



COMMISSION ON TAXATION  
AN COIMISIÚN UM CHÁNACHAS

## PART 3

# IRELAND'S TAXATION SYSTEM



## Part 3

### Ireland's Taxation System

**Section 1** is an introduction.

**Section 2** gives a broad outline of all the taxes and duties that operate at a national level in Ireland.

**Section 3** briefly considers social insurance, the health levy and the national training fund levy.

**Section 4** outlines the taxes and charges that operate at local authority level.

**Appendices 1** and **2** contain supplementary information.

# Section 1:

## Introduction

### 1.1 National taxes

The Irish taxation system encompasses the taxation of income, consumption and capital. At the national level:

- Income is subject to income tax in the case of individuals and corporation tax in the case of companies
- Spending or consumption taxes include value-added tax and excise duties
- Capital is subject to tax in a number of ways. Gifts and inheritances are subject to capital acquisitions tax and gains on the disposal of assets are subject to capital gains tax. Capital taxes also include stamp duty which is charged on transactions, including the purchase of property and shares

### 1.2 Income levy

A surcharge on income (income levy) was introduced in the Finance (No. 2) Act 2008. This came into effect on 1 January 2009. The full year estimate for the income levy is approximately €2 billion. The levy applies on gross income above an exemption threshold, as follows:

*Table 3.1: Income levy thresholds*

Income	Rate
Below €15,028	Exempt
€15,028 to €75,036	2%
€75,037 to €174,980	4%
Over €174,980	6%

Source: *The Revenue Commissioners*

National taxes raised some €41 billion in 2008 for the Irish Exchequer (down from €47.5 billion in 2007). The estimated receipts for 2009 – including the income levy – are approximately €34.4 billion.

Table 3.2: Net tax receipts, Ireland 2007 - 2009

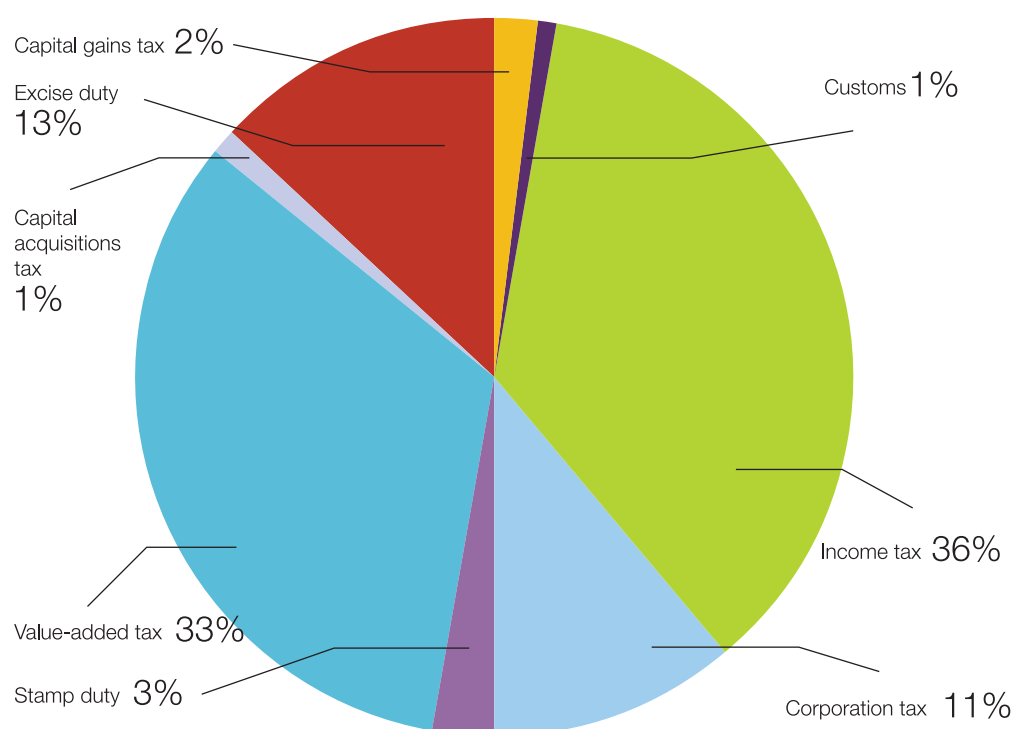
	Net Receipts 2007		Net Receipts 2008		Net Receipts 2009 (estimated)	
	€billion	%	€billion	%	€billion	%
Income tax	13.6	29%	13.20	32%	12.47	36%
Corporation tax	6.4	13%	5.07	12%	3.74	11%
Value-added tax	14.5	30%	13.43	33%	11.42	33%
Stamp duties	3.2	7%	1.76	4%	0.98	3%
Excise duties	6.0	13%	5.60	14%	4.63	13%
Capital gains tax	3.1	6%	1.42	3%	0.63	2%
Capital acquisitions tax	0.4	1%	0.34	1%	0.30	1%
Other (customs duty, misc.)	0.3	1%	0.25	1%	0.23	1%
<b>Total</b>	<b>47.5</b>	<b>100%</b>	<b>41.07</b>	<b>100%</b>	<b>34.4</b>	<b>100%</b>

Source: The Department of Finance and the Revenue Commissioners

**Note:** Net tax receipts are derived by subtracting repayments and refunds from the total amount collected ("gross receipts").

Figure 3.1 shows the breakdown of net receipts by tax for 2009 – it can be seen that income tax (including the income levy) accounts for some 36% of total estimated receipts.

