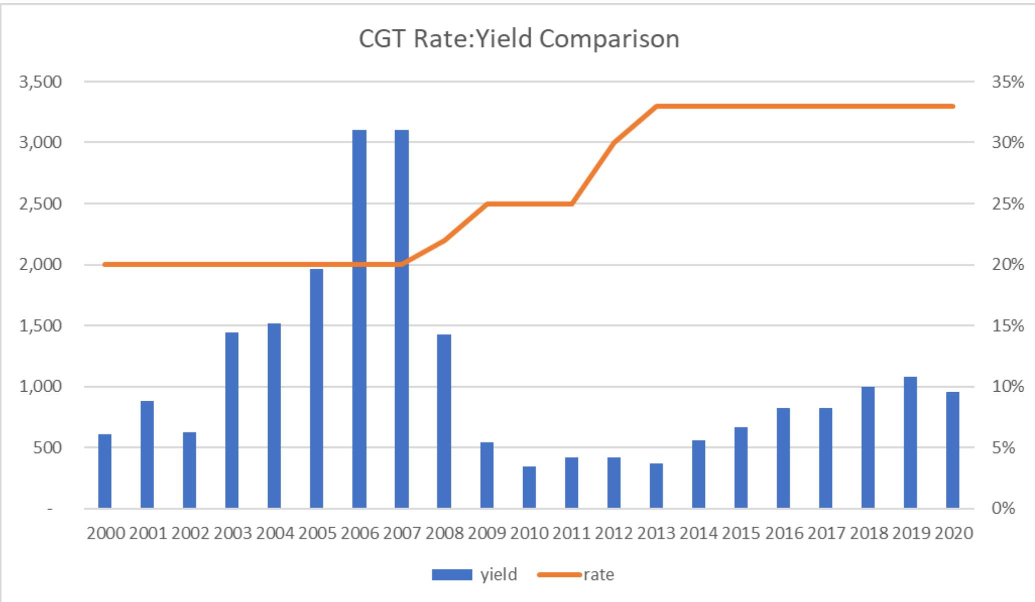
Capital Gains Tax (CGT)

Ireland's Capital Gains Tax rate at 33% is fourth highest in the OECD, and negatively impacts investment and scaling in Irish businesses. At a time when Ireland has worked against the wishes of the majority of OECD countries in maintaining a low corporation tax rate, it is difficult to understand how and why we can justify such a punitive rate of tax on irregular capital transactions.

[10] https://www.pensionfundsonline.co.uk/content/country-profiles/australia

A reduction in CGT would almost certainly increase the yield. We believe it is reasonable to assume an inverse relationship between rate and yield is evidenced in the graph below. The very significant increases in yield during the “Celtic Tiger” years, which were built on substantial levels of property transfers, were not mirrored a decade later as Ireland exited the Great Recession in 2013-2014. We are not suggesting that we should return to the 20% rate of CGT, but we do suggest that the Exchequer is leaving a substantial quantum of yield on the table which could be realised if the rate was dropped to 25%.

By way of contrast, while the political consensus in Ireland was to maintain the 12.5% corporation tax rate, there was a “social consensus” that we should level up our CT rate to international norms. Yet this “social consensus” to level taxes does not seem to apply where we have a tax rate substantially above international norms. Not alone is this intellectually inconsistent, it is costing Ireland dearly in ISME’s view. There appears to us to be an ideological attachment to the current CGT rate which depresses potential yield.



Capital Acquisitions Tax (CAT)

CAT was introduced in 1975 as an inheritance/gift tax with a threshold of the equivalent of €190,461. If indexed at the CPI rate, this would now equate to over €1.3m, instead of the current €335,000 (‘Group A’). The effect of this is to diminish the attractiveness of intergenerational transfer of business and is one of the reasons so few Irish family businesses reach the scale of their continental cohorts.

There is a 90% CAT relief in the transfer of business assets from one generation to another. But this only applies where control of the business transfers at the same time. This is neither possible nor desirable in all cases. In many cases the first generation retains title in property, in order to maintain a post-retirement pension. If family-owned Irish business are going to ‘scale not sale’ then CAT must be reformed.

The ISME "Blue Cert" Program

Productivity among Irish SMEs is static or falling, as is profitability. This is occurring at a time when there is an increasing trend towards protectionism globally; when our nearest and largest trading partner has left the single market, and when US (and EU Commission) trade and corporation tax policies threaten the long-term viability of our traditional industrial policies based around foreign multi-national corporations. If we are to scale our indigenous enterprise base, it is imperative that we address latent deficits in managerial skills within our SMEs.

ISME believes the fastest way to improve the knowledge base of the indigenous SME base is to provide a basic business qualification[11] analogous to that provided by the Teagasc Green Cert provided to farmers. In order to attract sufficient participation levels, this will need to provide similar incentives in CGT, CAT and for employed managers, PAYE.

Key Employee Engagement Program (KEEP)

KEEP was introduced in Budget 2018, on foot of international research showing that employee financial participation can be effective in fostering partnership and in helping companies to attract and retain staff in a competitive international labour market. Improved competitiveness of companies supports the creation and maintenance of employment, and this in turn supports economic growth which benefits the economy as a whole.

The objective of KEEP was to support SMEs to compete with larger enterprises to recruit and retain key employees. However, the rules written into the KEEP scheme were appropriate only for large and listed companies. Successive pre-budget submissions by ISME have sought its simplification. We have, to no avail, brought practitioners to meet Department of Finance officials to explain why the current scheme is simply ignored by SMEs as inoperable.

The KEEP saga is unfortunately illustrative of the phenomenon where Department of Finance officials, with good intentions, introduce a scheme designed to help SMEs which structurally fails because those officials do not engage with the operational issues which affect SMEs. The KEEP scheme remains too complicated and too restrictive for use by SMEs. The changes announced in budget 2019 did not address this, and the 'lifetime limit' element introduced has made the scheme even less attractive than it might have been. If there is not an immediate commitment to fix the program, it should be scrapped.

Dividend Income

Dividend income is taxed at high marginal personal tax rates of up to 55%, which does not encourage equity investment in Irish business, either by investors or by employees. While we understand the desire of the Tax Advisory Group that passive income from dividends should be taxed at the same rate as income, we do not believe this is logical, as dividends carry an element of risk which is not inherent in wages/salaries. We also think that we need to revisit our domestic attitude to shareholding in view

[11] https://www.isme.ie/blue-cert-proposed-for-irish-sme-sector-2/

of the very small number of companies willing to list, and in view of the small number of listed companies on the Irish stock exchange relative to peer countries.

Israel, with a population of 9.4m people, has a stock market with about 440 listed companies. Closer to home, Finland with a population just half a million greater than ours, lists 131 companies on its stock exchange. The ISEQ lists only 20. If we are serious about distributing lots of wealth in Ireland, when are we going to start scaling and listing our domestic enterprises in order to create it? We believe there is an inherent philosophical distaste for commercial equity in Ireland which is evident in our treatment of dividend income. We therefore consider it appropriate to introduce a lower, flat rate of taxation on dividend income.

