An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
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Welfare and Employment in Ireland

Income, wealth, redistribution and their implications for the welfare system

Background Paper

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Welfare and Employment in Ireland: Income, wealth, redistribution and their implications for the welfare system

Background Paper

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This background paper provides additional empirical and analytical material on the issues discussed in the main Council report No.151, The Future of the Irish Welfare State. This paper was agreed by the Council in June 2019.

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Executive Summary

This paper will look at the extent to which market income, taxes and transfers are distributed across different groups in Irish society, as well as the distribution of wealth. This is important to understand the work which the social insurance and welfare systems do on income redistribution, adequacy and equity, which are three key principles of the social welfare system. In addition, less economic inequality has been linked to GDP growth in developed countries, as well as better health and well-being, higher rates of voting and political campaigning, and lower environmental degradation. These provide strong economic and social arguments for continuing the redistributive work of Ireland’s tax and transfer system.

Equity in income distribution can be measured in a number of ways. The Gini co-efficient, one of the most commonly used measures of income inequality, ranges from a value of zero to one. A value of zero expresses perfect equality, i.e., where all households or individuals have the same income, while a value of one expresses perfect inequality, i.e. where only one household or individual has all the income and all others have none. The Gini co-efficient for market income (i.e. before taxes and transfers) was 0.58 in Ireland in 2010, one of the highest among developed countries. However, the Gini co-efficient for disposable household income[1] distribution in Ireland is much lower, at 0.29 in 2010, which is near to the median for OECD countries. This indicates the amount of work which the Irish tax and transfer system does to reduce market inequality.

Income inequality can also be assessed by looking at the amount of income which goes to different proportions of the population. This shows that the position in Ireland is the same as that in other OECD countries, with the top quintile receiving almost four times the amount of disposable income as the bottom quintile. The bottom quintile received 8 per cent of all disposable income in 2014 in Ireland, and the top quintile received 39 per cent.

Finally, income inequality can be assessed by looking at poverty rates. EU data shows that the proportion people at risk of poverty or social exclusion in Ireland is the same as the EU average. In 2017, the Irish rate was 22.7 per cent and the EU28 average was 22.4 per cent. The rate varies from a low of 12 per cent in the Czech Republic to a high of 38.9 per cent in Bulgaria. Social transfers (excluding pensions) reduced the at-risk-of-poverty rate from 33.6 per cent to 16.5 per cent in Ireland in 2016, with Ireland the third best performer among EU member states in this regard.

[1] Disposable household income is gross household income, less tax and social insurance contributions.

Most of the reason for high inequality among market incomes in Ireland is the uneven distribution of earnings from labour, as this accounts for the majority of all market income in Ireland. Income from capital accounts for only 10 per cent of market income for tax payers in income deciles 1 to 9. It accounts for 22 per cent of gross income for the top decile, and for 41 per cent of gross income for the top 1 per cent of income earners.

There are a number of reasons for the uneven distribution of earnings from labour in Ireland. First, those with tertiary education earn more than twice the median income in Ireland, while those with less than upper secondary education are at the bottom of the income distribution. The wage returns to higher education are second highest in Ireland, second only to the US, in a comparison of 23 OECD countries. While participation in higher education has grown among all social classes in Ireland in the last thirty years, the socio-economic gradient in educational attainment is still strong.

The high wage returns to higher education are partly related to the sectors in which different groups work, with Ireland having a higher preponderance of high-income and low-income economic sectors. The high income sectors in Ireland (such as finance and technology) also have higher pay relative to average pay when compared to other small open economies in Europe, while the low income sectors (such as retail and hospitality) have lower pay relative to the European average. Some of the low income sectors in Ireland are dominated by indigenous companies with lower productivity and low margins compared to the MNCs in higher income sectors. The agricultural sector, which typically has low incomes, is also particularly large in Ireland. In addition, there are income inequalities within sectors. These patterns help to explain why, when hours of work are taken into account, labour income inequality reduces slightly, but still remains.

Ireland also has a relatively high proportion of households dependent on state transfers for most of their income, which means that their incomes are comparatively low, particularly when compared to the increased incidence of households comprising highly educated, dual income couples.

Despite many changes in economic growth, the Irish Gini co-efficient for post-transfer income has been very stable since the end of the 1980s, at approximately 0.32 in 1987 and 0.31 in 2013. The share of income going to different deciles has also been very constant – although there has been an increase in the proportion of income going to the top 1 per cent of income earners. This rose from about 6 per cent in the early 1990s to about 11 per cent in 2012. Meanwhile, the overall stability in the Gini co-efficient can be related to policy decisions made to support this. For example, social welfare increases arising from the 1986 Commission on Social Welfare, and again in the early 2000s, helped to close the gap between welfare rates and rising incomes from employment during the Celtic Tiger, particularly for older people. Changes to the tax system have also helped lower-income earners over the last 30 years. Personal tax allowances were changed to tax credits in 1999, and as tax credits are at fixed amounts, they have the same value for all tax payers, reducing all taxpayer's tax liability by a fixed amount. They are quite evenly distributed across income groups, therefore benefiting low income proportionally more than high income tax units. The amount spent on them has also increased markedly since the early 2000s. There were also concerted, successful, efforts through social partnership agreements to move low income earners out of the tax net. It is estimated that about 40 per cent of Irish income earners pay no income tax. Greater individualisation of income tax for married couples from 2000 on also meant more after-tax earnings for the lower income earner in these couples.

Centrally bargained wage increases also generally set a floor below which incomes did not fall. In 2000, the national minimum wage was introduced, and it is updated annually by the Low Pay Commission, helping its relative value to be maintained. Again it is generally seen to have set a floor on lower earnings, and has allowed those earning lower wages to keep pace with median wages. Ireland's political system, which has been described as 'catch all', has also been argued to have played a role in keeping a focus on equality to some extent.

While Ireland is an exceptionally good performer in reducing market income equality through taxation and transfers, many other European countries have also done much work on this. Since the 1980s there has been strong growth in market income inequality, but inequality in disposable income in most European countries (the UK is an exception) has not increased much since the 1980s, indicating that the social transfers systems in them have had to work increasingly hard to reduce market income inequalities. This has been linked to the increase in the proportion of government spending on welfare in Europe since the 1970s.

Income, whether from labour or social transfers, is only one aspect of living standards and financial security for individuals and households. Wealth is another facet of this. It has an impact on households' economic well-being, allowing them to support a higher standard of living, and to finance expenditures on e.g. education and housing. As well as these social benefits, there are economic benefits to wealth when appropriately invested, including business, job and product creation. However, as the distribution of wealth is unequal, it can exacerbate inequalities.

On average, wealth inequality in OECD countries is twice as large as income inequality, and this is the case in Ireland also. The top 10 per cent of income earners earn approximately 25 per cent of all income in Ireland, but the top 10 per cent of wealth holders hold approximately 54 per cent of all wealth. While median net wealth[2] was €102,600 per household in Ireland in 2013, the figure for self-employed households was €307,000, and for the top 20 per cent of the income distribution it was €207,000. On the other hand, the median net wealth of unemployed households was €7,200, and for lone parents it was €1,400. For households headed by a person with a post-graduate degree, median net wealth was €51,500. Those with this level of education tend to be young, and their low level of net wealth can be explained by e.g. mortgage debt, and these households having less time than older people to save and accumulate wealth. In the UK, elderly households now are much wealthier than their counterparts a decade ago, while younger generations are accumulating wealth much less quickly than before. Growing inequalities in wealth are also becoming evident among the deciles, with the share of capital income going to the 9th decile and above in Ireland increasing between the late 1990s and 2007, while the opposite

[2] This is gross wealth less debt.

was the case for the 1st to 8th income deciles. By 2012 the proportion of capital income going to the top two deciles had declined, but was still higher than it had been in the late 1990s, with Ireland moving from being a country with low wealth and high income inequality, to one with high wealth and high income inequality.

There are also inequalities in the distribution of inheritances. In Ireland in 2015, approximately 30 per cent of households in the lowest income quintile had received an inheritance, worth on average around €50,000. However, approximately 40 per cent of households in the highest income quintile had received an inheritance, worth €125,000 on average. There is a much greater disparity when households are categorised by wealth. Only 10 per cent of those in the lowest wealth quintile in Ireland had inherited an amount, worth approximately €10,000 on average. However, over 60 per cent of households in the top wealth quintile had received an inheritance, worth approximately €250,000 on average. If the UK pattern of younger generations accumulating less wealth than their older counterparts applies in Ireland also, this will mean that inheritances are likely lead to further inequality in wealth distribution. Lower home ownership rates among younger generations in Ireland suggests that this will be the case.

Measures of income and wealth inequality do not take access to quality affordable services, such as housing, health and education, into account. Clearly, there is a difference in quality of life and outcomes for a person on a low income in a country where they can benefit from housing supports, free healthcare, and education; and a person living in a country where less, or none, of these services are provided. Where such services must be paid for, they reduce the amount of income available to spend on food, utilities and other items, thus effectively reducing available income. This means that the gap in income available to spend can differ more between income deciles than the figures cited above suggest.

Returning to income distribution, in Ireland, around three-quarters of the reduction in market income inequalities through social transfers is due to cash transfers. This is one of the largest reductions in the OCED. The key payments are pensions, jobseeker's payments, disability payments and child benefit.

The Irish public pension system is currently the second most progressive in the OECD, and it is effective at reducing poverty. Means-tested pensions and contributory pensions are both paid at quite low[3] flat-rates, and over 90 per cent of pensioners in Ireland receive one of these state pensions. However, the progressivity of Ireland's pension system is reduced by the benefits which higher income earners gain from tax reliefs for contributions to personal or occupational pensions, which were worth over €2 billion in the mid-2010s. These tax reliefs benefit higher earners to a greater extent, with 70 per cent of pensioners in the highest income quintile receiving a

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[3] For example, the state contributory and non-contributory pensions are paid at a rate just below the at-risk-of-poverty income threshold, except for the contributory pension for those aged over 80, which is just above the at-risk-of-poverty income threshold.

private or occupational pension, but only 9 per cent of those in the lowest income quintile.

Ireland's unemployment payments are also considered relatively progressive, as they pay a flat rate which does not have to be conditional on previous contributions. This helps reduce inequality. During the recent downturn, unemployment payments counteracted the strong increase in market income inequality. However, the payments are low, below the at-risk-of poverty income threshold. For the majority of claimants, these payments are much lower than income from employment. The high rate of poverty among the unemployed suggests that the payments are not fully adequate, but this varies depending on whether or not there is other income from employment in the household.

In 2014, more than 7 out of 10 unemployed individuals had a replacement rate of less than 70 per cent, and on average they would see their incomes rise by at least 43 per cent if they were to obtain a job. However, 44 per cent of the unemployed with children faced replacement rates of over 70 per cent at that time. This has been linked to welfare payments for dependents, and housing benefits, put in place to avoid poverty during unemployment. These supports are usually withdrawn completely once there is a change in circumstance or level of income, resulting in a particularly strong disincentive for an unemployed person to move from part-time to full-time work. There have been efforts since to taper withdrawal of these supports, with the introduction of HAP (the Housing Assistance Payment) where the recipient pays a rent linked to their income; the National Childcare Scheme, where the level of support is linked to income and reductions are tapered; and the Back to Work Family Dividend, which provides parents moving into work with an extra welfare payment for two years.

Turning to income supports for people with a disability, as those with a disability have very high rates of consistent poverty and low rates of employment, these income supports in Ireland could be considered progressive as they redistribute income towards those with very low market income. However, the high rates of poverty for this group suggests that the payments may not be fully adequate. Their low rate of employment compared to that in other countries also suggests that the current configuration of welfare and supportive services is not adequate to assist them into employment.

When it comes to payments to support the cost of rearing children, Ireland scores highly. Ireland compensates for 52 per cent of the costs of rearing children (through universal payments), while reducing the child poverty gap by 82 per cent (through both universal and targeted payments). Among EU countries, Ireland is one of the countries which spends most on payments for children, and which sees one of the largest poverty reduction impacts from them, which can be linked to the inequality of market income.

The structure of taxation also helps to redistribute income from the better off to the less well off. The Irish personal income tax system is very progressive, and in 2009 was the most progressive in the OECD. The average effective income tax rate is 14.4 per cent on average, and ranges from 0.5 per cent for those in the first income decile, to 4.0 per cent for those in the fifth income decile and 24.5 per cent for those in the tenth income decile. USC also increases progressivity, as it has three income bands and a broader tax base than the personal income tax base.

Although PRSI is generally levied at a single rate of 4 per cent on gross income, payment of PRSI contributions up to and through the ninth decile is slightly progressive. This is helped by the fact that those earning less than €352 per week do not pay a PRSI employee contribution, and there is a PRSI credit for those earning between €352.01 and €424. The introduction of PRSI on non-earned income (e.g. rents, dividends) from 2016 on is likely to have ensured that this progression continues into the top income decile. In the EU, Ireland and Belgium's social insurance contributions do the most to vertically redistribute.