Fig 3.1: Net tax receipts by tax head – Estimates for 2009, Ireland



Source: The Department of Finance and the Revenue Commissioners

An overview of the above taxes is given in Section 2, where we also present summary information on the distribution of taxpayers by income level in Ireland.

### 1.3 Social insurance

Social insurance contributions, health levy contributions and a national training fund levy are also significant contributors to Ireland's resources. They yielded approximately €9.75 billion in 2008 (up from €9.43 billion in 2007) and are estimated at €9.78 billion for 2009. The information is shown in Table 3.3. Social insurance, health and training levies are considered in Section 3.

Table 3.3: Social Insurance, health and training levies, 2007 – 2009

	2007		2008		2009 (estimated)	
	€billion	%	€billion	%	€billion	%
Social insurance	7.72	81.9%	7.98	81.85%	7.50	76.7%
Health levy contributions	1.30	13.8%	1.33	13.64%	1.89	19.3%
National training fund levy	0.41	4.3%	0.44	4.51%	0.39	4.0%
<b>Totals</b>	<b>9.43</b>	<b>100%</b>	<b>9.75</b>	<b>100%</b>	<b>9.78</b>	<b>100%</b>

Source: The Department of Finance

### 1.4 Local government

Taxes and charges also arise at the level of local government. These include rates on commercial property, a levy on private residences (other than main homes) and charges for the provision by local authorities of services such as refuse collection. In 2007, these accounted for 55% of the income needed to fund the current expenditure of the country's local authorities. The balance of local authorities' current expenditure comes from two sources:

- Government grants and subsidies, and
- The Local Government Fund (a central fund financed by the proceeds of motor tax and an Exchequer contribution)<sup>1</sup>

Revenues from local government sources yielded approximately €2.75 billion in 2008 (€2.7 billion in 2007) and are estimated at €2.83 billion in 2009. Local government charges and levies are considered in Section 4.

### 1.5 Summary picture

Taking national taxes, social insurance contributions, levies and local authority revenue sources together, it can be seen that national taxes predominate in terms of total receipts, with, for example, the local authority component accounting for just 6% of the total receipts in 2009. This is low by European standards<sup>2</sup>.

<sup>1</sup> There is also an Environmental Fund, which is used to support waste management and other environmental initiatives by central Government and local authorities. The income of the fund comes from two main sources – an environmental landfill levy (collected by local authorities) and a plastic bag levy (collected by the Revenue Commissioners).

<sup>2</sup> Direct comparisons between Member States are difficult as the base on which estimates are made varies considerably between countries.

The breakdowns are shown in Table 3.4 and Figure 3.2. These three components of Exchequer receipts are considered in some detail in our Report. An overview is given in Sections 2, 3, and 4 in summary form. Full details on all the taxes are available from the relevant Government websites:

[www.revenue.ie](http://www.revenue.ie) (for national taxes)

[www.welfare.ie](http://www.welfare.ie) (for social insurance and levies)

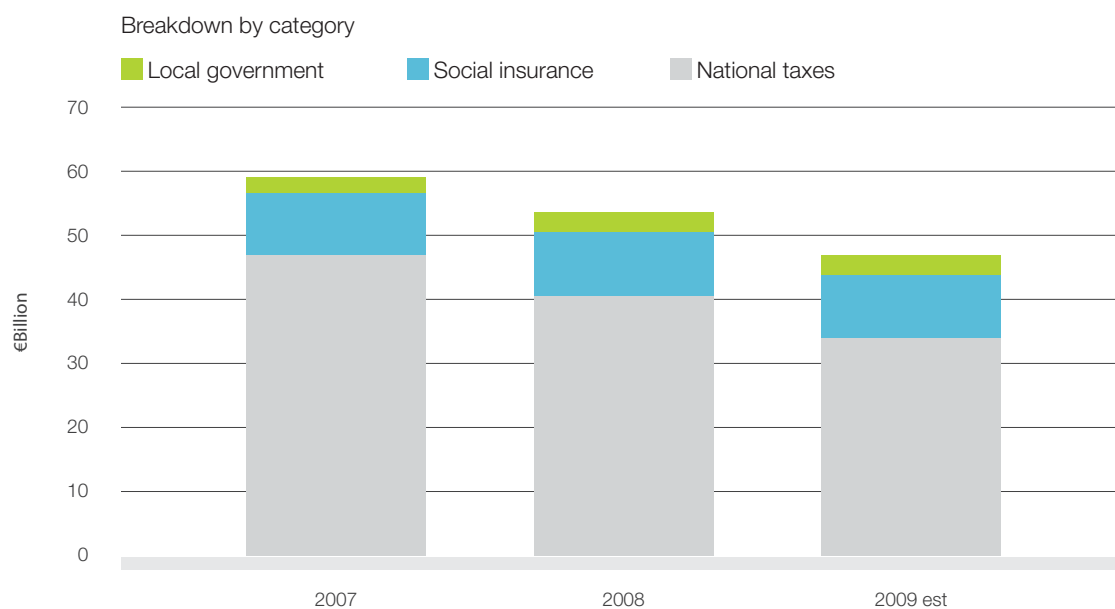
[www.environ.ie](http://www.environ.ie) (for local government finance)

Table 3.4: Taxes, social insurance, local authority receipts, 2007 – 2009

	2007		2008		2009 (estimated)	
	€billion	%	€billion	%	€billion	%
National taxes (see Section 2)	47.5	79.66%	41.07	76.67%	34.4	73.18%
Social insurance (see Section 3)	9.43	15.81%	9.75	18.20%	9.78	20.80%
Local Government (see Section 4)	2.70	4.53%	2.75	5.13%	2.83	6.02%
<b>Totals</b>	<b>59.63</b>	<b>100%</b>	<b>53.57</b>	<b>100%</b>	<b>47.01</b>	<b>100%</b>

Sources: The Revenue Commissioners, Department of Finance, Department of the Environment, Heritage and Local Government.