EIIS

While the EIIS incentive was modified in Budget 2022 to remove the "30% expenditure rule," and investment limits have been increased, losses on the scheme are not allowable for relief. This needs to change if material increases are sought in EIIS investment.

SURE

The Start-Up Relief for Entrepreneurs (SURE) scheme should be extended to include new business founders who were previously self-employed and are starting another business, in addition to those coming from employment.

SARP

Like many other tax incentives, the Special Assignee Relief Programme (SARP) appears to have been written purely with foreign multinationals in mind, and not to assist domestic enterprise. This is despite the fact that many Irish manufacturing and services businesses are unable to recruit necessary talent particularly in technical fields such as engineering and IT. Consideration should be given to developing a new external recruitment regime similar to SARP but targeted at SMEs, so that they can attract the talent and skills they need from outside Ireland to grow their businesses.

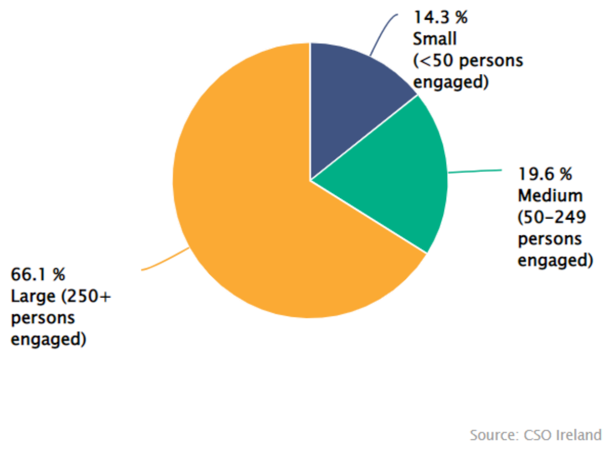
R&D Credit, Knowledge Development Box

In consultation with our members, especially those in the accounting profession who service SMEs, we understand that penetration of the R&D Tax Credit and the Knowledge Development Box among SMEs is effectively zero. These schemes are written with rules appropriate to large, quoted FMCs, not domestic SMEs. The 2009 Commission acknowledged that Ireland's R&D expenditure was low relative to peer OECD countries. While expenditure in Ireland has increased, it remains grossly over-concentrated (66%)[12] in large companies, despite the fact that such businesses make up only 0.3% of the Irish business demography.[13]

[12] https://www.cso.ie/en/releasesandpublications/er/berd/businessexpenditureonresearchdevelopment2019-2020/
[13] https://www.cso.ie/en/statistics/multisectoral/businessdemography/

Simply put, our R&D and IP rules are right-sized only for the FMC element of our economy. Acknowledging that FMCs are of fundamental, systemic importance to the Irish economy does not diminish the fact that this is illogical and inequitable, and stunts the ambition of thousands of domestic firms to scale and list.

Share of total R&D expenditure by enterprise size 2019



PROPERTY TAXES

Budget 2022 made some long overdue changes to local property tax (LPT). ISME also welcomed the replacement of the vacant site levy with a zoned land tax, which was one of our pre-budget demands. Commercial Rates and Local Property Taxes are technically linked, in that they are both based on what are effectively 'retail' or open-market valuations for property. The legislative basis for our rates system dates from 1898 and is unfit for purpose. The current rates system requires substantial overhaul before it threatens business viability. It discriminates against town-centre operators, and encourages urban sprawl and donut development, contrary to Project Ireland 2040.

Similarly, LPT is based on an open-market valuation basis, which penalises urban-dwellers, and those who invest in and upgrade their homes. LPT discourages densification and urbanisation, both key objectives in the National Planning Framework for Project Ireland 2040.

In order to address the systemic failures in the LPT system as currently structured, ISME proposes the following key reforms:

- Firstly, a site value tax should replace the open-market valuation basis applied to property for LPT purposes. A site value tax, unlike the current LPT, would involve taxing proportionate to the value of a site, rather than the value of what is built on a site. Rather than taxing the entirety of a property, that being the land and what is built upon the land, only the value of the land is considered. This places greater emphasis on factors such as the location of the land rather than factors within the control of the individual that allow for the generation of positive economic activity such as construction of buildings on land or the improvement and development of existing buildings, which the LPT serves to discourage. This is also consistent with the strategic objectives of Project Ireland 2040.

- Secondly, a levy on road frontage (or a load factor on an LPT valuation) can perform a critical function in the future funding of local government. In a fair and equitable system, road frontage should form a more important indicator of how much tax should be paid by property owners; and encourage the efficient use of land in areas already serviced by state infrastructure. A road frontage levy would discourage ribbon development and encourage rural densification.

- Finally, Government should commit to completion of a national review of individual LPT valuations by end of 2022. Thereafter, LPT revaluations should recur every five years, perhaps in Census year.

While the commercial rates system differs from LPT in the detail of its calculation, it is also based on an open-market "retail" property valuation, and this suffers the same systemic failures as LPT. As currently structured, commercial rates penalise town-centre development and encourage donut development. For this reason, we believe the basis of valuation for commercial rates should also be site value.

MISCELLANEOUS:

Restore interest payable on tax refunded to a taxpayer following a successful appeal.

Section 960GA of the TCA 1997 prevents a taxpayer who appeals an assessment issued by Revenue and discharges the disputed tax liability but subsequently wins the appeal from recovering interest on the tax refunded. This discriminates against taxpayers who have paid a tax liability pending appeal. On the other hand, where Revenue finds that tax is underpaid, the taxpayer is charged interest at annualised rates of 8% or 10% per annum from the date the tax liability falls due.

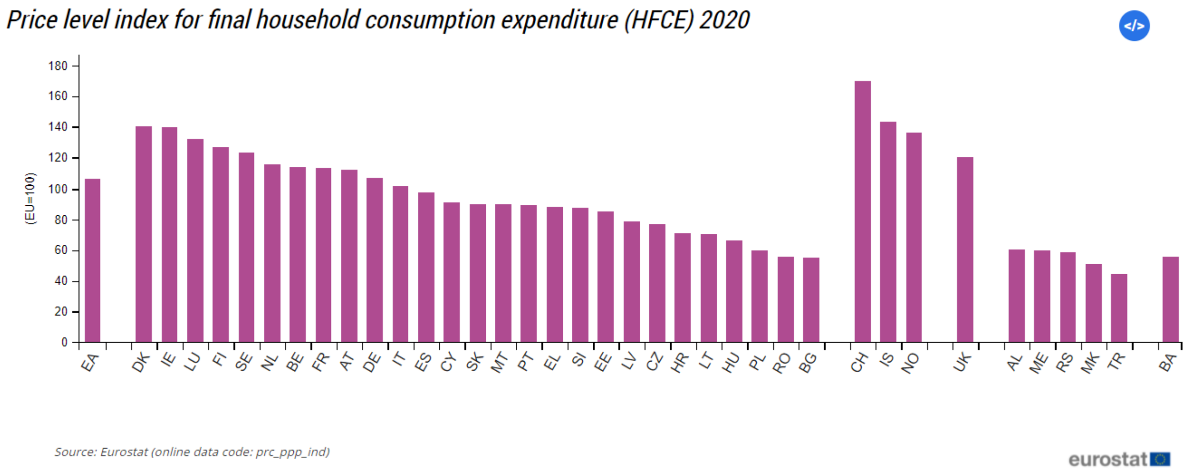
This asymmetry in treatment disincentives the Revenue to "get it right first time" and we believe it should be changed. If compliant taxpayers who win appeals are paid interest, Revenue has a strong commercial incentive to calculate liability correctly. This incentive is absent at present.

