Review of the Universal Social Charge

November 2011

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Chapter 1 - Introduction

I. Introduction

The Programme for Government committed to reviewing the USC. The Minister for Finance agreed that the Terms of Reference for the Review would be:

Terms of Reference
To review the Universal Social Charge with special regard to its impact on:
- The lower paid;
- Persons over 65s;
- Medical Card Holders;
- Widows / Widowers;
- Self employed – higher rate;
- Public Service pensioners;
- Employer contributions to PRSAs; and,
- Any other issues (including any operational issues that have arisen in the administration of the charge).

The Review examines the charge, its coverage and issues that have been brought to the fore as a result of representations. It also costs options for changes. However, as the USC raises €4 billion in a full year, it is imperative that under the constraints of the EU/IMF Programme, any changes which reduced the tax yield would have to be compensated for by either raising other revenue through the tax system or reducing expenditure further so that the Government deficit targets can be met.

II. Background

The Universal Social Charge (USC) was introduced in Budget 2011 and replaced the Income and Health Levies. By 2010 almost half of income earners were not liable to income tax. The structures of the Income and Health Levies and PRSI were over-complex and relied on a narrow base which differed for each charge. In addition, the interaction of the levies and, to a lesser extent, PRSI with Income Tax, created a number of anomalies which discouraged employment and did not fully reflect the differences in gross incomes. Therefore, the main reasons for introducing the USC were as follows:

- To broaden the Tax Base
- To simplify the Taxation Structure
- To remove Poverty Traps
- To create a sustainable and efficient charge
- To increase tax yield

III. Structure of the USC

The Universal Social Charge applies from 1 January 2011 at the following rates:
- 2% on the first €10,036 (€193 per week)
- 4% on the next €5,980 (€193.01 to €308.00 per week) and
- 7% on the balance.

A concession for medical card holders and an additional higher rate of USC on self-employed income were introduced in Finance Act 2011 and applied from 1 January 2011. These are transitional arrangements until the end of 2014.

For income earners aged 70 years and over or with an entitlement to a full medical card the USC is applied at the following rates:

- 2% on the first €10,036 (€193 per week)
- 4% on the balance.

For self-employed income earners the USC is applied on self-employed income at the following rates:

- 2% on the first €10,036
- 4% on the next €5,980
- 7% on the next €83,984
- 10% on the balance

Payments from the Department of Social Protection such as the contributory and non-contributory State pension are exempt from the USC. Also, where an individual's total income which is chargeable to the USC, is below €4,004 in a year of assessment, the USC does not apply.

Table 1.1 - Summary of USC Rates

PAYE Income earners	Over 70's and Medical Card Holders	Self-Employed
0% < €4,004	0% < €4,004	0% < €4,004
2% €0 - €10,036	2% €0 - €10,036	2% €0 - €10,036
4% €10,036 - €16,016	4% > €10,036	4% €10,036 - €16,016
7% > €16,016		7% €16,016 - €100,000
		10% > €100,000

Yield

The USC yield is expected to be €4 billion in a full year.

Base Broadening

By Budget 2010, the tax base for income tax had narrowed to an unsustainable extent and the numbers exempt from income tax had grown (see figures below). The USC was introduced partly to address this issue.

Table 1.2 – Distribution of Income Earners

	Exempt (standard rate liability fully covered by credits or age exemption limits)	Paying tax at the standard rate * (including those whose liability at the higher rate is fully offset by credits)	Higher rate liability NOT fully offset by credits	Total
2004	680,750 33.8%	873,700 43.4%	459,250 22.8%	2,013,700
2011 on a pre-budget basis	975,600 43.9%	930,400 41.8%	318,800 14.3%	2,224,800

It is estimated that approximately 514,000 more income earners will be paying the USC in 2011 than has paid the Income Levy or Health Levy. The breakdown is as follows:

- The estimated number of income earners paying the Health Levy in 2010 was 989,000.
- The estimated number of income earners paying the Income Levy in 2010 was 1,469,000.
- The estimated number of income earners paying the USC in 2011 is 1,984,000

The USC operates on a much wider income base than income tax. It applies to all taxpayers and the scope, for example, for the wealthy to avoid the charge through large contributions to pension funds is not available. Also, for example, there are no exemptions for income from forestry, mining, patent royalties or artistic pursuits. Passive investors cannot reduce their liability to it through capital allowances.

Given the width of base and its simple structure, the USC is an efficient charge. A one percentage point increase on the USC rates will yield €780 million in a full year. To raise the same through the income tax system would require a two percentage point increase on the standard rate or a four percentage point increase on the higher rate or a combination of both.

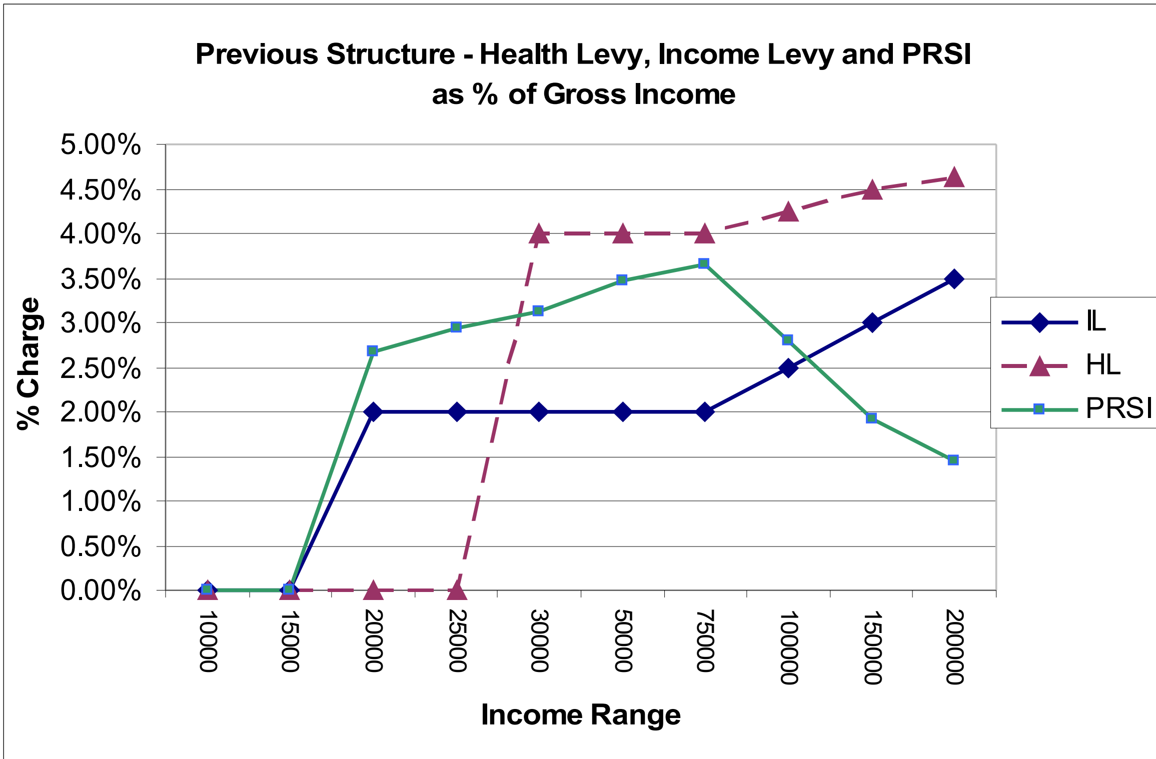
Removal of Poverty Traps and Simplification of Structure

One of the distortionary effects of the Health Levy was caused by its very high entry point. Income earners did not pay the Health Levy until their income exceeded €26,000 per annum (€500 per week) and then they paid Health Levy on their entire income. This is known as a "step". The doubling of the Health Levy in 2009 exacerbated the effect of this "step". The "step effect" resulted in an anomalous situation where individual earning €25,500 per annum could receive a pay rise of €1,000 per annum but receive a lower net pay. This sudden liability to a charge can lead to "poverty traps" which can discourage people from working, taking on extra work or progressing in their place of work.

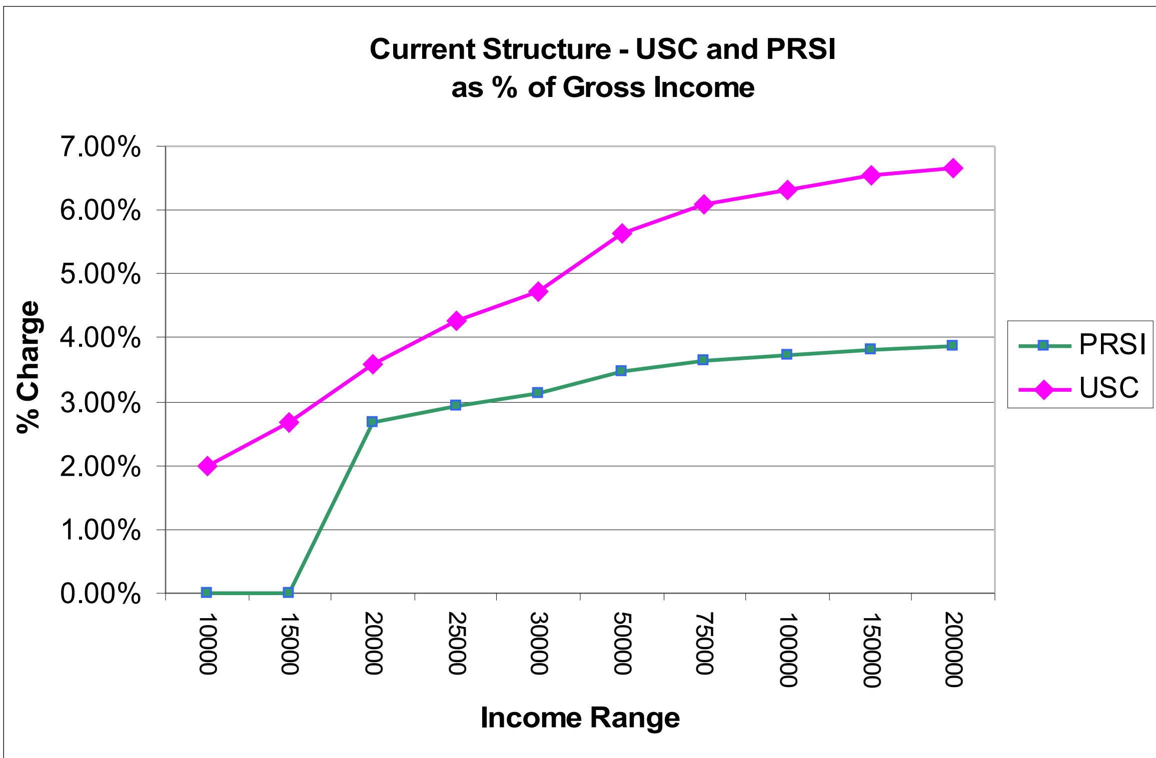
Table 1.3 - 2010 Income Tax, PRSI, Health Levy and Income Levy

Gross Income	Income Tax	PRSI	Health Levy	Income Levy	Net Income	Effective Tax Rate
€25,500	€1,440	€756	€0	€510	€22,794	10.6%
€26,500	€1,640	€796	€1060	€530	€22,474	15.2%

There was also a "step" in the Income Levy at €15,028. The irregular nature of these levies together with PRSI is demonstrated in the following graph.



The USC is designed to apply across income levels in a smoother progression while also addressing the irregularities caused by the 'steps' in the levies and PRSI. This can been seen in the next graph which shows the liability to the USC increasing regularly from €20,000 to €30,000 rather than the sudden increase at €26,000 which was a trait of the Health Levy. Together with the abolition of the PRSI ceiling, the graph shows a more progressive and equitable combination of charges.



Perception of the USC

The Universal Social Charge, like any tax increase, was not welcomed by the public. Taxpayers experienced a drop in net income in Budget 2011. Many people thought the USC was the reason for the reduction in their net income. This was not the case for many taxpayers. The reason many income earners saw reductions in their net income was due to the reduction in income tax credits and bands that also occurred in Budget 2011. Most taxpayers earning over €26,000 per annum would have benefited from the introduction of the USC all other things being equal; particularly those earning between €26,000 and €35,000 who had been suffering disproportionately from the sudden impact of the 4% Health Levy.

Payslip Presentation of USC

Most taxpayers did not realise they had benefited from the switch to the USC over the combined Income and Health Levies. The reason for this was largely a technical issue to do with presentation on payslips of the new USC.

The Health Levy had been collected as a part of PRSI and was shown on most income earners' payslips as a PRSI charge. When the USC was introduced, on the payslip, the Income Levy charge was replaced by a USC charge approximately twice the amount. However, what went mostly unnoticed was the fact that the PRSI charge had halved because the Health Levy was abolished. Because the net pay was reduced (due to credits and bands reduction), it was attributed to the USC not to the tax changes.

An example of this is demonstrated in a mock-up payslip in Tables 1.4 and 1.5 below. This shows the charges on a taxpayer on €50,000 per annum before and after Budget 2011.

Table 1.4 Column 2 *This Period* shows the deductions before Budget 2011. Income Levy is €38.46 and PRSI is €143.69 – this includes the Health Levy. Total deduction due to Income Levy and PRSI is €182.15.

Table 1.5 Column 2 *This Period* shows the deductions after Budget 2011. USC is €108.42 and PRSI is €66.76 – Health Levy has been removed. Total deduction due to USC and PRSI is €175.18.

Table 1.4 – Deductions Pre-Budget 2011

Deductions Pre-Budget 2011		
Description	**This Period**	**Year to Date**
Income Levy	**38.46**	**1,000.00**
PAYE	**353.69**	**9196.00**
PRSI – Ee	**143.69**	**3,736.00**
Total Deduction	**535.84**	**13,932.00**
Net PAY		**1387.23**

Table 1.5 – Deductions Pre-Budget 2011

Deductions Post-Budget 2011		
Description	**This Period**	**Year to Date**
USC	**108.42**	**108.42**
PAYE	**396.62**	**396.62**
PRSI – Ee	**66.76**	**66.76**
Total Deduction	**571.80**	**571.80**
Net PAY		**1351.27**

This income earner would have actually gained €6.97 per fortnight from the introduction of the USC. However, the net pay is down €35.96 - from €1,387.23 to €1,351.27. As can be seen from the payslip this is entirely due to the increase of income tax (PAYE).

Exempt Individuals

While many income earners would be better off under the USC than the Income Levy and Health Levy combined, there are a significant number who will pay more tax as a result of the introduction of the USC. This is due to the fact that there were many exemptions from the Income Levy and Health Levy. The entry points to paying these charges were relatively high and the numbers of exempt individuals were also high. For example, only 989,000 income earners paid the Health Levy – this is less than half the total number of income earners on the tax record and was due to the high exemption threshold to the levy as well as the different types of income and income earners that were exempted from the levy. Exemptions are listed below:

Income Levy

- Income earners earning less than €15,028
- Full Medical Card Holders
- Over 65s having exemptions of €20,000/€40,000 single/married
- Social Welfare payments

Health Levy

- Income earners earning less than €26,000
- Full Medical Card Holders
- Over 70 and under 16 years of age
- Recipients of Widow/er and Lone Parent social welfare payments

Generally, the only exemption from the USC is income from social welfare payments (see Appendix 1.1). All other income earners have to pay the USC; albeit there are concessions in the form of lower rates for Over 70s and medical card holders. When an income earner has previously been exempt from a charge, and then has to pay a charge, the adjustment can be significant. These, among other issues, are examined in this paper.