Figure 3.2: Breakdown of categories of receipts considered in our Report



Source: Derived from figures in Table 3.4.

## Section 2: National taxes

### 2.1 Introduction

We present a broad overview of Ireland's principal taxes and duties in this Section. We outline, in turn: income tax (section 2.2), corporation tax (section 2.3), capital gains tax (section 2.4), capital acquisitions tax (section 2.5), stamp duties (section 2.6), value-added tax (section 2.7), and excise duties (section 2.8). We conclude in section 2.9 with an overview of the taxation regime for savings and investments; we also give an outline of the main withholding taxes operating in Ireland.

### 2.2 Income tax

#### 2.2.1 Income tax system

Income tax is charged annually for each calendar year. An individual's liability to Irish income tax is determined by concepts of 'residence', 'ordinary residence' and 'domicile'. These concepts are explained in Appendix 1. Broadly, individuals resident in Ireland are liable to Irish income tax on their worldwide income, wherever it arises. Individuals who are "ordinarily resident" (but are not resident) are also taxed on worldwide income, other than income from trades, professions or employments which are not carried out in Ireland; other "foreign" income up to €3,810 per annum is also exempt from Irish tax. Individuals who are non-resident in Ireland are liable to Irish income tax on income arising in Ireland. Appendix 2 gives a broad overview of double taxation relief.

Most individuals pay income tax through the Pay As You Earn (PAYE) system. The PAYE system is a method of tax deduction under which an employer calculates the tax due and deducts it each time a payment (such as wages) is made to an employee or director<sup>3</sup>. The employer must pay the tax deducted to the Revenue Commissioners.

Income tax operates on a self-assessment basis for self-employed and other individuals who receive income from sources which are not subject to the PAYE system. Under self-assessment, the individual must:

- Pay preliminary tax by end-October
- File a tax return, with the balance of tax due, by end-October of the following year

To compute income tax liability:

- A person's income for tax purposes is established
- Some reliefs and deductions are made in computing the amount of taxable income
- This taxable income is charged to tax by reference to the rates of income tax in force for the tax year, and
- Relief is then given for any tax credits to which the person is entitled

Ireland operates a "schedular system", under which income is grouped into four Schedules – C, D, E and F – for tax assessment purposes. These are summarised in Table 3.5. Special rules apply for calculating taxable income under each schedule and for determining the timing of the charge to tax.

3 Pay related social insurance (PRSI), the health contribution levy and the income levy are also deducted under the PAYE system - see Section 3 following.

Table 3.5: The schedular system

Schedule*	
C	Mainly applies to financial institutions - covers interest (taxed at source) on Government and other securities
D	Annual profits or gains, divided into five Cases, as follows: <ul style="list-style-type: none"> <li>• Case I, income from trades</li> <li>• Case II, income from vocations and professions</li> <li>• Case III, investment income and foreign income that is not taxed at source; includes foreign trading income</li> <li>• Case IV, income taxed at source; profits or gains not within any other Case of Schedule D or any other Schedule</li> <li>• Case V, rents from Irish property.</li> </ul>
E	Income from employments, directorships and pensions arising in Ireland
F	Dividends and other distributions received by individuals

\* Schedules A and B (which were concerned, respectively, with taxing **the ownership** of land and buildings and **the occupation** of lands, farmhouses and farm buildings) were abolished in 1969.

Allowances, rate bands and tax credits depend on the personal circumstances of the taxpayer. For 2009 the rates of income tax are 20% (the standard rate) and 41% (the higher rate). Levies and social insurance also apply.

Income tax is charged at graduated rates in the case of individuals. The graduated rate bands that apply for 2009 are as follows.

Table 3.6: Income tax rate bands, Ireland 2009

Category	Band
Single person	First €36,400 at 20%; balance at 41%
Married one-earner couple	First €45,400 at 20%; balance at 41%
Married two-earner couple	First €45,400 at 20% with up to a further €27,400 also at 20%; any amount above that chargeable at 20% is taxed at 41%
Lone or widowed parent	First €40,400 at 20%; balance at 41%

To arrive at net tax, credits are deducted from the gross tax figure. Employees get the basic personal tax credit and (excluding proprietary directors) the employee tax credit (ETC). Those who are self-employed are also entitled to the basic personal tax credit, but not to the ETC. Additional personal credits - for example, one-parent family and widowed parent credits - may apply depending on the personal circumstances of the income earner.

We consider a number of structural issues in relation to income tax in Part 5 of our Report. Part 8, which deals with tax expenditures, also covers income tax reliefs available under the Irish tax code.

## 2.2.2 The distribution of taxable income

Distribution statistics on personal incomes, prepared by the Revenue Commissioners in the course of the administration of income tax for 2006, are summarised in Table 3.7. The Table relates to income assessed in respect of the tax year 2006 by reference to tax returns which were processed up to mid August 2008. While the distribution may have changed subsequently, 2006 is the latest year for which figures are available.

