



An Roinn Airgeadais
Department of Finance

Economics of Taxation

Gerard McGuinness
Fiscal Analysis Unit, Economics Division
IPA Certificate in Economics

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Lecture Outline



- 1. Key concepts**
- 2. Functions of the tax system**
- 3. Taxation revenue in Ireland**
- 4. Principles of taxation**
- 5. Hierarchy of taxation**
- 6. Ireland's tax structure in comparative context**

1. Key concepts



A tax can be defined as a compulsory payment to Government

- levied on certain types of activities
- no benefit received

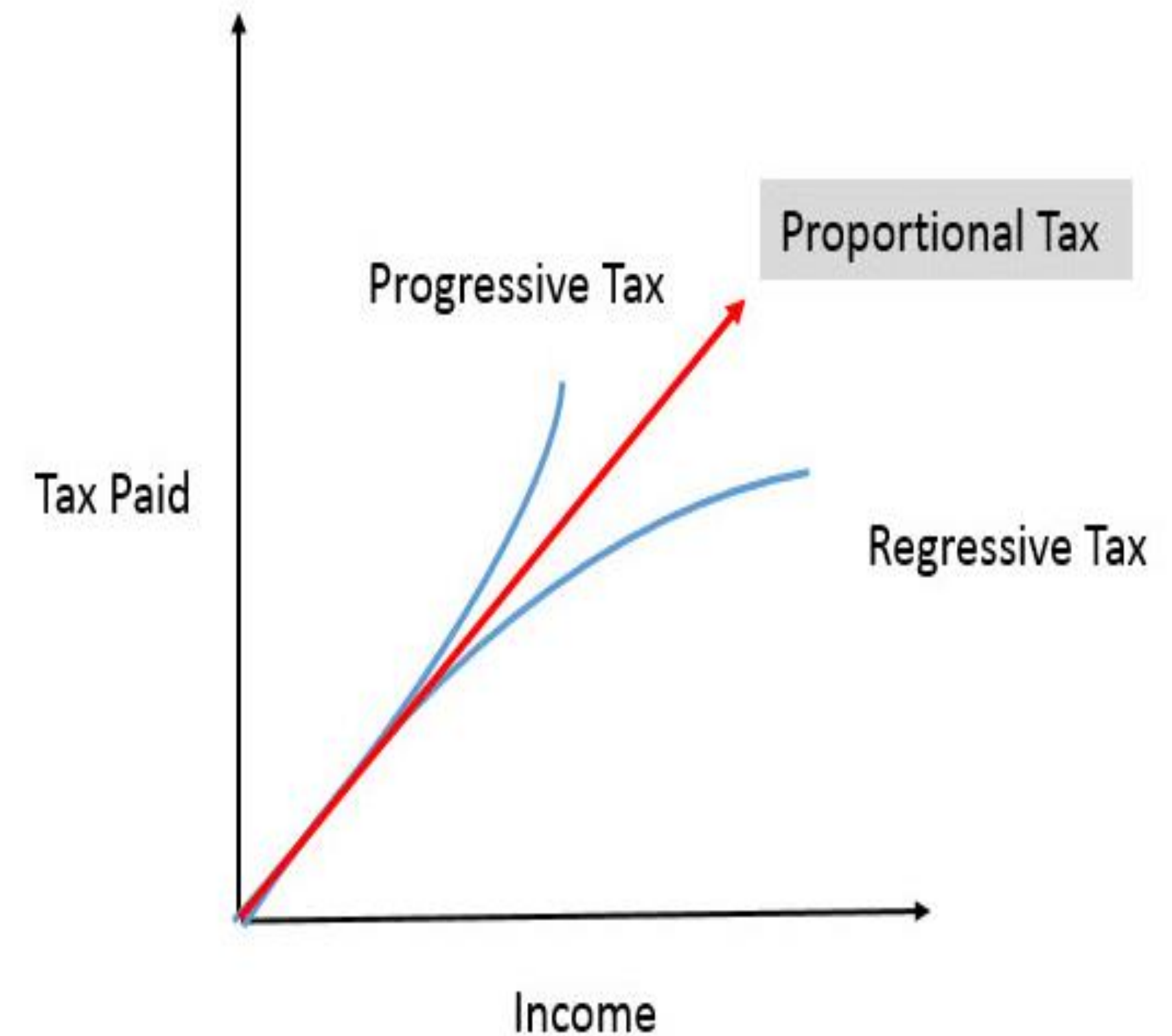
Provision of services funded via revenue obtained from taxing three principal economic 'bases'

- ❖ income
- ❖ consumption
- ❖ wealth

1. Key concepts....(cont'd)

Incidence - 'where' the tax liability falls; formal (legal) Vs effective (actual)

- **Progressive tax** – where average tax rate increases as tax base increases
- **Proportional tax** – average tax rate is invariant to changes in tax base
- **Regressive tax** – average tax rate falls as tax base increases