Appendix 1.1

List of Social-Welfare-Like Payments which are exempt from the Universal Social Charge

Payments made by the Dept of Enterprise, Trade and Innovation
1Community Employment Scheme
2Job Initiative Scheme
3FÁS (non apprentice payments)

Payments made by the Health Service Executive (HSE)
1Blind Welfare Supplementary Allowance
2Domiciliary Care Allowance
3Mobility Allowance

Payments made by the Dept of Education
1VTOS Training Allowances
2Youthreach Training Allowances
3Senior Traveller Training Allowances
0Back to Education Initiative (BTEI) Training Allowances paid to Youthreach,
1STTC or VTOS eligible participants on a pro-rata basis.
4Vocational Education Committees' Scholarship Scheme
5Fund for Students with Disabilities
6Student Assistance Fund
7Millennium Partnership Fund for Disadvantage

Payments made by the Dept of Agriculture
1Farm Retirement Pensions
2Farm Retirement Workers Pensions

Payments made by the Dept of Social Protection
1Rural Social Scheme
2Farm/Fish Assist Jobseekers Allowance or Jobseekers Benefit
3One-Parent Family Payment, Widow(er)'s Pension or Disability Allowance
4Adult Dependent of a recipient of the non-contributory State Pension
5Domiciliary Care Allowance

Chapter 2 – Universal Social Charge and the Lower Paid

I. What is Low Pay?

"Low paid" is difficult to define and the perception of what constitutes low pay can be influenced by a person's relative position rather than by reference to their overall level of income. For example, an individual earning well above the average wage with large outgoings may consider themselves low paid. However, for the purposes of this document the definition of low paid will be an income level that is adversely affected by the introduction of the USC. Mainly, this would relate to income levels, previously below the charge to the Income Levy and Health Levy, but now falling within the charge to USC.

As shown Chapter 1, income earners earning above €26,000 are better off under the USC regime than the combined Income and Health Levies regime. So the focus of this examination will be on individuals earning below €26,000.

The Income and Health Levies and the USC are all individualised taxes, so there is no need to assess the impact on married versus single.

- Individuals earning below €15,028 were exempt from the Income Levy.
- Individuals earning below €26,000 were exempt from the Health Levy.

Entry Point
The overriding policy intention was that all income earners would pay the USC (i.e. that it would be "universal"). An entry point to the USC of €4,004 per annum (which lessens the "universal" nature of the charge) was chosen for practical and operational reasons.

The adoption of a very wide base was to correct a situation whereby large numbers of people were exempted from paying income tax and other levies and bring it more in line with other jurisdictions. For example, the entry point to income tax in the UK is £7,475 (€16,500 in Ireland).

Examples
For the purposes of illustration, four different income levels were examined to assess the impact of the USC. The threshold at which people enter the charge or the level at which the charge increases can be varied but the following examples illustrate the effect of the USC at these sample income levels.

- €15,028 – Paying USC at 4% where previously a person did not pay Income Levy or Health Levy
- €17,542 – Paying USC at 7% where previously only paid Income Levy at 2%
- €25,500 – Paying USC where previously a person did not pay Health Levy
- €27,000 – Net Benefit

II. Effects of the USC on Low Paid

Table 2.1 – 2011 Change from USC only

Income	IL& HL	Net Income 2010	USC	Net Income 2011	Difference	Difference %
€15,028	0	€15,000	€399	€14,601	-€399	-2.6%
€17,542	€351	€17,191	€546	€16,996	-€195	-1.1%
€25,500	€510	€24,990	€1,103	€24,397	-€593	- 2.3%
€27,000	€1,620	€25,380	€1,208	€25,792	+€412	+1.6%

Table 2.2 – 2011 Effective Tax Rates

Income	USC	*USC Effective Rate*	Income Tax	PRSI	Net Income	Effective Tax Rate
€15,000	€399	*2.6%*	€0	€0	€14,601	2.7%
€17,542	€546	*3.1%*	€208	€0	€16,788	4.3%
€25,500	€1,103	*4.3%*	€1,800	€756	€21,841	14.3%
€27,000	€1,209	*4.5%*	€2,100	€816	€22,875	15.3%

Table 2.3 - Changes in Effective Tax Rate since 2004

Income	2004	2005	2006	2007	2008	2009	2010	2011
€15,000	5.2%	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%
€17,542	7.9%	6.2%	4.7%	0.0%	0.0%	0.0%	2.0%	4.3%
€25,500	14.9%	13.8%	12.7%	11.2%	8.6%	9.6%	10.6%	14.3%
€27,000	15.5%	14.5%	13.5%	12.0%	11.5%	12.5%	15.5%	15.3%

Graph – Effective Tax Rates – Lower Paid

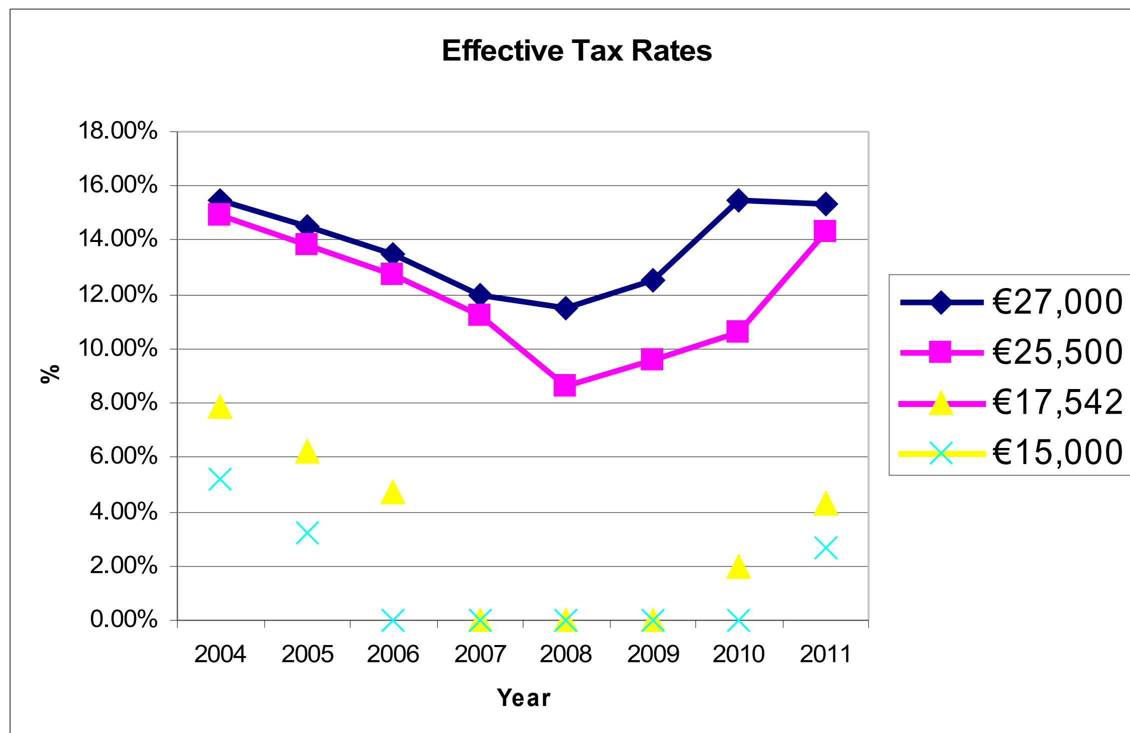


Table 2.4 - Effective Tax Rates - All

Income	2004	2005	2006	2007	2008	2009	2010	2011
€15,028	5.2%	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%
€17,542	7.9%	6.2%	4.7%	0.0%	0.0%	0.0%	2.0%	4.3%
€25,500	14.9%	13.8%	12.7%	11.2%	8.6%	9.6%	10.6%	14.3%
€27,000	15.5%	14.5%	13.5%	12.0%	11.5%	12.5%	15.5%	15.3%
€30,000	18.1%	16.1%	14.7%	13.4%	12.9%	13.9%	16.9%	16.8%
€40,000	25.5%	24.0%	21.9%	19.7%	18.6%	19.1%	22.1%	24.2%
€50,000	29.5%	28.4%	26.9%	25.1%	24.3%	24.9%	27.9%	29.7%
€60,000	32.0%	31.1%	29.8%	28.1%	27.5%	28.2%	31.7%	33.4%
€70,000	33.7%	33.0%	31.9%	30.3%	29.8%	30.5%	34.5%	36.1%
€80,000	35.0%	34.4%	33.4%	31.9%	31.5%	32.3%	36.5%	38.1%
€90,000	36.0%	35.5%	34.6%	33.2%	32.8%	33.6%	38.0%	39.6%
€100,000	36.9%	36.3%	35.6%	34.2%	33.8%	34.6%	39.2%	40.9%
€150,000	39.4%	39.1%	38.4%	37.3%	37.1%	38.3%	42.9%	44.6%
€200,000	40.7%	40.4%	39.8%	38.9%	38.7%	40.1%	44.9%	46.4%

III. Options

Option 1 – No Change

- **Cost: €0**
- Effective tax rates are progressive in 2011 based on the amount of gross income earned.
- The focus of the tax reduction from 2004 to 2008 was on the low paid. In these years the maximum tax reduction for income earners on €200,000 was 2% whereas, the maximum tax reduction for low income earners was 8%.
- Income earners earning below €40,000 are now paying less taxes and charges than they were in 2004. Income earners above €40,000 are paying more. This suggests an increased level of progressivity in the Irish taxation system in 2011 over 2004.
- For those on €15,028 the tax level is roughly what it was in 2005 while, for those on €25,500, the effective tax rate is at its 2004 level.
- Overall, the USC brings the lower paid back in line with other income earners and the situation in 2004.
- In Ireland the low paid have a low effective tax rate compared with our European counterparts. According to the OECD (Taxing Wages 2009-2010) Ireland has the lowest effective tax rate at a 67% level of average wages compared with other European members of the OECD – (see Appendix 2.1).

Option 2 – Increase Exemption Threshold

This option increases the lower exemption threshold (0% Rate) from €4,004 up to a higher level.

Options:

(i) increase exemption threshold to the 4% threshold €10,036;
(ii) increase exemption threshold to the income levy threshold €15,028;
(iii) increase exemption threshold to the level of the minimum wage €17,542.

Option 2(i) would involve having a complete exemption for all income under €10,036 but when this threshold was exceeded, 2% would apply on the first €10,036 and 4% on income in excess of that figure up to €16,016 and 7% on the excess.

- **Cost: €35 million in first year, €45 million for full year**
- There would be a maximum saving for the income earner of €201 per annum or €3.87 per week.
- This would introduce a significant step effect in the USC. Firstly, an income earner close to the threshold getting an increase of €1 per week would go from a marginal rate of 0% to 4%. Because of the step effect, this income earner would be worse off by €151 per annum or €2.90 per week on their net income due to an increase in the gross income of €1 per week. This could create a disincentive to work at these low income levels.
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.
- One of the purposes of introducing the USC was to eliminate the step effects in the taxation system, particularly in relation to the Health Levy, in order to create a smoother progression of taxation. This option would create another step effect.
- It would, however, help particularly low paid part-time workers.

Option 2(ii) would involve having a complete exemption for all income under €15,028 but when this threshold is exceeded, 2% would be payable on the first €10,036 and 4% on income in excess of that figure up to €16,016 and 7% on the excess

- **Cost: €85 million in first year, €120 million for full year**
- There would be a maximum saving for the income earner of €400 per annum or €7.69 per week.
- There would be a larger step effect on this option as above. At the threshold, a €1 increase per week would result in a €350 loss per annum or €6.73 per week.
- No benefit to those on the minimum wage and above
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.

Table 2.5 – Option 2(ii)

Income	USC	Income Net of USC 2011	USC Option 2(ii)	Proposed Income Net of USC	Difference	Difference %
€15,000	€399	€14,601	€0	€15,000	+€399	2.73%
€17,542	€546	€16,996	€546	€16,996	€0	0.00%
€25,500	€1,103	€24,397	€1,103	€24,397	€0	0.00%
€27,000	€1,208	€25,792	€1,208	€25,792	€0	0.00%

Option 2(iii) would involve a complete exemption of all income under €17,542 but when the threshold is exceeded, 2% would be payable on the first €10,036 and 4% on income in excess of that figure up to €16,016 and 7% on the excess.

- **Cost: €125 million in first year, €175 million for full year**.
- There would be a maximum saving for the income earner of €546 per annum or €10.50.

- The step effect here would be so significant that it would be equivalent to reintroducing the Health Levy step but at a much lower level of income. An individual on the minimum wage would require an increase in gross wages of €1,428 per annum to achieve a net increase of €1 per annum (when PRSI and Income tax are also taken into account).
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.

Table 2.6 – Option 2(iii)

Income	USC	Income Net of USC 2011	USC Option 2(iii)	Proposed Income Net of USC	Difference	Difference %
€15,000	€399	€14,601	€0	€15,000	+€399	2.73%
€17,542	€546	€16,996	€0	€17,542	+€546	3.21%
€25,500	€1,103	€24,397	€1,103	€24,397	€0	0.00%
€27,000	€1,208	€25,792	€1,208	€25,792	€0	0.00%

The adoption of any of the forgoing would undermine a key rationale of the USC – removal of poverty traps.

Tier versus Step

Note: Providing a zero rate without using a step (i.e. in a tier) has not been examined here. It is considered that the cost of such a measure would be prohibitive. A zero rate in a tier would mean that every income earner would pay nothing on this part of their income, regardless of income level. It is estimated that a zero rate up to €10,036 would cost in the region of €430 million per annum.

Option 3 – Increase thresholds and Amend Rates to Ensure Yield

Much of the criticism of the USC was that the high rate applied at too low an income level and that taxpayers on income of €16,016 are expected to pay the same rate as those with income of €100,000.

Individuals with income just below €26,000 saw the greatest impact from the USC as they had previously been exempt from the Health Levy of 4%. Therefore, this option proposes to increase the upper threshold to €26,000 and increase to the top rate to make up for the loss in revenue.

Option 3 would change the rate structure of the USC to the following:

- *€0 - €4,004 @ 0%*
- *€0 - €10,036 @ 2%*
- *€10,036 - €26,000 @ 4%*
- *> €26,000 @ 8%*

- **Cost: €75 million in first year, €85 million for full year**
- This option would reduce the burden on income earners earning between €16,016 and €26,000 but increase it at higher income levels
- Little administrative overhead
- There would be no benefit to those earning below €16,036

- This would increase higher marginal rates from 52% to 53% for PAYE and from 55% to 56% for self assessed
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.

Table 2.7 – Option 3

Income	USC	Income Net of USC 2011	USC Option 3	Net Income Proposed	Difference	Difference %
€15,000	€399	€14,601	€399	€14,601	-€0	0.00%
€17,542	€546	€16,996	€501	€17,041	+€45	0.26%
€25,500	€1,103	€24,397	€819	€24,681	+€284	1.16%
€27,000	€1,208	€25,792	€919	€26,081	+€289	1.12%
€50,000	€2,819	€47,181	€2,759	€47,241	+€60	0.13%
€75,000	€4,569	€70,431	€4,759	€70,241	-€190	-0.27%
€100,000	€6,319	€93,681	€6,759	€93,241	-€440	-0.47%

Option 4 – Make the structure highly progressive

Much of the criticism of the USC is that it is not progressive enough and that the top rate is set at too low a threshold.

In order to obtain the required yield it was necessary for the rates of the USC to apply at a low income level and increase quite quickly over a short income range. Another important aspect to be borne in mind is that over 50% of all the income is in the cohort with income up to €50,000 per annum. In order to maintain the yield it is necessary to ensure that this cohort is making its contribution.

A highly progressive structure for the USC is demonstrated below.

