

IRELAND										2008	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2008	2008
A. Structure of revenues										% of GDP	
										Ranking ¹	€ bn
Indirect taxes	13.7	12.5	12.4	12.6	13.2	13.7	14.2	13.6	12.4	18	22.6
VAT	7.3	6.8	7.0	7.0	7.3	7.6	7.8	7.6	7.1	16	13.0
Excise duties and consumption taxes	3.2	2.9	2.9	2.8	2.7	2.6	2.4	2.4	2.4	21	4.4
Other taxes on products (incl. import duties)	2.3	2.0	1.7	2.0	2.2	2.6	3.0	2.6	1.8	9	3.3
Other taxes on production	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.0	1.1	13	2.0
Direct taxes	13.5	12.8	11.6	11.9	12.4	12.3	13.2	12.9	11.5	13	20.9
Personal income	9.2	8.7	7.5	7.7	8.3	8.4	8.8	8.8	8.2	9	14.8
Corporate income	3.8	3.6	3.7	3.8	3.7	3.5	4.0	3.5	2.9	18	5.2
Other	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	19	0.8
Social contributions	4.4	4.5	4.4	4.4	4.6	4.7	4.8	5.0	5.3	26	9.7
Employers'	2.7	2.8	2.7	2.7	2.7	2.7	2.9	3.0	3.3	25	5.9
Employees'	1.5	1.5	1.5	1.6	1.7	1.7	1.7	1.7	1.8	24	3.3
Self- and non-employed	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	21	0.4
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	31.6	29.8	28.5	29.0	30.3	30.8	32.3	31.4	29.3	24	53.2
Cyclically adjusted total tax to GDP ratio	30.1	28.8	27.5	28.5	29.8	29.6	30.2	27.9	27.4		
B. Structure by level of government										% of total taxation	
Central government	84.8	83.6	83.9	84.1	84.4	84.4	84.7	83.8	81.3	3	43.3
State government ²⁾	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Local government	2.0	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.8	24	1.5
Social security funds	11.3	12.5	12.8	12.6	12.5	12.4	12.2	13.0	15.0	23	8.0
EU institutions	1.9	1.8	1.0	1.0	0.7	0.9	0.8	0.9	0.9	13	0.5
C. Structure by economic function										% of GDP	
Consumption	12.1	10.9	11.0	10.9	11.2	11.5	11.5	11.3	10.7	18	19.4
Labour	11.5	11.0	10.0	9.8	10.4	10.4	10.5	10.7	11.2	24	20.3
Employed	11.4	10.9	10.0	9.7	10.4	10.3	10.4	10.7	11.1	24	20.2
Paid by employers	2.7	2.8	2.7	2.7	2.7	2.7	2.9	3.0	3.3	25	5.9
Paid by employees	8.7	8.1	7.3	7.0	7.7	7.6	7.5	7.6	7.8	15	14.2
Non-employed	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	27	0.1
Capital	8.0	7.8	7.4	8.4	8.6	8.9	10.3	9.5	7.4	11	13.5
Capital and business income	6.0	5.9	5.6	6.2	6.2	6.2	7.1	6.6	5.2	17	9.4
Income of corporations	3.8	3.6	3.7	3.8	3.7	3.5	4.0	3.5	2.9	18	5.2
Income of households	1.1	1.1	0.8	1.4	1.5	1.6	2.1	2.0	1.3	6	2.3
Income of self-employed (incl. SSC)	1.1	1.1	1.1	1.0	1.1	1.1	1.0	1.1	1.1	14	2.0
Stocks of capital / wealth	2.0	2.0	1.8	2.2	2.4	2.7	3.2	2.9	2.2	10	4.0
D. Environmental taxes										% of GDP	
Environmental taxes	2.9	2.4	2.4	2.4	2.5	2.5	2.5	2.5	2.4	15	4.4
Energy	1.4	1.2	1.3	1.3	1.4	1.3	1.3	1.2	1.3	25	2.3
Of which transport fuel taxes	:	:	:	1.1	1.2	1.2	1.2	1.1	1.2	22	
Transport (excl. fuel)	1.4	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.1	5	2.1
Pollution/resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	23	0.0
E. Implicit tax rates										%	
Consumption	25.7	23.8	24.7	24.5	25.7	26.3	26.5	25.6	22.9	9	
Labour employed	28.5	27.4	26.0	25.0	26.3	25.4	25.4	25.7	24.6	25	
Capital	:	:	14.9	16.8	17.9	19.5	21.2	18.6	15.7		
Capital and business income	:	:	11.3	12.4	13.0	13.6	14.7	13.0	11.0		
Corporations	:	:	10.0	10.2	10.4	10.2	10.4	8.7	7.6		
Households	:	:	14.3	18.2	18.3	22.9	27.9	28.1	22.2		
Real GDP growth (annual rate)	9.4	5.7	6.5	4.4	4.6	6.2	5.4	6.0	-3.0		

See Annex B for explanatory notes. For classification of taxes please visit: <http://ec.europa.eu/taxtrends>

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a. not applicable, : not available

Source: Commission services

IRELAND

Overall trends in taxation

Structure and development of tax revenues

At 29.3 % in 2008, the total tax-to-GDP ratio in Ireland (including social security contributions) is the fourth lowest in the Union and the second lowest in the euro area. While this ratio has shown an upward trend from 2002 to 2006, it decreased by three percentage points from 2006 to 2008. The trend is similar for the cyclical adjusted tax revenue. While the difference between adjusted and unadjusted total tax to GDP was only 0.5 percentage points in 2004 it increased to a peak 3.5 percentage points in 2007, before decreasing to 1.9 percentage points in 2008. This highlights that the comparably high tax revenues were mainly the result of favourable economic conditions.