One negative side-effect of tax progressivity can be a disincentive to increase work due to high marginal tax rates, and Ireland does have high marginal tax rates at relatively low income levels (although Ireland also has very low tax rates for those earning less than average earnings). The marginal tax rate for a single person is up to 28.5 per cent until incomes reaches €35,300, then it becomes 48.5 per cent, and at €70,044 the top marginal tax rate of 52 per cent applies. The point at which Irish tax payers begin paying this top marginal tax rate was at the average wage, compared to just over five times the average wage for the OECD as a whole. High marginal tax rates are argued to penalise economic growth, as they reduce the incentive to work and/or to progress and can induce tax avoidance behaviour. However, in Ireland currently economic growth and job creation are both high while marginal tax rates are high. Some researchers argue that the results from models linking economic growth and taxes can be ambiguous, and there may be an element of this in the Irish experience. In addition, the marginal tax rate is only one way of assessing the burden of tax. Study of income deciles in Ireland shows that deciles 2 to 10 spend between 18 and 30 per cent of their income on all direct and indirect and taxes. In terms of Purchasing Power Parity, net income after tax in Ireland was also well above the EU and OECD averages. Countries with higher tax burdens also generally have more generous welfare states. Multiple trade-offs come to the fore when deciding on income tax policy.

Consumption taxes are usually regressive, as poorer households spend a higher proportion of their income than wealthier households. Ireland is no exception. In 2009-10, households in income decile 1 spent 18 per cent of their equivalised gross income on VAT, compared to a spend of 4 per cent for decile 10. The average is 6 per cent.

However, when indirect and direct taxes (excluding those on wealth) are combined, payment of taxes overall is much more progressive, with the percentage paid rising for every decile from the third to the tenth. The first decile spends the highest proportion of their income on taxes, but this is countered by the very high rate of social transfers to them.

Meanwhile, taxes on wealth (CAT, CGT, LPT and stamp duty) currently make up a very small proportion of all tax paid in Ireland – 5 per cent in 2018. There is no wealth tax, and tax on property is low. A higher property tax would be regressive in income terms (due to the number of older homeowners who are on a pension income), but it would not be regressive in terms of asset-holding. As it is those on higher incomes who are increasingly able to afford to purchase a home, there may be scope for property tax to increase in future. Some researchers have also suggested a tax on housing equity, which would mean reduced tax for those paying large mortgages, while gaining some state revenue from those who are in a better position to pay such tax, as they do not have high housing costs.

Tax on capital gains and acquisitions are likely to be mostly paid by those with higher incomes and wealth, as ownership of property (apart from the family home), shares and bonds is significantly higher among the top two income quintiles than it is among the lower income quintiles. Ireland's capital acquisitions tax (CAT) applies to gifts and inheritances received by an individual over their lifetime, and so reduces opportunities to avoid paying this tax by transferring assets before a person dies. However, currently an individual is able to receive gifts or inheritance worth just under a third of a million euros (€320,000) from a parent, without paying any CAT on this amount. Only those in the top quintile inherit an amount similar to this (on average their inheritance is worth €250,000), indicating that this element of the tax system is very regressive. There may be an argument for taxing amounts over the average amount of inheritance received by the lowest income decile (€50,000). In addition, while labour income and income from capital are taxed at the same rates in Ireland, capital gains and capital acquisitions are taxed at 33 per cent, which is lower than the tax paid on higher incomes (40 per cent, 52 per cent when PRSI and USC are added). Taxing capital gains and acquisition at a lower rate than other income enables wider inequalities of income between those with capital and those without.

An increasing number of researchers have called for increased taxes on wealth, as wealth distribution has become more unequal over the past thirty years in particular. During this time period, taxes on wealth in many countries have instead been reduced. The suggestions include raising marginal tax rates for the wealthy, eliminating or scaling back tax reliefs, and assessing taxes on all forms of property and wealth, including the transfer of assets. Ensuring equal taxation of income and wealth is argued to lead to better allocation of capital, less speculation, GDP growth, less inequality, and more political stability. Some argue for mechanisms to reduce wealth inequality before taxes and transfers, such as affordable housing, employee ownership and co-operative businesses, and a Citizen's Wealth Fund.

The analysis summarised here suggests a number of implications for social insurance, welfare and taxation, which the Council can discuss. First, in relation to tax revenue, this has traditionally been used to part-finance social insurance funds. The analysis in this paper does not suggest that this should cease. Taxation income draws from a wider base than social insurance income, and in Ireland is progressive. This assists the redistributive function of PRSI.

Secondly, the analysis in this paper shows that the vast majority of people gain almost all their income from employment. This suggests that when employment is lost, there can be a significant drop in income for almost all households affected. Households headed by an unemployed person or a lone parent (who have very low employment rates) have the highest poverty rates, the lowest savings and the least net wealth to draw on. Younger people and those with post-graduate degrees also have low savings and net wealth (relative to older people and to the State median) to see them through a period of job loss. The loss of income is also particularly high for dual earner couples, most of whom are more educated, when they are

Chapter 1
Introduction

1.1 Introduction

As part of this project looking at social insurance and assistance in Ireland, it is useful to consider the work which this system does in terms of income redistribution, equity and ensuring income adequacy – three important principles of the social welfare system, as outlined in earlier papers to the Council on this project. It is also useful to assess changes in the shares and distribution of income and wealth over time, and to see the extent to which sources of income other than employment are changing, and if wealth is becoming increasingly concentrated at the top end of the income distribution.

Inequality in income and wealth distribution has many important consequences for individuals, society and the economy, including for the social insurance and taxation funds. First, there is evidence that inequality in incomes is bad for growth in developed countries. OECD and World Bank studies have shown that growing inequality, particularly that which affects low income households, has a negative and statistically significant impact on growth (Cingano, 2014; Brueckner & Lederman, 2018).[4] Cingano argues that lowering inequality by 1 Gini point (i.e. by 0.1) would translate into cumulative growth of 0.8 percentage points over 5 years. His data also shows that, in Ireland, an increase in net income equality was correlated with an increase GDP per capita between 1985 and 2000[5]. The link that is argued to be between them is human capital acquisition, with increased years of schooling among a population promoting both greater income equality and GDP growth. The author argues that 'redistribution … via taxes and transfers are a key tool to ensure the benefits of growth are more broadly distributed' (Cingano, 2014:6). In addition, the study finds that redistribution via taxes and transfers 'need not … undermine growth' (Cingano, 2014:6) – although as will be outlined later, there is a balance between the impacts taxation on labour can have on job creation. Overall Cingano's data, and that of others he cites, suggests both that inequality in disposable incomes is bad for growth, and that redistribution is, at worst, neutral to growth.

In addition to its negative effect on GDP growth, Pickett & Wilkinson (2009) have demonstrated how higher income inequality is associated with worse outcomes for a variety of health and social issues in high income countries. Outcomes were

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4 In low income countries the opposite occurs, with higher income inequality correlated with higher GDP growth.

5 This occurred in Spain, France, Denmark and Ireland over this time period, while he argues that potential growth decreased due to rising inequality in the UK, Netherlands, Sweden, Finland, Norway, Turkey, Belgium, New Zealand, the US, Germany, Canada, Japan, Italy and Mexico.

significantly worse in more unequal countries in relation to physical health, mental health, drug abuse, education, imprisonment, obesity, social mobility, trust and community life, violence, teenage pregnancies, and child well-being. Greater income inequality has been correlated with lower voting and campaigning behaviour (Solt, 2010; Ritter & Solt, 2019). Greater inequality leads to more environmental degradation, and those who are better-off are disproportionate contributors to carbon emissions that power climate change, while those who are less well-off disproportionately bear the impact. There are also of course intrinsic reasons for supporting greater income equality (Petersen, 2017).

The incomes of individuals and households are affected by a number of factors, including market incomes, and the balance between income taxes and income transfers. Market incomes include earnings from employment and self-employment, as well as capital income such as rents and investment incomes. Income-related taxes comprise both income tax and social security contributions. Transfers cover state pensions, working age payments (e.g. for unemployment, illness, lone parenthood) and family benefits (see Callan *et al*, 2018). Wealth is another important issue to consider, as it has grown in Ireland over the past 30 years in particular, and its distribution is not even. In the remainder of this paper, the extent to which market income, taxes and transfers are distributed across different groups in Irish society will be described, as well as the distribution of wealth.

1.2 Measuring Income Distribution in Ireland

There are a variety of different ways to measure equity in income distribution. Three will be outlined below in relation to Ireland – the Gini co-efficient, comparison of shares of income received by different groups in society, and measures of poverty. These measures usually draw on data from household income surveys. However, these surveys underestimate the income of the highest earners, with administrative tax data providing a better estimation of this. On the other hand, administrative tax data is not good at estimating the income of low income groups, who may be completely outside the tax net in Ireland. Therefore it is useful to consider data both from household income surveys, and from tax records, to gain a more accurate picture of the extent of income inequality.

1.2.1 Gini co-efficient

One of the most commonly used measures of income inequality is the Gini co-efficient, which ranges from a value of zero to one. A value of zero expresses perfect equality, i.e., where all households or individuals have the same income, while a value of one expresses perfect inequality, i.e. where only one household or individual has all the income and all others have none (O'Connor *et al*, 2016).

When looking at market income, that is income received before taxes and social transfers, the distribution of this in Ireland is very unequal. Gornick & Milanovic (2015) show that the Gini co-efficient for market income in Ireland was 0.58 in 2010, the highest of the 19 western European and OECD countries they studied. Ireland is closely followed by the UK (0.56), and then Greece (0.53), the US and Germany (0.52 each), as outlined in table 1 below.

Table 1: The Gini coefficient for income before taxes and transfers, Ireland and other developed countries

Ireland	0.58	Australia	0.49
United Kingdom	0.56	Canada	0.49
Greece	0.53	Estonia	0.49
Germany	0.52	Finland	0.49
United States	0.52	Denmark	0.48
France	0.51	Luxembourg	0.47
Spain	0.51	Netherlands	0.47
Italy	0.50	Czech Republic	0.46
Poland	0.50	Norway	0.46
		Slovakia	0.43

Source: Gornick & Milanovic, 2015.

However, the Gini coefficient for disposable household income[6] distribution in Ireland is much lower, at 0.29 in 2010. Ireland ranked joint 8th on this out of the 19 countries studied by Gornick & Milanovic (2015). While Ireland's market income distribution is one of the most unequal in the OECD, the reduction in market income inequality and poverty through social benefits and progressive taxation in Ireland is the largest across OECD countries. This reduction brings Ireland's Gini coefficient for disposable income down to around the median for these countries (OECD, 2018; Kennedy *et al*, 2016; O'Connor *et al*, 2016). The most equal countries have Gini co-efficients of less than 0.25 for disposable income, and these are the Nordic and high income Eastern European countries (Palma, 2019). See table 2 below.

1.2.2 Comparisons of share of income by decline

Another good measure of income distribution is comparison of the share of income received by different proportions of the population. It is common for the share of disposable income going to different deciles or quintiles to be compared. Table 3 below outlines the share of disposable income going to the different quintiles In Ireland in 2014, compared to the OECD average in 2010.

6 Disposable household income is gross household income, less tax and social insurance contributions.

Table 2: The Gini coefficient for income after taxes and transfers, Ireland and other developed countries

United States	0.37	France	0.29
United Kingdom	0.34	Germany	0.29
Australia	0.33	Ireland	0.29
Greece	0.33	Luxembourg	0.27
Italy	0.33	Czech Republic	0.26
Spain	0.33	Finland	0.26
Canada	0.32	Netherlands	0.26
Estonia	0.32	Slovakia	0.26
Poland	0.31	Denmark	0.25
		Norway	0.24

Source: Gornick & Milanovic, 2015.

Table 3: Share of disposable income going to different quintiles, Ireland, 2014 and OECD, 2010

	Ireland	OECD average
Quintile 1	8	8
Quintile 2	13	13
Quintile 3	17	18
Quintile 4	23	23
Quintile 5	39	38

Sources: for Ireland, Callan et al (2018:7); for the OECD, OECD (2015, Figure 6.5).

This shows that the position in Ireland is the same as that in other developed countries, with the top quintile receiving almost five times the amount of disposable income as the bottom quintile.

1.2.3 Measure of poverty

A third way to measure income inequality is to look at levels of poverty. The official measure of poverty in Ireland is 'consistent poverty'. This is measured using two statistics, to capture the multi-dimensional nature of poverty. The two statistics are:

- at-risk-of-poverty – which is the proportion of persons with an equivalised income below 60 per cent of the national median income; and

- basic deprivation – which is the proportion of persons living in a household deprived of two or more of eleven basic necessities.

SILC data shows that the consistent poverty rate in Ireland in 2017 was 6.7 per cent, with variations by group. The rate for the unemployed was 24.1 per cent, for people with a disability it was 24 per cent, for lone parent households it was 20.7 per cent, for children it was 8.8 per cent, and for those aged 18-24 (defined as young people) it was 10.3 per cent. The lowest consistent poverty rates are for those at work (1.4 per cent), and the retired (1.5 per cent).