Also, we believe the Tax Appeals Commission is not living up to its Customer Service Charter,[14] a situation which does a grave disservice to taxpayers, and to the Exchequer. We have reports of time periods between Notice of Appeal to appeal hearing of up to three years. This imposes a significant extra potential liability on taxpayers purely attributable to TAC inefficiency.

Section 960GA is unfair, and encourages inefficiency in the administration and collection of taxes. It should be amended substantially, while also allowing for interest for those taxpayers who win their appeals.

VAT

Ireland has the second highest consumer prices[15] in the EU, as well as the fourth-highest pre-tax labour costs in the EU.

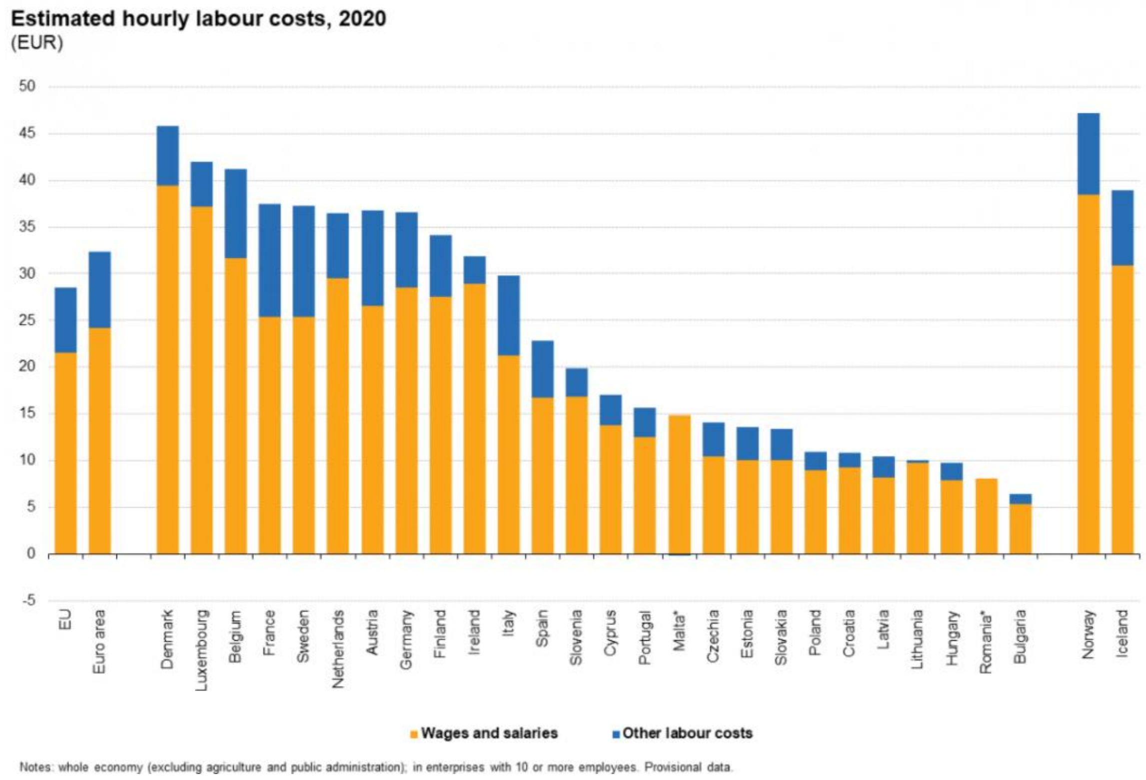


We need to understand and address the impact of indirect taxes on our cost of living, since it is severely impacting our ability to attract and retain labour in indigenous enterprise. Our services businesses, after two years of pandemic, would be greatly assisted with a permanently lower rate on VAT-able services. We must also consider the impact of the Exchequer on the cost of housing, probably the greatest single issue affecting employers and employees alike at the moment. In its latest report on Inflation Issues for Ireland in 2022,[16] the Parliamentary Budget Office notes: "*Housing affordability for the general public may not improve in the short-term according to European Commission research,*

[14] https://www.taxappeals.ie/en/quality-customer-service
[15] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Comparative_price_levels_of_consumer_goods_and_services
[16] https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2022/2022-01-13_inflation-issues-for-ireland-2022_en.pdf

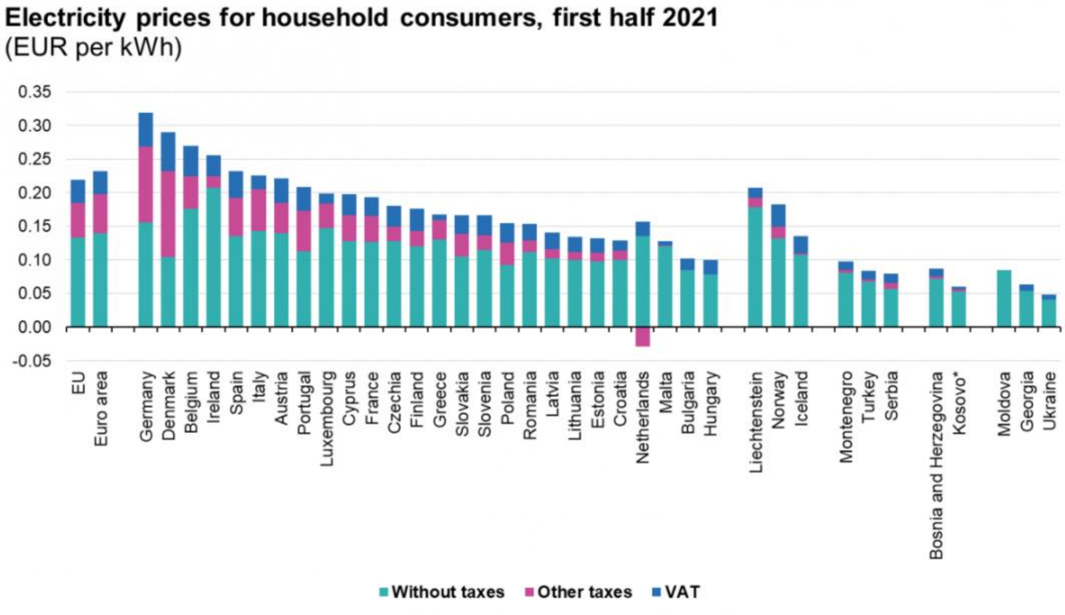
unless measures are taken to support sector productivity and the housing supply, especially investment in social housing."

As noted below, the cost of housing is so acute that it is now impeding the ability of employers, especially small employers, to attract and retain labour. Is it appropriate that we charge VAT on new-build housing?