*Table 3.7: Distributions of number of taxable incomes, taxable income and tax, 2006*

Taxable income	Cases		Income		Tax	
	Number	%	€million	%	€million	%
up to €10,000	442,504	20.04	2,135.00	2.79	3.47	0.03
€10,000 to €12,000	85,336	3.86	938.84	1.23	3.39	0.03
€12,000 to €15,000	125,751	5.69	1,699.30	2.22	8.09	0.07
€15,000 to €17,000	92,590	4.19	1,482.01	1.94	11.93	0.10
€17,000 to €20,000	141,939	6.43	2,626.81	3.43	60.44	0.50
€20,000 to €25,000	221,049	10.01	4,966.25	6.49	215.32	1.80
€25,000 to €27,000	81,871	3.71	2,128.39	2.78	125.58	1.05
€27,000 to €30,000	112,010	5.07	3,190.04	4.17	217.17	1.81
€30,000 to €35,000	165,119	7.48	5,354.84	7.00	446.50	3.73
€35,000 to €40,000	135,282	6.13	5,061.37	6.62	549.72	4.59
€40,000 to €50,000	191,040	8.65	8,523.18	11.14	1,172.35	9.79
€50,000 to €60,000	124,473	5.64	6,806.65	8.90	1,109.55	9.26
€60,000 to €75,000	117,861	5.34	7,859.82	10.27	1,448.58	12.10
€75,000 to €100,000	88,557	4.01	7,572.63	9.90	1,685.75	14.08
€100,000 to €150,000	52,693	2.39	6,248.96	8.17	1,689.99	14.11
€150,000 to €200,000	13,856	0.63	2,366.49	3.09	740.86	6.19
€200,000 to €275,000	7,673	0.35	1,773.20	2.32	595.01	4.97
Over €275,000	8,496	0.38	5,761.16	7.53	1,892.65	15.80
<b>Totals</b>	<b>2,208,100</b>	<b>100.00</b>	<b>76,494.94</b>	<b>100.00</b>	<b>11,976.35</b>	<b>100.00</b>

Source: Derived from Table IDS16; Income Tax Distribution Statistics 2006, Revenue Commissioners Statistical Report 2008, p.26

## 2.3 Corporation tax

Corporation tax is charged on profits (income and gains) of a company. Companies that are resident in Ireland are taxed on their worldwide profits. Non-resident companies that trade in Ireland through a branch or agency are charged on the profits of that branch or agency.

The standard rate of corporation tax is 12.5%. It applies to trading income under Case I and Case II of Schedule D (see Table 3.5 above on the schedular system of taxation). Other rates may also apply:

- A rate of 25% applies to non-trading income (for example, interest, rents, royalties) and income from what are known as "excepted trades" (activities which consist of working minerals, petroleum activities and also dealing in or developing land, other than construction operations)
- An effective rate of 10% for manufacturing activities, which is in the process of being phased out but remains in existence for some companies until end-2010
- A rate of 25% for company capital gains. (However, gains from disposals of development land are chargeable to capital gains tax at 25% and are not included in the profits chargeable to corporation tax.)
- Effective rates of 30%, 35% and 40% for companies in the petroleum exploration business where profits exceed applicable thresholds

Corporation tax is charged on profits arising in an accounting period, which is a period of not more than 12 months and is usually the period for which the company makes up its annual accounts. The self-assessment system applies, under which the company must:

- Compute and pay its preliminary tax in two instalments (six months and one month) before the end of the accounting period
- Pay the balance of tax and file its return nine months after the end of the accounting period

Companies defined as small (that is, with a corporation tax liability less than €200,000 in the previous year) pay a single instalment of preliminary tax one month before the end of the accounting period.

Corporation tax is charged on income that is calculated under the same Schedules and Cases that apply for income tax. Taxable trading income is based on profits according to financial statements but subject to specific tax rules. The general rule is that revenue expenditure that is wholly and exclusively incurred for the purpose of a trade can be offset in calculating trading income. Deductions are not allowed for business entertainment expenditure or for capital expenditure.

Depreciation of capital assets as computed for accounts purposes is not an allowable expense in calculating a company's income for the purposes of corporation tax. However, capital allowances in respect of capital expenditure on plant, machinery and buildings may be allowable. The Finance Act 2009 introduced a provision to allow deductibility for expenditure on intellectual property.

A company that makes a trading loss in an accounting period can offset the amount of the loss against profits for the same or the previous accounting period in order to reduce its corporation tax liability. Any trading loss not set off can be carried forward for offset against future trading income

of the trade concerned. Losses can also be surrendered between companies in a group under 75% common corporate control in the EU, Iceland or Norway.

*Issues relating to corporation tax rules are dealt with in Parts 5, 7, 8 and 9 of our Report.*

## 2.4 Capital gains tax

Capital gains tax (CGT) is chargeable on gains made on the disposal of assets. A disposal means the transfer of ownership of the asset. Persons are chargeable to CGT for a year depending on their residence and domicile. Broadly, individuals who are resident or ordinarily resident in Ireland are liable to pay CGT on their worldwide gains. Individuals who are neither resident nor ordinarily resident are chargeable to CGT on gains made on the disposal of 'specified assets', such as land and minerals in Ireland, and businesses carried on in Ireland. Individuals who are not domiciled in Ireland are liable to CGT on gains arising in Ireland and on other gains to the extent that they are remitted to Ireland.

The first €1,270 of an individual's net gains for a year (that is, gains minus current year losses and losses brought forward from earlier years) is exempt from CGT.