The EU collates poverty statistics in a different way to Ireland, but its data shows that the proportion people at risk of poverty or social exclusion in Ireland is the same as the EU average. In 2017, the Irish rate was 22.7 per cent and the EU28 average was 22.4 per cent. The rate varies from a low of 12 per cent in the Czech Republic to a high of 38.9 per cent in Bulgaria.[7]

The social welfare system plays an important role in alleviating poverty. Social transfers (excluding pensions) reduced the at-risk-of-poverty rate from 33.6 per cent to 16.5 per cent in Ireland in 2016, representing a poverty reduction effect of 51 per cent. Ireland was third best among EU member states in this regard (DEASP, 2018).

1.3. Distribution of market income in Ireland

Labour income accounts for the majority of all market income in Ireland, with income from capital accounting for only 10 per cent of total market income for tax payers in income deciles 1 to 9 and only becoming significant for the top decile, where it accounts for 22 per cent of gross income. For the top 1 per cent, 41 per cent of their gross income is from capital (Kennedy *et al*, 2016). Overall though, most of the reason for high inequality among market incomes in Ireland is related to the uneven distribution of earnings from labour (Sweeney, 2019). Gornick & Milanovic (2015) have looked at market income distribution among households containing only those under 60 (i.e. most likely to be in the labour force, with pensioners excluded) and found that Ireland's Gini co-efficient for this group was by far the highest – 0.53 in 2010, with the next highest score in the 19 countries they studied at 0.48 (the United Kingdom).

Internationally, such market income inequality has been related to the return to education and skills for those at the top of the income distribution, to globalisation, to immigration, and to declining unionisation and public sector employment (Kierzenkowski & Koske, 2012). In Ireland, the impact of a number of these on market income inequality can be seen. Those with tertiary education earn more than twice

[7] See https://ec.europa.eu/eurostat/statistics-explained/images/9/90/People_AROPE_2019_v2.xlsx, downloaded 30 May 2019.

the median income, while those with less than upper secondary education are at the bottom of the income distribution (Herzer & Nunnenkamp, 2011). Jerrim & MacMillan (2015) show that the wage returns to higher education are second highest in Ireland, second only to the US, in a comparison of 23 OECD countries. This is supported by social transfers, with Government funding supporting the costs of undertaking tertiary education. Since 1980 there has been a dramatic increase in participation in higher education in Ireland, with the rate for those coming from unskilled manual families increasing from 3 per cent in 1980 to 21 per cent in 1998, and for other manual worker groups[8] from about 10 per cent to over 30 per cent. However, the participation rate of the higher professional social class increased from just under 50 per cent to near saturation (Nolan *et al*, 2014). Major educational expansion coupled with economic growth in Ireland has led to greater movement into the professional and managerial classes, and greater absolute mobility, but the socio-economic gradient in educational attainment is still strong.

The high wage returns to higher education are partly related to the sectors in which different groups work, with Ireland having a higher preponderance of high-income and low-income economic sectors. The high income sectors in Ireland (such as finance and technology) also have higher pay relative to average pay when compared to other small open economies in Europe, while the low income sectors (such as retail and hospitality) have lower pay relative to the average. Some of the low income sectors are dominated by indigenous companies with lower productivity and low margins compared to the MNCs in higher income sectors (Sweeney, 2019). However, there are also income inequalities within sectors. This can be seen in, for example, the health and social care sector, where there would be a strong contrast in pay rates for, e.g. medics at the top of the scale, compared to e.g. health care assistants on more precarious contracts at the bottom. This helps to explain why, when hours of work are taken into account, labour income inequality reduces slightly, but still remains (Sweeney, 2019). The agricultural sector, which typically has low incomes, is also particularly large in Ireland.

Ireland also has a relatively high proportion of households dependent on state transfers for most of their income (Sweeney, 2019; de Buitleir, 2018), which means that their incomes are comparatively low. As outlined in previous papers for this project, there is also an increasing number of dual income earning households in Ireland, and this, balanced against the number of jobless households, and lone parent households, will also contribute to income inequality between households (see also Nugent, 2019).

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[8] Skilled manual, other non-manual and semi-skilled manual.

1.4. Change and stability in income inequality in Ireland over time

Palma (2019) and Cingano (2014), among others, show how European countries have seen strong growth in market income inequality since the 1980s, which can be linked to the economic policies followed by Thatcher and Reagan, and then adopted more widely. However, inequality in disposable income in most European countries (the UK is an exception[9]) has not increased much since the 1980s, indicating that the social transfers systems in them have had to work increasingly hard to reduce market income inequalities. For example, the Gini co-efficient for market income inequality in Germany in 1973 was 0.38, and had increased to 0.52 by 2015 – a 40 per cent increase. However, the Gini co-efficient for disposable income remained just below 0.30 throughout the entire period. This takes a lot of fiscal work, and Palma links it to the increase in the proportion of government spending on welfare since the 1970s, as does Glennerster (2007).

The Irish Gini co-efficient for post-transfer income has been very stable since the end of the 1980s, showing no statistically significant variations, despite many changes in economic growth, ranging from the depressions of the 1980s through the rise and fall of the Celtic Tiger. Callan *et al* (2018) show that the Gini co-efficient was approximately 0.32 in 1987 and 0.31 in 2013. During the beginning of the recession, falling incomes among the top deciles actually meant greater income equality (Nolan *et al*, 2015).

The stability of income distribution is also evident when comparing different income quintiles. Table 4 below outlines the share of disposable household income in Ireland going to each income quintile, on selected dates between 1987 and 2014.

Table 4: Quintile shares of disposable household income in Ireland, selection of years, 1987-2014

Quintile	1987	1994	2000	2007	2014
Lowest	8	8	8	8	8
2nd	13	12	13	12	13
3rd	17	17	18	17	17
4th	23	23	23	23	23
Highest	40	40	38	40	40

Source: Callan *et al*, 2018:7.

9 The Gini co-efficient for disposable income in the UK increased from 0.27 in the mid 1970s to 0.33 in 2015.

This shows that the share of disposable household income going to different quintiles in Ireland has been very stable over the last three decades[10].

The lack of statistically significant changes in distribution of income since the 1980s can be related to policy decisions taken to support this. Changes to the tax system in Ireland have helped lower-income earners over the last 30 years. In 1980, there were five rates of income tax, ranging from 25 per cent to 60 per cent. These were reduced to only two rates by 2000, which currently stand at 20 and 40 percent. While lower tax rates benefited higher income earners, there were concerted, successful, efforts through social partnership agreements to move low income earners out of the tax net. It is estimated that about 40 per cent of Irish income earners pay no income tax. Personal tax allowances were also changed to tax credits in 1999. As tax credits are at fixed amounts, they have the same value for all tax payers, reducing all taxpayer's tax liability by a fixed amount. They are also quite evenly distributed across income groups. Therefore this change benefitted low income proportionally more than high income tax units. The amount spent on them has increased markedly since the early 2000s, and the four main tax credits are now worth €8.6 billion per year[11]. However, tax credits are not refundable, so lower income households who do not use the whole amount of the tax credit do not benefit from the remainder being refunded, or paid out, to them (Kennedy *et al*, 2016).

The changes to taxation reduced the tax burden of middle-income classes also during the Celtic Tiger period, by around 2 percentage points for those in the 4th through to 7th deciles between 2002 and 2007. At the highest end, the taxation system became more progressive during this time period (Kennedy *et al*, 2016). Greater individualisation of income tax for married couples from 2000 on also meant more after-tax earnings for the lower income earner in these couples.

Nolan *et al* (2015) also stress the role of social partnership in the stability of Irish income distribution over the past 30 years. The centrally bargained wage increases negotiated through this process generally set a floor below which incomes did not fall. Other factors which played a role include the 1986 Commission on Social Welfare, following which the rates of the lowest social welfare payments were increased. This strongly reduced poverty among the lowest income deciles. In 2000, the national minimum wage was introduced, and it is updated annually by the Low Pay Commission, helping its relative value to be maintained. Again it is generally seen to have set a floor on lower earnings, and has allowed those earning lower wages to keep pace with median wages. All of this took place during an economic boom which helped increase employment and income for all deciles between the mid-1980s and mid-2010s, when real wages increased by 70 per cent (Callan *et al*, 2018).

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[10] Administrative tax data for Ireland also shows that the proportion of market income in each income decile was stable between 1997 and 2012, although the proportion gained by the higher deciles was greater (see Kennedy *et al*, 2016).

[11] The four are the personal tax credit, which is due to every individual who is resident in the state; the PAYE credit, which is due to every individual in the PAYE system, earning above certain income thresholds; one parent family credit, and age credit for those aged over 65.

Nolan *et al* (2015) also reference the role of Ireland's political system, which they describe as 'catch all', and which they see as helping to keep a focus on equality to some extent. This ties in with the findings of previous papers in this project, which have shown that Ireland's welfare system displays elements of the liberal, Anglo-Saxon model, as well as some elements of the Catholic conservative models more prevalent in mainland Europe. The latter may have contributed to the focus on income redistribution to the lower income deciles.

The overall stability in income distribution does hide some variation, however. Until 2002, labour earnings in Ireland grew in a similar way across income groups. However, during the property bubble period, those in the highest income group saw disproportionately strong growth. After the property bubble burst, aggregate labour earnings declined sharply, but this reflected the decline in labour market income among low rather than high income earners, due to loss of employment among lower income earners. In fact the proportion of labour income going to three highest deciles remained relatively consistent between 2007 and 2012 (Kennedy *et al*, 2016). However, this data is based on household income surveys, which, as noted earlier, understate income in the highest deciles. Tax data provides better information on this group, and looking at this shows that the share of total income going to the top 1 per cent in Ireland increased from about 6 per cent in the early 1990s, to 10 per cent at the end of the 1990s, and to 12.5 per cent in 2006 (Nolan *et al*, 2015), before falling back during the recession to 10.5 per cent in 2012 (Kennedy *et al*, 2016). Between 1997 and 2007, the market income of the top 10 per cent rose from 34 per cent of all income, to 37.2 per cent, before falling slightly to 36.7 per cent by 2012 - still higher than in the late 1990s.

1.5. Wealth distribution in Ireland

Income, whether from labour or social transfers, is only one aspect of living standards and financial security for individuals and households. Wealth is another facet of this. It has an impact on households' economic well-being in a number of ways. It allows individuals to smooth consumption over time and so provides protection from unexpected changes in income. Households with reserves of wealth can also use them to generate capital income and to support a higher standard of living. Its existence can allow people to borrow to finance expenditures, such as education and housing (Balestra & Tonkin, 2018). As well as these social benefits, there are economic benefits to wealth when appropriately invested, including business, job and product creation. However, as the distribution of wealth is unequal, it can exacerbate inequalities. On average, wealth inequality in OECD countries is twice as large as income inequality, and in Ireland, while the top 10 per cent of income earners earn approximately 25 per cent of all income[12], the top 10 per cent of wealth holders

[12] This depends what data source is used. Household surveys indicate that the share of disposable income held by the top income decile is 26 per cent, and the share of market income which they hold is 36 per cent (2015 data) (Revenue Commissioners *et al*, 2018).

hold approximately 54 per cent of all wealth (Balestra & Tonkin, 2018)[13]. Wealth tends to be higher among men, older people and those with higher education (Sweeney, 2019). Wealth inequalities are also growing as the share of national income going to capital increases, compared to that going to labour (Roberts *et al*, 2018). A few factors contribute to this, including house price inflation (which is much higher than wage growth) and falling home ownership rates, which sees those with housing assets growing their income and wealth, while those without are locked out and paying increasingly high rent to asset owners. Increasing reliance on the private rented sector for social housing, even if set up to support lower income earners, can actually support more concentrated property ownership among the better-off (Joumard *et al*, 2012). Norris (2016), for example, shows that in 2006, 42 per cent of all tenants renting in the private sector in Ireland were in dwellings supported by RAS and rent supplement, two social housing payments. While these payments provide needed housing for their tenants, they also support the purchase of an asset by the landlord, but not for the tenant or the State.

Other factors which contribute to increasing wealth inequality include share ownership, partly as shares are most likely to be owned by those in higher income deciles, and also as there have been significant increases in share prices and returns to equity over recent years. Another factor is precarious work and weak labour bargaining power, leading to lower wages which inhibit saving and wealth accumulation.

In Ireland, the share of capital income going to the 10th decile increased between the late 1990s and 2007, while the opposite was the case for the 1st to 8th income deciles (it was stable for the 9th). In 1997, the proportion of capital income going to the top decile was 52 per cent. This rose to 62 per cent in 2007 and then declined to 58 per cent by 2012. The top 1 per cent of capital income earners saw the proportion going to them increasing from 28 per cent in 1997 to 31 per cent in 2012 (Kennedy *et al*, 2016).