Similarly, we consider it fair to ask why Ireland has the highest pre-tax cost of electricity in Europe,[17] particularly as we charge VAT on top of a PSO levy which is arbitrary and questionable in its calculation. Representing employers, our difficulty with this and other high living costs is that it is the expectation of Government (and many trade unions) that high living costs can simply be dealt with via higher wages. They cannot. In the absence of SMEs being able to pass on these costs in high prices for goods and services, they will simply reduce their sales, or ration sales by price to end consumers. This is neither socially nor economically desirable, and is a recipe for a wage-cost spiral, not for affordable living costs.

[17] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Electricity_prices_for_household_consumers,_first_half_2021_v5.png



Social Benefits Beyond the Taxpayer

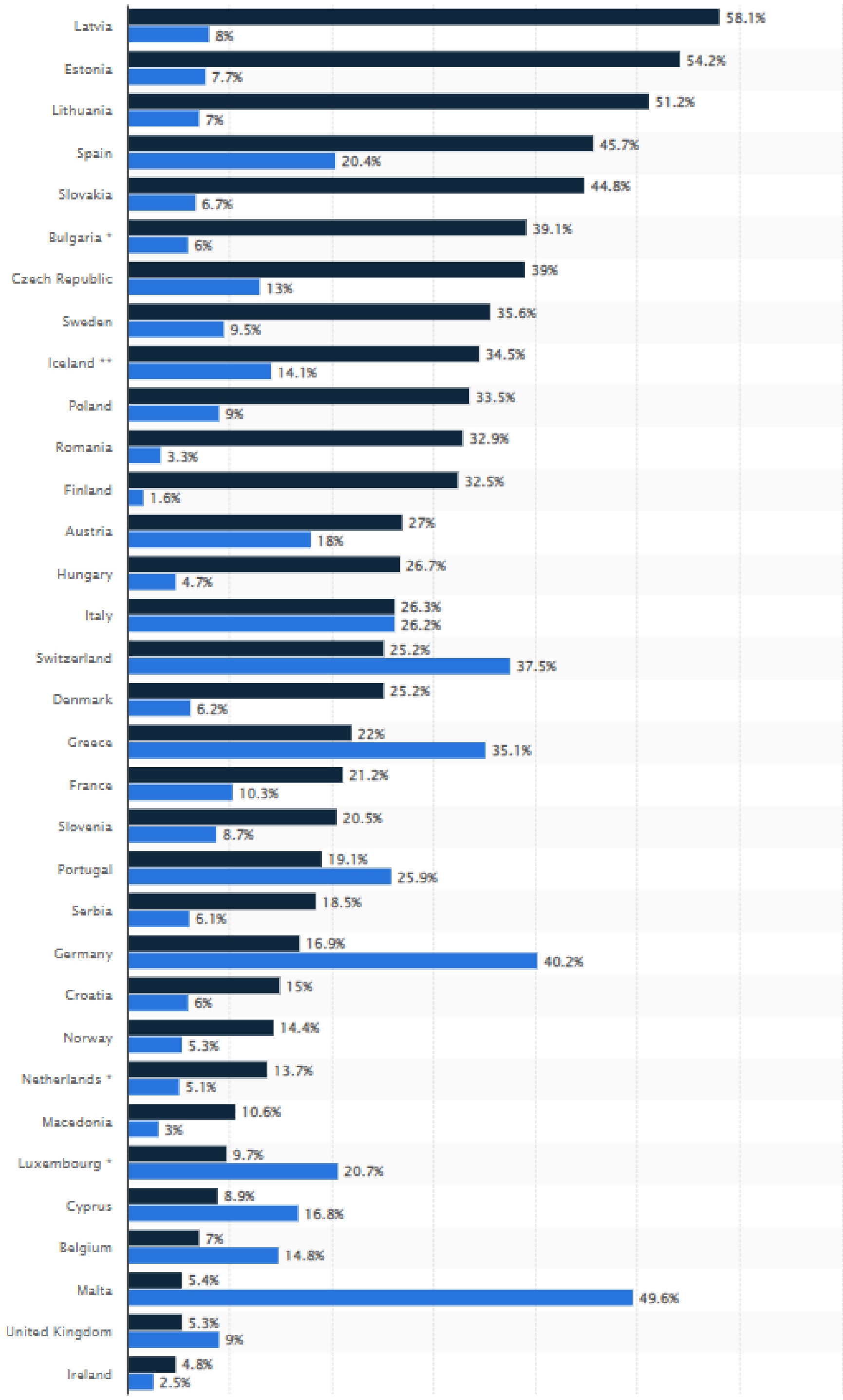
We must also recognise the societal benefits, beyond the individual taxpayer, of properly targeted tax reliefs. Ireland is currently struggling with record house prices and rents, homelessness, and a paucity of supply. It was not always so. Consider the material negative impacts made to the housing supply side over the last two decades by just three measures:

- Ending of Section 23.
- Taxing turnover (not profit) for private landlords.
- Closure of "Pre-63" to rental market. (not relevant to this submission)

Prices were far lower and supply far greater, when these incentives were in place. Today, we are left with a concentration of rental property among REITS, high rents, high levels of non-occupancy (due to rent controls) and homelessness. For small employers, the cost of accommodation for employees is so acute that they are purchasing houses and apartments and letting them at sub-market rents to their employees. The Revenue appears to be turning a blind eye to this practice, which is in breach of BIK rules, but may not do so indefinitely.

While elements of the Section 23 tax incentive were rightly criticised, it was highly successful in generating a supply of apartments at prices far lower than they are today. Predictably, we now have the lowest rate of flat/apartment occupancy in Europe. Accepting that building standards have increased in the meantime, we do not believe that accommodation would cost as much as it does today if similar tax incentives were available to encourage construction. Similarly, the full application of marginal taxation and social deductions to private but not commercial landlords, together with restricted deductibles, means they are exiting the rental market in droves. This is socially and economically undesirable, and is reducing competition in the rental market.

Share of population living in flats in European countries as of 2016, by type[18]



[18] https://www.statista.com/statistics/877705/share-of-population-living-in-flats-europe-by-type/

SOCIAL PROTECTION DEDUCTIONS

PRSI and the Income Transition Zone

As the 2009 Commission on Taxation stated, our PRSI system has more in common with a tax system than is does with a social insurance system. Employee and employer contributions are uncapped, but benefits are capped. Also, by not imposing any PRSI charge at all on incomes below €18,304, but charging full PRSI at incomes above €22,048, we have developed an incredibly complex social insurance system that discourages workers in the transition zone between these two incomes. We dealt with the fine detail of these difficulties in our Jobs Kill Zone Report[19] for the Minister for Employment Affairs and Social Protection. We will summarise the main points below.

The calculation of PRSI for low-income workers is extraordinarily and unnecessarily complex.[20] This is calculated on a weekly basis. There is no PRSI for ordinary workers (Class A) on earnings below €352 per week. PRSI is charged at 4% on earnings above €352.01 per week but there is a tapering PRSI credit on earnings between €352.01 and €424 which reduces the amount of PRSI charged.