The taxation structure is characterised by a heavy reliance on taxes rather than social security contributions. Indirect and direct taxation make up 42.5 % and 39.3 % of the total revenue respectively, whereas there social security contributions raise only 18.2 % of total tax revenue. In this respect, the structure of taxation differs considerably from the typical structure of the EU-27, where each item contributes roughly a third of the total. As in the majority of Member States, the largest share of indirect taxes is constituted by VAT receipts, which provide 57.4 % of total indirect taxes (56.9 % for the EU-27). The structure of direct taxation is similar to that found in the EU-27. Personal income taxes and corporate income taxes represent 8.2 % and 2.9 % of GDP, respectively, compared with 8.1 % and 3.3 % for the EU-27. Social security contributions represent a meagre 5.3 % of GDP (second lowest in the Union after Denmark), compared to an EU-27 average of 11.0 %. Employers' and employees' contributions are at 3.3 % and 1.8 % of GDP, respectively.

Ireland is one of the most fiscally centralised countries in Europe; local government has only low revenues (2.8 % of tax revenues). The social security fund receives just 15.0 % of tax revenues (EU-27 29.3 %), while the vast majority (81.3 %) of tax revenue accrues to central government. This ratio is exceeded only by Malta and the United Kingdom.

From 2000 to 2002, Ireland reduced the total tax burden across the board from 31.6 % to just 28.5 % of GDP. Since 2002, however, the total tax ratio has increased every year, reaching 32.3 % in 2006, in large part due to a surge in VAT receipts, capital gains tax and stamp duties. This upward trend was interrupted in 2007 when the total tax ratio decreased by almost one percentage point. In 2008, total tax revenue to GDP is back to the levels in 2003. This decrease was mainly driven by lower ratios of VAT, PIT, other taxes on products (incl. import duties), and corporate income taxes to GDP, caused by the worsening economic situation.

Taxation of consumption, labour and capital; environmental taxation

The tax structure by economic factor (consumption 36.5 %, labour 38.2 %, capital 25.3 %) differs notably from the EU-27 average (33.1 %, 46.7 %, 20.4 %), with the tax system deriving one of the smallest proportion of tax receipts from labour of any EU country. Conversely, it raises a large proportion from capital taxes, exceeded only by the United Kingdom. Compared to 2007 the share of labour has increased by four percentage points while the capital share decreased by almost five percentage points. A possible reason for this could be that profits reacted faster to the economic crisis compared to employment.

Taxes on consumption in relation to GDP are at 10.7 % (EU-27 12.0 %). After a declining period from 13.0 % in 1995 to 10.9 % in 2001, this ratio has increased slightly to 11.5 % in 2006. This principally reflects buoyant economic activity in that period, which has driven VAT receipts up. However, the value decreased slightly since 2007 (11.3 %) for the first time since 2003. The weight of indirect taxes other than VAT and excise duties is also high by EU standards.

The very low social security contributions result in one of the lowest level of taxes on labour in the EU (11.2 % of GDP compared with 17.5 % in EU-27). As in many EU countries the implicit tax rate on labour increased steadily from the

early 1970s until the late 1980s. Having attained stability in the early 1990s, the rate fell from 29.3 % in 1996 to 24.6 % in 2008, as a result of successive cuts in personal income tax and social contributions. This constitutes the second largest reduction in the ITR on labour in any European country in the period, after Latvia.

The Irish case is notable in that the strong economic growth until 2007 offset the effects of the contemporaneous reductions in corporate income tax rates; the CIT rate was cut in half between 2000 and 2003. Indeed, revenues from taxes on capital, at 9.5 % of GDP in 2007, were higher than in 2000. Much of this was due to soaring receipts from the capital gains tax and stamp duty, which collectively rose to reach respectively 500 % and 337 % of their 2002 level in 2007 in the wake of the construction boom. The increase of tax revenue despite lower tax rates is also pictured by the ITR on capital. It is at 15.7 % in 2008 and reached its peak at 21.1 % in 2006. From 2002 to 2006 the ITR on capital increased by more than six percentage points.

As for environmental taxation, it has almost continuously declined over the period, moving from an above average level 2000 (2.9 % against 2.8 % for the EU-27) to a below average level of 2.4 % (compared to 2.6 % for the EU-27). Transport taxation is relatively high compared to the EU-27 average (0.5 % points above the EU-27 average) while taxation on energy (1.3 %) was the third lowest in the Union in 2008.