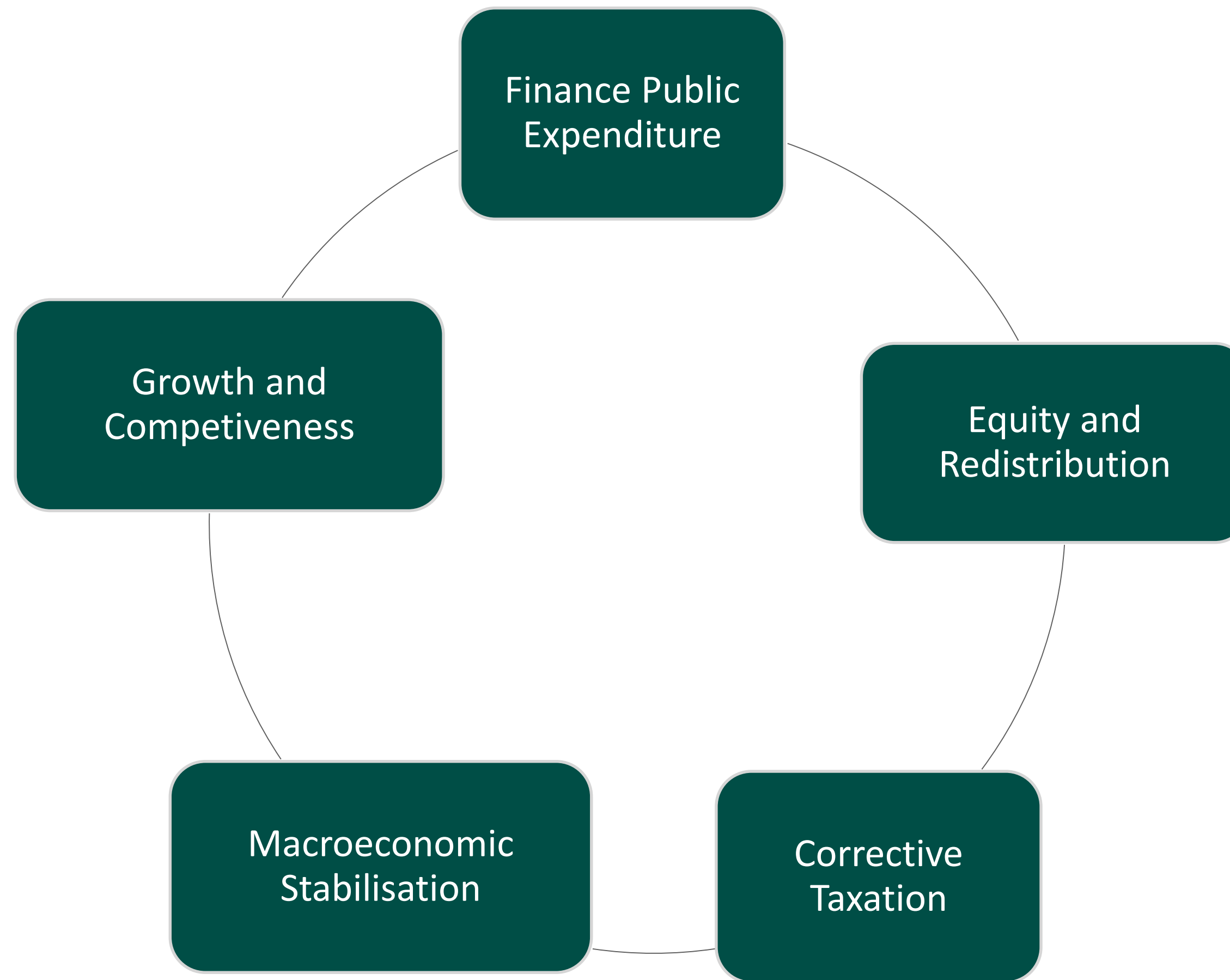


Externality - an indirect impact on third parties which arises as an effect of another party's actions

Tax Expenditures – losses of tax revenue due to reliefs, exemptions, etc