This means that there are effectively three PRSI zones. There is an income zone below €352 per week where no PRSI is charged, a zone between €352.01 and €424 per week which we call the Transition Zone, and above €424 per week where PRSI is charged at 4% on all earnings.

The PRSI algorithm in the Transition Zone is extremely complex. In the Transition Zone PRSI is charged at 4% on earnings but this is offset by a PRSI credit. The maximum PRSI credit of €12 is reduced by one-sixth of earnings in excess of €352.01 per week. The algorithm for calculating the weekly PRSI charge in the Transition Zone can be expressed in the below formula:

PRSI = Earnings * 0.04 - 12 + (Earnings - 352.01)/6.

The PRSI Guide provides a worked example of the calculation of the PRSI credit and PRSI charge for weekly earnings of €377. This worked example is shown in Figure 1 below.

We have made all our calculations in this document, including PRSI, on an annual basis. There is no PRSI on gross income below €18,304 per annum (€352 per week) and PRSI is charged at 4% on all gross income above €22,048 per annum (€424 per week). Between €18,305 and €22,048 there is what we call the PRSI Transition Zone. The formula for annual PRSI in the Transition Zone is:

PRSI = Gross Income * 0.04 – 624 + (Gross Income - 18,305)/6.

[19] https://isme.ie/jobs-kill-zone/
[20] https://assets.gov.ie/200206/a8b20863-7ea4-4c11-b477-81c4d1f20773.pdf

The below table is from page 2 of the PRSI contribution rates and user guide 2020

PRSI Credit:

Maximum PRSI Credit	€12.00
One-sixth of earnings in excess of €352.01 (377.00 – 352.01 = 24.99 / 6)	(€4.17)
Reduced PRSI Credit	€7.83
Calculate the PRSI @ 4%	€15.08
Deduct the reduced PRSI Credit on €377 from the 4% PRSI charge	€7.83
2020 Weekly PRSI Charge	**€7.25**

Note: The calculation of the PRSI charge, and accordingly the PRSI Credit is based on weekly earnings.

The formula for calculating the PRSI charge means that the PRSI charge for persons who increase their earnings by a small amount above the PRSI threshold pay a very high rate of PRSI on their marginal earnings. In the worked example from the PRSI guide, the worker has earned €377 per week or €25 per week above the €352 PRSI threshold. On this €25 per week the worker pays €7.25 or 29% of the additional earnings.

In simple terms a worker pays nothing in PRSI if s/he only earns €18,304 but pays €882 in PRSI if s/he earns €22,048. Earning the additional €3,744 (€22,048 - €18,304) is penalized by having to pay €882 in PRSI. This means that the marginal rate of PRSI over the Transition Zone is 23.6% (€882/€3,744).

USC is simple compared with PRSI. In 2020 USC was deducted at 0.5% on income up to €12,012, at 2% then on additional income to €20,484 and at 4.5% on additional above €20,485. The minimum wage full-time worker with gross earnings of €20,483 paid €229 in USC.

This single worker had a 20% tax band of €35,300 and a tax credit of €3,300 (single person tax credit and PAYE tax credit). This worker paid no income tax on earnings up to €16,500 per annum and paid tax at 20% on earnings from €16,500 to €35,300 per annum. This means that the full-time single minimum-wage worker, earning €20,483 in 2020, paid income tax at 20% on €3,988 or €797.

This means that the State took €1,584 in tax-type deductions (over €30 per week) from the single minimum-wage worker doing a 39-hour week for 52 weeks.

More interesting is that the single low-income worker, working full-time at the minimum wage, suffered tax-type deductions of 48.1% on marginal income that they earned because in addition to paying USC at 4.5% and income tax at 20%, they were paying PRSI at the Transition Zone marginal rate of 23.6% (Local Authority (LA) rent can be an additional State deduction from income if the person is getting LA housing support).

This is a direct result of the desire to levy no social insurance at €18k, but levy it in full at €22k. This requires radical simplification, and should mean that no worker is subject to the high rates of marginal deduction suffered here.

The income limit (qualifying financial threshold) for the medical card is composed of a basic rate and allowable expenses. Allowable expenses include rent and travel-to-work costs (discussed below). The basic rate for a single worker living alone is €9,568 per annum. The medical card acts as an entitlement gateway to a range of other benefits such as free school transport, reduced rate of USC, free state exam entry, etc. Up until 2006 the basic rate was set by the government at budget time and was kept at substantially above the relevant Jobseeker's Allowance (JSA) rate. The basic rate has been set by the HSE since 2006 and has not been increased since then. The JSA rate has risen substantially since 2006. For example, the JSA rate for a family with 3 children rose by 36% and is now substantially above the medical card basic rate. All persons claiming JSA automatically qualify for the medical card but persons earning from work even less than the "dole" may not qualify for the medical card.

There is constant reference in discussion of health policy to our two-tier health system of private health insurance and the medical card. There is a third category that the State does not acknowledge and has never counted that seems to be largely ignored in public discussion of health policy. There were 1.097 million persons or 22.3% of the population without either private health or the medical card at the end of 2020. Most high-income persons have private health and all persons depending on social welfare automatically qualify for the medical card. We can assume that the vast majority of the 1.1 million with no health cover are low-income workers and their dependents. Many of these workers with no health cover are only confronted with the implications of this when or if they face serious health issues such as cancer.

Some costs such as rent and travel-to-work costs are taken into account by the HSE in determining whether an applicant is entitled to the medical card. In the HSE guide to the medical card they show how a low-income worker could qualify for the medical card. The example given shows the worker paying €9,600 annually in rent (52% of net income for the minimum wage worker). This level of rent, however, is way above the maximum rent allowed under the Housing Assistance Program (HAP) operated by local authorities (€5,520 per annum in Sligo). A low-income worker paying this high rent would not qualify for housing assistance.

A single person working full-time at the minimum wage qualifies for housing assistance from the LA as her/his net income is below the LA housing limit (Sligo) of €25,000 for a single person. If this single worker gets accommodation directly from the LA or through HAP s/he will pay the minimum annual rent of €1,144 plus 20% of net income above €9,360 per annum, bringing the total annual rent to €3,049 (Sligo). The link between council rent and income means an effective LA tax of 10.4% on top of central government tax of 48.1% on any additional income. Therefore, the total tax-type deductions on a single low-income worker in LA-assisted housing is 58.5% on any additional income such as the recent increase in the minimum wage.

The employee experience of taxation varies depending on the type of remuneration they receive. The majority of high-skill employees, including most public servants, are paid by salary. In this case, it is appropriate to use average tax rates to analyse the impact of taxation and other deductions on employees, as this is a measure of the tax burden that they experience. The concept of a "tax wedge" for example, is based on the average rate of tax. On the other hand, most low-skill workers are paid an hourly wage and experience the impact of taxation quite differently. Waged employees are paid based on the number of hours worked and often have some control over this. These workers can account for the net income they could make from additional hours and adjust their working hours appropriately. As such, it is appropriate to use marginal tax rates to assess the impact of tax and other deductions on low-skill workers, as they reflect the incentives to earn, save, invest or spend.