The *Household Finance and Consumption Survey* of 2013 (CSO, 2015) looked at the extent to which Irish households held housing or property, savings, bonds/shares, pensions (the main forms of wealth), and of debt. Like all household surveys, it is likely to understate the wealth of the higher income deciles. However, it does give an indication of the distribution of wealth in Ireland. It shows that the majority of Irish households own some wealth, in the form of their own home, with 71 per cent owning this. However, the figures are lower for those living in Dublin (59 per cent), for lone parents (26 per cent), for the unemployed (47 per cent), for those in the bottom 20 per cent of the income distribution (60 per cent), and for the under 35s (30 per cent). The cost of private house purchase, coupled with the decline in recent decades in social housing which can be purchased by the tenant, means that home ownership rates are likely to decline for younger generations and those on lower

[13] Balestra *et al* also show that different databases have different estimates of the proportion of wealth held by the top decile. The estimates they cite range between 54 per cent and 66 per cent.

incomes, meaning that their home ownership rates and subsequent wealth accumulation are likely to be lower than those of their parents' generation.

89 per cent of Irish households had some form of savings, and the median amount of savings was €4,500. Again savings amounts are lower for households headed by a lone parent (€300), an unemployed person (€1000), and those in the bottom 20 per cent of the income distribution (€2,000). Those in the top 20 per cent of the income distribution had median savings of €15,000, and the over-65s had median savings of €10,000.

As most households had some debt, net wealth (i.e. gross wealth less debt) is a good indicator of the relative position of different households. Wealth-holding, particularly of housing, varies by asset price cycle, with some of those who had high net wealth during periods of growth finding themselves in negative equity during recessionary periods. The position of different household groups in relation to net wealth in 2013 is outlined in table 5 below.

Table 5: Median net wealth of different household groups in Irish society, 2013

State overall	**€102,600**
Self-employed	€307,000
The top 20% of the income distribution	€207,000
Over 65s	€202,300
Those with primary/no formal education	€126,200
The bottom 20% of the income distribution	€77,300
Those with a post-graduate degree	€51,500
Unemployed	€7,200
Lone parents	€1,400

Source: CSO, 2015.
Note: Data refers to households headed by a self-employed person, a lone parent, etc.

The table shows that households headed by a person aged over-65, which have relatively low levels of education, had median net wealth of €202,300, but households headed by a person with a post-graduate degree had much lower median net wealth, at €51,500. Older people have had time to save, as well as benefiting from previous policies which made it easier to purchase a home (CSO, 2015). The younger, more educated generations may also be more affected by negative equity, leading to them holding assets with high debt levels. The table also shows the lack of any financial cushion to fall back on for households headed by an unemployed person, and even more so for those headed by a lone parent.

Altogether, the bottom fifth of households by income had 11 per cent of all net wealth, while the top fifth had 39 per cent[14].

Wealth is often passed down the generations and so contributes to inter-generational inequalities (Bonesmo Fredriksen, 2012). The recent Institute of Fiscal Studies report on inequality in the UK (Joyce & Xu, 2019) has found that elderly households now are much wealthier than their counterparts a decade ago, and so much more likely to leave a large inheritance. At the same time, younger generations are accumulating wealth much less quickly than before. They argue that this means inheritances are likely to be especially important to the living standards of today's young people. In Ireland in 2015, approximately 30 per cent of households in the lowest income quintile had received an inheritance, worth on average around €50,000. However, approximately 40 per cent of households in the highest income quintile had received an inheritance, worth €125,000 on average. There is a much greater disparity when households are categorised by wealth. Only 10 per cent of those in the lowest wealth quintile in Ireland had inherited an amount, worth approximately €10,000 on average. However, over 60 per cent of households in the top wealth quintile had received an inheritance, worth approximately €250,000 on average (Balestra *et al*, 2018).

This outline of wealth in Ireland shows increased disparities in wealth, with the top decile and quintile increasing their share of capital income since the late 1990s, particularly during the Celtic Tiger period Tax administration data also shows the share of income going to the top 1 per cent doubling between the early 1990s and mid-2000s. The share of savings held by each decile, and the extent of inheritances they received, suggests that the disparities in wealth are likely to increase over time.

1.6. The role of services

Measures of income and wealth inequality do not take access to quality affordable services, such as housing, health and education, into account. Clearly, there is a difference in quality of life and outcomes for a person on a low income in a country where they can benefit from extensive housing supports, free healthcare, and free education; and a person living in a country where less, or none, of these services are provided. Where such services must be paid for, they reduce the amount of income available to spend on food, utilities and other items, thus effectively reducing available income. This means that the gap in income available to spend can differ more between the deciles than the figures cited above suggest.

In the UK and Northern Ireland, the Gini co-efficient and comparison of income deciles is often done both 'before housing costs' and 'after housing costs'. In Ireland, in the context of significant changes in access to affordable housing, it would be also

[14] Other databases on wealth indicate that the top ten per cent in Ireland own more than this – between 54 and 66 per cent of all wealth. They also estimate that the bottom 20 per cent of the wealth distribution in Ireland do not have any net assets, but instead overall have liabilities, due to negative equity (Balestra *et al*, 2018).

useful to measure this (or another relevant measure of inequality).[15] This measurement should be calculated for both urban and rural areas, to have a better grasp of the full outcomes of redistributive policies. Ideally such data would be comparable to similar indicators in other countries. It would also be useful to incorporate 'before health costs' and 'after health costs' into these measures, as not all are able to access free healthcare, as in the UK.

1.7. The role of state transfers in combating market income inequality in Ireland

In Ireland, cash transfers have the largest redistributive effect on market income, one of the largest in the OECD (Joumard *et al*, 2012:14). Around three-quarters of the reduction in market income inequalities through social transfers is due to cash transfers, while the rest comes from household taxation (Kennedy *et al*, 2016). During the recession, state transfers played an important role in reducing the level of poverty associated with unemployment and income shocks (Watson & Maitre, 2013) (although poverty did rise during the crash) .

There are a high number of social transfers in Ireland, including those for children, lone parents, those living with a disability, the unemployed, pensioners and widows/widowers. There are also transfers to support housing costs and education (see Appendix 1 for a list). From a financial point of view, the key payments are pensions, jobseeker's payments, disability payments and child benefit. The redistributive impact of these payments will be outlined below.

Pensions

The progressivity of Ireland's cash transfers is helped by the country's flat-rate public pension systems. Means-tested pensions and contributory pensions are both paid at quite low flat-rates[16], and over 90 per cent of pensioners in Ireland receive one of these state pensions (Hughes & Maher, 2016), with over three quarters of those in receipt of the state contributory pension receiving 98-100 per cent of the full pension payment[17]. This public pension system is currently the second most progressive in the OECD (Joumard *et al*, 2012:17), and it is effective at reducing poverty. In 2003, the percentage of pensioners in Ireland at-risk-of-poverty was over 32 per cent, and

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15 Some work containing estimates of income inequality after housing costs in Ireland has been published recently. See Corrigan, E (2019) 'The scale and impact of the local authority rent subsidy, *Economic and Social Review*, 50,1, pp.119-157.

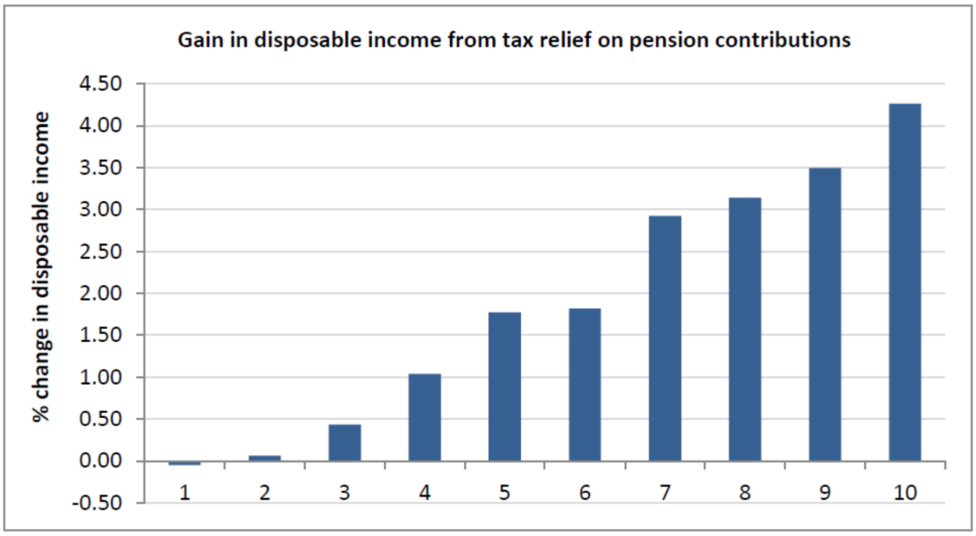
16 The payments are quite low compared to the poverty thresholds. In 2017, SILC data shows that the equivalised at-risk-of-poverty income threshold was €12,521. In that year the non-contributory pension was worth €12,392 pa for a single person under 80, and €12,912 for a single person over 80; while the non-contributory pension was €11,804 for a single person under 80, and €12,324 for a single person over 80.

17 80 per cent of those receiving a state pension receive a contributory pension. 10 per cent of its recipients receive a pension worth 75-90 per cent of the full contributory pension payment, and 12 per cent receive 65 per cent or less of the full contributory pension payment (KPMG, 2017). 199,767 males were receiving at least 90 per cent of the contributory pension, which is over 70 per cent of all males aged over 65 in 2016 (277,403). 83 per cent of males were receiving a contributory pension. Many may receive a payment for their spouse, with much fewer women than men of that age having independent entitlement to a pension.

a decision was made to increase state pensions to combat this. Between 2001 and 2012, the state pension was increased by over 70 per cent in nominal terms, and the at-risk-of-poverty rate for pensioners fell to 7.5 per cent by 2013. State pension rates have been maintained during the recession when other social welfare rates were cut, in order to ensure that the poverty rate of pensioners did not increase, an aim which was successfully achieved (Hughes & Maher, 2016).

However, the progressivity of Ireland’s pension system is reduced by the benefits which higher income earners gain from tax reliefs for pension contributions, which were worth over €2 billion euros in the mid 2010s. These contributions fund personal or occupational pensions, not state pensions. Doorley *et al* (2018) have shown how the tax reliefs for pension contributions clearly benefit higher earners to a greater extent, as outlined in Figure 1, which shows the difference in household disposal income due to tax relief on pension contributions, by income decile.

Figure 1: Gain in Disposable Income from Tax Relief on Pension Contributions



Source: Doorley *et al*, 2018.

In retirement, 70 per cent of pensioners in the highest income quintile had a private or occupational pension, but only 9 per cent of those in the lowest income quintile (Hughes & Maher, 2016). The State also loses out on tax revenue through these tax reliefs. Although tax is paid on pension income, pension schemes are allowed pay a tax-free lump sum to contributors on retirement. In addition, most contributors who benefit from tax reliefs for pension contributions benefit from these at the higher marginal tax rate of 40 per cent, but in retirement usually pay tax at the standard rate of 20 per cent, as their income has reduced. This means a further reduction in income tax revenue for the State, as well as greater gains for those in higher income deciles (Hughes & Maher, 2016).[18]

Jobseeker payments

Ireland's unemployment payments are also considered relatively progressive, as they pay a flat rate which does not have to be conditional on previous contributions. This helps reduce inequality – e.g. the increase in unemployment payments during the crash counteracted the strong increase in market income inequality (Callan *et al*, 2018). Social welfare benefits were increased during the Celtic Tiger years, and also were not generally reduced in value during the more recent recession – although the time period during which jobseeker's benefit could be claimed was reduced, as were the jobseeker allowance rates for those aged under 26. Therefore, although these payments are progressive overall some groups such as those under 26 and lone parents, suffered cuts in income and particularly high increases in poverty rates[19], while other groups, particularly those aged over 65, suffered much less change in poverty during the recession.

To what extent do jobseeker's benefit and allowance replace previously earned income? Figari *et al*'s 2010 study of the extent to which welfare benefits replace income in the case of unemployment shows that in the UK, which has a flat rate benefit, households relying on these benefits have much lower income compared to their income while in employment, particularly at the higher end of the income distribution, compared to their counterpart households in Belgium, Spain and Italy, where social insurance benefits are related to previous income. Although welfare payments in Ireland are higher than in the UK in monetary terms, they have a similar flat-rate structure, and so the pattern found in the UK is likely to apply to Ireland also. Irish data shows that more than 7 out of 10 unemployed individuals have a replacement rate of less than 70 per cent, and on average they would see their incomes rise by at least 43 per cent if they were to obtain a job (Savage *et al*, 2015). Replacement rates are also particularly low for dual earner couples (IGEES, 2015). However, over time the extent to which the benefits replace employment income declines in many countries, while in Ireland Irish Jobseeker's Allowance does not diminish over time, and in fact, income support increases slightly, as those who are in receipt of Jobseeker's Allowance for over 15 months are entitled to Fuel Allowance.