Deadweight – amount of activity that would have occurred anyway (i.e. in the absence of a tax, scheme or incentive).

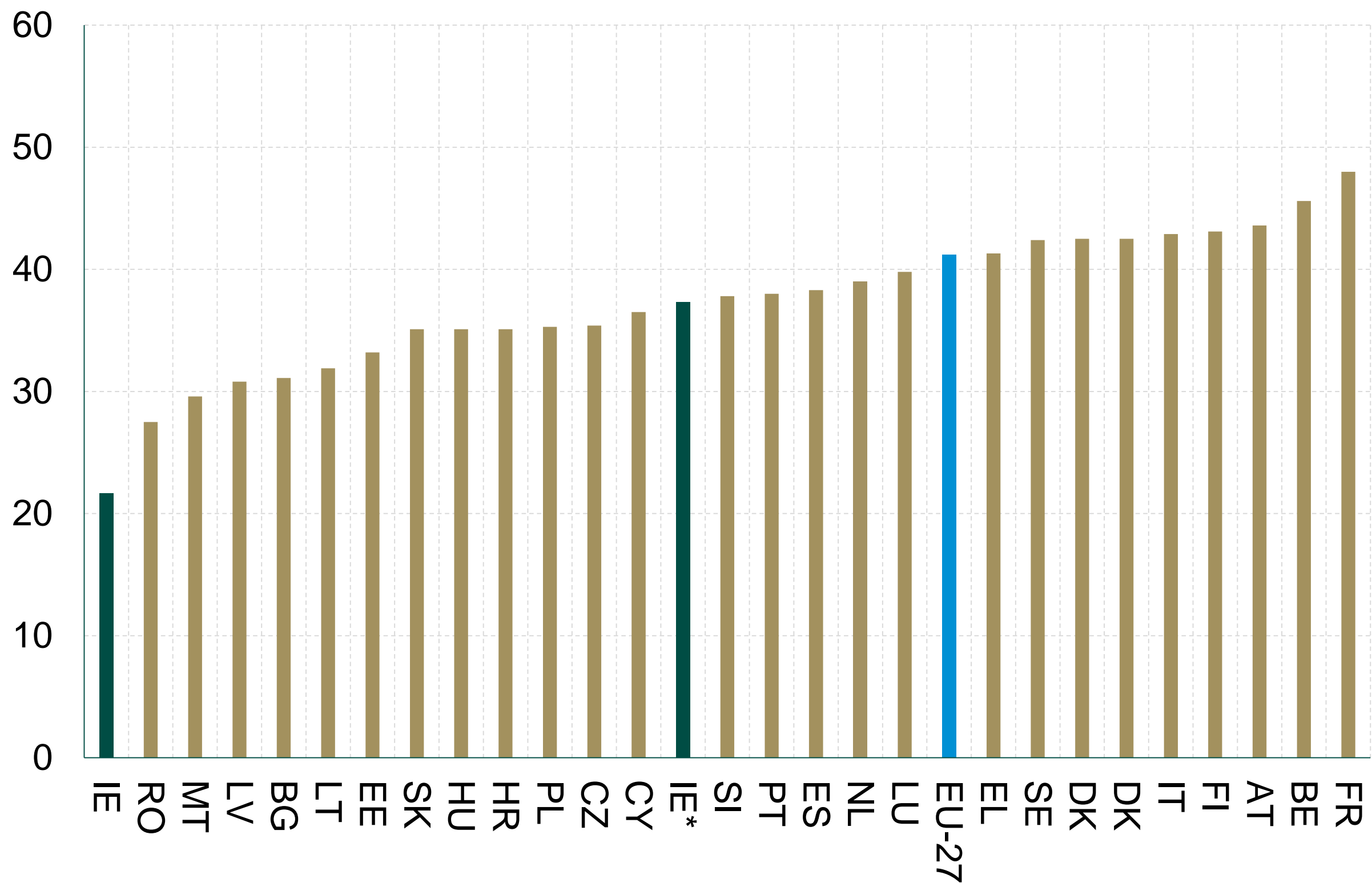
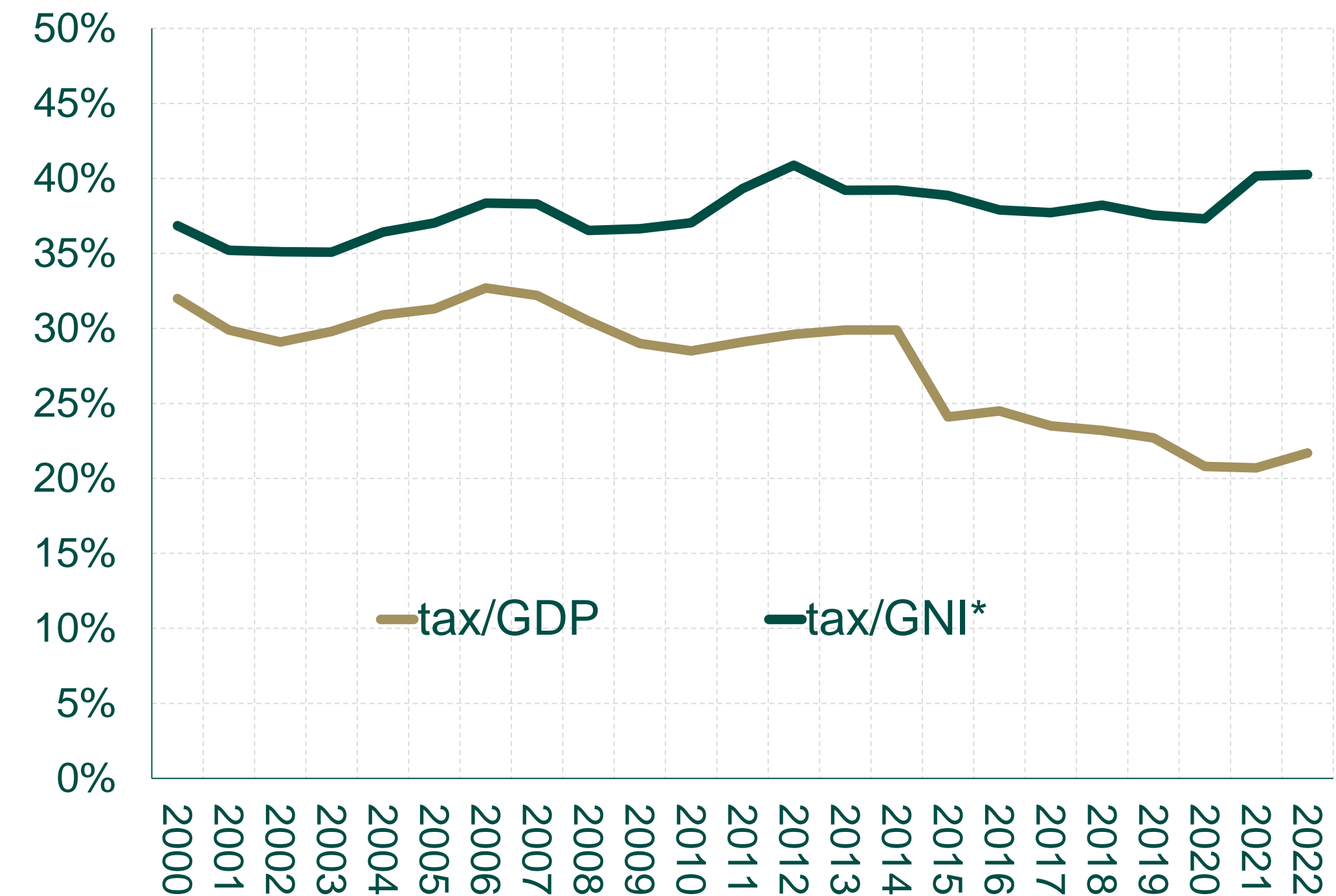
2. Functions of the tax system