The table blow summarises year 2020 government deductions from additional income for a single worker at different earning ranges. These are the marginal rates for USC, PRSI and income tax at different income ranges. LA rent is not included. The Fuel Allowance benefit loss is also not included.

Marginal-rate deductions **from additional income and benefit loss for single worker by income ranges, annual figures for 2020.**

Income Range €	USC	PRSI	Income Tax	Combined Deductions	Benefit Loss
0 - 12,012	0.50%	0%	0%	0.50%	MC Income Limit: 9,568
12,013 - 16,500	2.00%	0%	0%	2.00%	
16,501 - 18,304	2.00%	0%	20%	22.00%	
18,305 - 20,484	2.00%	23.60%	20%	45.60%	
20,485 - 22,048	4.50%	23.60%	20%	48.10%	
22,049 - 35,300	4.50%	4%	20%	28.50%	LA Housing Limit: 25,000
35,301+	4.50%	4%	40%	48.50%	

The unemployment option for the single worker in 2020 gave a JSA of €10,556 per annum.[21] The JSA acts as an entitlement gateway for both the Winter Fuel Allowance of €686 per annum (€24.50 per week for 28 weeks)[22] and the medical card. The medical card then acts as a gateway to the range of additional benefits listed above. The unemployment option also gives entitlement to LA housing. It may be possible for such a worker to supplement the "dole" through the informal economy.

Overall, it is clear that employment for low-skills workers is only financially attractive if they are content with working at the minimum wage and are not concerned with payment for medical costs or need LA housing assistance. If they get increases above the national minimum wage, then they lose either 48.1% or 58.5% in State deductions and they are not entitled to the medical card and are very unlikely to be able to pay for private health insurance or private housing.

Low paid workers with families

Workers with families are also impacted by the complex interaction of policies on tax and other deductions, social welfare, health and housing.

We will illustrate this by looking at the situation of a worker with an adult dependent and 3 children under 12, working at or just above the minimum wage. All figures are for 2020.

[21] Jobseeker's Allowance
[22] Winter Fuel Allowance Eligibility

This person working at the 2020 minimum wage for 39 hours per week had gross earnings of €20,483, paid €558 in PRSI, €229 in USC and €0 in income tax leaving a net income of €19,696.[23, 24, 25]

The PRSI and USC deductions for this worker with adult dependent and 3 children were the same as for the single worker discussed above. This breadwinner with a spouse and 3 children had a 20% tax band of €44,300 with a tax credit of €4,950 and could earn a gross income of €24,750 before starting to pay income tax.[26] This means that the State took €787 in tax-type deductions (over €15 per week) from this minimum wage worker, with an adult dependent and 3 children under 12, doing a 39-hour week for 52 weeks.

This full-time worker suffered state deductions of 28.1%, (23.6% Transition Zone PRSI and 4.5% USC) on any additional income above the minimum wage until gross income reached €22,048. Then the Transition Zone PRSI disappears reducing state deductions to 8.5% (4% PRSI and 4.5% USC) on additional income until gross income of €24,750 when State deductions jump to 28.5% (4% PRSI[27], 4.5% USC[28] and 20% tax[29]) on any further additional income.

The income limit for the medical card for this family of 2 adults and 3 children was €19,942 net income and so this family got the medical card while the breadwinner worked. Any significant increase in income, however, would threaten the medical card. This family also qualified for LA housing while their net income remained below €28,750.[30]

The difference in State support between the children of workers and the children of those relying on social welfare is very important for low-paid workers. All parents of children, whether working or depending on social welfare, are paid Child Benefit. This was €1,680 per child under 12 years in 2020, so families with 3 children got €5,040 in total in Child Benefits, whether working or unemployed. Persons depending on JSA, however, got €1,872 per child (*under 12*) per annum (child element in JSA). This costs an estimated €70m per annum in social protection.[31] Therefore, this family received €5,616 extra each year if the breadwinner was unemployed but received nothing extra linked to their child dependents if the breadwinner was working.[32]

This is illustrated by the table below which shows the impact of the different treatment of children of workers and children of unemployed persons. This table is based on a full-time minimum wage worker (breadwinner) with an adult dependent and varying number of children below 12 years old.[33]

23 PRSI contribution rates and user guide from 1 January 2020
24 Revenue, Universal Social Charge (USC)
25 Revenue, Tax rates, bands and reliefs
26 Revenue, Tax rates, bands and reliefs
27 PRSI contribution rates and user guide from 1 January 2020
28 Revenue, Universal Social Charge (USC)
29 Revenue, Tax rates, bands and reliefs
30 HSE, Medical Card Application Process
31 Statistical Information On Social Welfare Services 2019
32 Child Benefit Rules
33 Jobseeker's Allowance

Income from Jobseekers and full-time minimum wage work for families with children

Number of Children	Jobseekers Allowance	Net Income (Min Wage, Full-time)
0	€17,560	€19,695
1	€19,432	€19,695
2	€21,304	€19,695
3	€23,176	€19,695
4	€25,048	€19,695
5	€26,920	€19,695

Note: Child Benefit as a universal payment is not included above.

A family with 3 children, if the breadwinner chose to remain unemployed, s/he received €23,176 in JSA in 2020 but only €19,695 net income from working full-time at the 2020 minimum wage. If the wage rate was at the national living wage of €12.30 the breadwinner would only take home €22,980 - still less than the "dole."[34]

This means that the interaction of State policies strongly discourages low-skills families with children from working, especially larger families. The State has introduced several schemes to address this issue including the Working Family Payment (WFP),[35] formerly known as the Family Income Supplement (FIS), the Back-to-Work Family Dividend[36] and the HSE Medical Card Retention Scheme.[37]

Applying for the WFP is very complex.[38] Additional earnings are strongly discouraged by deductions of 71.5% on any additional earnings (USC of 4.5%, "transitional PRSI" of 23.6% and 60% reduction (based on net income in the WFP- with 1 year delay) for a fulltime minimum wage worker. The WFP is very generous but also highly complex. In 2017 the average payment per child under WFP was €3,300 but only 60,000 families benefited.[39]

The Back-to-Work Family Dividend allows families moving from unemployment to work to retain the child element of the unemployment assistance for 2 years but only 5,345 persons returning to work benefited from this scheme in October 2019.[40] Since this is a 2-year scheme it is likely that there were only about 3,000 new beneficiaries in 2019.

The Medical Card Retention Scheme allows a person returning to work after a period of unemployment to retain the medical card for 3 years.

[34] Jobseeker's Allowance
[35] Working Family Payment
[36] Back to Work Family Dividend
[37] HSE Scheme for retaining the Medical Card
[38] WFP Application Form
[39] Parliamentary Question 3036-18
[40] DEASP Annual Statistical Report 2019 - Table E4

These schemes seem to assume that workers taking up employment will achieve rapid pay increases to offset the loss of the child element of the JSA and the medical card. Automatic increments are a feature of the public sector where workers such as teachers, nurses and Gardai, whose starting salaries are all above the Job Kill Zone, have annual increments which increase their pay substantially. Annual increments increase earnings by more than 56% for Nurses,[41] 72% for Gardai[42] and 83% for teachers[43] without any promotion. Low skills workers in the private sector do not normally have such incremental wage increases.

