

Budget 2013 - Progressivity of Irish Income Tax System

Key Point

Based on the standard OECD measure Ireland has the most progressive income tax system (including social insurance contributions) in the EU.

Introduction

This note examines the progressivity of the Irish income tax system in comparison with other OECD countries. It finds that according to OECD measures the Irish system is one of the most progressive.

Progressivity of Irish Income Tax System

The progressivity of the Irish income tax system is clear. According to Revenue data for 2009, there were 100,000 taxpayers who had an income of over €100,000. These comprised 4.7 % of taxpayers and they accounted for 22.6 % of income but paid 45.3% of the income tax. The Revenue data excludes social insurance contributions and income levies.

How progressive is the Irish tax system when compared with other countries.

The OECD method of judging the progressivity of the tax system is to compare the tax due by a single person on 167% of average income with that payable on 67% of average income. Tax includes employee social security contributions.

The data are set out below

On this measure Poland has the least progressive system in the OECD while Mexico followed by Israel has the most progressive. Ireland has the greatest absolute difference between the two examples at 19.3 % of income compared with an OECD average of 9.6 % and has the third most progressive system in general and the most progressive in the EU

However to get an indication of the degree of progressivity imparted to the overall system one needs to take account of the importance of income tax (including employee social security contributions) in the economy.

If we weight the results by the share of income tax as a % of GDP (GNP for Ireland) we find that the progressivity of the Irish system is at no 2 (of 33 countries) just behind Finland and just ahead of Sweden but considerably ahead of the UK and US.

Conclusion

The degree of progressivity in the tax system is in the final analysis a matter for political judgement. The fact that the evidence suggests that Ireland is an outlier does not necessarily imply that the correct course is to make the system less progressive.

Estimates of Progressivity of Tax System

Income Tax Plus Employee Contributions

Source: OECD Taxing Wages 2011

Tax Burden on Single Person on 67% and 167 % of Average Income

Country	67%	167%	Difference	Ratio
Australia	15.9	28.2	12.3	177
Austria	27.3	38.5	11.2	141
Belgium	35.6	49.1	13.5	138
Canada	17.5	26.8	9.3	153
Chile	7	7.8	0.8	111
Czech Rep	18.9	26.2	7.3	139
Denmark	36.8	44.8	8	122
Estonia	17.7	21	3.3	119
Finland	23.1	36.9	13.8	160
France	26.1	33.6	7.5	129
Germany	34.9	43.8	8.9	126
Hungary	29.5	37.8	8.3	128
Iceland	23.1	32.9	9.8	142
Ireland	12.8	32.1	19.3	251
Israel	9.4	24.7	15.3	263
Italy	26.7	37.9	11.2	142
Japan	19.5	24.8	5.3	127
Korea	9.4	15.3	5.9	163
Luxembrg	20.5	36.6	16.1	179
Mexico	1	13.6	12.6	1360
N'Lands	26.8	37.4	10.6	140
N Zealand	12.9	22	9.1	171
Norway	25.6	35.7	10.1	139
Poland	23.6	25.4	1.8	108
Portugal	17.3	32.9	15.6	190
Slovak R	19.4	25.5	6.1	131
Slovenia	28.8	39.3	10.5	136
Spain	17.7	26.7	9	151
Sweden	22.1	35.4	13.3	160
Switzland	13	20.7	7.7	159
Turkey	24.8	31.2	6.4	126
UK	21.7	30.4	8.7	140
US	19.6	28.6	9	146
Irl Ranking	29	16	1	3
OECD Avg	20.8	30.4		
OECD -EU 21	24.4	34.6		

<http://www.oecd.org/tax/taxpolicyanalysis/taxingwages.htm>

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