3. Tax revenue in Ireland - evolution of tax burden



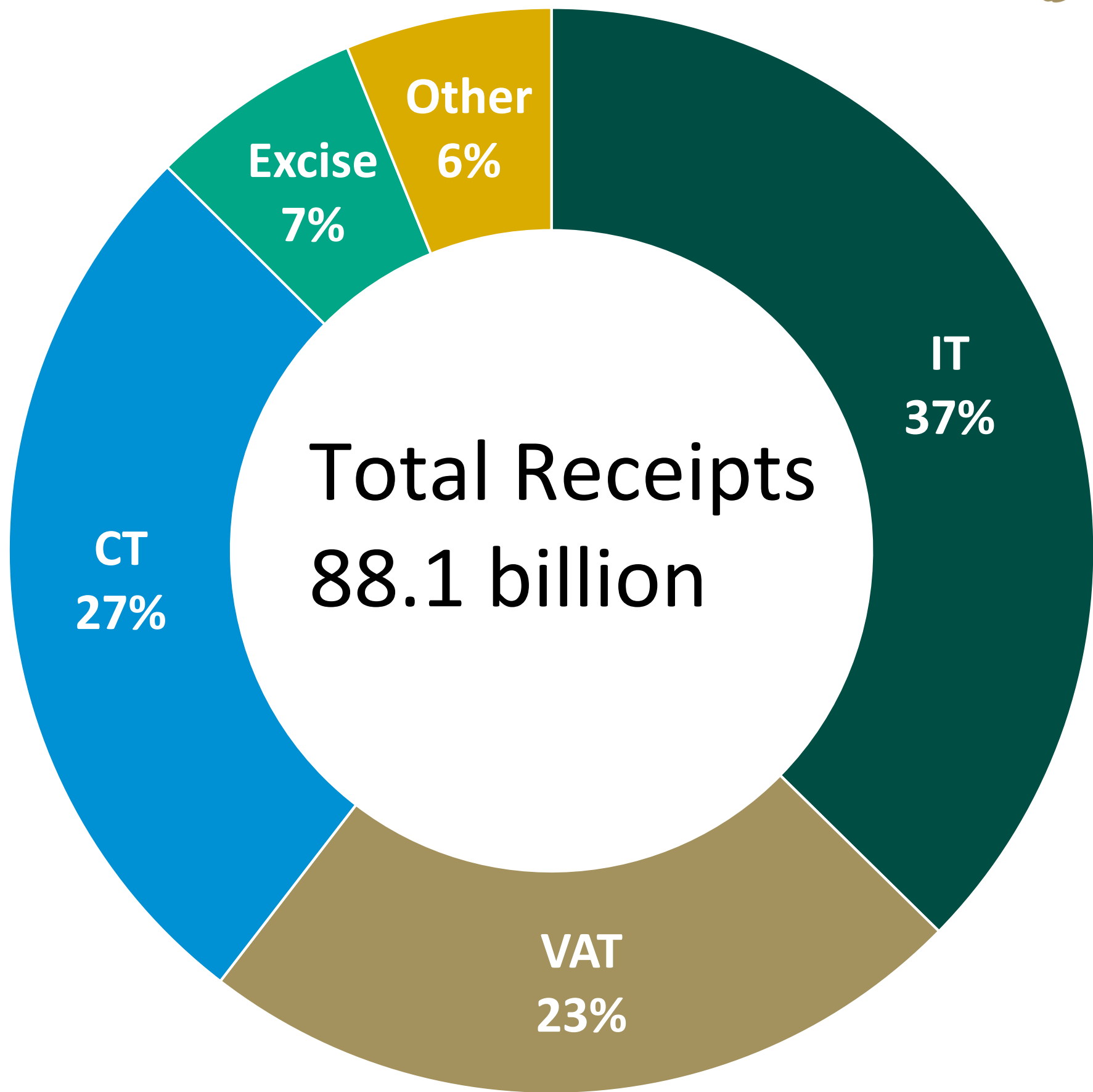
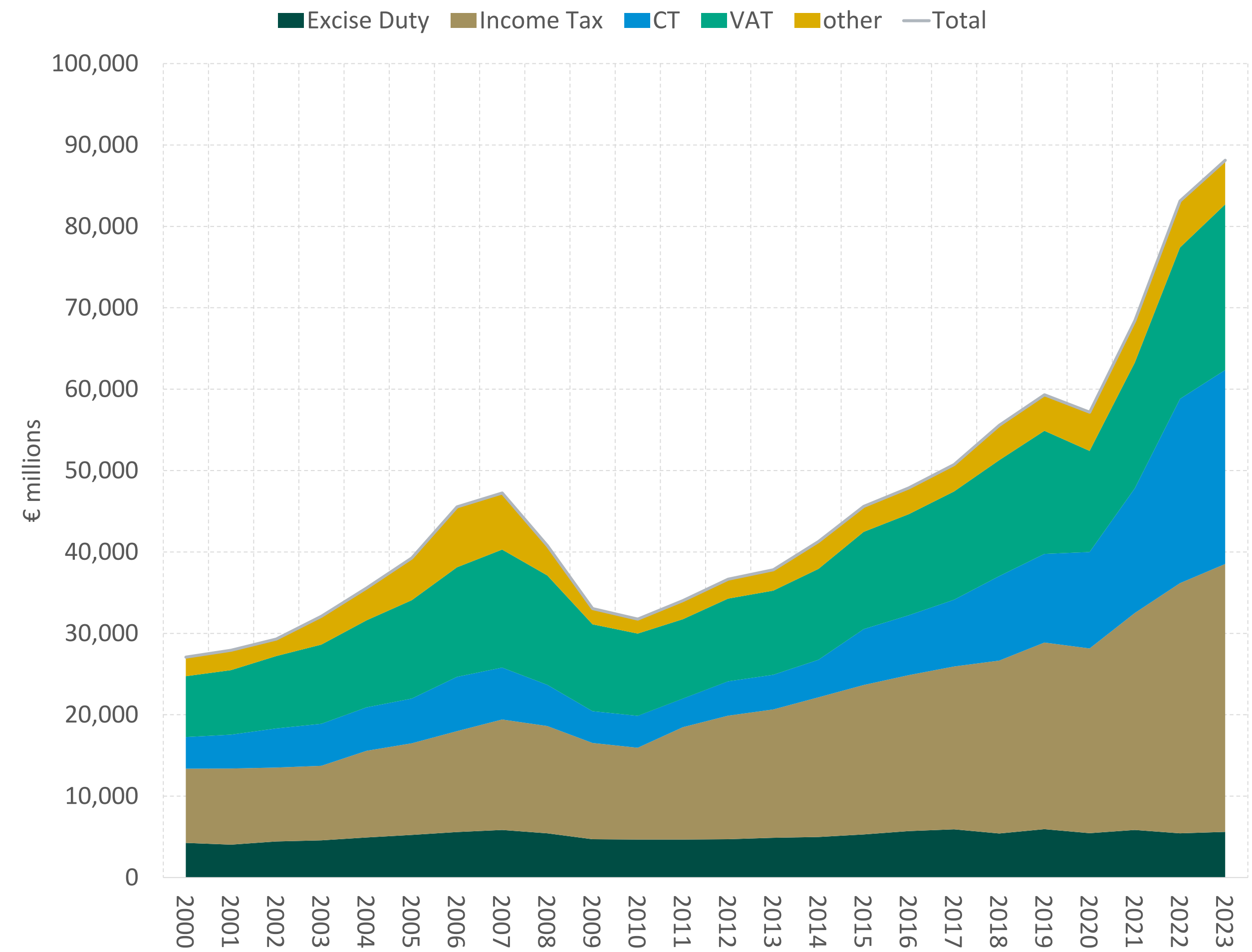
Tax to income ratio - receipts as share of GDP or GNI*