The impact of the interaction of state policies can be seen clearly in the labour market participation rate for early school leavers in the Labour Force Surveys.[44] Early school leavers are defined as those who leave education without even having achieved the Junior Cert level, ISCED levels 0, 1 and 2.[45] Labour market participation means either working or *actively seeking work (*actively seeking work means that they must have taken some concrete action, such as applying for a job, within the previous 4 weeks. Being registered for UA or UB does not necessarily mean that the person is actively seeking work[46] in terms of the ILO definition).

Between Quarter 4 of 2010, when the Irish economy was in deep recession, and Quarter 4 of 2019, when our economy was booming, the labour market activity rate for early school leavers fell from 49.1% to 42.2%. This is lower than the eurozone average for early school leavers at 54.7%, which is also unsatisfactory. The best performance in Europe in terms of labour market activity by early school leavers is by Iceland where 71.9% of early school leavers were active in Quarter 4 of 2019.[47]

The very low employment rates for Irish early school leavers were confirmed by the Educational Attainment Thematic Report for 2019.[48]

The labour market activity rate by contrast for third level graduates in Ireland for Quarter 4 of 2019 was 88.7%, slightly higher than the eurozone average of 88.4%.[49]

The fall in labour market participation, while total employment was growing rapidly, cannot be explained by job shortages. The way that the interaction of state policies impact on low-income workers offers a credible explanation. We have created a Jobs Kill Zone for workers earning between €18k and €30k per annum and therefore should not be surprised that low-skills workers are opting out of the workforce.

Housing

Housing is, in most cases, the largest monthly outlay for workers, and where purchased, the largest financial transaction workers will ever undertake. The average house price in Ireland in Q1 2021 was €275,751.[50]

This is a multiple of 6.3 times the average industrial wage of €43,939, and 13.5 times the annual National Minimum Wage of €20,483 (2020).

[41] HSE Consolidated Pay Scales
[42] Garda Pay Scale, Garda.ie
[43] Teachers Salary Scale, Dept of Education
[44] Eurostat LFSQ_ARGAED
[45] International Standard Classification of Education, 2011
[46] ILO Definition used by CSO
[47] Eurostat LFSQ_ARGAED
[48] Educational Attainment Thematic Report
[49] Educational Attainment Thematic Report
[50] Daft.ie House Price Report Q1 2021

The current income limits for people wishing to avail of social housing supports are set by the Department of Housing, Local Government and Heritage[51] and are shown below. Broadly, this sets the income limit for a single person seeking social housing at €35,000 in the conurbations, €30,000 regionally, and €25,000 in rural areas.

	Single Person Income Limit	As A Percentage of Minimum Wage	As A Percentage of Average Industrial Wage (Q3 2021)
Band 1	35,000	169%	80%
Band 2	30,000	145%	69%
Band 3	25,000	121%	57%

These income limits, relative to the cost of housing in Ireland, ***are sufficient reason on their own*** for many people to decline higher rates of pay, or indeed to decline to work at all. We are aware of many cases where individuals have declined a job, as well as where workers have declined a promotion, purely because of the impact on their ability to remain on the social housing list. This is unsustainable.

Band	City and County Councils	Maximum Net Income Threshold – single person	Maximum Income Threshold – 3 adult & 4 child family
1	Cork City	**€35,000**	**€42,000**
	Dublin City	€35,000	€42,000
	Dún Laoghaire Rathdown	€35,000	€42,000
	Fingal	€35,000	€42,000
	Galway City	€35,000	€42,000
	Meath	€35,000	€42,000
	South Dublin	€35,000	€42,000
	Kildare	€35,000	€42,000
	Wicklow	€35,000	€42,000
2	Cork County	**€30,000**	**€36,000**
	Kerry	€30,000	€36,000
	Kilkenny	€30,000	€36,000
	Limerick City & County	€30,000	€36,000
	Louth	€30,000	€36,000
	Wexford	€30,000	€36,000
	Waterford City & County	€30,000	€36,000
3	Carlow	**€25,000**	**€30,000**
	Cavan	€25,000	€30,000
	Clare	€25,000	€30,000
	Donegal	€25,000	€30,000
	Galway County	€25,000	€30,000
	Laois	€25,000	€30,000
	Leitrim	€25,000	€30,000
	Longford	€25,000	€30,000
	Mayo	€25,000	€30,000
	Monaghan	€25,000	€30,000
	Offaly	€25,000	€30,000
	Roscommon	€25,000	€30,000
	Sligo	€25,000	€30,000
	Tipperary	€25,000	€30,000
	Westmeath	€25,000	€30,000

[51] Social Housing Income Limits

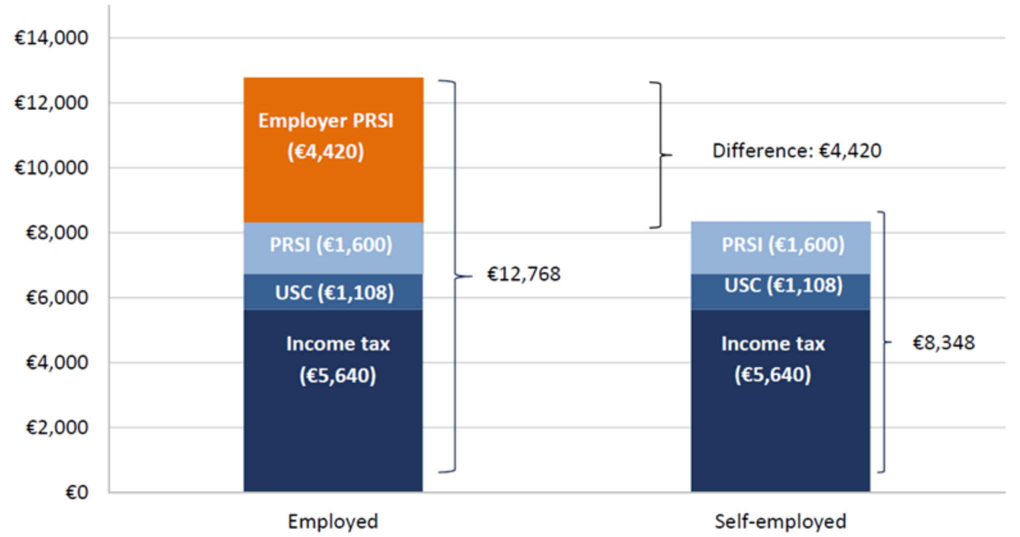
UNIVERSAL SOCIAL CHARGE (USC)

USC enjoys the benefits of being simple in application, and applied at all levels of income. We do not believe that any income earner should be excused all contributions to the Exchequer and the social fund. While USC was imposed at a time of austerity and has been unpopular, it has the most important virtue of being fair, something not evident elsewhere though our taxation and social insurance system. The methodology of calculation for the USC should be applied throughout the PRSI system, in order to avoid the discontinuities inherent in PRSI within the transition zone.