A question which can be raised is whether or not the payments are adequate. Considering the poverty rates of the unemployed, cited earlier, it is clear that they are not adequate in all cases. Jobseeker's benefit and allowance are both less than

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18 The Roadmap for Pension Reform proposes bringing in an auto-enrolment state savings scheme, in which the State is considering worker contributions, on a 1:3 basis. This may provide a more equitable means of supporting pension savings than tax reliefs, if such a system is adopted.

19 The consistent poverty rate for those aged 18-24 increased from 6.1 per cent in 2009 to 15.6 per cent in 2015 (see https://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/saveselections.asp); while the rate for lone parents increased from 16.7 per cent to 23.9 per cent (see https://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/saveselections.asp). The rate for the state overall increased from 5.5 per cent to 8.5 per cent (see https://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/saveselections.asp).

the at-risk-of-poverty income threshold[20]. Figari *et al* in the UK found that the decline in income was lower for those already on low incomes, and particularly for those who live in a household with other family members in employment. This is likely to be the case in Ireland too, but the pattern of high jobless household numbers means that some groups not in the labour force are living in very low income households. While the payments can help to lift the unemployed out of poverty, nonetheless their poverty rates are much higher than for those at work.

Disability payments

As those with a disability have very high rates of consistent poverty (DEASP, 2018), as well as lower labour force participation and lower levels of education than the population as a whole (CSO, 2008), disability payments could be considered progressive as they redistribute income towards those with very low market income. However, the high rates of poverty for this group suggests that the adequacy of the payment could be better. The low rate of employment for people with disability in Ireland, compared to other countries, also suggests that the configuration of welfare and supportive services here is not adequate to assist them into employment (Make Work Pay, 2017).

Child benefit

Most international literature classifies all benefits and tax concessions which aim to specifically support families with children as child benefits (see Verbist & Van Lancker, 2015).[21] These benefits have an important role in reducing child poverty (OECD, 2018c), and Ireland is no exception. In fact, Ireland is one of the countries which spends the most on these benefits, and which sees one of the largest poverty reduction impacts from them. This can be linked to the inequality of pre-transfer income, which, as noted above, is particularly high in Ireland. Therefore it is necessary to spend more to reduce this inequality (Verbist & Van Lancker, 2015). Ireland's main child-related payments are a universal child benefit, as well as means-tested payments focused at low-income families.

Verbist & Van Lancker (2015), looking at child benefit payments[22] in 31 European countries in 2011, find that Ireland scores highly in the extent to which these benefit payments reduce horizontal inequity and vertical inequity among families with children. Horizontal equity involves compensating all families with children for the costs of rearing children, while vertical equity means redistributing income from wealthier households [with or without children] to poorer households with children. Ireland compensates for 52 per cent of the costs of rearing children, while reducing the child poverty gap by 82 per cent. Hungary, Austria, Germany and Luxembourg are

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[20] In 2017, SILC data shows that the equivalised at-risk-of-poverty income threshold was €12,521. In that year jobseeker's benefit and allowance for a single person was €10,036 over a year.

[21] This is a wider definition than the cash payment universally paid for all children in Ireland, which is called Child Benefit.

[22] They use SILC data, which classifies child-related allowances as child allowances, child benefits, child tax credits; birth, adoption and maternity grants; and parental benefits in some countries. It can also include income supports for lone parents.

the other countries which are best at reducing both dimensions of inequality through child related benefits. Spain and Greece have the poorest performance, under 10 per cent on each dimension. Ireland also performs best compared to the other European countries at reducing both dimensions of inequity for lone parents with one child. This can be related to the extent of market income inequalities in Ireland. Despite Ireland's success at reducing the level of market income poverty among lone parents through social transfers, their poverty rates are much higher than those of other groups, or other families with children in Ireland (DEASP, 2018). This can be related to the low number of lone parents in employment.

As universal child benefit is an important part of Irish support for children, wealthier members of society benefit from this also. Does the system remain progressive overall despite this? Verbist & Van Lancker (2015) argue that it is, but nonetheless, there have been many calls for more of the child support budget to be focused on low-income households. These arguments are outlined in the Integrated Income Support paper of this project.

1.8. Taxation and social transfers

The structure of taxation also helps to redistribute income from the better off to the less well off. Studies of equity in taxation consider how progressive and regressive taxes are. A progressive tax is one where the rate of tax paid increases with absolute income. This differentiates it from a regressive tax, where the rate paid (per unit of consumption, such as VAT of 20 per cent on an article) is the same irrespective of how rich or poor the consumer is. This means that the poorer a consumer is, the greater the proportion of their income they must pay. Hence, consumption taxes hit the poor harder than they hit the rich (Halliday, 2013). Other issues to consider in terms of taxation and redistribution are transitional equity, and inter-generational equity. The former relates to a situation where a more equitable tax system is introduced, but this entails some inequitable outcomes in the short-term. On the latter, inter-generational equity implies that each generation pays tax to cover their own costs, rather than borrowing to cover them, and leaving later generations to pay some of these costs. This is an issue in relation to social insurance funds, which typically work on a 'pay as you go' basis, as outlined in earlier papers for this project.

Some argue that progressive taxation discriminates against those who choose to work harder, as they will pay a higher rate of tax as they earn more (although they will still have greater income from the extra work). This can have a disincentive effect on employment, with many researchers arguing that it is better to have taxes on property and consumption, than on labour, for this reason (see e.g. O'Connor, 2013). Reducing employers' costs helps countries become more competitive and can boost job growth, which helps to contribute to Government revenue (Morel & Palme, 2019) – and pay for the costs of welfare. However, an advantage of progressive tax systems is that people consider them fairer, even when they have higher incomes and so pay higher amounts of tax. They contribute to better tax morale, i.e. propensity to pay tax rather than avoid it (see e.g. Doerrenberg & Peichl, 2010; Hennighausen & Heinemann, 2015). Other benefits of redistribution to ensure greater income equality were outlined in the introduction, including the benefits for GDP growth, health and well-being, and participation in voting.

The redistributive effect of a taxation system is clearly not the only issue considered in its design. A number of other issues are also relevant, including for example, the effects of taxation on economic growth, macro-economic stability, and flow of FDI. In terms of economic growth, it is better to tax property and consumption (including environmental spending) than income, to avoid negative impacts on job creation (Daly *et al*, 2009). Not surprisingly, it is challenging to balance all of these different issues in the design of a taxation system.

Taxation revenue comes from three main sources:

i. Direct Taxation, which is taxes on income and wealth, capital taxes;

ii. Indirect Taxation, which is taxes linked to production and imports, such as stamp duty, VAT, carbon tax; and

iii. Social Contributions, which are paid into social security funds or other social security schemes.

In 2017, compared to OECD countries on average, Ireland had higher revenues from taxes on personal income and corporate income, a lower proportion of revenue from social security, and an average revenue from payroll taxes; property taxes; value-added taxes; and goods & services taxes (excluding VAT) (OECD, 2018b) (see Appendix 2 for the breakdown of their relative importance). In the following sections, the role of personal income tax, PRSI, consumption taxes and state transfers on income inequality will be outlined. In section 1.9.5, the role of taxes on wealth and capital will be outlined.

1.8.1 Taxation of personal income, and progressivity

The Irish personal income tax system is very progressive, and in 2009 was the most progressive in the OECD, for personal income tax and social security contributions combined (Joumard *et al*, 2012). The average effective income tax rate[23] is 14.4 per cent on average, and ranges from 0.5 per cent for those in the first income decile, to 4.0 per cent for those in the fifth income decile and 24.5 per cent for those in the tenth income decile. The progressivity of the Irish income tax system is also confirmed by the contribution of these tax receipts by each income decile. In 2012, 59.3 per cent of income tax was paid by the top 10 per cent of tax units[24], which is significantly higher than their share of gross incomes, which was 37 per cent (Kennedy *et al*, 2016).

The Universal Social Charge (USC), which is a part of the personal tax system and was introduced in 2011 to help raise government income during the recession, also increases progressivity. The USC has three income bands for employees, corresponding to tax rates of 1 per cent, 3 per cent and 5.5 per cent respectively. Its tax base is also broader than the personal income tax base, allowing fewer tax

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23 Income tax paid as percentage of gross income.

24 Tax units in Ireland can be either an individual, or a married couple, as the latter can have their income jointly assessed for tax purposes.

allowances and no reduction arising from tax credits. The introduction of USC co-incided with many other financial difficulties for households, and so Government came under pressure to reduce it, which it did in 2016. However, the rates charged are still progressive.

Tax reliefs

Although overall income tax in Ireland is progressive, its progressivity is reduced in some cases by the use of tax reliefs. Tax expenditures - a term which covers tax reliefs, exemptions and credits - are used by the State to promote and to support certain desirable activities, both economic and social. These include, for example, boosting R&D spending to reach EU targets (through the R&D tax credit), job creation (Employment and Investment Incentive), renting rooms in one's home (Rent-a-Room scheme) and supporting the care of children (the home carer's tax credit). However, as noted by the Commission on Taxation (Daly *et al*, 2009), tax expenditures can lead to a lack of equity between different taxpayers, and have the potential to facilitate tax avoidance.

It is difficult to calculate the cost of tax expenditures, as many of the foregone expenditures have to be estimated. There are also different views as to what constitutes a tax expenditure. Therefore there are different estimates of their value in Ireland (Houses of the Oireachtas Committee on Budgetary Oversight, 2019). A comprehensive list from the Revenue Commissioners, including tax credits, shows that tax expenditures in total are worth an estimated €32 bn per year; but Collins, using a more restrictive definition centred on reliefs, estimates that they are worth €10 to €15bn a year; while Kennedy *et al* (2016), using a tighter definition again, estimates that they are worth €5bn a year.[25] However it is clear that, as tax expenditures usually apply to the marginal tax rate, they stand to benefit wealthier members of society to a greater extent (Jourmard *et al*, 2012). In fact, Avram *et al* (2014) finds that Ireland is one of the three countries in the EU where tax reliefs do most to increase inequality[26]. Kennedy *et al* (2016) estimated that 53 per cent of tax reliefs in Ireland accrue to the top 10 per cent of tax units. However this is a reduction from the Celtic Tiger period, as several reliefs have been abolished[27]. Since then, certain tax breaks available to high income earners have been further restricted, with a taper applying to individuals with income between €125,000 and €400,000. There is a full restriction on income in excess of €400,000. However, even though tax reliefs have been cut, and are not as favourable as they previously were, they still disproportionately benefit higher income earners. Among the top 10 per cent of tax units, 25 per cent of tax reliefs are used for retirement annuity premiums, and 18 per cent for assets sold at a loss, while business related tax reliefs account for 40 per cent of tax reliefs (Kennedy *et al*, 2016) (see Appendix 3 for further details). The Revenue

25 See https://www.revenue.ie/en/corporate/information-about-revenue/statistics/tax-expenditures/costs-expenditures.aspx, and https://data.oireachtas.ie/ie/oireachtas/debateRecord/committee_on_budgetary_oversight/2019-02-05/debate/mul@/main.pdf, downloaded 30 April 2019.

26 The other two are France and Belgium.

27 For example, mortgage interest tax relief is being phased out; section 23 reliefs on property purchase have been abolished; tax relief for health insurance can no longer be claimed at the higher rate; the amount of tax relief that can be claimed for pension contributions and lump sums has been reduced.

Commission estimates which are available suggest that while many of the tax reliefs, exemptions, credits and allowance availed of by individuals through the income and corporation tax systems were reduced between 2007 and 2015 (the latest year with most complete data), the total such expenditure in 2015 may be higher than that in 2007 – see table 6 below. While tax relief on pensions, housing and savings has been reduced, tax reliefs availed of through businesses have increased strongly to reach €14.3 billion in 2015[28]. The largest item here was capital allowances (€6.2 billion) up from €2.0 billion in 2007 and from €2.8 billion in 2014. The large increase in this item in 2015 probably reflects the changes that led to a massive jump in GDP in that year. This involved a large transfer of intellectual property to Ireland with an associated increase in profits, corporate tax and most likely capital allowances. The other large items here are relief from stamp duty that is provided on internal corporate restructurings (€3.0 billion in 2015) and allowance for losses (€2.8 billion in 2015) (see table 6 overleaf, and Appendix 3). The shift to business tax reliefs can be related to the Commission on Taxation (Daly *et al*, 2009) review of all tax expenditure, with the goal of moving it towards tax expenditure which would boost job and enterprise creation. However, this may disproportionately favour the self-employed (Kennedy *et al*, 2016).

NESC (2002) has noted that tax reliefs stimulate spending on private social protection, such as private pensions, and privately sourced health care. Morel & Palme (2019) argue that as some tax expenditures serve to subsidise different private schemes such as health or pension insurance, they should be counted as part of overall public social protection expenditure, even though they do not appear in traditional social protection accounting systems. They cite Howard (1997), who has referred to tax expenditures in the US as a sort of 'hidden welfare state'. There is evidence that this exists in Ireland, even though the size of tax reliefs on this expenditure has reduced somewhat since the Celtic Tiger years.