Note: Eurostat data, includes social contributions

* Receipts as a share of GNI*

3. Tax revenue in Ireland - sources (€bn)

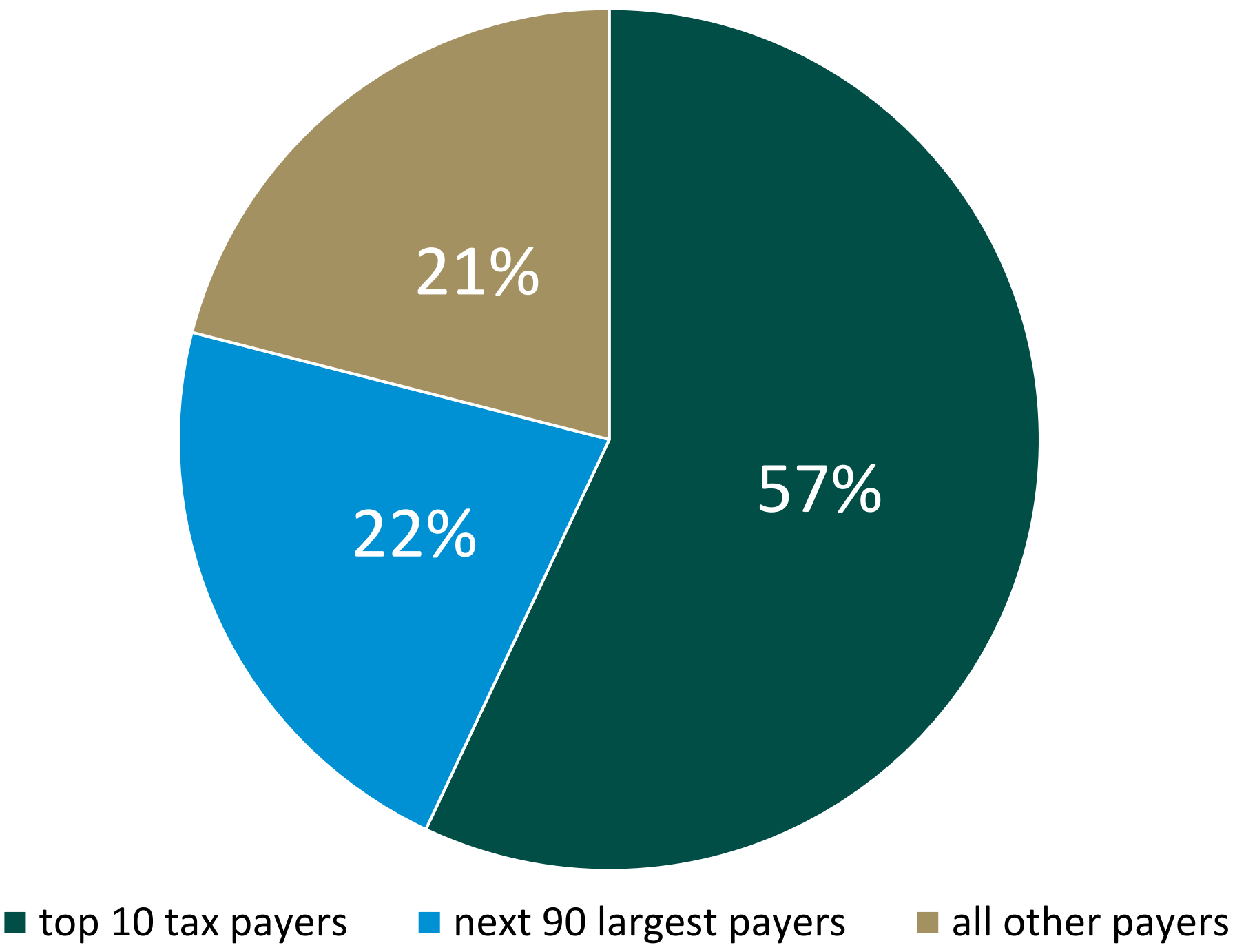
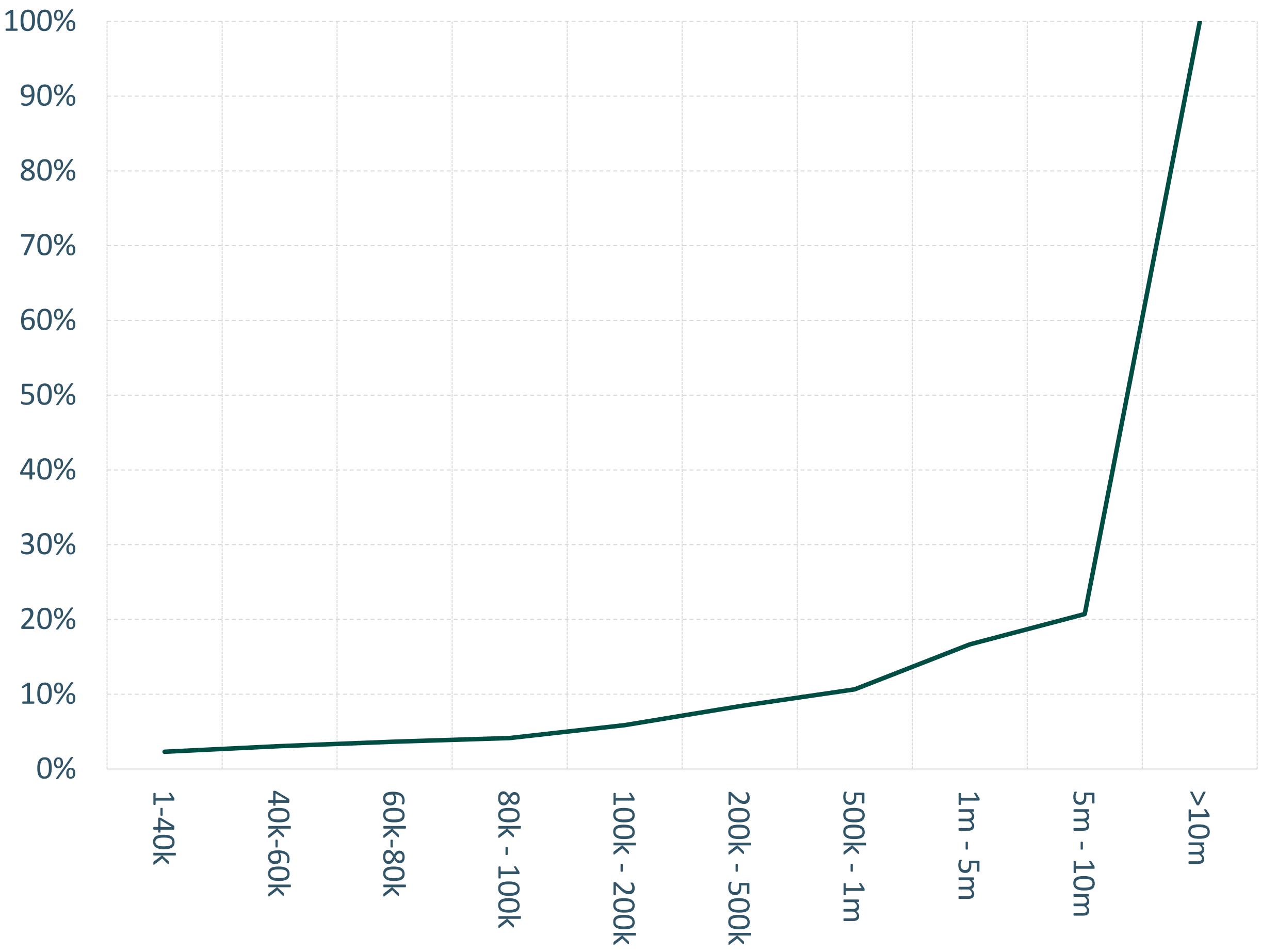


3. Tax Revenue in Ireland – corporate tax concentration risk



Distribution of corporate tax, per cent

Distribution of corporate tax payments, per cent



4. Principles of taxation



Efficiency

- Tax system should support efficient allocation of resources
- Avoid distorting economic behaviours (*fiscal neutrality*) creating least distortion possible
- Best achieved with a broad tax base applying low tax rates

Equity

- Burden of taxation should be distributed 'fairly'

Horizontal equity – those in same circumstances - treated equally for tax purposes

Vertical equity – those in differing circumstances should be treated differently, well off pay more ('*progressivity*')

4. Principles of taxation...(cont'd)



Tax system should be characterised by:

