Low Tax Burden on Labour in Ireland

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Key Point

The tax wedge on low wage workers in Ireland is the lowest in the EU. This is a positive feature of the Irish system which minimises the disincentive to employ low skilled workers.

The Tax Wedge

The tax wedge on labour measures the difference between the total labour costs to employ a worker and the worker's net earnings. It is made up of personal income taxes and employer and employee social security contributions. The higher the tax wedge, the higher the disincentives to take up work or hire new staff.

The Data

Table 1 (below) shows the tax wedge in Ireland for a single worker earning a low wage (50% of the average) compared to other EU countries.

Ireland has the lowest tax wedge in the EU for low income workers at 10.7 per cent or less than one-third of the EU average. It is just over half the UK level.

Conclusion

The main reason for this is the relatively low level of social insurance contributions (both employer and employee) in Ireland compared to other European countries. This is a positive pro-employment feature of the system in Ireland.

Table 1

Tax Wedge on Single Low Income Workers 2016, %	
Country	**2016**
Belgium	36.2
Bulgaria	33.6
Czech Rep	37.4
Denmark	32.3
Germany	42.2
Estonia	32.9
Ireland	10.7
Greece	32.6
Spain	30.9
France	28
Croatia	32.9
Italy	36.2
Cyprus	n.a
Latvia	41
Lithuania	36.5
Luxembourg	27.1
Hungary	48.2
Malta	15.8
Netherlands	24.7
Austria	38.6
Poland	34.4
Portugal	28.1
Romania	36.8
Slovenia	33.8
Slovakia	32.6
Finland	33.9
Sweden	39.2
UK	20.8
EU Avg	32.5
Ireland Ranking	27th

(Source: European Commission, Tax and Benefit Indicator database based on OECD data)