1.8.2 PRSI Payments and progressivity

Although PRSI is generally levied at a single rate of 4 per cent on gross income, PRSI data from DEASP shows that, overall, individuals in different income groups pay PRSI contributions proportional to their earnings. This is helped by the fact that those earning less than €352 per week do not pay an employee contribution, although their employer does pay a contribution for them. In addition, most PRSI employees with gross earnings between €352.01 and €424 have their contribution reduced by the tapered weekly PRSI Credit[29]. In 2010, the final income ceiling on PRSI contributions was lifted[30], which also helped payments become more progressive. Overall, payment of PRSI contributions up to and through the ninth decile is slightly

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28 Data on some of the largest business tax reliefs are not available for 2007 which means that there are not comparable figures on the total cost of business reliefs in 2007 and 2015.

29 At gross weekly earnings of €352.01, the maximum PRSI Credit of €12.00 per week applies. For earnings between €352.01 and €424 (sub-classes AX and AL), the maximum weekly PRSI Credit of €12.00, is reduced by one-sixth of earnings in excess of €352.01 (see https://www.welfare.ie/en/downloads/Advance-Notice-of-PRSI-Changes-For-Computer-Users-2019.pdf, downloaded 12 April 2019)

30 Earlier reforms had reduced income ceilings.

progressive (Kennedy *et al*, 2016), and the introduction of PRSI on non-earned income (e.g. rents, dividends) from 2016 on is likely to have ensured that this progression continues into the top income decile. Avram *et al* (2014) find that Ireland and Belgium's social insurance contributions do the most to vertically redistribute.

Table 6: Estimated costs of tax expenditures, allowances, credits, exemptions and reliefs

	2015	2007	% increase or decrease
	€m	€m	from 2007 to 2015
Business related tax reliefs	14406.9	3741.6	
Small business and farm related reliefs	249.8	5	*285*
Pension reliefs*	2180	2462.3	*4896*
Health insurance reliefs	639.3	529.6	*-11*
Reliefs related to housing *	313.7	763.1	*21*
Relief on savings	147.1	616.1	*-59*
Double Taxation Relief	1263.1	610.8	*-76*
Miscellaneous reliefs for individuals	94.4	168.3	*107*
Miscellaneous reliefs for individuals, related to work expenses	31.2	115.7	*-44*
Reliefs related to heritage & culture	103.3	70.7	*-73*
Reliefs for charities & sporting organisations	75.4	78.5	*46*
Other reliefs	40.9	20.5	*-4*
Credits available to all	7557.4	8493.1	*100*
Credits & reliefs related to care of a dependent person	357.7	426.4	*-11*
Reliefs from tax on social welfare payments	454.3	454.5	*-16*
TOTAL	27914.5	18556.2	*0*

* These sub-totals include some figures from 2012-2014, where 2015 data is not available

Source: Revenue Commissioners – raw data downloaded from https://www.revenue.ie/en/corporate/information-about-revenue/statistics/tax-expenditures/costs-expenditures.aspx, on 21 May 2019. Grouping of reliefs and credits carried out by NESC

1.8.3 Consumption taxes

Consumption taxes are usually regressive, as poorer households spend a higher proportion of their income than wealthier households (Joumard *et al*, 2012). VAT is the main indirect tax in Ireland, and accounted for 20 per cent of the tax take in 2017. Children's shoes and clothes, as well as many food items and oral medicines are zero-rated, but most items are taxed at the standard rate of 23 per cent. Examinations of expenditure on VAT by decile in both 2004-5 (by Leahy et al, 2011) and in 2009-10 (by Collins, 2014) show that the current Irish system of indirect tax is highly regressive. In 2009-10, households in income decile 1 spent 18 per cent of their equivalised gross income on VAT, compared to a spend of 4 per cent for decile 10. The average is 6 per cent. A similar pattern exists for other indirect taxes (excise, levies, etc). The increase in the standard VAT rate in 2012, from 21 per cent to 23 per cent, was also very regressive, with the lowest income deciles spending the largest proportion of their income on this increase, and the proportion of income spent decreasing with every decile31 (Leahy et al, 2011).

1.8.4 The combined effect of direct and indirect taxes

When indirect and direct taxes (excluding those on wealth) are combined, then it can be seen that the lowest income decile spends the largest proportion of their income on direct and indirect taxes, second only to the spend by the top income decile. The second income decile spends a greater proportion of income on taxes than the third, fourth or fifth deciles. While indirect taxes are very regressive, they are quite well balanced by direct taxes, which are very progressive, so that overall the picture is progressive, with the exception of the first and second deciles. However, for the lowest income quintile, means-tested benefits in Ireland provided about forty per cent of income in 2010 (Avram *et al*, 2014), which helps to counteract this. Table 7 below outlines the combined impact of direct and indirect taxes on different income deciles in Ireland in 2009-10.

Table 7: Direct, indirect & total household taxation as percentage of gross income, 2009-10

Decile	Total taxes (%)	Indirect taxes (%)	Direct taxes (%)	Average gross income (€) (year)	Average disposable income (€) (year)
1	30.64	29.93	0.72	9,887.07	9,857.22
2	18.34	17.85	0.49	15,827.24	15,705.14
3	16.66	15.66	1.00	22,778.14	22,504.19
4	16.82	14.20	2.62	29,453.52	28,657.26
5	17.03	13.05	3.97	36,642.36	34,932.42
6	19.95	12.57	7.38	45,789.52	41,877.58
7	21.20	10.53	10.67	57,111.53	50,720.53
8	23.74	9.62	14.12	71,410.42	61,771.73
9	25.77	8.50	17.27	92,095.61	76,843.40
10	29.69	5.70	23.99	154,966.77	119,459.85
State	*23.95*	*10.36*	*13.60*	*53,576.86*	*46,216.82*

Source: Collins, 2014; Collins, 2014b

31 The decrease in VAT for tourism-related goods and services, from 13.5 to 9 per cent, was found to be progressive. However, this lower VAT rate has now been abolished.

Overall, this shows the work done to ensure an equitable distribution of tax overall in Ireland.

1.8.5 Taxation of wealth

Taxes on wealth (CAT, CGT, LPT and stamp duty) currently make up a very small proportion of all tax paid in Ireland – 5 per cent in 2018[32] (see Appendix 2 for a breakdown of all tax paid). There is no wealth tax in Ireland, and tax on property is low. Property tax is set at just 0.18 per cent of the property value, per year, and the values on which they are based have not been updated 2013, despite significant property value inflation in the interim. However, this tax is only mildly progressive, in income terms, as property ownership is widespread throughout the income distribution, and very high for older people on pensions. In addition, property values do not rise quickly with income. Therefore increasing property tax at the current time would be regressive, in income terms (see O'Connor *et al*, 2016) – although not in terms of asset-holding. Increasingly, it is those on higher incomes who are able to afford to purchase a home, so there may be scope for property tax to increase without being regressive in income terms, in future. In addition, ownership of second homes rises sharply with income[33], so there may be scope for more progressive tax there. Some researchers have also suggested a tax on housing equity, which would mean reduced tax for those paying large mortgages, while gaining some state revenue from those who are in a better position to pay such tax, as they do not have high housing costs.[34]

Tax on capital gains and acquisitions are likely to be mostly paid by those with higher incomes and wealth, given that there is no capital gains tax on principal private residences, and that the holding of real estate (apart from the family home), shares and bonds is significantly higher among the top two income quintiles than it is among the lower income quintiles (CSO, 2015). In this sense, these taxes are progressive. Another benefit of Ireland's CAT structure is that it applies to gifts and inheritances received by an individual over their lifetime, and so reduces opportunities to avoid paying this tax by transferring assets before a person dies (see Roberts *et al*, 2018). CAT is, however, subject to large exemptions when wealth is inherited or gifted from parents and other close relatives. Currently an individual is able to receive gifts or inheritance worth just under a third of a million euros (€320,000) from a parent, without paying any tax on this amount[35]. However, the data outlined above shows that only those in the top quintile inherit an amount similar to this (on average their inheritance is worth €250,000), indicating that this element of the tax system is very

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[32] See *Revenue Headline Results 2018*, at https://www.revenue.ie/en/corporate/press-office/annual-report/2018/headline-results-2018.pdf. The percentages are based on all taxes collected by Revenue, including those collected by them for other organisations, such as LPT and PRSI.

[33] 33 per cent of those in the top income quintile own real estate apart from their own home, as do 16 per cent of those in the fourth income quintile. Only 6 per cent of those in the bottom income quintile own real estate apart from their own home (CSO, 2015).

[34] See https://www.irishtimes.com/business/economy/john-fitzgerald-how-increasing-property-tax-will-make-ireland-a-fairer-society-1.3436789, downloaded 31 May 2019

[35] See https://www.citizensinformation.ie/en/money_and_tax/tax/capital_taxes/capital_acquisitions_tax.html, downloaded 9 April 2019.

regressive. There may be an argument for taxing amounts over the average amount of inheritance received by the lowest income decile (€50,000)[36], even though this is also a high income transfer which many households do not benefit from. In addition, as wealth holding declines with the decrease in home ownership among lower income earners (see NESC, 2014), inheritance is likely to increasingly benefit those with already high incomes and access to wealth.

A number of authors have noted that while wealth distribution has become more unequal over the past thirty years in particular, taxes on wealth have declined, with capital often also taxed at flat rates (and so less progressive). Piketty (2014), for example, has shown that as the rate of return on capital now exceeds economic growth, wealth inequality is able to increase, and hence income from capital becomes more concentrated; and he recommends that governments adopt a tax on wealth (at a global level) to prevent growing inequality contributing to economic and/or political instability. Looking at wealth in OECD countries, Bogliacino & Maestri (2016) argue that Ireland (along with other countries) is moving from being a country with low wealth and high income inequality, to one of high wealth and high income inequality. They argue that taxes should be increased on wealth to combat this pattern internationally. A recent IPPR paper on distribution of wealth in the UK has argued that wealth transfers, including inheritance, be taxed under the income tax schedule after provision of a lifetime allowance of £125,000 for gifts and inheritances, to avoid it being regressive. It also recommended that dividends and capital gains should be treated in the same way as other income in the income tax system. In Ireland earned income and income from capital (e.g. dividends, rents) are taxed at the same rates. However, capital gains and capital acquisitions are not taxed at the same rate as income, with the rate of tax on capital gains and acquisitions, at 33 per cent, lower than the tax paid on higher incomes (40 per cent income tax, and 52 per cent when USC and PRSI are included). Taxing capital gains and acquisition at a lower rate than other income enables wider inequalities of income between those with capital and those without.

Cingano (2014) also recommends that governments re-examine their tax systems to ensure that wealthier individuals contribute their fair share, through for example raising marginal tax rates on the rich, improving tax compliance, eliminating or scaling back tax reliefs, and reassessing taxes on all forms of property and wealth, including the transfer of assets. Iosifidi & Mylonidis (2017) have found that a 0.1 per cent absolute increase in the ratio of labour to capital taxes is correlated with a 0.5 per cent rise in inequality, and so better balancing of the taxation of wealth and capital versus income could promote equality, and therefore GDP growth.

Another reason to rebalance the relative taxation of income and wealth is that the unequal tax treatment of income from different types of assets can distort the allocation of capital (Cingano, 2014). Reasons for this are that the wealthiest are less likely to consume extra income and so put it back into the economy, but instead are likely to reinvest it in the accumulation of extra wealth. This wealth is increasingly

[36] Except in the case where the person inheriting is living in this property and has no other home.

derived from and generating economic rents, e.g. from assets such as property, rather than profits in the traditional sense, e.g. from manufacturing and other productive activity. Such investment frequently does not support productive economic activity, but instead drives up the price of assets, leading to increasing returns to capital (see Roberts *et al*, 2018; Mazzucato, 2018). Roberts *et al* (2018) also argue that fairer taxation of income from wealth is also increasingly necessary in the context of swift technological change.

In addition, Roberts *et al* (2018) recommend that business rates be replaced with a land value tax, and that opportunities to avoid tax are removed. On a land value tax for businesses, they argue that this would support productive investment and capture some of the unearned windfalls from ownership of land, as well as reducing the incentive to speculate on it. It could also help disadvantaged regions with lower land values become more attractive locations in which to do business. Exempting the first £20,000 per hectare would also mean that most low value agricultural land would not be negatively affected. NESC (2018) also pointed out that a land or site value tax has several advantages. NESC envisaged that this would be an annual tax on property excluding the value of buildings; it would apply to developed land, derelict land, vacant land and zoned sites but not agricultural land.

On removing opportunities to avoid tax, this could be helpful in Ireland also. As outlined earlier, it is estimated that at least €5bn in tax revenue is forgone due to tax reliefs, credits, exemptions and allowances in Ireland, and while much of this supports useful activity, it can lead to less equity between tax-payers.

Roberts *et al* (2018) also recommend mechanisms to reduce wealth inequality before redistributive taxes and benefits, such as affordable housing, employee ownership and more co-operative businesses, and a Citizen's Wealth Fund[37].