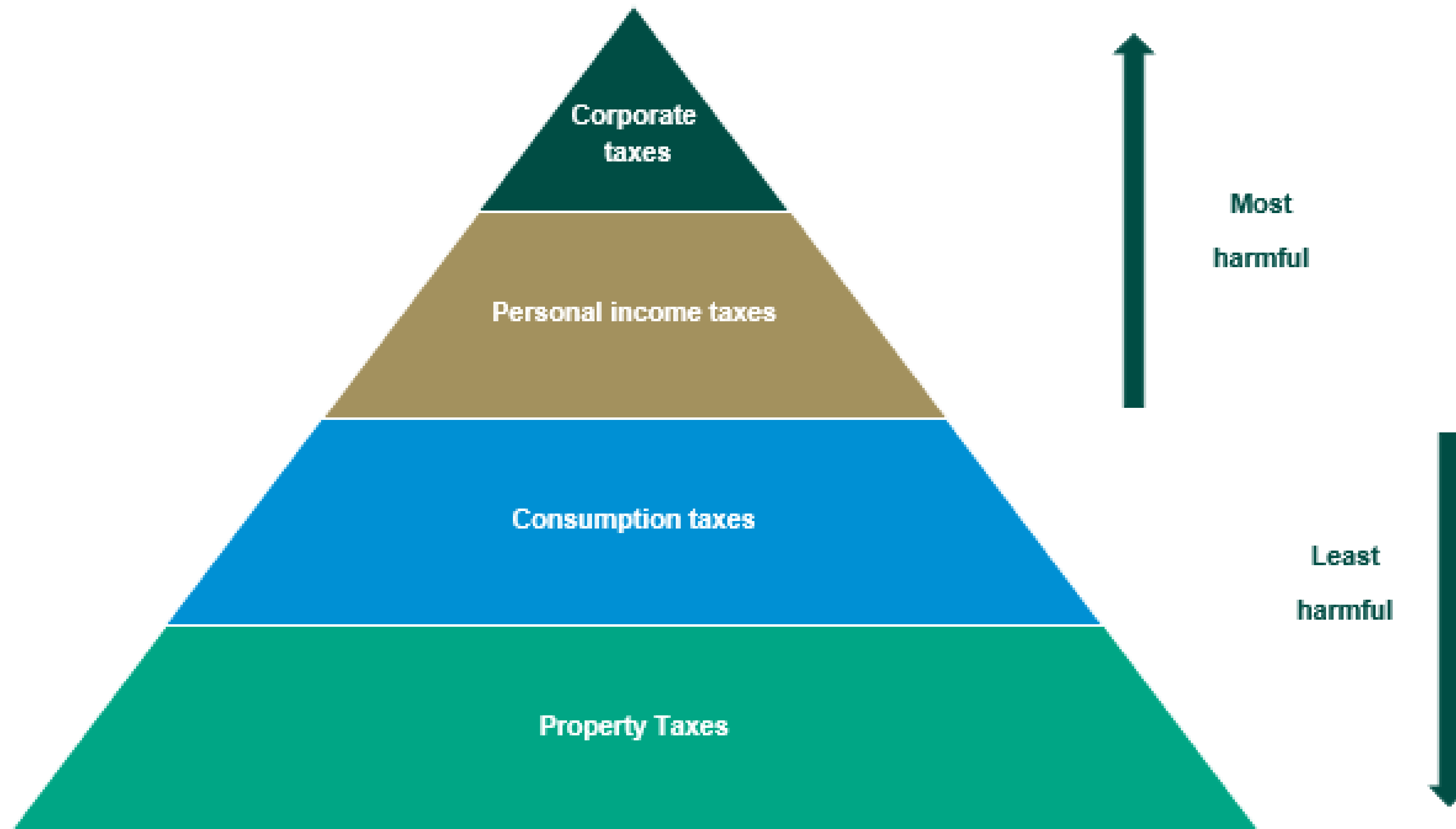
Flexibility

- sufficiently flexible to respond to changes in wider economic circumstances (e.g. *ad valorem* taxes like VAT or LPT).

Simplicity

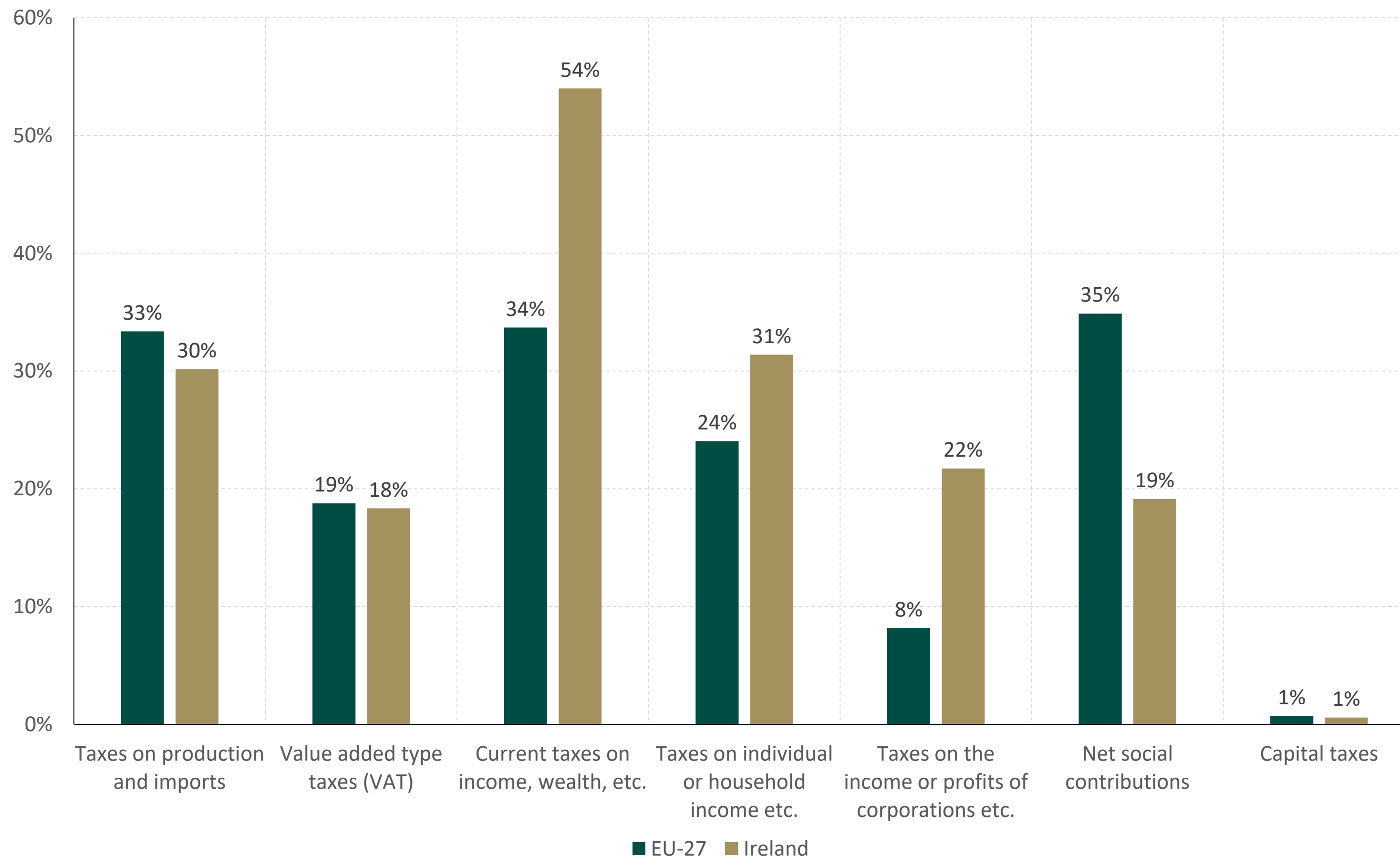
- easily administered with straight-forward compliance obligations
- transparency - enabling tax payers directly relate their preferences (e.g. labour supply/consumption/investment decisions) to their tax liability.

