

Basic Income Model D

An Income Tax Proposal to facilitate the introduction of Basic Income in Ireland

Note: This work is limited to Ireland's 2,939,500 income-earners

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CSO 2016

		How Many? *	%
Age 0-18	Existing Child Benefit	1,190,502	25%
Aged 18-66	Tax Credits and Reliefs and/or State Benefits and Transfers	2,977,952	63%
Aged 66-80	Contributory and Non-Contributory State Pensions	464,106	10%
Aged 80+		129,305	3%

Note: This work is directed at all citizens who earn an income. This will include some citizens aged under 18 or over 66. This is relevant when we consider the overall cost of implementation of Basic Income for all qualifying citizens.

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What questions are we trying to address?

1. Question 1: "What would Basic Income mean for me"?
2. Question 2: "What is the nett cost to the State of introducing our proposed Basic Income model"?

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Effective Tax Rates

- ◆ Context is everything. When discussing tax rates, we will refer to "effective rates". This takes into account all of the tax being applied
- ◆ Think discount: Question: Would you prefer "5 for the price of 4" or "2 for the price of 1"?
- ◆ Answer: 20% . . or . . 50%?
- ◆ In both cases, marginal discount rate is 100%.

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Our Current Tax/USC/PRSI System

- ◆ Declared rates of tax (20% & 40%), USC (0.5% up to 8%) and PRSI (4% for most, but lots of lower rates), plus Employer PRSI contributions
- ◆ Ignorance of and complexity in our current system, with many special credits and reliefs which allow effective rates to be reduced substantially for some
- ◆ Pension Relief is a major issue in tax avoidance

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Current 2018 Tax/PRSI/USC

Gross Pay	Nett Pay	Effective Rate	Marginal
€10,000	€10,000	0%	0%
€25,000	€21,825	13%	29%
€30,000	€25,388	15%	29%
€40,000	€31,413	21%	49%
€50,000	€36,538	27%	49%
€75,000	€49,189	34%	52%
€100,000	€61,189	39%	52%
€125,000	€73,189	41%	52%
€250,000	€133,189	47%	52%

Nett pay calculated for a single person under PAYE and PRSI Class A

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Problems with the Income Tax system

- ◆ Unnecessarily complex
- ◆ PAYE, USC, PRSI
- ◆ Unequal benefit arising from Budget changes
- ◆ Lack of Transparency
- ◆ Tax Avoidance measures available to selected individual income earners

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Target Effective Tax Rates?

Gross Pay	Current Rate	Target Rate?	Change?
€10,000	0%	0%	-
€25,000	13%	0%	-13%
€50,000	27%	25%	-2%
€75,000	34%	35%	+1%
€100,000	39%	40%	+1%
€125,000	41%	42%	+1%
€250,000	47%	48%	+1%

Our target will be based on our political values and ambition. It must be feasible and affordable. We must also have a transition plan to get from here to there.

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Pension Relief

- ◆ Major source of tax avoidance
- ◆ Benefit is biased to higher-earners
- ◆ Complexity of pension relief makes it inaccessible and suits those who benefit from it
- ◆ Employer contributions are not regarded as income – this opens the door to significant avoidance opportunities
- ◆ Employee contributions get relief at marginal tax rate
- ◆ At point of retirement, 25% tax-free lump sum (up to ceiling of €0.5m)
- ◆ Pension lobby is very, very powerful . . .

Thankfully, the DEASP have proposed a better pensions option.

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Alternative to Pension Relief

re: Automatic Enrolment in Retirement Savings Systems

- ◆ SSIA-type direct State financial support to employee's pension fund
- ◆ Employee can contribute up to 6% of annual salary, with an income ceiling of €70,000
- ◆ Employee contributions are paid after tax, not before
- ◆ Employer matches the employee's contribution
- ◆ State contributes one third of the employee's contribution
- ◆ That gives a combined 14% contribution to the fund
- ◆ The ratio of 3:3:1 means that there will be a €7 contribution to the fund at a cost of only €3 to the employee

For simplicity, we are presuming all pensions are Defined Contribution (DC). Recognition of Defined Benefit (DB) schemes will need to be included and developed further.