Current topics and prospects; policy orientation

Ireland currently focuses on reducing the budget deficit and announced a number measures in the 2010 Budget Bill. While the major part of measures concern the expenditure side, Ireland also announced changes in the tax system. However, the biggest revenue impact stems from the Carbon Tax. The tax is levied at a rate of € 15 per tonne on fossils fuels. It came into effect for petrol and auto-diesel on 9 December 2009. On 1 May 2010 taxation will also include Kerosene, Marked Gas Oil, Liquid Petroleum Gas, Fuel Oil and Natural Gas. The estimated revenue is € 330 million (including VAT) per year. The biggest tax reduction stems from a reduction of the standard VAT rate from 21.5 % to 21 %. This brings back the VAT rate to the level before December 2008 when the standard VAT rate was increased from 21 % to 21.5 %. The estimated revenue loss for the full year is € 167 million. Other tax decreases concern excise duties on alcohol (€ 90 million). Taken with other less revenue relevant measures the tax measures announced lead to higher tax revenue of € 126 million for the whole year. An important measure with regard to the housing market is the fading out of the mortgage interest relief by end-2017.

Main features of the tax system

Personal income tax

The two statutory personal income tax rates have been reduced substantially over the last decade. The standard rate is currently at 20 % and the top rate at 41 %; tax allowances were also replaced by tax credits for equity reasons. The threshold for the higher rate in 2010 is € 36 400 for a single person with no dependants. An additional income levy of 2 % on gross income up to € 75 036 per annum and a rate of 4 % for income above this amount. On income in excess of € 174 980 a 6 % levy is payable. Social welfare payments are excluded from this levy. Taxation of individuals on capital gains is made at 25 % with an annual exemption of € 1 270.

Corporate taxation

Companies resident in Ireland and non-resident companies which carry on a trade in Ireland through a branch or agency, are, with a small number of specific exceptions, liable to corporation tax on their taxable profits. The corporation tax rate of 12.5 % is applied to trading profits in all sectors since 1 January 2003. The 10 % rate, which was introduced in 1981, has been phased out; it now only applies to a small group of manufacturing companies until 2010. A 25 % rate applies to other passive (non-trading) income. Capital gains are subject to tax at 25 %. A profit resource rent tax of

between 5 % and 15 %, based on the profit ratio of a petroleum/gas field, was introduced in 2008 for exploration and production activities, which is in addition to the existing corporation tax rate of 25 % for non-trading income.

While withholding taxes on interest, dividends and patent royalties are imposed at 20 %, a number of specific exemptions mean that some payments received by companies are not subject to withholding tax. A surcharge of 20 % is levied on undistributed investment or estate income of a closely held company or a company providing professional services. Losses may be carried forward indefinitely: back one year in the case of continuing business and back three years in the case of a discontinued business. A substantial change in the ownership of a company, combined with a change in the nature of the trade, may result in the restriction of these losses. There are no controlled foreign company rules and no general schemes of transfer pricing or thin capitalisation rules.

VAT and excise duties

The standard VAT rate is now back at 21 % compared with 21.5 % in 2009. A reduced rate of 13.5 % applies to various services, newspapers, building work and household energy and fuels, while a zero rate applies to basic food, children's clothing, children's footwear and books.

Wealth and transaction taxes

Capital acquisitions tax is charged at a rate of 25 % on gifts and inheritances over a certain value, depending on the relationship of the beneficiary to the donor or deceased (just over € 542 544 for direct line). Stamp duty applies to sales, gifts, conveyances and leases of property. Rates of stamp duty ranging up to 6 % apply depending on whether property is for residential or non-residential purposes. There is a residential stamp duty rate of zero up to € 125 000 and a 7 % rate on the excess up to a limit of € 1 million. Properties in excess of € 1 million incur a rate of 9 %. First time buyers are exempt; as are, for the most part, purchases of new properties by owner-occupiers. Shares and securities carry a fixed rate of 1 % while leases are subject to rates of 1 % to 12 % of the average annual rent depending on the amount. Capital duty on the issue of share capital was abolished in 2005. There is no net wealth tax.

Other taxes

There are no local taxes as such in Ireland, except for a levy imposed on businesses by local authorities called rates, calculated as a percentage of the notional rental value of the business premises, and certain service charges.

Social contributions

Employers' contributions amount to 10.75 % of the salary, without any ceiling. A reduced employers' contribution rate of 8.5 % applies in respect of employees with earnings below € 352 per week. Both rates include a national training fund levy of 0.7 %. The rate for employees' pay-related-social-insurance (PRSI) contributions stands at 4 %. The ceiling for this employee contribution is currently € 75 036. The self-employed pay a 3 % tax rate on all income above € 3 174 per annum, with no annual ceiling, and a minimum payment of € 253 per year applies. On top of this, a health contribution levy (HCL) of 2 % of total income must be paid by all wage earners, raising the total contribution to 6 % and 5 % for employees and the self-employed respectively. Since 2004, employees receiving taxable benefits in kind have been taxed under the pay as you earn system and the benefits have been liable to PRSI contributions and the HCL.