5. OECD *Hierarchy of taxation*



Source: OECD (2010), *Tax Policy Reform and Economic Growth*, OECD Tax Policy Studies No 20, OECD Publishing.¹⁹

6. Ireland's tax structure in comparative context 2022



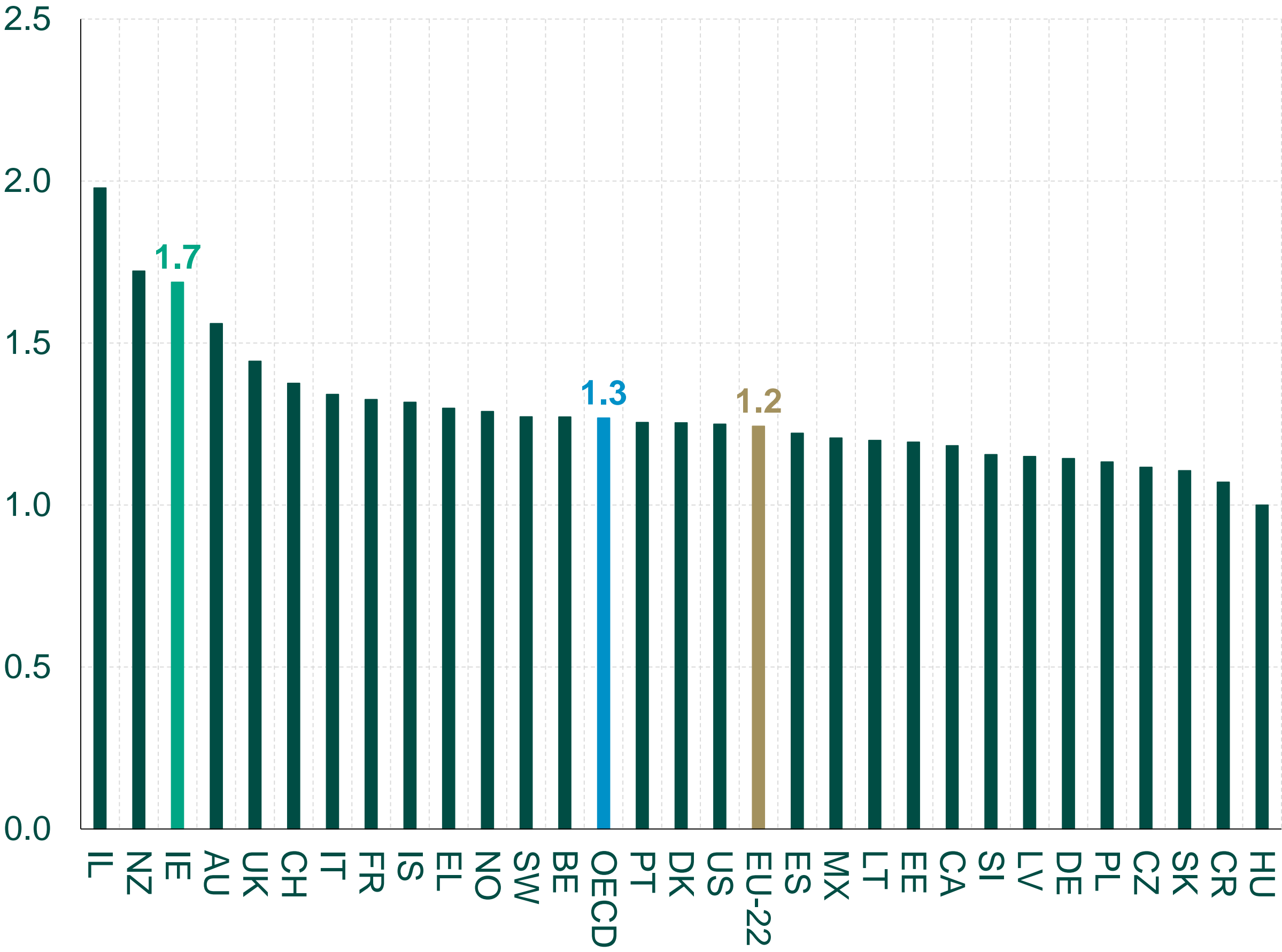
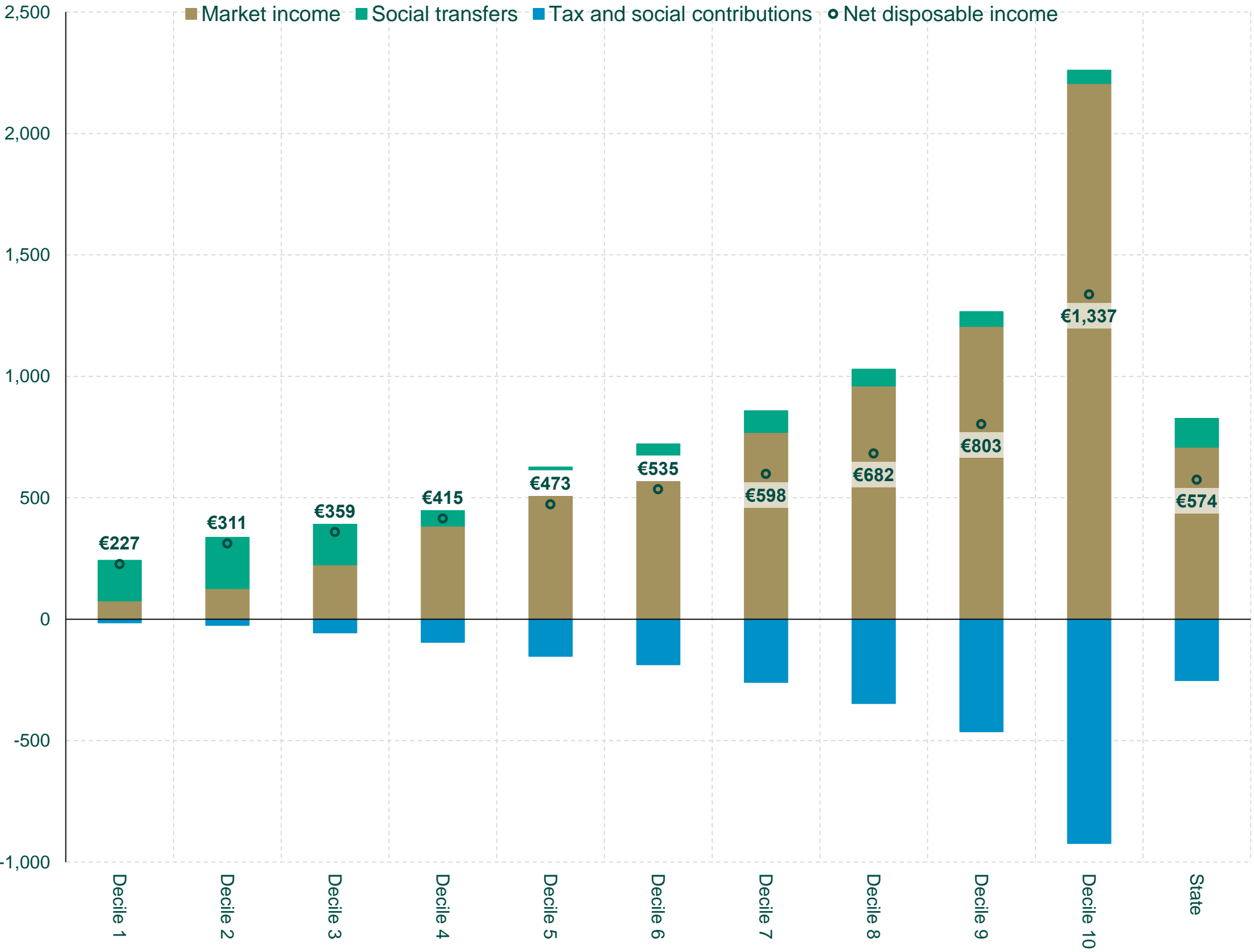
- Greater relative share of total revenue from Personal income and Corporate income
- Comparable contributions from VAT, Goods & services taxes and Property tax
- Lower share of social security contributions.