1.9. The interaction of tax, benefits and employment

As noted above, Ireland's progressive income taxation helps counteract the strong inequality in market incomes. However, a negative side-effect of progressivity can be a disincentive to increase work due to high marginal tax rates (Kennedy *et al*, 2016). Ireland has a lower income tax rate of 20 per cent applied on all income up to a band threshold, with income over this taxed at a higher rate of 40 per cent. This results in those on 50 per cent and 67 per cent of average earnings in Ireland having the lowest tax rate in the European Union (European Commission, 2018:32)[38], but it also means there are high marginal tax rates at relatively low income levels. Marginal

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[37] This would be similar to a sovereign wealth fund, owned by citizens and funded by tax investment, particularly on wealth. It would allow all citizens to receive £10,000 at the age of 25, to invest in items such as housing, education, etc. See https://www.ippr.org/news-and-media/press-releases/give-10-000-universal-minimum-inheritance-to-all-25-year-olds

[38] This data refers to single people without children, but is likely to be similar or better for families with children.

tax rates jump up in Ireland for an individually assessed taxpayer at three different stages, which are outlined in table 8.

When combined these rates kick in early in the income spectrum. The combined impact of USC, income tax and PRSI at rates of 4.5 per cent, 20 per cent and 4 per cent respectively, result in a marginal tax rate of up to 28.5 per cent up until €35,300. At this stage, the higher rate of income tax commences and the marginal tax rate becomes almost 48.5 per cent. At €70,044 the higher USC rate of 8 per cent kicks in and the top marginal tax rate of 52 per cent for employee income applies.[39]

This relatively high top marginal tax rate in Ireland is also reached at a low point in the income distribution by OECD standards. In 2014, the point at which Irish tax payers begin paying the top marginal tax rate of 52 per cent was the average wage, compared to just over five times the average wage for the OECD as a whole (see O'Connor *et al*, 2016). This occurs due to the State's desire to have a progressive tax system, but in a country in which the wage distribution is very skewed. The incidence of low pay in Ireland (i.e., the percentage of households earning less than two-thirds of median earnings) is the third highest in the OECD at 23 per cent. This, combined with the tax credits which reduce tax payments for low income households, means that there is a narrow base of households to tax, hence the pressure to increase tax relatively quickly. High marginal tax rates are argued to penalise economic growth especially in the medium term as they reduce the incentive to work and/or to progress and can induce tax avoidance behaviour (see O'Connor *et al*, 2016). However, in Ireland currently economic growth and job creation are both high while marginal tax rates are high. Goldrick-Kelly & McDonnell (2017) show that the research outcomes from models linking economic growth and taxes can be ambiguous.

In addition, looking at the marginal tax rate is only one way of assessing the burden of tax. The data outlined in Table 7 shows that the actual spend in income deciles 2 to 10 on all direct and indirect taxes, was between 18 and 30 per cent of gross income in 2009-10[40]. For income tax, the spend ranged between 0.49 per cent of gross income in decile 2, to 24 per cent in decile 10. Looking at net income in terms of Purchasing Power Parity in 2016, the OECD also found that this net income in Ireland was well above the EU and OECD averages, for every combination of wage and family type that the OECD modelled (see OECD, 2017). In addition, countries with higher tax burdens generally have more generous welfare states. Multiple trade-offs come to the fore when deciding on income tax policy.

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39 For those with self-employment income over €100,000, there is an additional USC rate of 11 per cent, resulting in a top marginal tax rate of 55 per cent

40 This data is taken from the Household Budget Survey of 2009-10.

Table 8: Income levels at which different tax rates become payable in Ireland (annual gross income)

PRSI—rate	***Payable at***	**USC rate**	***Payable at***	**Income tax rate**	***Payable at***
4% (tapered rate)	€18,304[41]	0.5%	€1	20%	€16,500*
4% (full rate)	€22,048	2%	€12,012	40%	€35,300
		4.5%	€19,874		
		8%	€70,044		
		11%[42]	€100,000		

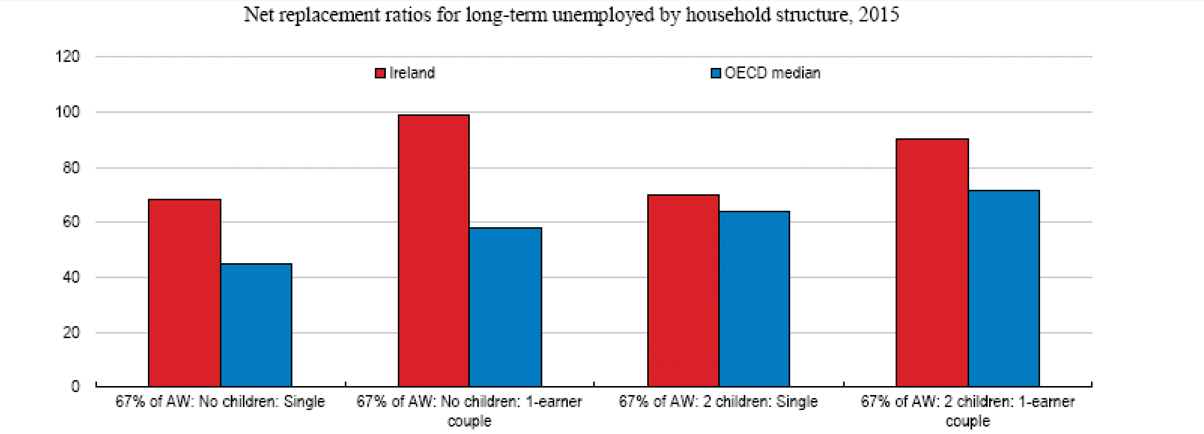
* for a single person with no children – the amount would vary depending on the tax credits which apply to an individual

Changes to tax credits during the 2000s reduced the disincentive for lower income earners to work, and it is only for a very small number that replacement rates are poor (Callan *et al*, 2016). In 2014, it was estimated that 28.2 per cent of the unemployed had a replacement rate of more than 70 per cent; and 21.4 per cent had a replacement rate of more than 80 per cent. Therefore, more than 7 out of 10 unemployed individuals have a replacement rate of less than 70 per cent, and on average they would see their incomes rise by at least 43 per cent if they were to obtain a job. The OECD (2018) noted that some aspects of the Irish social welfare system may still disincentivise labour market participation for unemployed persons with a spouse and children, particularly those who are low-paid. Savage et al (2015), using a nationally representative sample to model incentives to work for different groups, found that 44 per cent of the unemployed with children faced replacement rates of over 70 per cent. However, they also found that over three quarters of all those with very high replacement rates (over 90 per cent) were in employment. Figure 2 below outlines replacement rates for different types of Irish households, compared to the OECD median.

41 This rate is actually payable once a person earns €352 per week, but is annualised for comparative purposes here.

42 This rate applies to the self-employed only

Figure 2: Net replacement ratios for long-term unemployed by household structure, 2015, Ireland and the OECD



Note: Net replacement rates show after-tax benefits as a proportion of the previous earnings. These benefits include social assistance, family and housing benefits in the 60th month after losing a job. 67% of AW refers to previous earnings equivalent to 67% of average wage. For married couples the percentage of average wage relates to the previous earnings of the "unemployed" spouse only; the second spouse is assumed to be "inactive" with no earnings and no recent employment history.

Source: OECD, 2018.

Another issue is that a number of supports for the unemployed are withdrawn completely once there is a change in circumstance or level of income. For example, rent supplement, is completely withdrawn once a household works more than 30 hours in a week. A number of childcare supports are also withdrawn once a parent moves into employment. Savage *et al* in 2015 found that the strongest disincentive for an unemployed person was moving from part-time to full-time work, as several of these benefits would be withdrawn. However, there have been efforts since to taper withdrawal of benefits, with the introduction of HAP (the Housing Assistance Payment) where the recipient pays a rent linked to their income; the National Childcare Scheme, where again the level of support is linked to income and reductions are tapered; and the Back to Work Family Dividend, which provides parents moving into work with an extra welfare payment for two years.

The treatment of income can also result in increases in market income being fully offset by a reduction in social welfare payments. For example, in the case of disability allowance, any earnings in excess of €350 per week are fully assessed as means, so that any increase in earnings is fully offset by a loss in disability allowance. Another example is a person in receipt of a means-tested payment who has their benefit withdraw, euro for euro, against income from renting a room in their home, even though this income is tax-free if it is under €14,000 per year (and there is a severe shortage of housing in urban areas). Only those on non-contributory pension or non-contributory widow's pension, who would otherwise be living alone, will not have this assessed as means against their pension while benefiting from the rent a room tax relief.[43] There are disincentives to have savings above certain thresholds. In the case of a person on jobseeker's allowance, savings above €20,000 are treated as generating income at a rate of from 5 to 20 per cent and the payment is then reduced in line with this assumed income. It is possible that a more tapered system of income withdrawal might provide more incentive to be in employment or progress in employment.

1.10. Summary and conclusions

This section summarises the key issues raised in this paper, and suggests a number of implications for social insurance, welfare and taxation, which the Council can discuss. The issues and implications are:

- Market income inequality in Ireland is very high, so the system of taxation and transfers does a lot of work to bring post-transfer income down to a figure close to the OECD median.
- Since the 1970s, market income inequality in many developed countries has increased, so their tax and transfer systems have had to work increasingly hard to maintain levels of disposable income inequality.
- In Ireland, disposable income inequality has not increased overall since the late 1980s, which can be related to a series of deliberate policy choices.
- In high income countries such as Ireland, less income inequality correlates with higher GDP growth. This provides a strong economic argument for continuing the redistributive work of Ireland's tax and transfer system. There also social and political arguments for this.
- Inequalities in wealth are higher than inequalities in income, in Ireland and internationally. Existing data suggests that these inequalities are increasing here. This has implications for social stability, and in the longer term for economic growth.
- A number of researchers have argued for higher taxes on wealth (e.g. that these taxes should be at the same rate as those on earned income), and the removal of tax reliefs, to ensure that a fair proportion of income gained from wealth is put to productive use in society, and that inequalities in wealth, income, education and affordable housing do not continue to grow. Other options suggested include taxing income from capital (including inheritance/gifts and wealth) at the same rate as income from employment.
- Tax revenue has traditionally been used to part-finance social insurance funds. The analysis in this paper does not suggest that this should cease. Taxation

[43] See https://www.citizensinformation.ie/en/housing/owning_a_home/home_owners/rent_a_room_scheme.html, downloaded 30 May 2019

income draws from a wider base than social insurance income, and in Ireland is progressive. This assists the redistributive function of PRSI.

- The analysis in this paper shows that the vast majority of people gain almost all their income from employment, and when employment is lost, there can be a significant drop in income for almost all households affected. Households headed by an unemployed person or a lone parent (who have very low employment rates) have the highest poverty rates, the lowest savings and the least net wealth to draw on. Younger people and those with post-graduate degrees also have low savings and net wealth (relative to older people and to the State median) to see them through a period of job loss. The loss of income is particularly high for dual earner couples when they are unemployed. For these reasons, it does not seem useful to apply means-testing to a social insurance payment such as jobseeker's benefit. To help financially sustain the social insurance fund, instead those who are able to rely on income sources apart from employment, such as capital, could contribute more to the PRSI fund through higher taxation on their capital income.
- Inequalities in income and wealth can be counteracted through access to quality services. Increased services could be funded through taxes on wealth, as well as redistribution through the tax system.
- The Deaton Review of Inequality in the UK plans to assess the relative contribution of the different forces impacting changes in wage equality over time. They note that a variety of policy responses may be appropriate depending on what forces shape inequality in income in the UK. Responses may be required in a range of policy areas, from income transfers to labour market policy, education and skills policy, competition policy, and ownership structures and regulations (Joyce & Xu, 2019).
- The role of education and skills acquisition in Ireland appears particularly important, as greater equality in levels of education is linked with higher GDP growth in high-income countries. In Ireland, the gap in education between advantaged and disadvantaged groups has declined over the last 30 years, but the gap is still very large.
- Those with lower education have much lower employment rates than those with higher levels of education (see paper on gender, class and family for this project). Better educational outcomes and skills acquisition could increase employment rates and so reduce pressure on the social insurance and assistance schemes. There is role here for supports through the public employment service, as well as through skills acquisition in the further and higher education sectors.
- The links between employment and income underline the importance of good quality jobs with good wages (stressed in earlier papers for this project), which can support income and wealth equality.
- As some of the low pay in Ireland can be linked to employment in indigenous companies with lower productivity, current work to increase that productivity should continue and expand.

- Some groups continue to have much higher poverty rates than average (e.g. lone parents, children, people with a disability), and work to address this needs to continue.
- Ireland should measure the Gini co-efficient both before and after housing costs, for both urban and rural areas as in Northern Ireland, due to the impact of increased housing costs on disposable income. Not including housing costs may give an unrepresentative picture of income equality across deciles, and so lead to adoption of policies which do not have the intended impact.
- It would also be useful to assess wealth accumulation by different groups in Ireland, its costs and benefits to society, and optimal taxation of it.