- €0 - €15,000 @ 0%
- €0 - €25,000 @ 2%
- €25,000 - €50,000 @ 4%
- €50,000 - €75,000 @ 6%
- €75,000 - €120,000 @ 8%
- > €120,000 @ 10%

- **Cost: €1 billion in first year, €1.35 billion for full year.**
- Clearly within the context of the public finances it would not be possible to make this change given the huge cost involved
- Six rates would be administratively difficult to implement for both Revenue and payroll operators

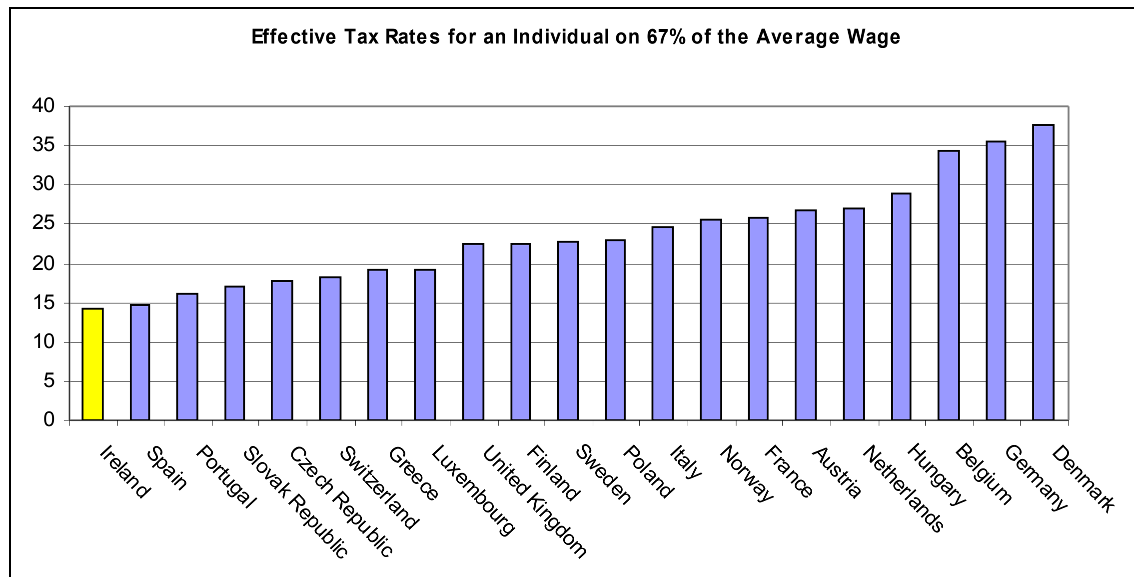
The following Chapters look at specific groups, e.g. pensioners, medical card holders, self-employed etc. Where the options above differ from all other options presented in later chapters is that they provide relief for everyone on low pay equally i.e. regardless of whether they are pensioners etc. This is arguably both more equitable and less distortionary.

Appendix 2.1

Effective Tax Rate on 67% of the Average Wage Comparison

Ireland has the lowest effective rate of any European member of the OECD for 67% of Average Wages[1]

Country	Effective tax rate 67%
Ireland	14.2
Spain	14.6
Portugal	16.2
Slovak Republic	17
Czech Republic	17.7
Switzerland	18.2
Greece	19.1
Luxembourg	19.1
United Kingdom	22.4
Finland	22.5
Sweden	22.7
Poland	23
Italy	24.7
Norway	25.6
France	25.7
Austria	26.8
Netherlands	27
Hungary	28.9
Belgium	34.4
Germany	35.5
Denmark	37.7



[1] Based on OECD Publication Taxing Wages 2009-2010 but including effective tax rates for Ireland for 2011

Chapter 3 – Universal Social Charge and Over 65s

I. Background

Under the Income Levy system persons aged 65 and over were treated more favourably than other income earners as they could avail of the Income Levy age exemption limits of €20,000/€40,000 per annum (single/married, respectively).

In addition, social welfare payments, such as the contributory and non-contributory State pension were exempt from the Income Levy charge. Therefore, when calculating if income had exceeded the age exemptions limits, social welfare payments were not taken account of in determining total aggregate income for the purposes of the age exemption limits.

Under the Health Levy system persons aged 70 and over were exempt from the charge. By way of illustration, a married couple aged 70 with an occupational pension of €40,000 per annum and a State Pension of €23,223 (Contributory Pension with a qualified adult) were not liable to Income or Health Levy on a combined total income of €63,223.

It is also worth noting that there are a number of other exemptions in the taxation system for the over 65s. PRSI contributions are currently not payable by persons aged 66 and over. With regard to income tax, a person aged 65 years or over is currently exempt from income tax if his or her income does not exceed €18,000 per annum for a single person or €36,000 per annum for a married couple (in the case of a married couple this treatment will also apply if one spouse is under 65 years and the other is aged over 65). These thresholds were reduced in Budget 2011 from €20,000/€40,000 to €18,000/€36,000.

For those taxpayers whose income rises slightly above the age exemption limits, they may be taxed under the system of marginal relief taxation. Under this system, the exemption limits continue to be applied and the taxpayer is taxed at 40% on all income above the exemption limits until his or her level of income is such that it would be more favourable to be taxed under the normal tax system of credits and bands.

Apart from the exemption threshold of €4,004 per annum which was designed for administrative reasons, the USC was implemented without any exemptions in order to widen the tax base and raise revenue to reduce the budget deficit. The overriding intention was to ensure that all income earners would pay the USC. However, a concession was provided for persons aged 70 and over which exempts them from paying the top rate (7%) of the USC. There has been some criticism of the USC in that the concession for over 70s was not extended to include all income earners over 65.

II. Demographics

The latest CSO data[2] indicates that in 2006 over 65s represented 11% of the population. The CSO estimates that by 2021 the general population will increase by 29% but the population of over 65s will increase by 66%. This means that by 2021 over 65s will represent 14% of the population.

The CSO project that the labour force, the 15 to 64 age group which represented 69% of the population in 2006, will represent 65% of the population by 2021. If taxation exemptions and reliefs are to be granted to the over 65s then the potential cost of providing such concessions will grow steadily.

III. Issues to consider

In examining the proposal of providing a concession under the USC for the over 65s, the following issues should be given due consideration:

- A large proportion of the over 65s (with the exception being pre-1995 recruited public servants) are in receipt of the State Pension which is exempt from the USC.
- Over 65s can currently benefit from a number of other exemptions in the taxation system (e.g. age credits and age exemption limits).
- Over 65s may qualify for a social welfare Household Benefits Package which provides assistance in relation to ESB/Gas and Telephone bills. It is estimated that the current value of the Benefits Package is €1,000 per annum.
- Over 65s do not have the same costs as younger income earners have such as mortgage payments and childcare costs etc.
- Over 65s tend to have higher medical expenses and do not have the same opportunities as younger income earners to improve their circumstances.
- They may well have already made a large tax contribution during their working lives.
- Pension investments have been hit in financial crisis.

IV. Examples

In order to determine if a concession should be provided under the USC to the over 65s, the impact of the USC on the different age categories of income earners is analysed and the effects of the combined impact of the overall income tax measures of Budget 2011 on the net income of such individuals is also examined. The Tables below illustrate the impact of the USC (Tables 3.1 & 3.2); the overall income tax measures of Budget 2011 (Tables 3.3 & 3.4); and, the effective tax rates in 2010 and 2011 (Tables 3.5 & 3.6) on the following age categories of income earners:

- Single income earner under 65
- Single income earner over 65 but younger than 70
- Single income earner over 70
- Married one-income earner under 65
- Married one-income earner over 65 but younger than 70

[2] CSO Population and Labour Force Projections 2011 - 2041 (published April 2008) – Table 3 (M2F1) http://www.cso.ie/en/releasesandpublications/population/populationandlabourforceprojections2011-2041/

- Married one income earner over 70

2011 – Change from the USC only

Table 3.1 - Single Individuals

	Income & Health Levies 2010			Universal Social Charge 2011			Difference 2011			% Difference 2011		
Gross Income	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70
€17,542	€351	€0	€0	€547	€547	€501	-€196	-€547	-€501	-1.1%	-3.1%	-2.9%
€20,000	€400	€0	€0	€719	€719	€599	-€319	-€719	-€599	-1.6%	-3.6%	-3.0%
€25,000	€500	€500	€500	€1,069	€1,069	€799	-€569	-€569	-€299	-2.3%	-2.3%	-1.2%
€30,000	€1,800	€1,800	€600	€1,419	€1,419	€999	€381	€381	-€399	1.4%	1.4%	-1.4%
€40,000	€2,400	€2,400	€800	€2,119	€2,119	€1,399	€281	€281	-€599	0.7%	0.7%	-1.5%
€60,000	€3,600	€3,600	€1,200	€3,519	€3,519	€2,199	€81	€81	-€999	0.1%	0.1%	-1.7%
€100,000	€6,749	€6,749	€2,499	€6,319	€6,319	€3,799	€430	€430	-€1,300	0.5%	0.5%	-1.3%

Table 3.2 - Married One-Income

	Income & Health Levies 2010			Universal Social Charge 2011			Difference 2011			% Difference 2011		
Gross Income	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70
€17,542	€351	€0	€0	€547	€547	€501	-€196	-€547	-€501	-1.1%	-3.1%	-2.9%
€20,000	€400	€0	€0	€719	€719	€599	-€319	-€719	-€599	-1.6%	-3.6%	-3.0%
€25,000	€500	€0	€0	€1,069	€1,069	€799	-€569	-€1,069	-€799	-2.3%	-4.3%	-3.2%
€30,000	€1,800	€1,200	€0	€1,419	€1,419	€999	€381	-€219	-€999	1.4%	-0.8%	-3.3%
€40,000	€2,400	€1,600	€0	€2,119	€2,119	€1,399	€281	-€519	-€1,399	0.7%	-1.4%	-3.5%
€60,000	€3,600	€3,600	€1,200	€3,519	€3,519	€2,199	€81	€81	-€999	0.1%	0.1%	-1.7%
€100,000	€6,749	€6,749	€2,499	€6,319	€6,319	€3,799	€430	€430	-€1,300	0.5%	0.5%	-1.3%

Table 3.1 above, illustrates that all single individuals earning less than €26,000 per annum have experienced a reduction in net income as a result of the implementation of the USC. Generally, this is due to the fact that all such individuals were previously exempt from the Health Levy and are now liable to the USC.

In addition, individuals age 65 and over but younger than 70 and with income of €20,000 (net of Social Welfare Pension) or less per annum have experienced higher reductions in net income as result of the USC. For example, a single individual aged 68 with an occupational pension of €20,000 is paying an additional €719 per annum. In comparison, the over 70s with income of €20,000 or less per annum have not seen as big a loss due to the USC. This is due to the fact that they are exempt from the higher rate of charge. However, they have seen reductions in their net income at every level.

It is important to note, that in the examples above, it is assumed that the over 65s are only in receipt of an occupational pension. However, in most cases these individuals would be receiving a State Pension which would not be liable to the USC charge. For example, if we take a single individual with income of €20,000 per annum consisting of the old age Contributory State pension of €11,976 per annum and an occupational pension of €8,024, their USC charge for the year would be considerably reduced from €719 per annum or €14 per week to €160 per annum or €3 per week.

For married one income earners (Table 3.2), similar reductions are seen for the over 65s as a result of the implementation of the USC. However, the reductions are extended up to an income level of €40,000 and this is because they previously benefited from the age exemption limit of €40,000 under the Income Levy system.

A full distribution for Tables 3.1 and 3.2 are attached in Appendix 3.1.

V. Budget 2011 tax changes

Tables 3.3 and 3.4 (below) illustrate the effects of the overall income tax measures of Budget 2011. In most cases, the over 65s have seen a higher reduction in their net income when compared to individuals under 65. However, when the net income of both age categories are compared, it can be seen that in all cases the net income of the over 65s is still significantly higher than that of under 65s. In addition, the Tables demonstrate that the USC concession for the over 70s provides a valuable relief from the USC. Without the concession, a single individual aged 70 earning €30,000 per annum would have seen their net income reduced by €3,874 per annum or €75 per week.

Table 3.3 - Single Individuals

	Net Income 2010			Net Income 2011			Difference			% Difference		
Gross Income	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70
€17,542	€17,191	€17,542	€17,542	€16,787	€16,995	€17,041	-€404	-€547	-€501	-2.4%	-3.1%	-2.9%
€20,000	€18,724	€20,000	€20,000	€18,045	€18,826	€18,946	-€679	-€1,174	-€1,054	-3.6%	-5.9%	-5.3%
€25,000	€22,424	€23,485	€23,485	€21,495	€22,476	€22,746	-€929	-€1,009	-€739	-4.1%	-4.3%	-3.1%
€30,000	€24,924	€26,185	€27,385	€24,945	€26,126	€26,546	€21	-€59	-€839	0.1%	-0.2%	-3.1%
€40,000	€31,168	€32,829	€34,429	€30,333	€31,914	€32,634	-€835	-€915	-€1,795	-2.7%	-2.8%	-5.2%
€60,000	€40,968	€43,429	€45,829	€39,933	€42,314	€43,634	-€1,035	-€1,115	-€2,195	-2.5%	-2.6%	-4.8%
€100,000	€60,752	€63,880	€68,130	€59,133	€63,114	€65,634	-€1,618	-€766	-€2,496	-2.7%	-1.2%	-3.7%

Table 3.4 - Married One-Income

	Net Income 2010			Net Income 2011			Difference			% Difference		
Gross Income	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70	Aged under 65	Aged 68	Aged over 70
€17,542	€17,191	€17,542	€17,542	€16,995	€16,995	€17,041	-€196	-€547	-€501	-1.1%	-3.1%	-2.9
€20,000	€19,064	€20,000	€20,000	€18,745	€19,281	€19,401	-€319	-€719	-€599	-1.7%	-3.6%	-3.0
€25,000	€23,764	€25,000	€25,000	€23,145	€23,931	€24,201	-€619	-€1,069	-€799	-2.6%	-4.3%	-3.2
€30,000	€26,754	€28,800	€30,000	€26,595	€28,581	€29,001	-€159	-€219	-€999	-0.6%	-0.8%	-3.3
€40,000	€33,754	€38,400	€40,000	€33,495	€36,281	€37,001	-€259	-€2,119	-€2,999	-0.8%	-5.5%	-7.5
€60,000	€44,688	€48,400	€50,800	€43,473	€46,881	€48,201	-€1,215	-€1,519	-€2,599	-2.7%	-3.1%	-5.1
€100,000	€64,472	€69,251	€73,501	€62,673	€68,081	€70,601	-€1,798	-€1,170	-€2,900	-2.8%	-1.7%	-3.9

A full distribution for Tables 3.3 and 3.4 are attached in Appendix 3.2.

Comparison of Effective Tax Rates in 2010 and 2011

Tables 3.5 and 3.6 illustrate the effective tax rates for 2010 and 2011 for single and married one income categories. As would be expected, the average tax rates have increased for all income earners. However, the over 65s still have considerably lower

effective tax rates when compared to the under 65s and the effective tax rates for those over 70 are lower still.

Table 3.5 - Single Individuals

	Effective Tax Rate 2010			Effective Tax Rate 2011		
Gross Income	**Aged under 65**	**Aged 68**	**Aged over 70**	**Aged under 65**	**Aged 68**	**Aged over 70**
€17,542	2.0%	0.0%	0.0%	4.3%	3.1%	2.9%
€20,000	6.4%	0.0%	0.0%	9.8%	5.9%	5.3%
€25,000	10.3%	6.1%	6.1%	14.0%	10.1%	9.0%
€30,000	16.9%	12.7%	8.7%	16.8%	12.9%	11.5%
€40,000	22.1%	17.9%	13.9%	24.2%	20.2%	18.4%
€60,000	31.7%	27.6%	23.6%	33.4%	29.5%	27.3%
€100,000	39.2%	36.1%	31.9%	40.9%	36.9%	34.4%

Table 3.6 - Married One-income earners

	Effective Tax Rate 2010			Effective Tax Rate 2011		
Gross Income	**Aged under 65**	**Aged 68**	**Aged over 70**	**Aged under 65**	**Aged 68**	**Aged over 70**
€17,542	2.0%	0.0%	0.0%	3.1%	3.1%	2.9%
€20,000	4.7%	0.0%	0.0%	6.3%	3.6%	3.0%
€25,000	4.9%	0.0%	0.0%	7.4%	4.3%	3.2%
€30,000	10.8%	4.0%	0.0%	11.3%	4.7%	3.3%
€40,000	15.6%	4.0%	0.0%	16.3%	9.3%	7.5%
€60,000	25.5%	19.3%	15.3%	27.5%	21.9%	19.7%
€100,000	35.5%	30.7%	26.5%	37.3%	31.9%	29.4%

VI. Options

Option 1 – No Change

- **Cost: €0**
- USC was introduced to widen the tax base. A no-change option would ensure that the base is not narrowed.
- This option would ensure that the expected yield of €4 billion will be achieved.
- This option maintains the current position whereby over 65s will have a higher net income after the deduction of taxes when compared with those under 65.
- The USC goes some way in aligning the tax treatment of over 65s with other taxpayers on the same income.