6. Progressivity of income tax system



Average weekly equivalised income, by income decile

Tax wedge: 67% relative to 167%



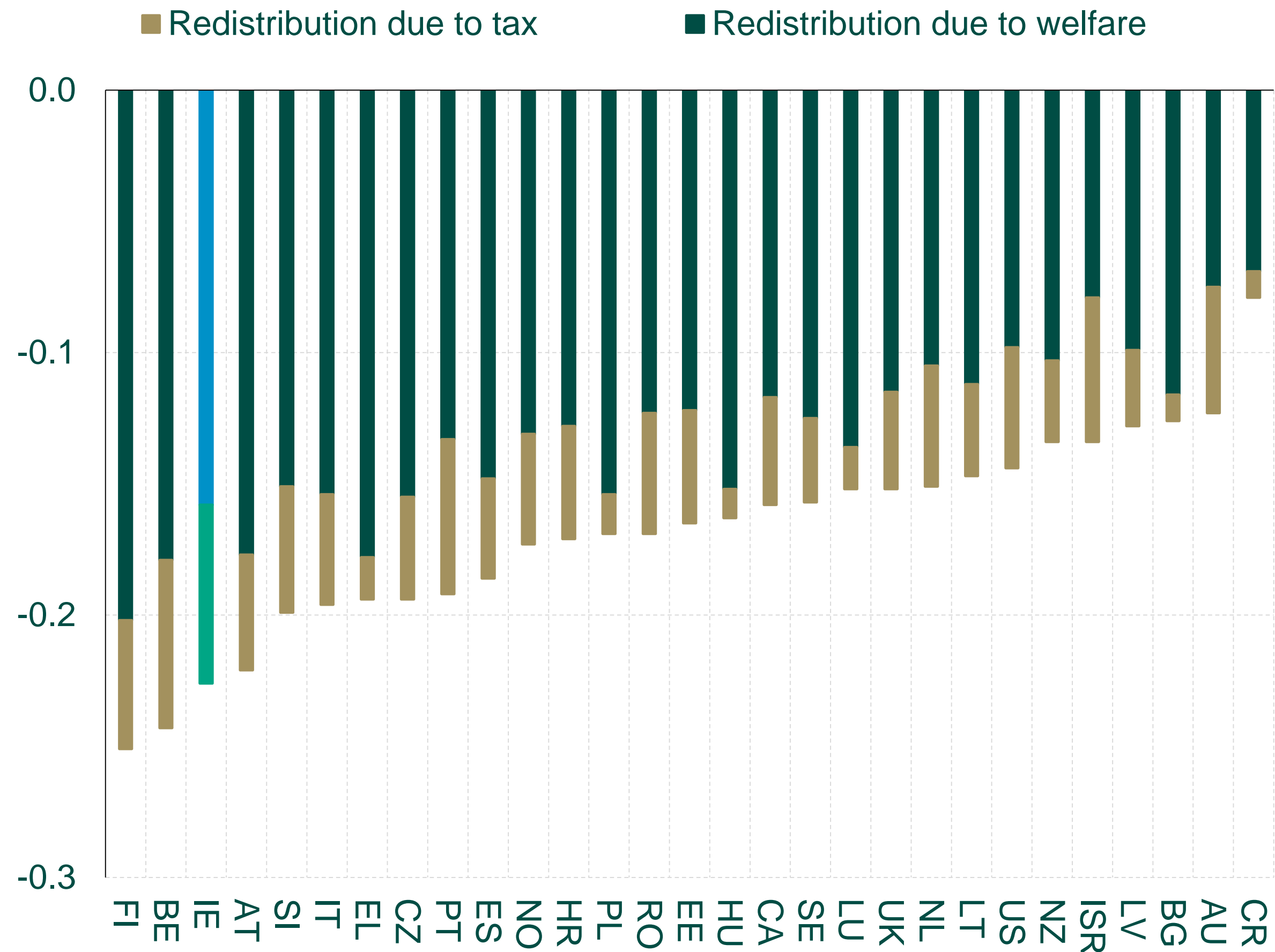
6. Role of tax system in reducing inequality



Gini coefficient – market income



Reduction in Gini coefficient





Any Questions?

Dept. of Finance *Beyond GDP*

[gov](http://www.gov.ie) - Budget 2024: Beyond GDP - Quality of Life Assessment (www.gov.ie)

Dept. of Finance Submission to Commission on Tax and Welfare:

<https://www.gov.ie/en/publication/fe5e8-department-of-finance-submission-to-the-commission-on-taxation-and-welfare/>

Dept. of Finance Tax Strategy Group Paper:

<https://assets.gov.ie/231218/1290b2b7-ac4a-4127-ac46-a21b8e22549c.pdf>



Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2, D02 R583
Ireland

www.finance.gov.ie

 @IRLDeptFinance

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