

Taxation in Ireland – 3.5

Why do we have taxes?

- **ACTIVITY**
- You work in Public Relations for the Minister for Finance.
- Recently the general public have become increasingly dissatisfied with having to pay so much tax – both on their wages and on things they purchase.
- You have been tasked with writing a letter to the Irish Times on behalf of the minister, justifying the need for taxes in your society
 - Your letter should highlight at least FOUR reasons as to why we need a tax system.

Why do we have taxes?

- **Finance Government Activities**
 - To finance all government activities e.g. running of civil service, wages of Public Sector workers.
- **Achieve Economic Objectives**
 - To achieve economic objectives: reducing inflation, favourable balance of payments (more exports than imports).
- **Redistribution of Wealth**
 - To redistribute the national wealth through the social welfare payments.
- **Achieve Social objectives/Influence Behaviour**
 - To achieve social objectives e.g. discourage smoking, drinking / decrease pollution/damage to environment.
- **Promote enterprise**
 - To help industry through subsidies/grants and other services can be provided to help industry and encourage enterprise e.g. County Enterprise Boards.

Four Perspectives on Taxation

- **Financial Perspective**
 - Raise money to finance government activities
- **Social Perspective**
 - Taxes can be used to have a positive impact and change human behaviour
 - Examples?
- **Ethical Perspective**
 - Taxes can be used to redistribute wealth to those who don't have enough to make ends meet
 - Examples?
- **Legal Perspective**
 - The Revenue has legal powers to ensure people pay the taxes they owe. If people don't they could be have to pay extra penalties.
 - Money from taxes can be used to maintain law and order through the gardai

Government's Tax collector?

- The Revenue Commissioners collect tax on behalf of the government
- <https://www.revenue.ie/en/corporate/information-about-revenue/role-of-revenue/index.aspx>

Research?

- **ACTIVITY**
- Each group has been given a different tax
 - Research the tax on www.citizensinformation.ie and other relevant websites
 - Create a google slides presentation to display your findings and to help you teach the class about the information you have found
 - Remember you are teaching the class so try and think of creative ways that the class might remember what you are teaching them
 - Your slides should be interesting and **not** text-heavy
 - You know what a good lesson looks like! Apply that to your own lesson!
 - You must provide the class with **FIVE** key pieces of information to help explain the purpose of the tax
 - It might be very useful to include **some sample calculations** to help illustrate how the tax works
 - PLEASE UPLOAD THE GOOGLE SLIDES PRESENTATION TO THE CLASSROOM IN ADVANCE OF THE NEXT CLASS

Direct or Indirect Taxes

- Direct Taxes
 - This is paid directly to the government by the individual/business
 - Taxes on Income & Wealth
 - Examples include: Income Tax (PAYE, Self Assessed), Corporation Tax, CGT, CAT, DIRT
- Indirect Taxes
 - This is paid to an intermediary who then passes on the tax to the Revenue
 - Examples include: VAT, Excise Duty, Customs Duty, Motor Tax

- **Payroll Taxes**

- **Income Tax**

- PAYE – Pay as you earn – Employer takes tax from the employee and gives to the Revenue
- Self Assessed – Self employed people do their own tax return by November for the previous year
- Rates: 20% up to 35,300. 40% after

- **USC**

- Universal Social Charge – Extra income tax introduced when the country was in recession
- Rates: First 12,000 of gross income 0.5%, Next 6,760 2.5%, Next 51,272 is 5%

- **PRSI**

- Pay Related Social Insurance
- Contribution to the social welfare scheme in the country
- Roughly 4% of gross income

- **Wealth Taxes**

- **Capital Acquisitions Tax**

- Tax on **gifts** and **inheritance** received
- Rate is 33%
- The closer your familial relationship is to the giver the less you pay
- No CAT between spouses
- Can receive up to 3,000 per year from anyone without paying CAT

- **Capital Gains Tax**

- Tax on the **PROFIT** from the **sale of an asset** (eg property, shares etc)
- Family home is **not subject** to CGT
- Rate is 33%

- **DIRT**

- Deposit Interest Retention Tax
- Tax on interest earned from savings accounts
- Rate is 35%

- **Local Property Tax**

- Tax on all residential property
- Rate is 0.18% if the value of the property up to 1 million. Anything over that is charged at 0.25% of the value.

- **Business Taxes**

- **Corporation Tax**

- Tax on **COMPANY** PROFITS
- 12.5%
- Ireland is seen as having very LOW corporation tax

- **VAT**

- VAT is a **consumption tax** – tax on the purchase of goods and services
- Standard rates are 13.5% for services and 23% for goods
- Certain goods (children's clothes, staple foods, oral medicine, books)

- **Custom Duties**

- Tax on imports from **outside the EU**
- Used to encourage people to buy EU produced goods
- Rate varies from product to product

- **Commercial Rates**

- Paid to the local authority (county council)
- Tax based on the size and location of the business

- Various Taxes

- **Excise Duties**

- Tax on **CERTAIN GOODS** (fuel, alcohol, tobacco) to discourage consumption
- Rate varies from product to the product

- **Motor Tax**

- Used for the upkeep of our road network
- Rate is based on CO2 emissions from the car

- **VRT**

- Vehicle Registration Tax
- Tax on the import of a car from another country

- **Carbon Tax**

- Tax on the use of fossil fuels
- Rate is 20 euro per tonne

- **TV Licence**

- Tax on having a TV or being capable of receiving a signal (laptop/tablet)
- 160 euro per year

- **Sugar Tax**

- Tax on sugary drinks
- Rate is 30 cent per litre of drink if the drink has over 8g of sugar per 100ml

Avoidance or Evasion?

- Tax avoidance

- Arranging one's tax affairs so as to minimise the amount of tax you pay
- Tax avoidance is **LEGAL**

- Tax Evasion

- This involves not paying or declaring the correct amount of tax you owe to the Revenue
- This is **ILLEGAL**
- The **Shadow Economy** refers to **unrecorded activity** in the economy. These are financial transactions that the Revenue Commissioners have no record at.
 - Almost all shadow economy activity is considered to be **ILLEGAL**

Fairness in Taxation

- Progressive Taxes

- These taxes **take into account** a person's **ability to pay**. They take a **higher** percentage from a **high** earner.
- PAYE is an example of a progressive tax – WHY?

- Regressive Taxes

- These taxes **DO NOT** take into account a person's **ability to pay**. They take a **higher** percentage from a **LOW** earner.
- VAT is an example of a regressive tax – WHY?