Option 2 – Age Exemption Threshold for over 65s

This option would introduce an age exemption threshold for the USC for persons aged 65 and over of €20,000/€40,000 for single/married respectively. It would operate in the same manner as the Age Exemption threshold previously operated under the Income Levy system. It would involve having a complete exemption for all income under the exemption threshold but when the threshold was exceeded, 2% would apply on the first €10,036, 4% on the next €5,980 and 7% on the balance.

- **Cost: €20 million in first year, €25 million for full year**
- Approximately 89,000 tax units would benefit from this exemption.
- It would protect single low income earners and married average income earners from the charge.

- There would be a maximum saving of €719 per annum or €14 per week for a single individual and €2,119 or €41 per week for a married couple.
- The potential cost of this exemption would increase significantly in the future given that we have an increasing older population and the age of retirement is being extended.
- USC was introduced to widen the tax base and to provide an exemption for the over 65s would be contrary to this policy
- It would be difficult to implement and would require an end-of-year refund for overpaid USC
- It would increase the administrative burden of operating the USC system.
- Providing a specific exemption for the over 65s could lead to other groups requesting a similar type concession.
- The age at which people can claim the State Pension is not set at 65 anymore. It will be increased to 66 by 2014 and will be subject to further increases thereafter. In light of this there seems little justification in linking tax relief to age 65.
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.
- Would alleviate somewhat the inequity of treatment between pensioners as highlighted in Chapter 7.

Table 3.7 – Single Individual Aged 68

Income	USC	Income Net of USC 2011	USC – OPTION 2	Proposed Income Net of USC	Difference	% Difference
€17,542	€547	€16,995	€0	€17,542	€547	3.2%
€20,000	€719	€19,281	€0	€20,000	€719	3.7%

Table 3.8 – Single Individual Aged 70

Income	USC	Income Net of USC 2011	USC – OPTION 2	Proposed Income Net of USC	Difference	% Difference
€17,542	€501	€17,041	€0	€17,542	€501	2.9%
€20,000	€599	€19,401	€0	€20,000	€599	3.1%

Table 3.9 – Married One-Income Earner Aged 68

Income	USC	Income Net of USC 2011	USC – OPTION 2	Proposed Income Net of USC	Difference	% Difference
€17,542	€547	€16,995	€0	€17,542	€547	3.2%
€20,000	€719	€19,281	€0	€20,000	€719	3.6%
€25,000	€1,069	€23,931	€0	€25,000	€1,069	4.3%
€30,000	€1,419	€28,581	€0	€30,000	€1,419	5.0%
€40,000	€2,119	€37,881	€0	€40,000	€2,119	5.6%

Table 3.10 – Married One-Income Earner Aged 70

Income	USC	Income Net of USC 2011	USC – OPTION 2	Proposed Income Net of USC	Difference	% Difference
€17,542	€501	€17,041	€0	€17,542	€501	2.9%
€20,000	€599	€19,401	€0	€20,000	€599	3.1%
€25,000	€799	€24,201	€0	€25,000	€799	3.3%
€30,000	€999	€29,001	€0	€30,000	€999	3.4%
€40,000	€1,399	€38,601	€0	€40,000	€1,399	3.6%

Option 3 – Apply the Over 70s concession to Over 65s

This option would see the application of a reduced rate of USC (4%) to the over 65s as currently applies to the over 70s. It would operate in the following manner - 2% on the first €10,036 and 4% on the balance thereafter.

- **Cost: €30 million in first year, €55 million for full year**
- Persons aged over 65 but younger than 70 years earning in excess of €16,016 per annum would benefit from the relief. However, a large proportion of such individuals may already be in receipt of a Medial Card and, therefore, there would be no monetary benefit for such individuals.
- The potential cost of this concession may increase significantly in the future given that we have an increasing older population and the age of retirement has been extended.
- It would add complexity to the USC system.
- It would increase the administrative burden of the USC system.
- Providing a specific exemption for the over 65s could lead to other groups requesting a similar type concession.
- 65 will not be the age of retirement in the future.
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.

Table 3.11 - Single individual Aged 68

Income	USC	Income Net of USC 2011	USC – OPTION 2	Proposed Income Net of USC	Difference	% Difference
€17,542	€547	€16,995	€501	€17,041	€46	0.3%
€20,000	€719	€19,281	€599	€19,401	€120	0.6%
€25,000	€1,069	€23,931	€799	€24,201	€270	1.1%
€30,000	€1,419	€28,581	€999	€29,001	€420	1.5%
€40,000	€2,119	€37,881	€1,399	€38,601	€720	1.9%
€60,000	€3,519	€56,481	€2,199	€57,801	€1,320	2.3%
€100,000	€6,319	€93,681	€3,799	€96,201	€2,520	2.7%

Option 4 – Exempt all over 65s from the USC Charge

This option would see all over 65s being exempt from the USC charge.

- **Cost: €190 million in first year, €260 million for full year**
- Approximately 157,000 tax units would benefit from the exemption
- USC was introduced to widen the tax base and to provide an exemption for the over 65s would be contrary to this policy.
- The potential cost of this exemption could increase significantly in the future with the increasing older population and the age of retirement being extended.
- Over 65s are still treated more favourably when compared to other income earners and exempting them from the USC charge would widen the gap even further.
- This option would not be the most efficient way of targeting resources as high income earners who can afford to pay the USC charge would benefit.

- Providing a specific exemption for the over 65s could lead to other groups requesting a similar type concession.
- 65 will not be the age of retirement in the future.
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.

Appendix 3.1

Single Individual Aged under 65

Income	IL & HL	Net Income 2010	USC	Net Income 2011	Difference	% Difference
€17,542	€351	€17,191	€547	€16,995	-€196	-1.1%
€20,000	€400	€19,600	€719	€19,281	-€319	-1.6%
€25,000	€500	€24,500	€1,069	€23,931	-€569	-2.3%
€30,000	€1,800	€28,200	€1,419	€28,581	€381	1.4%
€40,000	€2,400	€37,600	€2,119	€37,881	€281	0.7%
€60,000	€3,600	€56,400	€3,519	€56,481	€81	0.1%
€100,000	€6,749	€93,251	€6,319	€93,681	€430	0.5%

Single Individual Aged 68

Income	IL & HL	Net Income 2010	USC	Net Income 2011	Difference	% Difference
€17,542	€0	€17,542	€547	€16,995	-€547	-3.1%
€20,000	€0	€20,000	€719	€19,281	-€719	-3.6%
€25,000	€500	€24,500	€1,069	€23,931	-€569	-2.3%
€30,000	€1,800	€28,200	€1,419	€28,581	€381	1.4%
€40,000	€2,400	€37,600	€2,119	€37,881	€281	0.7%
€60,000	€3,600	€56,400	€3,519	€56,481	€81	0.1%
€100,000	€6,749	€93,251	€6,319	€93,681	€430	0.5%

Single Individual Aged 70

Income	IL & HL	Net Income 2010	USC	Net Income 2011	Difference	% Difference
€17,542	€0	€17,542	€501	€17,041	-€501	-2.9%
€20,000	€0	€20,000	€599	€19,401	-€599	-3.0%
€25,000	€500	€24,500	€799	€24,201	-€299	-1.2%
€30,000	€600	€29,400	€999	€29,001	-€399	-1.4%
€40,000	€800	€39,200	€1,399	€38,601	-€599	-1.5%
€60,000	€1,200	€58,800	€2,199	€57,801	-€999	-1.7%
€100,000	€2,499	€97,501	€3,799	€96,201	-€1,300	-1.3%

Married One-Income Earner Aged under 65

Income	IL & HL	Net Income 2010	USC	Net Income 2011	Difference	% Difference
€17,542	€351	€17,191	€547	€16,995	-€196	-1.1%
€20,000	€400	€19,600	€719	€19,281	-€319	-1.6%
€25,000	€500	€24,500	€1,069	€23,931	-€569	-2.3%
€30,000	€1,800	€28,200	€1,419	€28,581	€381	1.4%
€40,000	€2,400	€37,600	€2,119	€37,881	€281	0.7%
€60,000	€3,600	€56,400	€3,519	€56,481	€81	0.1%
€100,000	€6,749	€93,251	€6,319	€93,681	€430	0.5%

Married One-Income Earner Aged 68

Income	IL & HL	Net Income 2010	USC	Net Income 2011	Difference	% Difference
€17,542	€0	€17,542	€547	€16,995	-€547	-3.1%
€20,000	€0	€20,000	€719	€19,281	-€719	-3.6%
€25,000	€0	€25,000	€1,069	€23,931	-€1,069	-4.3%
€30,000	€1,200	€28,800	€1,419	€28,581	-€219	-0.8%
€40,000	€1,600	€38,400	€2,119	€37,881	-€519	-1.4%
€60,000	€3,600	€56,400	€3,519	€56,481	€81	0.1%
€100,000	€6,749	€93,251	€6,319	€93,681	€430	0.5%

Married One-Income Earner Aged 70

Income	IL & HL	Net Income 2010	USC	Net Income 2011	Difference	% Difference
€17,542	€0	€17,542	€501	€17,041	-€501	-2.9%
€20,000	€0	€20,000	€599	€19,401	-€599	-3.0%
€25,000	€0	€25,000	€799	€24,201	-€799	-3.2%
€30,000	€0	€30,000	€999	€29,001	-€999	-3.3%
€40,000	€0	€40,000	€1,399	€38,601	-€1,399	-3.5%
€60,000	€1,200	€58,800	€2,199	€57,801	-€999	-1.7%
€100,000	€2,499	€97,501	€3,799	€96,201	-€1,300	-1.3%

Appendix 3.2

Budget 2011 TAX Changes

Single Individual Aged under 65

Income	Total Deductions 2010	Net Income 2010	Total Deductions 2011	Net Income 2011	Difference	% Difference
€17,542	€351	€17,191	€755	€16,787	-€404	-2.4%
€20,000	€1,276	€18,724	€1,955	€18,045	-€679	-3.6%
€25,000	€2,576	€22,424	€3,505	€21,495	-€929	-4.1%
€30,000	€5,076	€24,924	€5,055	€24,945	€21	0.1%
€40,000	€8,832	€31,168	€9,667	€30,333	-€835	-2.7%
€60,000	€19,032	€40,968	€20,067	€39,933	-€1,035	-2.5%
€100,000	€39,248	€60,752	€40,867	€59,133	-€1,618	-2.7%

Single Individual Aged 68

Income	Total Deductions 2010	Net Income 2010	Total Deductions 2011	Net Income 2011	Difference	% Difference
€17,542	€0	€17,542	€547	€16,995	-€547	-3.1%
€20,000	€0	€20,000	€1,174	€18,826	-€1,174	-5.9%
€25,000	€1,515	€23,485	€2,524	€22,476	-€1,009	-4.3%
€30,000	€3,815	€26,185	€3,874	€26,126	-€59	-0.2%
€40,000	€7,171	€32,829	€8,086	€31,914	-€915	-2.8%
€60,000	€16,571	€43,429	€17,686	€42,314	-€1,115	-2.6%
€100,000	€36,120	€63,880	€36,886	€63,114	-€766	-1.2%

Single Individual Aged 70

Income	Total Deductions 2010	Net Income 2010	Total Deductions 2011	Net Income 2011	Difference	% Difference
€17,542	€0	€17,542	€501	€17,041	-€501	-2.9%
€20,000	€0	€20,000	€1,054	€18,946	-€1,054	-5.3%
€25,000	€1,515	€23,485	€2,254	€22,746	-€739	-3.1%
€30,000	€2,615	€27,385	€3,454	€26,546	-€839	-3.1%
€40,000	€5,571	€34,429	€7,366	€32,634	-€1,795	-5.2%
€60,000	€14,171	€45,829	€16,366	€43,634	-€2,195	-4.8%
€100,000	€31,870	€68,130	€34,366	€65,634	-€2,496	-3.7%

Married One-Income Earner Aged under 65

Income	Total Deductions 2010	Net Income 2010	Total Deductions 2011	Net Income 2011	Difference	% Difference
€17,542	€351	€17,191	€547	€16,995	-€196	-1.1%
€20,000	€936	€19,064	€1,255	€18,745	-€319	-1.7%
€25,000	€1,236	€23,764	€1,855	€23,145	-€619	-2.6%
€30,000	€3,246	€26,754	€3,405	€26,595	-€159	-0.6%
€40,000	€6,246	€33,754	€6,505	€33,495	-€259	-0.8%
€60,000	€15,312	€44,688	€16,527	€43,473	-€1,215	-2.7%
€100,000	€35,528	€64,472	€37,327	€62,673	-€1,798	-2.8%

Married One-Income Earner Aged 68

Income	Total Deductions 2010	Net Income 2010	Total Deductions 2011	Net Income 2011	Difference	% Difference
€17,542	€0	€17,542	€547	€16,995	-€547	-3.1%
€20,000	€0	€20,000	€719	€19,281	-€719	-3.6%
€25,000	€0	€25,000	€1,069	€23,931	-€1,069	-4.3%
€30,000	€1,200	€28,800	€1,419	€28,581	-€219	-0.8%
€40,000	€1,600	€38,400	€3,719	€36,281	-€2,119	-5.5%
€60,000	€11,600	€48,400	€13,119	€46,881	-€1,519	-3.1%
€100,000	€30,749	€69,251	€31,919	€68,081	-€1,170	-1.7%

Married One-Income Earner Aged 70

Income	Total Deductions 2010	Net Income 2010	Total Deductions 2011	Net Income 2011	Difference	% Difference
€17,542	€0	€17,542	€501	€17,041	-€501	-2.9
€20,000	€0	€20,000	€599	€19,401	-€599	-3.0
€25,000	€0	€25,000	€799	€24,201	-€799	-3.2
€30,000	€0	€30,000	€999	€29,001	-€999	-3.3
€40,000	€0	€40,000	€2,999	€37,001	-€2,999	-7.5
€60,000	€9,200	€50,800	€11,799	€48,201	-€2,599	-5.1
€100,000	€26,499	€73,501	€29,399	€70,601	-€2,900	-3.9

Chapter 4 - Universal Social Charge and Medical Card Holders

I. Background

When the Universal Social Charge (USC) was introduced in Budget 2011 a concession was made on a transitional basis until 2014 that those tax payers in receipt of a Medical Card would qualify for an exemption from the higher USC rate. This limits Medical Card holders' USC liability to 2% on the first €10,036 relevant income per annum and 4% on relevant income thereafter. The old Income and Health Levies both had full exemptions for Medical Card holders

At end June 2011, there were 1.68 million individuals covered by a Medical Card of which, an estimated 200,000 are income earners under 70. It is assumed that the rest are social welfare beneficiaries or are children and as such, would not have a USC liability.

The rationale for the transitional concession is to lessen the impact of paying the full USC where previously no charge had been made. Without the concession, a Medical Card holder could experience a significant reduction in their net income purely from coming into the USC charge and this measure ensures that Medical Card holders can adjust to paying the USC over a period of time.

II. Budget 2011 - Effects on Medical Card holders

There have been losses for Medical Card holders as a result of Budget 2011, but as Chapter 1 has shown, only part of these losses relate to the USC.

Apart from the combined impact of the overall income tax measures of Budget 2011 and the USC on taxpayers, the coverage of Medical Card holders by the USC has been an issue in 2011. Following the introduction of the USC in January 2011, concern has been expressed by some people on the impact of the USC on persons with Medical Cards. The main points put forward have been that the levying of the charge is inequitable since it requires medical card holders to pay the USC where previously they were exempt from the Income and Health Levy regime.