The rate of CGT is generally 25%. The self-assessment system applies to the payment of the tax and the filing of returns. For individuals, CGT is payable

- By 15 December in respect of gains arising from January to November of that year, and
- By 31 January in the case of gains arising in the previous December

Generally, the gain is the difference between the market value of the asset at the time of the disposal less the cost of the asset. Where an asset was acquired before 6 April 1974 (the date of introduction of CGT), its cost is taken to be the market value of the asset at that date. Up to 2003, the cost or deemed cost (value) of the asset was adjusted to take account of inflation – a system known as indexation. Indexation was abolished for expenditure incurred after 2002.

Death is not an occasion of charge for capital gains tax purposes. Assets received by a person by reason of death are regarded as acquired by that person at their market value at the date of death.

*We examine issues in relation to capital gains tax in Parts 5, 6, 7 and 8 of our Report.*

## 2.5 Capital acquisitions tax

### 2.5.1 Inheritance and gift tax

Inheritance tax and gift tax are part of the capital acquisitions tax (CAT) code and operate under similar rules. The person receiving the inheritance (successor or beneficiary) or gift (donee) is liable to pay the tax. The tax is charged on the 'taxable value' of the inheritance or gift. The taxable value is normally the market value of the property comprised in the gift or inheritance, less any costs or expenses incurred by the donee or successor, including any consideration paid.

The amount of gift tax or inheritance tax that is payable depends on whether the tax-free thresholds (known as 'group thresholds') have been exceeded. CAT at 25% is charged on an amount in excess of the group threshold. There are three different group thresholds. These depend on the

relationship between the person receiving the gift or inheritance and the person who provided the gift or inheritance (the disponent), as follows:

*Table 3.8: Thresholds for gift tax and inheritance tax, 2009*

Group	Relationship to disponent	Group threshold
A	Son/daughter, including step children; foster children and grandchildren under the age of 18 in certain circumstances	€434,000
B	Parent*/brother/sister/niece/nephew/grandchild	€43,400 (i.e. 10% of A)
C	Relationship other than A or B	€21,700 (i.e. 5% of A)

*\*A parent taking an inheritance (as opposed to a gift) from a child may qualify for the Group A threshold.*

The threshold can be reached either by a single inheritance or gift or by aggregating previous inheritances or gifts within the same group threshold. Self-assessment applies for these taxes.

## 2.5.2 Discretionary trust tax

Discretionary trust tax also comes under the capital acquisitions tax category. A discretionary trust is a trust that gives the trustee discretion to pay the beneficiary as much of the trust income or assets as the trustee considers appropriate. There is a once-off charge to tax, at a rate of 6%, on property in a discretionary trust and an annual 1% tax.

The initial once-off charge applies to the trust fund at a rate of 6%, on the latest of:

- The date on which the property becomes subject to the discretionary trust the date of death of the disponent (settlor), and
- The date the youngest principal object of the trust (as defined) reaches the age of 21

The tax is payable within four months of the due date. There is a refund of half the initial tax if the trust is wound up within five years.

The annual charge applies to the trust fund at a rate of 1%. It is charged on 31 December and payable (under self-assessment) within four months of that date. However, the 1% charge is not payable until the following year if the initial charge arose in that year.

*We examine issues in relation to capital acquisitions tax in Parts 5 and 8 of our Report.*

## 2.6 Stamp duties

Stamp duty is a tax on instruments (written documents) such as deeds of transfer, leases, insurance policies, share certificates, mortgages, covenants, bills of exchange, credit cards and cheques. The rates generally range from 1% to 9%, depending on the nature and value of the property concerned. In some cases, the duty is not based on the value of the transaction, but is a fixed amount (for example, stamp duty on credit cards).

The person accountable for the tax depends on the instrument. For example:

- In a sale, the accountable person is the purchaser
- In a lease, the accountable person is the lessee, and

- In a document that operates as a gift, both the donor and the donee are accountable for the tax

Generally, stamps are impressed on or affixed to the instruments, but it is also possible to have a stamp duty charge when there is no instrument that can be physically stamped. This is the case under the CREST system, which allows for the electronic transfer of shares.

Rates of stamp duty on residential, and on non-residential, property are summarised in Table 3.9.

*Table 3.9: Stamp duty rates on residential and non-residential property, 2009*

	Property value	Rate
Residential	First €125,000	Nil
	Next €875,000	7%
	Balance	9%
Non-Residential	Up to €10,000	0%
	€10,001 to €20,000	1%
	€20,001 to €30,000	2%
	€30,001 to €40,000	3%
	€40,001 to €70,000	4%
	€70,001 to €80,000	5%
	Over €80,000	6%

Source: The Revenue Commissioners

The stamp duty on cheques, credit cards, and similar products ranges from 50 cent (cheques) to €30 (charge card and credit card accounts). A 3% stamp duty is charged on most non-life insurance premiums while life assurance policies and the conveyance or transfer on sale of any stocks or marketable securities attract a stamp duty of 1%.

*We consider a number of stamp duty issues in our Report. These include the stamp duty on cheques and cards (Part 5), on real property (Part 6), and on share transfers (Part 7). We also examine stamp duty reliefs in Part 8.*

## 2.7 Value-added tax

Value-added tax (VAT) is a tax on the supply of goods and services and is charged as a percentage of the price of a good or service supplied. It is collected by VAT-registered traders on their supplies to their customers and paid to the Revenue Commissioners. The structure and scope under which Member States can apply VAT to goods and services are determined by EU law.