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Basic Income “Model D”

- ◆ Maintain current PAYE/PRSI/USC tax system – with PAYE and USC going to State revenue pot and PRSI going to the Social Insurance Fund
- ◆ Basic Income payment of €10,000 is processed as a refundable tax credit
- ◆ No change to the frequency of payment to the employee – weekly, monthly, etc.
- ◆ Basic Income / Refundable tax credit replaces all other tax credits and allowances and reliefs against income tax
- ◆ PAYE Modernisation (due to be introduced on 1st January 2019) will facilitate the required data between Revenue, DEASP, employer and employee on a “real time” basis – no time delays

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Basic Income “Model D”

- ◆ PAYE: Maintain existing 20% and 40% rates but reduce the cut-off point to €20,000 (from current rate of €34,500)
- ◆ PAYE: Remove all other tax credits and allowances
- ◆ USC: 25% on the first €10,000
- ◆ USC: 5% on the next €50,000
- ◆ USC: 10% on all income over €60,000
- ◆ PRSI: Employee rate of 4% on incomes greater than €20,000
- ◆ PRSI: Employer rates on a sliding scale from 7.5% to 15%

What does this do to my nett pay calculation?

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Model D Results

Gross Pay	2018 Current	Model D	Change
€0	€0	€10,000	+10,000
€10,000	€10,000	€15,500	+5,500
€25,000	€21,825	€24,750	+2,925
€30,000	€25,388	€27,300	+1,912
€40,000	€31,413	€32,400	+987
€50,000	€36,538	€37,500	+962
€75,000	€49,189	€49,500	+311
€100,000	€61,189	€61,000	-189
€125,000	€73,189	€72,500	-689
€250,000	€133,189	€130,000	-3,189

For the standard single PAYE income earner, Model D offers an increase in nett pay for salaries up to €90,000.

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Current State Tax Receipts

	Actual	Forecast	
	2016	2018	
Number of Individual Income Earners	2,939,500	2,939,500	
	€m	€m	
Gross Income of those individuals	94,554	111,734	+18%
Current State Income:	€m	€m	
Current State Income Tax & USC	17,878	21,958	+23%
Plus Add PRSI paid to SIF	9,566	10,357	+8%
Nett State Income	€27,444	€32,315	

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Calculated Model D

	2016 €m	2018 €m	
Income Tax	28,398	34,881	+23%
Plus USC	10,765	12,047	+12%
Plus PRSI	11,639	14,153	+22%
Less Basic Income pay-out	-29,395	-29,395	
Plus Estimate of savings on existing State transfers	3,570	3,905	
Less State cost re Pension contributions	-1,656	-1,894	
Nett State Income	€23,321	€33,697	

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Benefits & Strengths

- ◆ We are maintaining the current State revenue streams of PAYE/USC and PRSI
- ◆ This is easy to implement – fully compatible with existing Revenue and Employer functions
- ◆ The model allows high levels of flexibility to adjust the rate of Basic Income and the tax rates on all different ranges of income brackets
- ◆ The combination of these PAYE/USC/PSI rates give an improved, progressive tax system
- ◆ The starting point for redistribution depends on an individual's current non-standard tax allowances and reliefs
- ◆ This model is cost neutral for the total cohort of income earners

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Vulnerabilities

- ◆ The initial high rate of USC of 25% on the first €10,000 will attract criticism and/or puzzlement
- ◆ The justification for this will be difficult to communicate – but it is absolutely necessary to make the model affordable
- ◆ The proposed change to the pension relief will be resisted by seriously powerful lobby groups
- ◆ The removal of non-standard tax allowances and reliefs will also attract opposition from those who avail of them
- ◆ The increase in Employer PRSI on those earning more than €20k (to 12.5%, increasing to 15% on incomes more than €60k) – this will attract opposition from some employers.

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Transition from here to there

	Basic Income or Refundable Tax Credit	Reduction in all non-standard credits and allowances	Automatic Enrolment rate of Pension Deduction
2022, Year 1	€5,000	20%	1%
2023, Year 2	€6,000	40%	2%
2024, Year 3	€7,000	60%	3%
2025, Year 4	€8,000	80%	4%
2026, Year 5	€9,000	100%	5%
2027, Year 6	€10,000	100%	6%

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References

- ◆ CSO DataStat database
- ◆ Pensions Authority
- ◆ Social Justice Ireland
- ◆ Tax Reform 2016 Plan
- ◆ DEASP Proposal for Automatic Enrolment in Retirement Savings schemes
- ◆ Revenue Ready Reckoner
- ◆ Revenue Statistics
- ◆ Budget Estimates for y/e 31/12/2018
- ◆ CSO Census 2016.

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