The impact on Medical Card holders was inevitable as they had been exempt from both the Income and Health levies. This is illustrated in Tables 4.1 and 4.2 below which compares the effect of the USC and also the full income tax effects of Budget 2011 on those with and without Medical Cards. However, Table 4.3 shows that the effective tax rates of Medical Card holders is below that of non Medical Card holders.

Table 4.1: Impact of the USC on those with and without Medical Cards

Gross Income	2010 Deduction for Income and Health Levies		2011 Deduction for USC		Difference – Levies & USC only		% Difference 2011 over 2010 – Levies & USC only	
	No Medical Card	Medical Card	No Medical Card	Medical Card	No Medical Card	Medical Card	No Medical Card	Medical Card
€10,000	€0	€0	€200	€200	-€200	-€200	-2%	-2%
€15,000	€0	€0	€399	€399	-€399	-€399	-2.7%	-2.7%
€25,000	€500	€0	€1,069	€799	-€569	-€799	-2.3%	-3.2%
€35,000	€2,100	€0	€1,769	€1,199	+€331	-€1,199	+1%	-3.4%
€45,000	€2,700	€0	€2,469	€1,599	+€231	-€1,599	+0.5%	-3.6%
€55,000	€3,300	€0	€3,169	€1,999	+€131	-€1,999	+0.3%	-3.6%

NB: Figures based on a single individual with no children paying full rate PRSI

Table 4.2: Impact of all Budget 2011 changes on those with and without Medical Cards

Gross Income	2010 Net Income		2011 Net Income		Total Annual Change		% Change on 2010	
	No Medical Card	Medical Card	No Medical Card	Medical Card	No Medical Card	Medical Card	No Medical Card	Medical Card
€10,000	€10,000	€10,000	€9,800	€9,800	-€200	-€200	-2%	-2%
€15,000	€15,000	€15,000	€14,600	€14,600	-€400	-€400	-2.7%	-2.7%
€25,000	€22,424	€22,924	€21,495	€21,765	-€929	-€1,159	-4.1%	-5.1%
€35,000	€28,424	€30,524	€27,933	€28,503	-€491	-€2,021	-1.7%	-6.6%
€45,000	€33,618	€36,318	€32,733	€33,603	-€885	-€2,715	-2.6%	-7.5%
€55,000	€38,518	€41,818	€37,533	€38,703	-€985	-€3,115	-2.6%	-7.4%

NB: Figures based on a single individual with no children paying full rate PRSI

Table 4.3: Effective tax rates on those with and without Medical Cards (2011)

Gross Annual Income	USC		Effective USC Rate		Income Tax		PRSI		Net Income		Effective Tax Rate	
	No Med Card	Med Card	No Med Card	Med Card	No Med Card	Med Card	No Med Card	Med Card	No Med Card	Med Card	No Med Card	Med Card
€10,000	€200	€200	**2%**	**2%**	€0	€0	€0	€0	€9,800	€9,800	**2%**	**2%**
€15,000	€400	€400	**2.7%**	**2.7%**	€0	€0	€0	€0	€14,600	€14,600	**2.7%**	**2.7%**
€25,000	€1,070	€800	**4.3%**	**3.2%**	€1,700	€1,700	€736	€736	€21,495	€21,765	**14.0%**	**12.9%**
€35,000	€1,770	€1,200	**5.1%**	**3.4%**	€4,162	€4,162	€1,136	€1,136	€27,933	€28,503	**20.2%**	**18.6%**
€45,000	€2,470	€1,600	**5.5%**	**3.6%**	€8,262	€8,262	€1,536	€1,536	€32,733	€33,603	**27.3%**	**25.3%**
€55,000	€3,170	€2,000	**5.8%**	**3.6%**	€12,362	€12,362	€1,936	€1,936	€37,533	€38,703	**31.8%**	**29.6%**

NB: Figures based on a single individual with no children paying full rate PRSI

III. Medical Cards

The most recent figures from the Health Service Executive (HSE) shows that the number of individuals covered by Medical Cards continues to rise with 1.68 million reported at the end of June 2011 (an additional 64,725 since December 2010). This is an increase of 4%. The total number of Discretionary Medical Cards at the end of June 2011 was 78,676. (Discretionary cards are granted when the eligibility criteria are not met but the individual has special health needs or they have an entitlement under EU regulations). It is estimated that approximately 200,000 Medical Card holders are income earners. A Medical Card is usually issued for one year after which it is reviewed.

Anyone over the age of 16 years who is ordinarily resident in the State is entitled to apply for a Medical Card. Qualification for a Medical Card comes under the following three main categories:

- **Means Test:** Single people or families who have an income that is within certain financial guidelines (set out in Appendix 4.1). If their only income is a means tested Social Welfare Allowance, they will qualify for a Medical Card. They will also get a Medical Card if their income or means and that of their spouse/partner is below the HSE income guidelines.
- **Undue Hardship:** Those whose income is in excess of the financial guidelines, but the HSE decides that the financial burden of medical or other exceptional circumstances would cause undue hardship. The HSE considers other exceptional circumstances where a person or family has personal or social issues causing undue financial hardship. The Medical Card may be granted for the whole family or for individual members of a family on the grounds of undue financial hardship.
- **Automatic:** People who are automatically entitled to a Medical Card are:

- Those with European Union entitlement to a similar scheme in their own countries. (see next paragraph)
- Those who are entitled to retain their Medical Card under government schemes.

EU Entitlement to a Medical Card
The following individuals are entitled to a Medical Card under EU Regulations:

- Those living in Ireland and receiving a social security payment from another European Union/European Economic Area (EU/EEA) country or Switzerland and are not getting an Irish social welfare payment (apart from Child Benefit). They must not be liable to contribute to the Irish social welfare system, (i.e. PRSI).
- Those living in Ireland and working in another EU/EEA country or Switzerland and are liable to pay Social Insurance Contributions in that country.
- Those living in Ireland and are the dependent spouse or child of someone employed in another EU/EEA country and Switzerland. They must not be getting an Irish Social Welfare Payment apart from Child Benefit and must not be liable to contribute to the Irish social welfare system.

Medical Cards for Tax Purposes
The link to the Medical Card has been used as a way of identifying people with sufficiently low means to merit exceptional treatment for tax purposes (i.e. the exemption from various levies since 1979/80 and a concessionary rate for the USC from 2011) as it is assumed they have undergone a means test by the HSE. As outlined above, this is not the position in all cases. The number of Medical Card holders has also increased in the years since 1980 and now represents 37% of the population (this excludes those holding GP Visit cards). Furthermore, the principle of having tax policy determined by health policy is questionable.

Anomalous Situation
It is worth noting that the practice of linking the Medical Card to tax liability has created some unintended consequences in relation to individuals from other EU member states who are working here and who have an entitlement to a Medical Card under EU Regulations, regardless of income. This entitlement consequently grants them an exemption from the USC. The numbers involved are not available although the Revenue Commissioners are aware of a number of cases where high income taxpayers are claiming this special treatment.

IV. Issues for Consideration

The question arises as to whether it is appropriate or necessary to have the determinants of a person's tax liability influenced by the policies and procedures of a State Agency (i.e. the HSE) particularly where there are specific schemes of assistance in operation by that Agency and the Departments of Social Protection and Health which are targeted at those in need and whether qualifying for a Medical Card entitles a person to special tax treatment.

If the link to Medical Card entitlement as an indication of income level for special tax treatment is to be maintained, then measures should be examined which would eliminate the current situation where migrant workers who are subject to Irish taxation and who have high levels of income can escape the full USC.

V. Options

Option 1 – no change
This option would see the concession for Medical Card holders cease at the end of 2014, as provided for in Finance Act 2011.

- **No additional cost**
- After 2014, the eligibility for a Medical Card will no longer be a determinant for tax purposes.
- The principle of the USC being a low rate on a wide base with no exemption would be upheld.
- Forecast yield is protected and increased from 2015 onwards.
- Medical Card holders would experience an additional loss in 2015 vis a vis their non Medical Card counterparts.

Option 2 – grant Medical Card holders a full exemption to the USC from 2012
This option would see Medical Card holders completely exempt from the USC.

- **Cost €175 million**
- Would be a step back from the approach of a wide taxable base leading to a more sustainable tax system.
- The USC liability of some tax payers would be controlled by the HSE through the Medical Card system.
- Attaches a value to the Medical Card for Medical Card holders as a tax reducing facility, thus the potential to contribute to poverty traps.
- Forecast yield from the USC eroded.
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.

Table 4.4: Net Income and effective tax rates if a USC exemption was introduced for Medical Card holders in 2012 (assuming no other income tax/PRSI changes)

Gross Income	2011 Net Income		2012 Net Income		Change in 2012		Effective Tax Rate 2011		Effective Tax Rate 2012	
	No Medical Card	Medical Card	No Medical Card	Medical Card	No Medical Card	Medical Card	No Medical Card	Medical Card	No Medical Card	Medical Card
€10,000	€9,800	€9,800	€9,800	€10,000	€0	**+€200**	2%	2%	2%	**0%**
€15,000	€14,600	€14,600	€14,600	€15,000	€0	**+€400**	2.7%	2.7%	2.7%	**0%**
€25,000	€21,495	€21,765	€21,495	€22,564	€0	**+€799**	14.0%	12.9%	14%	**9.7%**
€35,000	€27,933	€28,503	€27,933	€29,702	€0	**+€1,199**	20.2%	18.6%	20.2%	**15.1%**
€45,000	€32,733	€33,603	€32,733	€35,202	€0	**+€1,599**	27.3%	25.3%	27.3%	**21.8%**
€55,000	€37,533	€38,703	€37,533	€40,702	€0	**+€1,999**	31.8%	29.6%	31.8%	**26%**

NB: Figures based on a single individual with no children paying full rate PRSI

Option 3 – abolish the concessionary rate for Medical Card holders for 2012 and beyond
This option would see Medical Card holders pay the full rate of USC from 1 January 2012 instead of 1 January 2015 as currently envisaged.

- **Yield €70 million**
- The eligibility for a medical card will no longer be a determinant for tax purposes.

- The principle of the USC being charged at a low rate on a wide base with no exemption would be upheld.
- Medical Card holders would see a loss in Budget 2012 above that of non Medical Card holders. However, their overall net income would be the equivalent at the same income levels.

Table 4.5: Net Income if the USC concessional rate was abolished for Medical Card holders (assuming no other income tax changes)

Gross Income	2011 Net Income		2012 Net Income		Change in 2012		% Change 2012 on 2011	
	No Medical Card	Medical Card	No Medical Card	Medical Card	No Medical Card	Medical Card	No Medical Card	Medical Card
€10,000	€9,800	€9,800	€9,800	€9,800	€0	**€0**	0%	0%
€15,000	€14,600	€14,600	€14,600	€14,600	€0	**€0**	0%	0%
€25,000	€21,495	€21,765	€21,495	€21,495	€0	**-€270**	0%	-1.2%
€35,000	€27,933	€28,503	€27,933	€27,933	€0	**-€570**	0%	-2%
€45,000	€32,733	€33,603	€32,733	€32,733	€0	**-€870**	0%	-2.6%
€55,000	€37,533	€38,703	€37,533	€37,533	€0	**-€1,170**	0%	-3%

NB: Figures based on a single individual with no children paying full rate PRSI

Appendix 4.1

Feidhmeannacht na Seirbhíse Sláinte
Health Service Executive

2009 Medical Card and GP Visit Card Income Guidelines

Medical Card Income limits for People aged 70 years on or after 1/1/2009

		Medical Card Gross Weekly Rate 2009
Single Person	Aged 70 or over	€700.00
Married Couple	Aged 70 or over	€1400.00

General Medical Card / GP Visit Card Guidelines 2009

	Medical Card Net Weekly Rate 2009	GP Visit Card Net Weekly Rate 2009
Single Person Living Alone		
Aged up to 65 years	€184.00	€276.00
Aged 66 years and over	€201.50	€302.00
Single Person Living with Family		
Aged up to 65 years	€164.00	€246.00
Aged 66 and over	€173.50	€260.00
Married Couple / Single Parent Families with Dependent Children		
Aged up to 65 years	€266.50	€400.00
Aged 66 and over	€298.00	€447.00
Allowances		
Allowance for first 2 children under 16 financially dependant on applicant	€38.00	€57.00
For 3rd and subsequent children under 16 financially dependant on applicant	€41.00	€61.50
Allowance for first 2 children over 16 years financially dependant on applicant	€39.00	€58.50
For 3rd and subsequent children over 16 yrs financially dependant on applicant	€42.50	€64.00
For a dependant over 16 years who is in full time third level education and not grant aided	€78.00	€117.00

- **Additional guideline allowances will be given for:**
  - **Reasonable expenses incurred in respect of rent/mortgage payments**
  - **Reasonable expenses incurred in respect of childcare costs**
  - **Reasonable expenses incurred in travel to work**
- **The assessment of eligibility for Medical Cards and GP Visit Cards will be based on the combined income of the applicant and spouse (if any) after tax and PRSI have been deducted**
- **Applicants, whose weekly incomes are derived solely from Social Welfare or Health Service Executive allowances/ payments, which are in excess of the Financial Guidelines (either at first application or on renewal), will be granted Medical Cards.**

Chapter 5 – Universal Social Charge and Treatment of Certain Social Welfare Payments

I. Background

Individuals in receipt of the social welfare payments outlined below were exempt from the Health Levy on their non-social welfare income but were not exempt from the Income Levy. They are not exempt from the USC on non-social welfare income. However, the welfare payments themselves are exempt from the USC as they were from the Income Levy and Health Levy. (See Appendix 5.1 for rates and qualification criteria)

- Widow's/Widower's (Contributory) Pension
- Widow's/Widower's (Non-Contributory) Pension
- One Parent Family Payment
- Deserted Wife's Benefit/Allowance

Over 95% of recipients of the five payments in question receive the Widow's/Widowers (Contributory) Pension or the One Parent Family Payment (OPFP), see Table 5.1. These are discussed in more detail below. In certain cases the widows/widowers would also be eligible for the OPFP. Deserted Wife's Benefit and Deserted Wife's Allowance have been closed to new applicants since 1992.

Table 5.1 – Number of Recipients 2010

Payment Type	Number of Recipients	% of Total
Widow/er's (Contributory) Pension	114,579	52.62%
Widow/er's (Non-Contributory) Pension	1,977	0.91%
Deserted Wife's Benefit	8,372	3.84%
Deserted Wife's Allowance	487	0.22%
One-Parent Family Payment	92,326	42.40%

II. Impact of Budget 2011

Example 1 – Widow/er's (Contributory) Pension

The impact of the USC on this category of income earner can be illustrated by using an example. Table 5.2 shows the impact of the USC on an individual, with no children, who is in receipt of the Widow/er's Contributory Pension (at 2010 rates) and is also working 5 days a week on the minimum wage.

Widow/er's Contributory Pension - €10,478 per annum
Other Income - €17,542 per annum
Total Income - €28,020

Both Income Levy and USC are only charged on the Other Income.

Table 5.2 – Impact of USC – Minimum Wage

Income	Income Levy	Income Net of Income Levy	USC	Income Net of USC	Difference	Difference %
€28,020	€351	€27,669	€547	€27,473	-€196	-0.7%

The loss due to the USC is relatively small at just over ½ per cent or €4 per week. However, the loss is more significant at higher income levels. Table 5.3 demonstrates that those with non-social welfare income at levels of the Average Industrial Wage (AIW) (€32,350) and twice the AIW, the losses due to the USC rise to 2.2% and 3.4%, respectively.

Table 5.3 – Impact of USC – AIW and AIW*2

Income	Income Levy	Income Net of Income Levy	USC	Income Net of USC	Difference	Difference %
€28,020	€351	€27,669	€547	€27,473	-€196	-0.7%
€42,828	€647	€42,181	€1,583	€41,245	-€936	-2.2%
€75,178	€1,294	€73,884	€3,848	€71,330	-€2,554	-3.5%

In the case of the group discussed in this Chapter the impact of the USC has increased their tax liability but, in addition, there were other Budget changes (e.g. tax credits and bands) which exacerbated the tax increase for them.