The main rates of VAT that apply in Ireland are:

- Zero-rate, which generally applies to most food, children's clothes and shoes

- Reduced rate of 13.5%, which applies mainly to domestic fuels, labour intensive services and repairs and maintenance, certain property transactions and most construction and building related services
- Standard rate of 21.5%, which applies to the remainder of goods and services (examples include cars, electrical goods and confectionery)

In addition, a rate of 4.8% applies to supplies of livestock sold by registered farmers. Under a separate system, called the "flat rate system", farmers who do not register for VAT are entitled to add an amount (the "flat-rate addition", 5.2% in 2009) to the price of the goods they sell to VAT-registered persons. The purpose of this is to compensate such farmers for the VAT they incur on their purchases. The registered person reclaims the flat-rate addition in his or her VAT return.

In general, services provided by charities, non-profit organisations and certain financial and professional services are exempt from VAT, while Government departments and local authorities are outside the scope of the tax<sup>4</sup>. Exempt suppliers do not charge VAT on the goods and services they provide and cannot reclaim VAT incurred on the goods and services that they purchase. The rules for supplies of goods and services between Member States, as well as supplies into and out of the EU, are complex. However, with effect from 1 January 2010, a new Directive comes into effect, which will simplify and clarify the rules for the place of supply of services. This Directive introduces two general rules, depending on whether the customer is a business or a consumer:

- For intra-Community supplies of Business to Business (B2B) services, the new general rule provides that the place of taxation is the place where the customer is established (reverse charge), thus aligning the tax more closely with the place of actual consumption
- For intra-Community supplies of Business to Consumer (B2C) services, the general rule provides that the place of taxation is where the supplier is located

*Issues in relation to VAT are dealt with in Part 5 of our Report.*

## 2.8 Excise duties

### 2.8.1 Introduction

Excise duties are indirect taxes on the consumption or use of certain products or in connection with certain activities. Three broad categories of excise duty apply in Ireland – EU excises, which are subject to the harmonised provisions of EU law, vehicle registration tax (VRT), and other national excise duties.

### 2.8.2 EU excises

Excise duties on alcohol, tobacco and energy products (such as motor and heating fuels, electricity and natural gas) are covered by EU legislation. All EU Member States are obliged to apply excise duties to these product categories. Rates of excise are a matter for the Member State concerned, subject to compliance with minimum amounts specified in EU Directives.

EU legislation in the area of excise duties on these products can be divided into three main categories

<sup>4</sup> Ireland's treatment of State and local authorities as taxable persons only where a specific order to that effect has been made by the Minister for Finance has been the subject of a very recent (16 July 2009) ruling of the European Court of Justice (ECJ) – Case C-554/07. The ECJ found that this treatment is contrary to Articles 2, 9 and 13 of Directive 2006/112/EC; it ruled *inter alia*, that Ireland contravened the Directive in failing to require public authorities to be subject to VAT where they are engaged otherwise than in their capacity as a public authority.

- **The structure of the tax** covering issues such as the definition of the product categories, the way in which the excise duty is calculated (for example, per hectolitre, per degree of alcohol, or per 1,000 cigarettes), and the scope of possible exemptions
- **The minimum rates of duty** that Member States have to apply for each type of product
- **General provisions that apply** across the product categories, such as rules on the production, storage and movement between Member States of excise products

Excise rates in Ireland relative to other Member States are set out in the following Table:

*Table 3.10: Excise rates in Ireland compared with EU averages - selected products*

Product	EU Rates		Ireland
	Minimum	Average	Rate
Wine - still (per hectolitre)	€0.00	€54.14	€328.09
Wine - sparkling (per hectolitre)	€0.00	€95.35	€656.18
Beer (per hectolitre per degree alcohol)	€1.87	€6.12	€19.87
Spirits (per hectolitre of pure alcohol)	€550.00	€1,527.42	€3,925
Cigarettes (per 20)	*	€2.07	€4.99
Petrol per hectolitre	€359.00	€488.95	€508.79
<b>Diesel per hectolitre</b>	<b>€302.00</b>	<b>€373.34</b>	<b>€368.05</b>

Source: EU Commission. Based on 1 January 2009 data

\* Excise duties levied on cigarettes must fulfil a number of conditions, including the following: they must account for at least 57% of retail selling price and be at least €64 per 1,000 cigarettes for cigarettes in the most popular price category.

### 2.8.3 Vehicle registration tax

Vehicle registration tax (VRT) is chargeable on the registration of a motor vehicle designed and constructed for road use in Ireland. All such vehicles, other than those brought in temporarily by visitors, must be registered with the Revenue Commissioners. A vehicle must be registered before it can be licensed for road tax purposes.

There are three classifications of vehicle for VRT purposes – category A (passenger cars), category B (small vans, crew cabs and other small commercial vehicles), and category C (large commercial vehicles, lorries and buses).<sup>5</sup> The 'rebalancing' of vehicle registration tax in favour of environmentally friendlier passenger cars (category A) came into effect from 1 July 2008, under which:

- The VRT rate applicable to new and used imported cars registered on or after 1 July 2008 is determined by the CO<sub>2</sub> emission rating of the car. (This replaced a system where the tax was based on engine size)
- A seven band CO<sub>2</sub> emissions system – A to G – applies. It is underpinned by a CO<sub>2</sub> Emissions Labelling System for cars (similar to the energy efficiency labels for white goods)
- Seven VRT rates, ranging from 14% to 36%, depending on the car's CO<sub>2</sub> emission level,

<sup>5</sup> There is also a VRT category D, which includes ambulances, fire engines and vehicles used in the transportation of road construction machinery. There is no VRT payable on a category D vehicle.

apply to the Open Market Selling Price (OMSP) of the car

Category B vehicles are charged VRT at 13.3% of the OMSP, while Category C vehicles are charged at a flat rate of €50.00.