In 2011, a USC levy of 3% was introduced in the budget for self-employed workers earning over €100,000. The justification for singling out the self-employed for this discrimination has never been elucidated. Logically, it should be terminated forthwith. However, and as stated in the taxation section above, in view of the intense spending demands faced by the Exchequer, ISME recommended in its Pre-Budget Submission 2022[52] that the levy should be extended to all workers earning over €100,000.

INCREASING PRSI ON THE SELF-EMPLOYED

Regrettably, we note the floating of policy by the ESRI suggesting that the self-employed should pay employers' PRSI in addition to employee PRSI. This appeared in the ESRI "Options for raising tax revenue in Ireland" paper[53] under the unfortunately misleading heading "Equalising PRSI treatment of self-employed and employees" to which ISME responded in writing later that month. The kernel of the ESRI argument is per the illustration below, which effectively credits the employer PRSI contribution to the employee.



Source: Authors' calculations.

[52] https://isme.ie/pre-budget-2022-submission-to-government/
[53] https://www.esri.ie/system/files/publications/BP202201.pdf

This graph clearly shows that two workers earning a net income of €31,652 pay precisely the same in tax and social contributions. However, it suggests that the employed person is responsible for an extra €4.4k in social contributions, which the self-employed person avoids.

To illustrate the basic payroll compilation error in this proposition, consider two self-employed taxi-drivers, Joe and Joanne, who drive the same make of taxi and turnover €90k per annum. Both deduct €40k per annum in fixed and variable operating expenses, leaving a gross margin of €50k. Joe takes this €50k as income, and pays tax and social contributions at the current rates, leaving him with a net income of €35.1k, the same as he would have were he an employed, PAYE-paying, PRSI class A driver.

	JOE	JOANNE
Gross Income	50,000	44,475
USC	1,553	1,304
PRSI	2,000	1,779
PAYE	12,940	10,730
Tax Credit	- 1,650	- 1,650
Total Deductions	14,843	12,163
Net Income:	35,157	32,312
Employer's PRSI:	0	5,525
Employee Social:	3,553	3,083
Employee Tax	11,290	9,080
Total Exchequer Contribution:	14,843	17,688

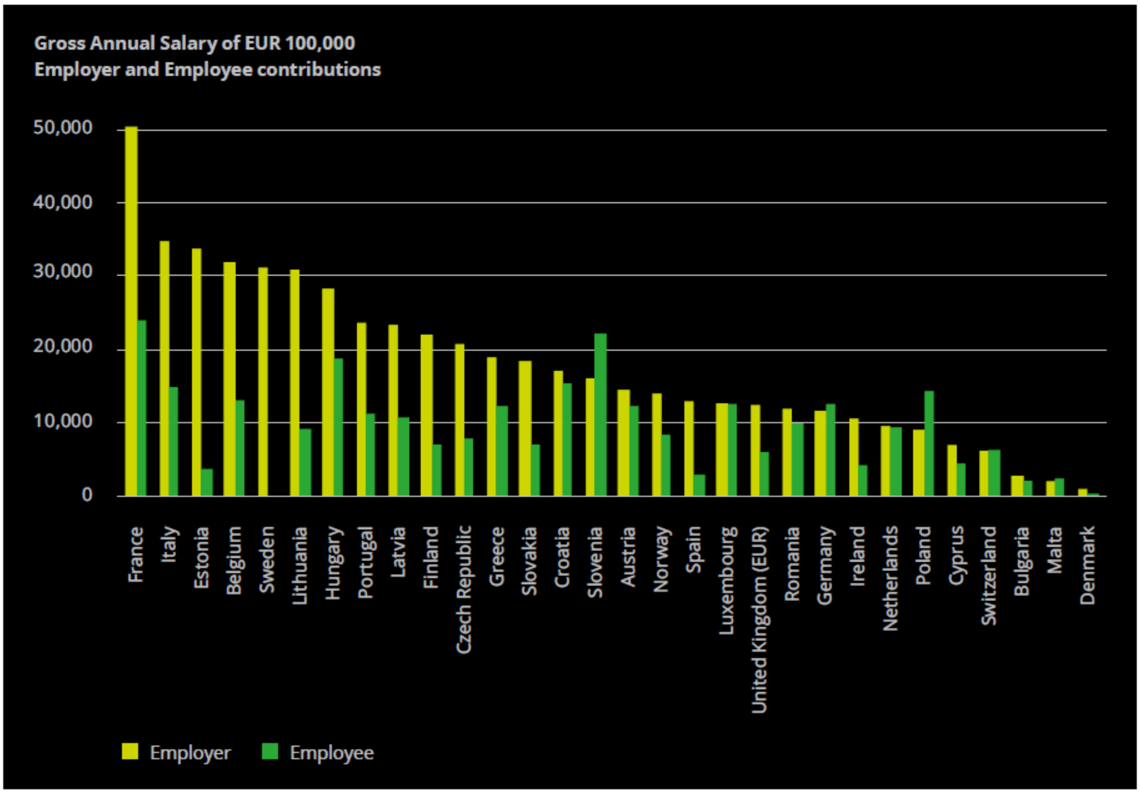
Joanne, however, adopts the policy of paying employer's PRSI on her gross margin, of €5.5k. This means that her income for Revenue purposes is NOT €50k. It is €44.5k. (The Personal Credit has not been applied to either.)

While the total contribution to the Exchequer in Joanne's case is €2.8k greater, this contribution comes at the cost of €2.8k to Joanne's net income. The Revenue can only remove a euro once from the business. Joe's net income reflects Revenue rules whether Joe is an employed or self-employed driver. This is inequitable.

In following correspondence with ESRI, we pointed out that it is unfair to credit a PAYE employee with a PRSI payment made by their employer. The ESRI responded: "*In the case of employers' PRSI, some see this as being a cost - in total - to employers. Others, typically economists, see part of the cost being shifted to employees through wages being lower than they otherwise would be.*" With the greatest of respect to ESRI, we believe that very few economists in the Western, market school of economics would consider a charge to the business to represent wages forgone by an employee of that business, unless of course the cost of land, utilities, interest and other factors of production could similarly be regarded as wages foregone.

While several EU countries do, in fact, charge a higher rate of social insurance to the self-employed, almost all countries which do so apply an income cap, including all those who operate a genuine social insurance system (i.e. with linkage between benefits and payments). The Deloitte study of social security benefits and charges is a good illustration of this.[54] As noted in the 2009 Commission on Taxation, our PRSI system is more characteristic of a taxation system than a social insurance system, as there is little or no linkage between benefit and payment, and income caps were long ago removed.

Where of course Ireland is a significant outlier in social security terms is that the employer contribution, but most especially the employee contribution, are below the EU mean. Given the fact that contributions are uncapped, while benefits are capped, there is nothing objectively wrong with this. However, given the direction of travel with the increasing pension burden on our social fund, the first issue that must be addressed is the very low level of employee PRSI paid in Ireland.



(Source: Deloitte)

[54] https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/survey/EU-Social-Security-Survey.pdf