A number of other measures were introduced in Budget 2011 that have had an impact on both income earners and social welfare recipients generally, but may have had a cumulative effect on those claiming the Widows (Contributory) Pension. These include:

- Reduction in the Widow/er's (Contributory) Pension by 3.9%
- Reduction in the Personal and PAYE credits by 10%
- Reduction in the Widow/er's Credit by 10%
- Reduction in the Standard Rate Band by 10%

Table 5.4 demonstrates the combined impact of Budget 2011 on this category of income earner.

Table 5.4 – Impact of Budget 2011

2010			2011			
Income 2010	**Total Deductions**	**Net Income 2010**	**Income 2011**	**Total Deductions**	**Net Income 2011**	**Difference €**
€28,020	€1,645	€26,325	€27,604	€2,228	€25,376	-€949 (-3.6%)
€42,828	€7,332	€35,496	€42,412	€9,274	€33,138	-€2,358 (-6.6%)
€75,178	€22,537	€52,641	€74,762	€26,096	€48,666	-€3,975 (-7.6%)

This table demonstrates that the losses at the lower income levels for those receiving the Widow/er's (Contributory) Pension had much more to do with the other taxation measures and the reductions in social welfare payments than it had to do with the USC. At the minimum wage the USC only accounted for one fifth of the total losses. At the AIW the loss due to the USC was less than half the total loss. However, at twice the AIW, the USC was responsible for over half of the losses on this income range.

Effective Tax Rates

It is useful to compare the effective tax rates after Budget 2011 of an individual receiving the Widow/er's (Contributory) Pension with the effective tax rates of an ordinary income earner on the same levels of gross income.

Table 5.5 - Widow/er's (Contributory) Pension Holder 2011 – Effective Tax Rates

Income	Income Tax	USC	PRSI	Total Deductions	Net Income 2011	Effective Tax Rate
€27,604	€1,681	€547	€0	€2,228	€25,376	8.1%
€42,412	€6,661	€1,583	€1,030	€9,274	€33,138	21.9%
€74,762	€19,924	€3,848	€2,324	€26,096	€48,666	34.9%

Table 5.6 - Single Income Earner 2011 – Effective Tax Rates

Income	Income Tax	USC	PRSI	Total Deductions	Net Income 2011	Effective Tax Rate
€27,604	€2,221	€1,251	€840	€4,312	€23,292	15.6%
€42,412	€7,201	€2,288	€1,432	€10,921	€31,491	25.7%
€74,762	€20,464	€4,552	€2,726	€27,742	€47,020	37.1%

The tables above demonstrate that individuals in receipt of a Widows (Contributory) Pension in all circumstances pay less tax than other individuals on the same gross income. This is particularly true of the lower paid widows/widowers, who have an effective tax rate 7.5 percentage points below other income earners on the same income. At all income levels the widows/widowers pay less taxes and charges. This is due to two reasons:

- The Widow's/Widower's (Contributory) Pension is not subject to the USC or PRSI
- Widows/widowers receive a higher personal tax credit of €2,190 per annum (€540 greater than the personal tax credit).

Example 2 - One Parent Family Payment (OPFP)

The One Parent Family Payment (OPFP) is means tested social welfare payment. However, the first €146.50 of income per week is discounted, meaning that an individual can earn up to €146.50 per week and still receive the full OPF payment of €188 per week. The OPFP is reduced on a sliding scale as means increases. Means of €192.60 or above results in a Nil payment of OPFP as does gross income of €425 or above per week (Appendix 5.2).

The means are calculated using the following formula (Gross Income - €146.50)/2).

It is still useful to examine the impact of the USC on this category of income earner. For example an income earner, with two children, who qualifies for the OPFP and also works full time earning the minimum wage of €17,542 per annum.

The Means in question would be calculated in the following way (€337-€146.5)/2 = €95. Means of €95 per week results in an OPF payment of €98 per week plus €59.6 for the qualifying children.

Total income €25,737

Table 5.7 – Impact of USC (OPFP)

Income	Income Levy	Income Net of Income Levy	USC	Income Net of USC	Difference	Difference %
€25,737	€351	€25,386	€547	€25,190	-€196	-0.8%

The loss here is very close to an income earner with the Widow/er's (Contributory) Pension on the minimum wage.

As stated above, applicants with gross earnings over €425 per week do not qualify for the OPFP. This means that the maximum non-social welfare income allowable in relation to this payment is €424 per week (€22,048 per annum). Earnings at this level would reduce the OPFP payment to €55.50 per week plus €59.6 for the qualifying children.

Therefore, the total income for an individual above which the OPFP would not be paid is €28,033 (includes OPFP + qualified child payment).

Table 5.8 – Impact of USC

Income	Income Levy	Income Net of Income Levy	USC	Income Net of USC	Difference	Difference %
€28,033	€441	€27,592	€862	€27,171	-€421	-1.5%

Tables 5.7 and 5.8 demonstrate that the maximum loss recipients of the OPFP have seen as a result of the introduction of the USC is 1.5%.

Table 5.9 – Impact of Budget 2011

Income 2010	Total Deductions	Net Income 2010	Income 2011	Total Deductions	Net Income 2011	Difference €
€26,153	€351	€25,802	€25,737	€744	€24,993	-€809 (-3.1%)
€28,449	€1,259	€27,190	€28,033	€2,137	€25,896	-€1,294 (-4.8%)

As in the previous example of the Widow/er above, it can be seen that most of the reduction in net income was due to measures in Budget 2011 other than the USC. In this case the different measures combined to affect the net income were:

- Reduction in the One Parent Family Payment
- Reduction in the Personal and PAYE tax credits by 10%
- Reduction in the One Parent Tax Credit by 10%

Effective Tax Rates

Comparing the effective tax rates of a One Parent Family Payment recipient with a single individual on the same income, shows that the effective tax rates are much higher in the case of the latter.

Table 5.10 - One Parent Family Payment Recipient with 2 children 2011 – Effective Tax Rates

Income	Income Tax	USC	PRSI	Total Deductions	Net Income 2011	Effective Tax Rate
€25,737	€197	€547	€0	€744	€24,993	2.9%
€28,033	€657	€862	€618	€2,138	€25,896	7.6%

Table 5.11 - Single Income Earner – Effective Tax Rates

Income	Income Tax	USC	PRSI	Total Deductions	Net Income 2011	Effective Tax Rate
€25,737	€1,847	€1,120	€765	€3,732	€22,005	14.5%
€28,033	€2,307	€1,281	€857	€4,445	€23,588	15.9%

III. Overview

The analysis shows that the question as to whether income earners in these groups have seen increased losses from the USC holds up only for middle and high income earners receiving Widow/er's (Contributory) Benefit or Deserted Wife's Benefit.

Recipients of the other payments such as Widow/er's (Non-Contributory) Pension, One Parent Family Payment and Deserted Wife's Allowance are means tested and as such would reduce to a nil payment before the liability to the Health Levy would have arisen and the exemption from the Health Levy would have been lost.

Other Issues

The Income Tax changes in Budget 2011 may well have impacted on this cohort more than others. The policy of reducing all credits by 10% would have had a cumulative effect on Widow/er's because they are entitled to more credits than the general taxpayer.

For example, a working Widowed Parent in the first year of bereavement would be entitled to the following tax credits:

Table 5.12 – Widow/er's reduction in Tax Credits

Year	2010	2011	Difference
Personal Credit	€1,830	€1,650	-€180
PAYE Credit	€1,830	€1,650	-€180
Widowed Parent Tax Credit	€4,000	€3,600	-€400
One Parent Family Tax Credit	€1,830	€1,650	-€180
Total	€9,490	€8,550	-€940

This represents a loss of €940 per annum due to credits. This compares with a loss of €360 for an ordinary PAYE worker.

In 2011, the Widow/er's Tax Credit is estimated to cost €166m and benefit 73,800 taxpayers. The Widowed Parent Tax Credit is estimated to cost €7m and benefit 2,340 taxpayers.

The question that arises from this analysis is whether the USC should be amended to compensate for any disproportionate effect of income tax and social welfare changes in Budget 2011.

IV Options

Option 1 – no change

This option would provide no special exemptions or reliefs for recipients of these social welfare payments

- **There would be no cost to the Exchequer**
- Protects the tax base
- The principle of the USC being charged at a low rate on a wide base with no exemption would be upheld.
- It could be cumbersome to change the USC if it is desired to alleviate the impacts of wider changes on this group.

Option 2 – provide an exemption from the USC for individuals receiving these payments
This option would provide a complete exemption from the USC for recipients of these social welfare payments.

- **Cost: €55m**
- Would add complexity to the USC structure.
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.
- Would provide some relief for individuals receiving these social welfare payments
- Would be worth €547 per annum to a recipient with other income at the minimum wage level.
- This raises the question of amending the USC to address other issues.

Option 3 – provide a concession for individuals receiving these payments
This option would provide a similar concession for individuals receiving these social welfare payments as is currently provided for Over 70s (i.e. they would be exempted from the 7% rate).

- **Cost: €20m**
- Would add complexity to the USC structure.
- It would increase the administrative burden of the USC system.
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.
- Would provide some relief for individuals receiving these social welfare payments
- Would be worth €45 per annum to a recipient with other income at the minimum wage level.
- Using the USC to address wider issues may not be the most effective course.

Appendix 5.1

Widow's/Widower's (Contributory) Pension
If an individual's spouse dies s/he may be entitled to a Widow's/Widower's (Contributory) Pension. To qualify, s/he must satisfy certain PRSI contribution conditions which can be based on either his/her own or his/her late spouse's PRSI contributions. This pension cannot be paid if s/he re-marries or cohabits. As this pension is contributory, the individual may earn any amount of money from any other source and still remain entitled to this pension. This payment is taxable.

Rates

Under 66	€193.50
66 < 80	€230.30
80 or Over	€240.30
Each Qualified child	€29.80

Widow's/Widower's (Non-Contributory) Pension
If an individual is widowed but does not qualify for a Widow's/Widower's (Contributory) Pension, and does not have dependent children, he/she may be entitled to a Widow's/Widower's (Non-Contributory) Pension. This is a means-tested payment. This payment is not taxable.

Rates

Under 66	€188.00
66 or Over	Transfer to State Pension

One-Parent Family Payment
If an individual is widowed, with dependent children, and does not qualify for Widow's/Widower's (Contributory) Pension because he/she does not have enough PRSI contributions he/she may be entitled to the One-Parent Family Payment (OFP). This is a means tested payment. This payment is taxable.

Rates

Personal rate	€188
Each Qualified child	€29.80

Deserted Wife's Benefit
Deserted Wife's Benefit is a payment made to a woman deserted by her husband. Entitlement to payment is based on social insurance contributions paid by the wife or her husband. Deserted Wife's Benefit scheme was closed off to new applications with effect from 2 January 1997, when One-Parent Family Payment was introduced. Deserted wife's benefit is taxable.

Rates

Personal Rate Under 66	€193.50
Personal Rate Over 66	€230.30
Each Qualified child	€29.80

If annual income is above €20,000 per annum the Benefit is only payable at 50% and is limited to six months.

Deserted Wife's Allowance

Deserted Wife's Allowance is a means-tested payment for women under 66 years of age, who have no dependent children and who were deserted by their husband and who do not qualify for Deserted Wife's Benefit. Women getting Deserted Wife's Allowance will automatically transfer to State (Non Contributory Pension) when they reach 66 years of age.

Rates

Personal rate	€188

Appendix 5.2

One-Parent Family Payment

One-Parent Family Payment from 6 January 2011

Weekly means, as assessed by us:	Aged under 66 Rate per week
Up to €7.60	€188.00
Over €7.60 and up to €10.10	€185.50
Over €10.10 and up to €12.60	€183.00
Over €12.60 and up to €15.10	€180.50
Over €15.10 and up to €17.60	€178.00
Over €17.60 and up to €20.10	€175.50
Over €20.10 and up to €22.60	€173.00
Over €22.60 and up to €25.10	€170.50
Over €25.10 and up to €27.60	€168.00
Over €27.60 and up to €30.10	€165.50
Over €30.10 and up to €32.60	€163.00
Over €32.60 and up to €35.10	€160.50
Over €35.10 and up to €37.60	€158.00
Over €37.60 and up to €40.10	€155.50
Over €40.10 and up to €42.60	€153.00
Over €42.60 and up to €45.10	€150.50
Over €45.10 and up to €47.60	€148.00
Over €47.60 and up to €50.10	€145.50
Over €50.10 and up to €52.60	€143.00
Over €52.60 and up to €55.10	€140.50
Over €55.10 and up to €57.60	€138.00
Over €57.60 and up to €60.10	€135.50
Over €60.10 and up to €62.60	€133.00
Over €62.60 and up to €65.10	€130.50
Over €65.10 and up to €67.60	€128.00
Over €67.60 and up to €70.10	€125.50
Over €70.10 and up to €72.60	€123.00
Over €72.60 and up to €75.10	€120.50
Over €75.10 and up to €77.60	€118.00
Over €77.60 and up to €80.10	€115.50
Over €80.10 and up to €82.60	€113.00
Over €82.60 and up to €85.10	€110.50
Over €85.10 and up to €87.60	€108.00
Over €87.60 and up to €90.10	€105.50
Over €90.10 and up to €92.60	€103.00
Over €92.60 and up to €95.10	€100.50

Over €95.10 and up to €97.60	€98.00
Over €97.60 and up to €100.10	€95.50
Over €100.10 and up to €102.60	€93.00
Over €102.60 and up to €105.10	€90.50
Over €105.10 and up to €107.60	€88.00
Over €107.60 and up to €110.10	€85.50
Over €110.10 and up to €112.60	€83.00
Over €112.60 and up to €115.10	€80.50
Over €115.10 and up to €117.60	€78.00
Over €117.60 and up to €120.10	€75.50
Over €120.10 and up to €122.60	€73.00
Over €122.60 and up to €125.10	€70.50
Over €125.10 and up to €127.60	€68.00
Over €127.60 and up to €130.10	€65.50
Over €130.10 and up to €132.60	€63.00
Over €132.60 and up to €135.10	€60.50
Over €135.10 and up to €137.60	€58.00
Over €137.60 and up to €140.10	€55.50
Over €140.10 and up to €142.60	€53.00
Over €142.60 and up to €145.10	€50.50
Over €145.10 and up to €147.60	€48.00
Over €147.60 and up to €150.10	€45.50
Over €150.10 and up to €152.60	€43.00
Over €152.60 and up to €155.10	€40.50
Over €155.10 and up to €157.60	€38.00
Over €157.60 and up to €160.10	€35.50
Over €160.10 and up to €162.60	€33.00
Over €162.60 and up to €165.10	€30.50
Over €165.10 and up to €167.60	€28.00
Over €167.60 and up to €170.10	€25.50
Over €170.10 and up to €172.60	€23.00
Over €172.60 and up to €175.10	€20.50
Over €175.10 and up to €177.60	€18.00
Over €177.60 and up to €180.10	€15.50
Over €180.10 and up to €182.60	€13.00
Over €182.60 and up to €185.10	€10.50
Over €185.10 and up to €187.60	€8.00
Over €187.60 and up to €190.10	€5.50
Over €190.10 and up to €192.60	€3.00
Over €192.60	Nil

Chapter 6 - Universal Social Charge and the Self Employed

I. Background

The introduction of the USC reduced the top marginal tax rates for both PAYE and self employed/assessed income earners by 4%. The abolition of the PRSI ceiling restored the PAYE top marginal rate to 52%. However, in the case of the self employed/assessed, where there was no PRSI ceiling, the marginal rate remained reduced at 52%. This would have had the unintended effect of benefiting the self employed compared to PAYE taxpayers with those earning over €200,000 gaining a reduction in tax paid. Therefore, as a transitional measure, a higher rate of USC of 10% was provided (a 3% surcharge) for income in excess of €100,000 arising from self employment. This restored the self employed top marginal rates back to 55% where it was in 2010. This transitional measure is due to terminate by end 2014.