### 2.8.4 National excises

The 'national excises' is a loose term to cover a range of excise duties (other than VRT) that are not subject to harmonised EU law. These duties cover such items as betting duty, bookmaking premises duty, bookmakers' licence duty, air travel tax and the duty on permits and licences required for gaming and amusement machines and by auctioneers.

*Issues in relation to excise duties are dealt with in Parts 5 (mineral oils), 7 (air travel tax) and 9 (VRT and fuel taxes) of our Report.*

## 2.9 Miscellaneous other taxes

### 2.9.1 Returns from savings and investments

Irish residents are subject to tax on returns from their savings and investments in a number of ways:

- Interest on most deposits is subject to deposit interest retention tax (DIRT) at 25%. This is a final liability tax
- Returns from domestic collective investment funds, and from domestic life assurance policies, are subject to a 'gross roll-up' regime, with exit tax rates of 25% or 28% on payments. A similar regime applies to EU funds and policies, under self-assessment
- Dividends from shares in Irish or foreign companies are taxed at the individual's marginal rate of income tax. In the case of dividends from Irish companies, the company withholds tax at the standard rate of income tax and pays it to the Revenue Commissioners
- Rental income from property is taxed at the individual's marginal rate of tax

### 2.9.2 Withholding taxes

Withholding taxes are collection mechanisms which enable tax to be deducted at source. There are a number of specific withholding taxes provided for in the Irish tax code. Examples include dividend withholding tax, withholding tax on interest payments by companies and to non-residents and exit taxes on returns from investment funds. In addition, Deposit Interest Retention Tax (DIRT) operates in respect of interest received on deposit accounts in Irish financial institutions.

Two withholding taxes apply in relation to the provision of services: These are Relevant Contracts Tax (RCT) and Professional Services Withholding Tax (PSWT).

### 2.9.3 Professional Services Withholding Tax (PSWT)

PSWT provides for the deduction of tax at source from payments for "professional services" (which are widely defined) made by accountable persons – such persons cover Government departments and offices, local authorities, the Health Service Executive, commercial and non-commercial State bodies and their subsidiaries. The public body deducts the tax (at the standard rate of income tax) from the payment made to the professional service provider.

### 2.9.4 Relevant Contracts Tax (RCT)

RCT is a scheme of tax deduction from payments to sub-contractors in the construction, forestry and meat processing industries. The principal contractor deducts tax at the rate of 35% from payments made to sub-contractors, unless the sub-contractor can provide a certificate of authorisation and the Revenue Commissioners allow payment to be made without deduction of tax. There is a refund facility where the tax deduction exceeds the sub-contractor's expected liability.

*Issues in relation to these taxes are dealt with in Part 5 of our Report.*

## Section 3: Social insurance and levies

### 3.1 Introduction

The social insurance system in Ireland comprises two key features, namely a social solidarity component and a contributory principle. The social solidarity component means that the costs of social benefits and programmes are shared collectively as a society. The contributory principle means that individual's build up entitlement to benefits for both themselves and their families if and when a particular contingency arises. The social insurance system provides cover for a large range of social welfare payments to workers and their dependants.

Pay-related social insurance (PRSI) contributions, payable by persons in insurable employment, are collected mainly through the income tax system. There is a range of different classes of PRSI and the total PRSI contribution for an employee is determined by both the pay and the PRSI contribution class that applies to that employee and the benefits for which he or she is insured. Contribution classes are determined by the nature of the employment.

PRSI is made up of three different components –

- **Social insurance** (payable by employees, employers and the self employed)
- **Health contribution levy** (payable by certain employees, and
- **National training fund levy** (paid by employers)

### 3.2 Social insurance

Social insurance contributions by employees, employers and the self-employed go into the Social Insurance Fund, which is used to fund social insurance payments, including social welfare pensions. Social insurance is administered by the Department of Social and Family Affairs.

Generally, the PRSI rules apply a full rate of 4% on employees on reckonable earnings (which means gross pay less superannuation and approved permanent health insurance), a rate of 3% on the self-employed on reckonable income and a charge on employers at a rate of 10.75% of the reckonable earnings of their employees. Both the employer contribution and the self-employed contribution apply without a ceiling; a contribution ceiling of €75,036 applies in the case of employees.

### 3.3 Health contribution levy

Collection of the health contribution levy is undertaken by the Revenue Commissioners in the context of collecting income tax and PRSI. The health contribution levy applies at a rate of 4% on income up to €75,036 and at 5% thereafter – there is no upper limit. Recipients of certain social welfare payments and medical card holders are exempt from payment of the health contribution levy; persons earning less than €26,000 per annum are also exempt. The levy does not confer any entitlement to benefit on the contributor. It does not form part of the Social Insurance Fund. The contribution goes to the Department of Health and Children to help fund health services.

### 3.4 National training fund levy

The national training fund levy is collected by the Revenue Commissioners as part of PRSI contributions by employers. The national training fund is administered by the Department of Enterprise, Trade and Employment to support a broad range of employment training initiatives.

The levy is applied at a rate of 0.7% of reckonable earnings of employees in Class A and Class H employments (approximately 76% of all insured employees).

*Issues in relation to PRSI are dealt with in Part 5 of our Report.*

## Section 4: Local authority taxes and charges

### 4.1 Principal charges imposed by local authorities

#### 4.1.1 Commercial rates

This is a local tax assessed on the net annual letting value of commercial and industrial properties which is used to fund local authorities. It is the only recurrent tax on property in Ireland and yielded €1.344 billion for local authorities in 2008.