Appendix 1

Key social transfer payments in Ireland

- Old age – State Pension (Contributory or Non-Contributory), as well as occupational pensions, foreign pensions;
- Widow(er)s – payments to surviving spouses / civil partners (Widow / Widower or Surviving Civil Partner Contributory or Non-Contributory pension; Widowed Parent / Surviving Civil Partner Grant, Death Benefit);
- Lone parent – One Parent Family Payment, Jobseeker's Transition;
- Child – child-related payments (Child Benefit, Maternity and Adoptive Benefit, Health and Safety Benefit, Guardian's Contributory and Non-Contributory Payment, Back to School Allowance);
- Disability-related – payments to people with a disability and carers (Illness Benefit, Invalidity Pension, Disability Allowance, Injury Benefit, Blind Pension, Respite Care Grant, Carer's Benefit, Carer's Allowance, Disablement Benefit, Constant Attendance Allowance);
- Unemployment – (Jobseeker's Benefit, Jobseeker's Allowance, statutory redundancy payments);
- Employment support payments (Family Income Supplement, Farm Assist, Back-To-Work Enterprise Allowance, Back-To-Education Allowance);
- Extra Benefits – (Fuel Allowance, imputed value of free schemes such as Electricity/Gas/Telephone/TV Licence Allowance);
- Supplementary welfare - Supplementary Welfare Allowance;
- Housing-related – (Rent Supplement, RAS, HAP);
- Grant-related (education and training grants).

Source: Watson & Maitre (2013).

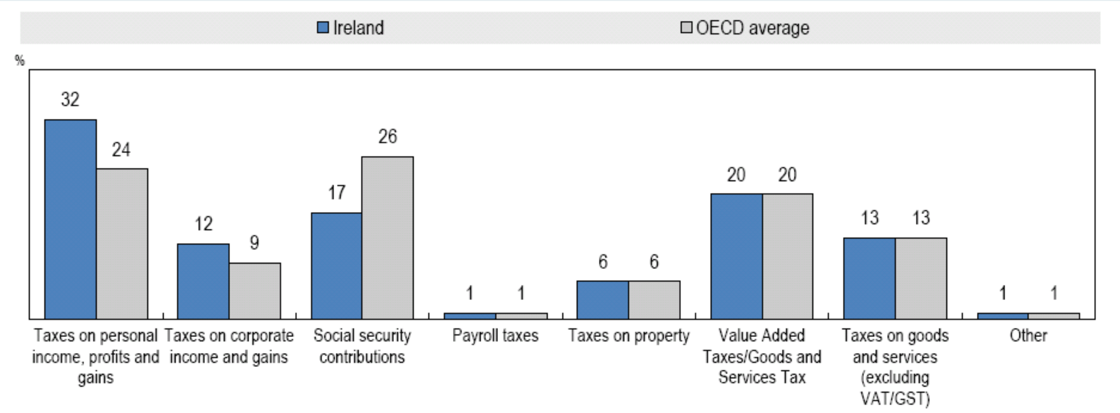
Appendix 2

Table A1: Details of taxes paid in Ireland in 2018

	€m	% of all taxes paid
Customs	333	0.5
Excise	5418	8
Capital Acquisitions Tax (CAT)	522	1
Capital Gains Tax (CGT)	994	1
Stamp Duty	1453	2
Income Tax (including USC)	21242	31
Corporation Tax	10385	15
Value Added Tax (VAT)	14234	21
Pay Related Social Insurance (PRSI)	11212	16
Local Property Tax (LPT)	482	1
VAT Mini One Stop Shop (MOSS) Scheme	1049	2
Health Insurance Levy	738	1
Insurance Compensation Fund	69	0.1
TOTAL	68131	100

Source: Revenue Headline Results 2018, downloaded on 15 May 2019 from https://www.revenue.ie/en/corporate/press-office/annual-report/2018/headline-results-2018.pdf

Figure A1: The tax structure in Ireland and in the OECD, on average, 2016



Source: OECD, 2018b.

Appendix 3

Table A2: Costs of tax expenditures allowances , credits, exemptions and reliefs, Ireland, 2007 and 2015

	2015 €M	2007 €m
Business related tax reliefs		
Approved Profit Sharing Schemes *	44.7	107.6
Approved Share Option Schemes	N/A	3
Exemption of Irish Government Securities Where Owner Not Ordinarily Resident in Ireland *(17)	607.6	240.8
Employment and Investment Incentive (EII)	22.2	N/A
Investment in Corporate Trades (BES)	N/A	17.5
Savings Related Share Option Schemes *	3.5	11.9
Employee Share Ownership Trusts *	1.7	4.7
Losses (including Capital Allowances brought forward from earlier years)	2784.4	N/A
Effective Rate of 10% for Manufacturing and Certain Other Activities		406.9
Research & Development Tax Credit	707.9	165.6
Capital Allowances Used (Total) * (8)	6217	2019.2
Capital Allowances Used (Energy Efficient Capital Allowance only)	1.1	N/A
Business Relief (11)	86.9	N/A
Certain Company Reconstructions and Amalgamations (12)	68.4	N/A
Intragroup Transactions (13)	2977.8	N/A
Exemption of employers' contributions from employee BIK (4)	559	510
Group Relief (15)	254.1	254.1
Commercial Woodlands	48.8	N/A
Touring Coaches	6.3	N/A
Revenue Job Assist allowance	0.3	0.3
Business related tax reliefs subtotal	***14391.7***	***3741.6***

	2015 €M	2007 €m
Small business and farm related reliefs		
Start Up Refunds for Entrepreneurs (SURE)	1.8	2.3
Start Up Relief	4.8	N/A
Start your Own Business Relief (Section 472AA)	15.2	
Exemption of Income arising from the Provision of Childcare Services	1.4	0.7
Stock Relief (for Registered Farm Partnerships) (S667C)	0.1	N/A
Stock Relief (for Young Trained Farmers) (S667B)	1.4	N/A
Stock Relief (General) (S666)	6.1	2
Exempt Rental Income from Leasing of Farm Land	13.9	
Agricultural Relief	215	N/A
Certain Family Farm Transfers	0.1	N/A
Young Trained Farmer	5.2	N/A
Small business and farm related reliefs Subtotal	***265***	***5***
Double Taxation Relief (includes Additional Foreign Credit)	1263.1	610.8
Pension reliefs		
Approved Save as You Earn Schemes (SAYE)		
Employees' Contributions To Approved Superannuation Schemes (4)	580.6	543.3
Employers' Contributions To Approved Superannuation Schemes (4)	147	120
Exemption of Investment Income and Gains of Approved Superannuation Funds (4) * **(2013 data)**	*865*	1200
Pension Contribution (Retirement Annuity and PRSA)	215	
Personal Retirement Savings Accounts **(2012 data)**	68.9	61.1
Retirement Annuity Premiums **(2012 data)**	168	407.9
Tax Relief on "tax free" lump sums (4) **(2014 data)**	134	130
Retirement Relief for certain Sports Persons	0.5	0.2
Pension reliefs Subtotal	***2178.5***	***2462.3***

	2015 €M	2007 €m
Reliefs on savings		
Exemption of Interest on Savings Certificates, National Instalment Saving & Index Linked Savings Bonds	145.2	130.3
Special Savings Incentive Scheme	N/A	438.9
Interest paid: Other (5)	1.9	46.9
Relief on savings Subtotal	***147.1***	***616.1***
Health insurance reliefs		
Contributions Under Permanent Health Benefit Schemes, after Deduction of Tax on Benefits Received	3.8	3.6
Health Expenses (Nursing Homes + Others) (16), (18)	155.1	225.7
Health Expenses (Nursing Homes)	30.4	
Health Expenses (Other)	124.8	
Medical Insurance Premiums (3)	325.2	300.3
Health insurance reliefs Subtotal	***639.3***	***529.6***
Reliefs related to housing		
Home Renovation Incentive Scheme (10) (2014 data)	21.4	N/A
Rent a Room	6.9	4.7
Rent Paid in Private Tenancies	21.4	82.1
Rented Residential Relief Section 23 (9)	N/A	133.6
Housing Authorities and Affordable Homes Partnerships	1	N/A
Interest paid: Loans relating to Principal Private Residence	232.4	542.7
Dwelling House Exemption	52	N/A
Reliefs related to housing Subtotal	***335.1***	***763.1***

	2015 €M	2007 €m
Miscellaneous reliefs for individuals		
Allowable Expenses	81.5	69.8
Third Level Education Fees	12.9	18.1
Trade Union Subscriptions	N/A	20.7
Service Charges	N/A	59.4
Relief for New Shares Purchased by Employee	N/A	0.3
Miscellaneous reliefs for individuals Subtotal	***94.4***	***168.3***
Miscellaneous reliefs for individuals, related to work expenses		
Allowance for seafarers	0.3	0.3
Amounts Made as Compensation for Loss of Office	N/A	27.8
Special Assignee Relief Programme (SARP)	9.5	N/A
Diplomatic Personnel	2.4	N/A
Exemption of Statutory Redundancy Payments (7) *	19	87.6
Miscellaneous reliefs for individuals, related to work expenses Subtotal	***31.2***	***115.7***
Reliefs for charities & sporting organisations		
Donations to Approved Bodies	38.1	47.6
Exemption of Income of Charities, Colleges, Hospitals, Schools, Friendly Societies, etc. (6) (2013 data)	33	30.3
Charities	2.9	N/A
Approved Sports Bodies	0.5	N/A
Donations to Sports Bodies	0.4	0.4
Water Rescue Craft and Equipment	0	N/A
Air Navigation Services	0	N/A
Retirement Relief for certain Sports Persons	0.5	0.2
Reliefs for charities & sporting organisations Subtotal	***75.4***	***78.5***

	2015 €M	2007 €m
Reliefs related to heritage & culture		
Donation of Heritage items	1.8	5.3
Donation of Heritage Property to the Irish Heritage Trust	0.9	1.9
Relief for expenditure on significant buildings and gardens	2.2	5
Exemption of Certain Earnings of Writers, Composers and Artists	10.8	27.4
Investment in Films *	87.6	31.1
Reliefs related to heritage & culture Subtotal	***103.3***	***70.7***
Other reliefs		
Foreign Earnings Deduction (FED)	3.2	N/A
Consanguinity	6.8	N/A
Miscellaneous Instruments	0.1	N/A
Oireachtas Funds	2.3	N/A
Property Transfer Between Spouses	10.5	N/A
Property Transfer Between Spouses on Foot of Court Orders	0.8	N/A
Dispositions (Including Maintenance Payments made to Separated Spouses)	17.2	20.5
Other reliefs Subtotal	***40.9***	***20.5***
Reliefs available to all		
Employee (PAYE) Credit	3004.1	3153.1
Single Person's Credit (2)	1899.8	2392
Married or a Civil Partners Person's Credit (2)	2467.4	2776.7
Widowed Person or Surviving Civil Partner Credit (2)	186.1	171.3
Reliefs available to all - SUBTOTAL	***7557.4***	***8493.1***

	2015 €M	2007 €m
Reliefs related to care of a dependent person		
Additional Bereavement Credit to Widowed Parent or Surviving Civil Partner (2)	5	6.6
Additional Credit for Incapacitated Child	66.7	31.4
Additional Credit to Widowed Person or Surviving Civil Partner in Year of Bereavement (2)	3.9	4.8
Additional Personal Credit for Lone Parent	N/A	199
Age Credit	63.1	33.7
Age Exemption with child addition (1)		76
Single Person Child Carer Tax Credit	89.9	N/A
Blind Person's or Civil Partners Credit (incl. Guide Dog Allowance)	2.3	0
Dependent Relative Credit	2	1.8
Person Taking Care of Incapacitated Taxpayer	8.2	4.6
Foster Care Payments	30.8	N/A
Homecarer Credit	60.9	68.5
Disabled Car Drivers	5.5	N/A
Donated Medical Equipment	0.7	N/A
Disabled Equipment	4	N/A
Disabled Vans Drivers	0.1	N/A
Disabled Car Passengers	14	N/A
Disabled Vans Passengers	0.5	N/A
Disabled Car Organisation	0.1	N/A
Disabled Vans Organisation	0	N/A
Reliefs related to care of a dependent person Subtotal	***357.7***	***426.4***

	2015 €M	2007 €m
Reliefs from tax on social welfare payments		
Exemption From Tax of Certain Social Welfare Payments: Child benefit *	454.3	355
Exemption From Tax of Certain Social Welfare Payments: Early Childcare Supplement	N/A	84.3
Exemption From Tax of Certain Social Welfare Payments: Maternity allowance (14)	N/A	15.2
Reliefs from tax on social welfare payments Subtotal	***454.3***	***454.5***

Source: Revenue Commissioners – raw data downloaded from https://www.revenue.ie/en/corporate/inforamtion about revenue/statistics/tax-expenditures/costs expenditures.aspx, on 21 May 2019. Grouping of reliefs carried out by NESC

Notes: Explanation of notes available at https://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/costs-tax-expenditures-notes.pdf, downloaded 21 May 2019. Figures accompanied by an asterisk (*) are particularly tentative and subject to a considerable margin of error.

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