The measure is estimated to yield €80 million in 2011 and €100 in a full year.

II. Budget 2011 - Impact on the Self Assessed/Employed

Table 6.1 shows the effect of the tax changes in Budget 2011 without the 3% surcharge and Table 6.2 shows how the surcharge attempts to equalise the treatment between the two groups of taxpayers.

Table 6.1 demonstrates that self employed/assessed income earners would have benefited vis a vis PAYE taxpayers and at income levels above €200,000 made a positive gain. This gain would have risen to almost €9,000 per annum at an income of €500,000.

Table 6.2 illustrates that the impact of the 3% USC surcharge is losses for all self employed/assessed income earners. The losses for self employed/assessed are uniformly €3,005 on income above €175,000.

Table 6.1: Comparison of PAYE income earners with self employed income earners - 2011 over 2010 *without* the surcharge

Gross Income	2010 Net Income		2011 Net Income		Total Annual Change		Effective Tax Rate 2011	
	PAYE	Self employed	PAYE	Self employed	PAYE	Self employed	PAYE	Self employed
€75,000	€48,318	€46,975	€47,134	€45,220	-€1,185	-€1,755	37.2%	39.7%
€100,000	€60,752	€58,725	€59,134	€57,220	-€1,618	-€1,505	40.9%	42.8%
€125,000	€73,211	€70,475	€71,134	€69,220	-€2,078	-€1,255	43.1%	44.6%
€150,000	€85,686	€82,225	€83,134	€81,220	-€2,552	-€1,005	44.6%	45.9%
€175,000	€98,165	€93,975	€95,134	€93,220	-€3,031	-€755	45.6%	46.7%
€200,000	€110,155	€105,225	€107,134	€105,220	-€3,021	-€5	46.4%	47.4%
€250,000	€134,135	€127,725	€131,134	€129,220	-€3,001	€1,495	47.5%	48.3%
€350,000	€182,109	€172,725	€179,134	€177,220	-€2,975	€4,495	48.8%	49.4%
€500,000	€254,094	€240,225	€251,134	€249,220	-€2,960	€8,995	49.8%	50.2%

NB: Figures based on a single individual with no children paying full rate PRSI

Table 6.2: Comparison of PAYE income earners with self employed income earners - 2011 over 2010 *with* the surcharge

Gross Income	2010 Net Income		2011 Net Income		Total Annual Change		Effective Tax Rate 2011	
	PAYE	Self employed	PAYE	Self employed	PAYE	Self employed	PAYE	Self employed
€75,000	€48,318	€46,975	€47,134	€45,220	-€1,185	-€1,755	37.2%	39.7%
€100,000	€60,752	€58,725	€59,134	€57,220	-€1,618	-€1,505	40.9%	42.8%
€125,000	€73,211	€70,475	€71,134	€68,470	-€2,078	-€2,005	46.1%	45.2%
€150,000	€85,686	€82,225	€83,134	€79,720	-€2,552	-€2,505	44.6%	46.9%
€175,000	€98,165	€93,975	€95,134	€90,970	-€3,031	-€3,005	45.6%	48.0%
€200,000	€110,155	€105,225	€107,134	€102,220	-€3,021	-€3,005	46.4%	48.9%
€250,000	€134,135	€127,725	€131,134	€124,720	-€3,001	-€3,005	47.5%	50.1%
€350,000	€182,109	€172,725	€179,134	€169,720	-€2,975	-€3,005	48.8%	51.5%
€500,000	€254,094	€240,225	€251,134	€237,220	-€2,960	-€3,005	49.8%	52.6%

NB: Figures based on a single individual with no children paying full rate PRSI

III. Self Employed/Assessed Taxpayers

Income Tax Self Assessment

For Income Tax purposes, the self assessment system applies to people chargeable to Income Tax who are in receipt of income from sources which are not chargeable to tax under the PAYE system or where some but not all of their tax on these sources of income is paid under PAYE.

Self Assessment applies for Income Tax purposes to self employed persons (i.e. people carrying on their own business including farming, professions or vocations) and persons receiving income from sources where some or all of the tax cannot be collected under the PAYE system, such as profits from rents, investment income, foreign income and foreign pensions, maintenance payments to separated persons, fees, profit arising on exercising various share options/share incentives.

Under the Self Assessment system, the payment of tax and filing of tax returns must take place by October 31. This system, which is known as 'Pay and File', is designed to allow Self Assessment taxpayers to file their return and pay the balance of tax outstanding for the previous year at the same time.

Post Budget 2011 estimates show that of the 2.22 million income earners on the Revenue record, approximately 238,000 of them are Schedule D (self assessed) taxpayers.

For those individuals with a mixture of self assessed and PAYE income, the USC surcharge applies to the part of their income that arises from self employed income.

IV. Issues to consider

Self assessed/employed taxpayers have a higher tax liability than PAYE workers on the same income because they are not eligible to the PAYE tax credit. However, significant timing benefits are in place for the self employed, depending on the accounting period used by the taxpayer. In addition, the expenses regime is, arguably, more liberal for the self employed than that afforded to the PAYE sector. However, other Budget 2011 measures such as the restriction on the use of capital allowances and pension relief may impact more on the self employed/assessed than PAYE taxpayers.

The imposition of the surcharge may serve to push more self employed/assessed to incorporate in order to avail of lower overall marginal rates of tax, the PAYE tax credit and the ability to fund pensions in a less restrictive manner through employer contributions. However, there has been no evidence of this trend to date.

The surcharge on the self employed/assessed may strengthen calls for the PAYE tax credit to be extended to the self employed/assessed.

To date, the Department of Finance has received few representations on this matter and none of the main lobby groups have been pressing on this issue.

V. Options

Option 1 – No change

This option would see the USC surcharge of 3% for self employed/assessed continue with it ending from 1 January 2015, as provided for in Finance Act 2011.

- **No additional yield/cost**
- The principle of the USC being charged at a low rate on a wide base with no special treatment for groups of taxpayers would be upheld.
- Forecast yield is protected.

Option 2 – Abolish the USC surcharge of 3% for self employed/assessed holders for 2012 and beyond

This option would see self employed/assessed earning over €100,000 per annum pay the usual 7% rate of USC from 1 January 2012. Table 6.3 demonstrates the effect of this option in 2012 (assuming no other income tax or PRSI changes).

- **Cost for 2012 onwards - €100 million per annum**
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.
- Top marginal tax rate reduced to 52% in line with PAYE marginal tax rates and the effective tax rates would be very similar.
- PAYE and self employed/assessed taxpayers will be subject to the same rates of tax, USC and PRSI.
- Could mitigate against the negative perception of the benefits of self assessment

Chapter 7 - Universal Social Charge and Income from Pensions

I. Background

The Universal Social Charge provides an exemption from the USC for all payments received from the Department of Social Protection including the Contributory and the non Contributory State Pension and other social-welfare-type payments administered by other Departments. Certain foreign pensions such as foreign State Pensions are also exempt.

An issue of equity has been raised with regard to the treatment for USC purposes of income from pensions, i.e between an occupational pension and the State Pension (whether social welfare or others such as the Farmer Retirement Pension). The USC is applied differently to one set of pensioners over another depending on the split between State and Occupational Pension which has created anomalies between groups of pensioners. The issue has been raised from a comparative perspective particularly by:

(i) Those in receipt of pensions equivalent to the Contributory State Pension of €230.30 per week (annualised to €11,976 pa);

(ii) those in receipt of pensions equivalent to the maximum Contributory State Pension plus the maximum adult dependent rate of €206.30 (annualised to €22,703 pa);

(iii) those whose sole source of pension is an Irish public service pension (i.e. no other payment from the State); and,

(iv) those who have an equivalent combined pension income (i.e. State and Occupational) but the State element is paid from another jurisdiction (and is less than the Irish State Pension).

II. State and Occupational Pensions

State Pensions

A State Pension is provided through the social welfare system and is intended to provide an adequate basic standard of living at retirement. It is currently available to people from 65 years and over provided they satisfy certain social insurance conditions (Contributory/Transition) or they satisfy a means test (Non Contributory). The maximum rates payable are €230.30 per week (Contributory), €219 per week or €229 per week if over 80 years (Non Contributory). Increases are available for those with dependent adults and/or children and for those living alone.

Occupational Pensions

Occupational pensions operate independently of the social welfare pension system and there is no statutory link between the two. However, many occupational pensions take into account the level of social welfare pension received in calculating the level of benefit; these are called integrated or co-ordinated pensions. For example, some schemes provide for a benefit, which, together with the State Pension, will provide a half or two-thirds of final salary. This may be done at the commencement of a pension but

the occupational pension may not be subsequently reduced because the State Pension is increased. If the Contributory State Pension was reduced, on retirement the pension scheme would have to make up the difference. Integration is a central feature of public service pension schemes and of the majority of defined benefit schemes in the private sector. It is also the practice in many other countries. It should be noted that the number of defined benefit schemes is declining.

Integration, depending on the particular implementation, ensures the provision of an occupational pension which, when combined with the social welfare pension, is reasonable by reference to pensionable pay, and affordable to both employees and employers. In effect, integration serves to limit or disallow *double pensioning* of that tranche of income which is already *pensioned* by the employer's and employee's PRSI contributions.

Non Integrated Pensions
For some public service employees recruited prior to 1995, the occupational pension scheme is not integrated with the social welfare system as they pay a modified rate of PRSI. This group of pensioners do not qualify for the State Pension but receive their full pension benefit as an occupational pension. Consequently, their total pension income is subject to the Universal Social Charge. These pensioners cannot avail of other social welfare payments such as adult/child dependent or living alone payments or Household Benefits package that the other set of pensioners can. There are currently 125,000 public service pensioners with non-integrated pensions and this figure will grow.

III. Budget 2011 - Impact of USC on income from Occupational and State Pensions

To demonstrate the effect of the USC on various groups of pensioner, Table 1 shows that:

(i) A pensioner with a Non Contributory State Pension of €219 per week (€11,388 pa) pays no USC while those with a pension of the equivalent amount and who do not receive any social welfare payment, have a USC liability of €255 per year (€4.90 per week). A similar USC liability (€278 per annum) applies to those pensioners with non-social welfare pension of €11,976 per annum which is equivalent to the Contributory State Pension of €230.30 per week;

(ii) a pensioner with a Contributory State Pension plus an adult dependent payment (equivalent to a total of €22,704 per annum) pays no USC while a pensioner with a pension of the equivalent amount and who is not entitled to any social welfare payment in respect of themselves or any dependents, is liable to the USC of €908 per annum (€17.46 per week); and

(iii) a public service pensioner who was recruited prior to 1995 and who has consequently paid a modified rate of PRSI has a greater loss because of the USC, compared with a public servant recruited after 1995 on the same amount of pension, all other things being equal.

Table 7.1: Comparison of USC treatment on pensioners

Example 1 - Total annual pension €11,388			
Pensioner A		**Pensioner B**	
Non Contributory State Pension	€11,388	Occupational Pension	€11,388
USC	€0	USC	€255
Income net of USC	€11,388	Income net of USC	€11,133
Difference €255 per annum			
Example 2 - Total annual pension €22,704			
Pensioner A		**Pensioner B**	
Contributory State Pension	€11,976	Occupational Pension	€22,704
Adult dependent	€10,728	Adult dependent	€0
USC	€0	USC	€908
Income net of USC	€22,704	Income net of USC	€21,796
Difference €908 per annum			
Example 3 - Total annual pension €35,000*			
Pensioner A		**Pensioner B**	
Contributory State Pension	€11,976	Contributory State Pension	€0
Occupational Pension	€23,024	Occupational Pension	€35,000
USC liability	€930	USC liability	€1,769
Income net of USC	€34,070	Income net of USC	€33,231
Difference €839 per annum			

*Based on a €70kpa final salary and a 40/80ths benefit scheme

IV. Issues to consider

Most social welfare payments are reckonable for income tax purposes so this could be extended to include the USC (see Appendix 7.2).

The Public Service Executive Union has indicated that it may lodge a claim and enter negotiations to have Civil Service Pensions treated as a social welfare pension for the purposes of the USC.

Representations received would indicate that there is a perception amongst those on reasonably small occupational pensions that their pension is poor value for money and that their years of contribution is inadequately reflected in their pension as compared to what is available under the Non Contributory State Pension and its USC exemption.

V. Options

Option 1 – no change

This option would see the USC exemption on social welfare payments continue and the USC applied to the non social welfare pension.

- **Cost €0**
- Does not address the inequity applying to one set of pensioners over another.
- May increase the risk of challenge by unions on this point.

Option 2 – apply the USC to the State Pension
This option would see the State Pension being reckonable for the Universal Social Charge as is the case for Income Tax (see Appendix 7.1).

- **Yield: €330 million**
- Other welfare payments may also have to be included such as invalidity pension.
- Would equalise the treatment of pensioners for USC purposes.
- Would increase the yield but at a cost to the pensioners,

***Option 3 – introduce an a*ge exemption threshold for over 65s (see Chapter 2)**
This option would introduce an age exemption threshold for the USC for persons aged 65 and over of €20,000/€40,000 for single/married respectively. It would operate in the same manner as the age exemption threshold previously operated under the Income Levy system. It would involve having a complete exemption for all income under the exemption threshold but when the threshold was exceeded, 2% would apply on the first €10,036, 4% on the next €5,980 and 7% on the balance. This option is also included in Chapter 2 dealing with Over 65s.

- **Cost: €20 million in first year, €25 million for full year**
- Approximately 89,000 tax units would benefit from this exemption.
- The potential cost of this exemption could increase significantly in the future given that we have an increasing older population and the age of retirement has been extended.
- USC was introduced to widen the tax base so, therefore, to provide an exemption for the over 65s would be contrary to this policy
- It would add complexity to the system.
- It would increase the administrative burden of the USC system.
- Providing a specific exemption for the over 65s could lead to other groups requesting a similar type concession.
- The age when people can claim the State Pension is not set at 65 anymore. It will be increased to 66 by 2014 and will be subject to further increases thereafter. In light of this, there seems little justification in linking tax relief to age 65.
- The cost risks associated with the change would have to be addressed within the terms of the EU/IMF Programme of Support and compensatory revenues would have to be found elsewhere.

Option 4 – treat non-integrated public service pensions as exempt from the USC
This option would see the occupational pension payment on non-integrated public service pension schemes as being except from the USC.

- **Cost: €90 million**
- Would undermine the principle of the USC being applied to income with few exceptions.
- The cost would have to be balanced by alternative revenue raising measures.

Appendix 7.1

Taxation of Irish Social Welfare Payments

Jobseeker's Benefit is generally taxable, but the first €13 each week is exempt from tax. Jobseeker's Benefit payable to short-time workers is not taxable. The Increase for a Child Dependant payable with Jobseeker's Benefit is also not taxable.

Illness Benefit is currently not taxable for the first 6 weeks and the Increase for a Child Dependant is not taxable.

Other than the cases above, if a social welfare payment is taxable, any increase in the payment for an adult dependant and child dependants is also taxable.

Social assistance payments

Jobseeker's Allowance	Not taxable
Pre-Retirement Allowance	Not taxable
Farm Assist	Not taxable
Widow's, Widower's or Surviving Civil Partner's (Non-Contributory) Pension	Taxable
Guardian's Payment (Non-Contributory)	Taxable
Carer's Allowance	Taxable
Supplementary Welfare Allowance	Not taxable
State Pension (Non-Contributory)	Taxable
Blind Pension	Taxable
Disability Allowance	Not taxable
Deserted Wife's Allowance	Taxable
One-Parent Family Payment	Taxable

Social insurance payments

Illness Benefit	Taxable (first six weeks excluded)
Maternity Benefit	Not taxable
Adoptive Benefit	Not taxable
Health and Safety Benefit	Not taxable
Invalidity Pension	Taxable
State Pension (Transition)	Taxable
Jobseeker's Benefit and Short-Term Enterprise Allowance	Taxable (first €13 per week excluded)
Jobseeker's Benefit (paid to systematic short-term workers)	Not taxable
Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension	Taxable
Guardian's Payment (Contributory)	Taxable
Deserted Wife's Benefit	Taxable

Carer's Benefit	Taxable
State Pension (Contributory)	Taxable
Disablement Pension	Taxable
Constant Attendance Allowance (payable with Disablement Pension)	Taxable
Injury Benefit	Taxable
Death Benefit Pension	Taxable

Other schemes

The Back to Work Allowance, Back to Work Enterprise Allowance and Back to Education Allowance are not taxable. Payments made by the VEC under the Vocational Training Opportunities Scheme (VTOS) are not taxable.