Rates are levied annually by county, city, borough and certain town councils. Each of these authorities has exclusive rating jurisdiction within its own area. As a general rule, rates are levied on the occupiers of commercial property. The valuation of such property for rating purposes is carried out by the Valuation Office. Each year the level of the rate (known as the Annual Rate on Valuation or ARV) is determined by the elected council as part of the budgetary process. The annual rates bill for a commercial premises is calculated by applying this ARV to the valuation of the property concerned.

#### 4.1.2 Development contributions

Contributions are struck at a rate or level which the elected representatives of the local authority determine. These contributions are payable by persons developing property on foot of planning permissions, to ensure an appropriate contribution towards the cost of public infrastructure and facilities. Under the Planning and Development Act 2000, a planning authority can, when granting a planning permission, include conditions requiring the payment of the development contribution.

### 4.1.3 Waste charges

Many local authorities impose charges for the provision of domestic refuse collection or disposal. Under the Waste Management Act 1996 all local authorities in Ireland are obliged to collect or arrange for the collection of the domestic waste in their functional areas. They must also provide or arrange for the provision of facilities for the disposal and recovery of household waste.

The local authority can operate a refuse collection itself, or can permit a private company to collect the waste in its region. Domestic waste charges are levied on almost all households that use an organised refuse collection service. Where waste charges are paid to a local authority, the revenue raised goes towards:

- Funding the collection service
- The operation of waste disposal facilities such as landfill sites, and
- The provision of recycling facilities

Income tax relief is available for individuals who pay service charges to local authorities and to independent contractors for domestic refuse collection or disposal.

### 4.1.4 Water charges

Local authorities impose charges on most non-domestic users for water supply. In general, water charges are not imposed on most domestic users for water supply, though many rural group-water schemes are financed from contributions from domestic users.

### 4.1.5 Levy on second homes

A flat rate charge of €200 per annum was introduced from 2009 on non-principal private residences. The levy is collected by each local authority and revenues are retained by the local authority to fund services.

## 4.2 The environmental levy

The environmental levy is Ireland's 'plastic bag tax', the purpose of which is to reduce the consumption of plastic shopping bags. The levy is not imposed by local authorities. It is collected by retailers (through the value-added tax system) and paid over to the Revenue Commissioners. The money generated from the levy goes into the Environmental Fund which is used to support waste management, litter and other environmental initiatives.

*The future financing of local government is dealt with in Part 11 of our Report. Property tax is dealt with in Part 6.*

# Appendix 1

## Residence, ordinary residence and domicile

### **Residence**

Ireland's tax residence tests are based on time spent in Ireland, with a 'look back' to the previous year. An individual is resident in Ireland for a tax year if he or she

- Is present in Ireland for 183 days or more in that tax year, or
- Is present in Ireland for 280 days or more in aggregate in that tax year and the preceding tax year (the 'two-year test')

Any day in which an individual is present is counted for tax residence purposes; presence in Ireland for periods of 30 days or less in any tax year is not taken into account in applying the two-year test.

### **Ordinary residence**

Ordinary residence for tax purposes in Ireland is established after three consecutive years of residence in Ireland. An individual ceases to be ordinarily resident when he or she has been non-resident for three continuous years.

### **Domicile**

Domicile is a legal concept which is based on an individual's 'permanent home', regardless of residency status at any particular time, and depending on the facts of each case. Generally, persons are domiciled in the country of which they are nationals and in which they spend their lives. Under Irish law, every individual is regarded as acquiring a domicile of origin at birth - this is the domicile of the father or mother, depending on circumstances. An individual may acquire a domicile of choice by showing (by means of arrangements made regarding his or her personal and economic affairs) that the intention is to acquire and retain a new domicile.

*Issues in relation to residence are dealt with in Part 5 of our Report.*

## Appendix 2

### Double taxation overview

#### **International context**

A person resident in Ireland for tax purposes is normally liable to Irish tax in respect of his or her worldwide income. Where the person's income includes foreign sourced income, the country in which the income arises will normally tax that income. Where this happens, the foreign sourced income will be taxed on the double. A similar situation can arise where a person who is not resident in Ireland for tax purposes has Irish sourced income. The extent to which such double taxation may arise will depend on the domestic tax laws of the countries concerned.

#### **Double taxation agreements**

The differing taxation scenarios can give rise to incidences of double taxation (where the same income or gains may be subjected to taxation in more than one country) or no taxation (where income or gains escape taxation in any country). Countries deal with these issues by entering into double taxation treaties. These treaties cover direct taxes on income and capital, which in Ireland's case are income tax, corporation tax and capital gains tax. Ireland has comprehensive double taxation treaties with 46 countries.

#### **Relief from double taxation**

Double taxation can be relieved in a number of ways. Where a double taxation treaty applies, it may provide that one of the countries would refrain from taxing the particular income (the exemption system) or that the residence country would reduce tax on the doubly taxed income by tax paid on that income in the source country (the credit system). Ireland normally relieves double taxation by the credit system.

Where a tax treaty does not apply, the residence country may allow relief from the double taxation on a unilateral basis. Ireland has a number of measures providing unilateral relief from double taxation.

#### **Other forms of double taxation agreements**

A double taxation agreement between Ireland and the United States is also in place covering Irish inheritance tax and US federal estate tax. There is also an agreement with the United Kingdom covering Irish gift and inheritance tax and UK inheritance tax.