If the social welfare payment is taxable, then any Living Alone Increase is taxable. If the social welfare payment is not taxable, then the Living Alone Increase is not taxable.

Domiciliary Care Allowance and Fuel Allowance are not normally taxed.

Chapter 8 – Universal Social Charge and Employer Contributions to PRSAs

I. Summary

Among the issues raised since the introduction of the USC has been the application of the USC to employers' contributions to an employee's Personal Retirement Savings Account (PRSA). This is different from the treatment of an employer's contribution to non-PRSA occupational pension for the purposes of the USC.

The amount contributed by an employer to a PRSA is treated as a benefit-in-kind (BIK) in the income tax system and, therefore, is seen as the employee's own contribution and is subject to the USC in the same way as any income of an employee. In contrast, an employer's contribution to a non-PRSA occupational pension is not treated as the employee's own contribution and is not taxed as a BIK.

The apparent disparity of treatment between employer contributions to PRSAs and contributions to occupational pensions for the purpose of the USC has been a cause for concern for the Pensions Industry, PRSA providers, the Pensions Ombudsman and contributors to PRSA schemes.

II. Background

A Personal Retirement Savings Account is a relatively new type of Defined Contribution personal pension savings vehicle introduced in 2002 as a flexible low cost portable pension product. PRSAs are mainly designed for individuals who are not members of occupational pension schemes and can be used for pension saving by anyone – employees or self-employed.

A PRSA is a contract between an individual and a PRSA provider (insurer, credit institution or investment firm) in the form of an account that holds units in investment funds managed by PRSA providers. The PRSA contributor is the beneficial owner of the PRSA assets — unlike occupational schemes where the scheme trustees hold the assets on behalf of the scheme member(s).

Contributions are deductible for income tax and are tax relieved at the individual's marginal income tax rate. Age-related percentage limits apply to contributions in a similar manner as those applied to employee contributions to occupational schemes (age limits at Appendix 8.1). Tax-relieved contributions are subject to an earnings cap of €115,000 for 2011.

Employers may also contribute - but are not obliged to - and, unlike the position for occupational pension schemes, such contributions are treated as a BIK. This is because the principal control that applies in the case of occupational pension schemes is the funding limit which provides that aggregate contributions to such schemes must not exceed the amount that will provide a maximum pension on retirement to any member of more than two-thirds final salary. Such a control is not feasible for PRSAs (although the maximum allowable pension fund for tax purposes introduced in 2006 – the Standard Fund Threshold – applies generally). The BIK charge on employer contributions to PRSAs is there because, in its absence, there would be no restriction on the amounts an employer would contribute to a PRSA on behalf of an employee in a position to influence such matters.

III. Issue

The USC, as was the Income Levy before it, is chargeable on pension contributions. The USC also follows the income tax treatment of PRSAs. Therefore, as the employer contribution is treated as a BIK on the employee's income under income tax law, the USC is chargeable on both employer and employee contributions in the hands of the employee.

The concern raised about this issue is that an employee with a PRSA is required to pay USC on his/her employer's contribution to his/her PRSA, whereas an employee with an occupational pension is not required to pay USC on his/her employer's contribution to his/her occupational pension.

The Pension Board's Report, *The National Pensions Policy Initiative Report 1998*, which originally recommended the introduction of PRSAs also recommended how they should be treated for tax purposes[3].

The Pensions Board reasoned that contributions to PRSAs should be more flexible than defined contribution schemes. However, it recommended that a limit should apply to the contribution for tax purposes. If limits were only applied to the employee contribution there would be an opportunity for tax avoidance because the employer could make the majority of the contribution with the agreement of the employee. This would apply particularly where the employee was a proprietary director, a favoured employee or a family member of a proprietary director. In such cases, if there was no limit to the employer contribution, employers could make all contributions without limitation and consequently contrive to create excessively large tax-relieved pension funds. As there is no limit to the benefit that can be taken from a PRSA (unlike an occupational pension scheme which limits benefits to two-thirds of final salary), without controlling the employer's contribution, employers would be able to effectively strip tax-free income out of a company without limit. It is also worth noting that PRSA assets are beneficially owned by the contributor unlike occupational pensions where the funds are held by trustees. The Pensions Board, therefore recommended that the employer and employee contribution should be combined in order to calculate the limits.

National Pensions Policy Report Recommendation #43.
"For employees, the PRSA limits should apply in respect of the combined employer/employee contributions"

To facilitate this it was decided to make the employer contribution to a PRSA a BIK in the hands of the employee. This was provided by way of an amendment to Section 118 of the Tax Consolidation Act 1997 in the Pensions Amendment Act 2002.

The position of the taxation of PRSA contributions was clarified in the Pension Board's publication *Pensions Amendment Act 2002 – FAQs*

"Contributions made by an employer to a PRSA on behalf of an employee are treated as a benefit in kind of the employee. Such contributions are treated for relief purposes as made by the employee.

For example, where an employee aged 29 contributes 5% of his or her earnings to a PRSA and the employer contributes a further 10%, the employee is treated as making a total contribution of 15% in aggregate. The employee is charged on the

[3] National Pensions Policy Initiative Report 1998, page 148, Section 6.3.2

employer's contribution as a benefit in kind and must include this in his or her return of income."

This Report demonstrates that the employee is charged on the employer contribution as a benefit-in-kind. Therefore, it is clear that the different tax treatment of employer contributions to occupational pensions and PRSAs has been in existence since the introduction of the PRSAs. The tax treatment of PRSAs is an integral part of the PRSA and was devised as part of the design of PRSAs.

However, up until the introduction of the Income Levy in 2009, the employee was protected from paying tax on the employer contribution by virtue of the income tax age-related percentage limits that were in place. It was intended from the start that the Income Levy would be charged on pension contributions and, in the case of PRSAs, the tax law sees employer contributions as part of the employee contribution. The USC follows the treatment of these contributions under the Income Levy; although the USC is a higher charge than the Income Levy.

Number of PRSA Employer/Employee Contributors

According to Revenue records, in 2009 there were approximately 34,000 employees making contributions totalling €75m to PRSAs. In the same year approximately 18,000 employers made €37m in contributions to PRSAs. This makes the average employee contribution €2,200 per annum and the average employer contribution €2,064 per annum. These statistics relate to contributions employers' payroll systems only, see Appendix 8.2.

This means that the average cost to an employee of the USC charge on the employer contribution is €144 per annum (€2.80 per week).

Pensions Ombudsman

The Pensions Ombudsman has written to the Minister about the USC charge on employer contributions to PRSAs (Appendix 8.3). His concern is that in cases where an employer has neglected to make pension contributions to a PRSA and where he instructs the employer to make the payment of arrears to the scheme, the employee will suffer a sudden, significant USC charge, through no fault of his/her own, for employer contributions that should have been paid in previous years.

IV. Options

Option 1 - No Change

- **No Cost**
- There would continue to be concerns on behalf of PRSA providers and from contributors of PRSAs
- The future position of PRSAs may be undermined as they would be more expensive than other pension vehicles

Option 2 - Provide a PRSA exemption for USC

This option would provide the same PRSA exemption for the USC as for Income Tax.

- **Cost: €8 million**
- Would require a legislative change
- Would resolve the issue in question
- Would exempt employee contributions to PRSAs from USC

- Pension contributions to PRSA would be exempted from the USC which is against the principle of the USC applying to a wide base with few exemptions
- Contributions to PRSAs would be treated more favourably for USC purposes than occupational pensions contributions.

Option 3 - Exempt the employer contribution to PRSAs from the USC

This option would maintain the employer contribution as notionally the employee contribution for the purposes of calculating the age-related pension limits but exempt the employer contribution element from the USC.

- **Cost: €2.6 million**
- Complex to implement
- Would require legislative change
- Would resolve the issue in question
- Would call into question the income tax treatment of contributions as a BIK if they were exempted from the USC which is a tax on income.
- If exempted it would raise calls for other BIK items to be exempted from the USC also.
- Could lead to a situation where the employer would make the contribution on behalf of the employee.

Appendix 8.1

Age Related Percentage Limits

Age	% of Earnings*
Under 30 years	15%
30 – 39 years	20%
40 - 49 years	25%
50 - 54 years	30%
55 – 59 years	35%
60 years and over	40%

*In the case of employees, "earnings" means gross pay for tax purposes. In the case of self-employed people, "earnings" is defined as "net relevant earnings" (see above). From 2011 the annual earnings limit that may be taken into account is €115,000 (€150,000 in 2010).

Appendix 8.2

Employer and Employee Contributions to PRSAs 2004 – 2009 via payroll (P35 returns)

Year	PRSAs- Employee Contributions		PRSA - Employer Contributions	
	Number	Amount €	Number of employees	Amount €
2004	0	0	0	0
2005	22,942	44,367,346	11,613	18,850,731
2006	30,788	50,771,216	18,096	25,127,577
2007	28,811	58,149,019	21,760	38,690,587
2008	33,629	80,816,371	22,258	39,872,260
2009	34,346	75,574,845	18,372	37,912,910

NB: These statistics relate to employee and employer contributions to PRSAs which are made through employers' payroll systems and returned by these employers via their annual P35 returns. The figures do not include contributions otherwise made by individuals to PRSAs, the tax relief on which is claimed through the individuals' tax returns.

Appendix 8.3

An tOmbudsman Pinsean
Pensions Ombudsman

Mr. Michael Noonan, TD
Minister for Finance
Department of Finance
Upper Merrion Street
Dublin 2.

20 May 2011

Dear Minister

I enclose an article which appears in the current issue of IRN (Industrial Relations News), on the subject of the pension fund levy.

I would draw your attention in particular to the last section of this article, concerning the imposition of the Universal Social Charge on PRSA contributions made by employers. I note that there is a possibility that that matter might be within the scope of a review of the USC in the context of Budget 2012 and I would welcome this, as many small employers set up PRSAs as an alternative to occupational pension schemes, in order to save on the expense involved in compliance with the Pensions Act in respect of such schemes.

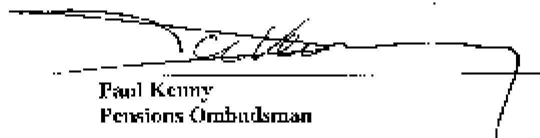
However, I have an immediate concern with regard to the operation of the USC in relation to employer PRSA contributions.

This Office regularly receives complaints that contributions due by employers have for one reason or another not been paid, or not been paid on time. I am concerned that, if I make an award against an employer which obliges that employer to pay arrears of contributions, the payment of those contributions within this tax year would leave them exposed to the Universal Social Charge whereas in reality, they were due to be paid in some prior year, when the USC would not have applied.

It is clearly inequitable as far as the employee is concerned that they should have to pay a charge which arises solely because of the neglect of their employer. At the same time, I am not entirely certain that the powers that I have under the Pensions Act would enable me to make an award to compensate for the USC, as technically it would not come under the heading of "loss of scheme benefit" as provided for under the Pensions Act.

I hope that some means can be found of exempting such arrears payments from the Universal Social Charge and I would be willing to discuss the matter with your officials at any time.

Yours sincerely



Paul Kenny
Pensions Ombudsman

Encl.

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Chapter 9 - Collection of the Universal Social Charge

I. Background

The Universal Social Charge (USC) currently operates on a "Week 1" basis which allows for its collection by employers or pension providers on a weekly basis similarly to PRSI. The USC has an exempt annual threshold of €4,004 (€77 per week). However, where this threshold is exceeded, the entire amount is chargeable. The standard rates of charge are:

- 2% on the first €10,036, (€193 per week),
- 4% on the next €5,980, (€308 per week), and
- 7% on the balance.

The Week 1 basis means that where an employee receives less than €77 a week, no USC is charged. If s/he receives over €77 but less that €193 in the following week, USC is charged at 2% for that week on the full amount. If in a subsequent week s/he were paid over €193 but less that €308 the charge to USC would be at 2% up to €193 and 4% on the balance up to €308 for that week and so on.

The Week 1 basis of collection was adopted for the Income Levy because of the short period of time available between the announcement of the Income Levy in the Budget in October 2008 and its implementation in 2009. The same issue arose with the USC involving an even shorter timescale.

II. Operational effects of the Week 1 system of calculation and collection of the USC

The Week 1 system is an imprecise method of calculating and collecting the USC over the course of a year. For example, where an employee works overtime, or part-time, is paid in some irregular fashion, changes employment, has more than one employment during the year, or who starts work very late in the year, a USC overpayment or underpayment is inevitable in that year.

Exchequer Risk - underpayments

From an Exchequer yield perspective, the potential for underpayments poses quite a significant risk. Revenue estimates that approximately €50 million per annum could be at risk.

Underpayments can arise both at the level of high earners and low earners. For example, an executive director with three other non-executive directorships paying fees of say €30,000 a year each will underpay the USC by €681 in respect of each non-executive directorship (giving a total USC underpayment of €2,044 for the year). This also creates a reputational risk if higher paid people, such as those with multiple directorships, are seen to be underpaying.

In the case of a low earner, for example, someone with four low paying part time jobs each paying €74 a week, s/he will pay no USC in 2011 as each individual wage is under the €4,004 threshold whereas the person's USC liability for the year would be about €415.

Administration – overpayments
An overpayment might arise, for example, where an employee is paid for work in a lump sum. Once the payment exceeds €77, the full amount is liable to USC even though it might be below the annual exemption threshold. The potential for overpayments of the USC creates a significant repayment overhead. It also serves to increase contacts with taxpayers and increases Revenue's cost of administration.

The Week 1 system also imposes an added administrative burden on employers and an increased cost of managing their payroll as the system requires an end of year reconciliation process for the purpose of providing USC refunds to employees. A move to the cumulative system would reduce this burden and cost.

A cumulative system makes it easier for taxpayers to see the amount of USC they should be paying. This should lead, over time, to fewer contacts with Revenue from taxpayers about the USC.

III. Move to a cumulative basis

Revenue is moving to a cumulative basis for the collection of the USC from 1 January 2012.

Putting the USC on a cumulative basis will increase the Exchequer yield by ensuring that a greater number of taxpayers pay the correct amount of USC over the course of the year. Furthermore, those changing employment and those in multiple employments will pay the correct amount of USC more consistently under the cumulative system than under the Week 1 system.

The cumulative basis will:

- Ensure that employees pay the correct amount of USC for the year to date on each day.
- Reduce the number of end of year underpayments thereby maintaining the yield for the USC and minimising the possibility of the yield being eroded.
- Reduce the number of end of year refunds.
- Reduce administrative costs for Revenue and employers associated with under and over payment of the USC.
- Facilitate the extension of the online PAYE Anytime system to support USC refunds and allocation facilities.
- Ease administration costs for employees.

There are no primary law changes needed to give effect to a change from the Week 1 basis of collection to a cumulative basis for the USC. The legislation introducing the USC, because of the known inadequacies of the Week 1 basis of collection, contains a measure that allows for the introduction of a more accurate collection system by way of Revenue regulations. The primary legislation provides that once these regulations are in place and start operation, the Week 1 system automatically ceases to operate.

Revenue is currently engaged with software providers on the adoption of payroll to deal with the USC on a cumulative basis and will shortly be engaged with employer representatives and the tax practitioner bodies to ensure a smooth implementation of the cumulative basis from 1 January 2012.