Family Business Network Submission to the Public Consultation on the Personal Tax System

April 2023

Introduction

Ireland's competitive Corporation Tax rate hides the fact that, taken holistically, Ireland's taxation system is uncompetitive compared to international peer countries. Specifically, Ireland's Personal Taxation rates make it distinctly uncompetitive, especially for the indigenous businesses who conduct the majority of their commerce in the State, for whom the cost of creating and maintaining a job has far more of an impact on their competitiveness than Corporation Tax.

In particular, Ireland's high personal tax rates make it far more difficult for our home-grown indigenous businesses to attract and retain talented employees. These businesses may not be able to offer the same level of compensation and benefits as foreign companies who can offset high tax rates with other perks such as shares in globally listed firms. This can make it harder for indigenous businesses to grow and expand, which can have a negative impact on the overall economy. Companies must accordingly "*wage equalise*", that is pay a premium to a prospective employee to match the increased tax burden they face here, and in fact more often it prevents the job from being created in the first instance.

The effect of high Personal Taxation Rates has an outsized effect on indigenous businesses, when compared to their FDI peers. A multi-national might locate labour-intensive work in another jurisdiction while booking its profits for Corporation Tax here. Indigenous businesses take pride in creating jobs in their local communities and will naturally be far less likely to relocate jobs abroad where their employees' exposure to onerous income taxes would be less. For indigenous businesses, this makes the relative cost of creating jobs here far more important than low Corporation Taxes. It also makes these high Personal Tax rates far more critical to their competitiveness than it would be to the balance sheet of a large global corporation. With this in mind, we recommend the following.

1. **Increase the threshold for the higher rate of income tax:** The low entry rate for the higher income tax band discourages work and investment, particularly for high earners and hinders

the creation of jobs. We recommend increasing the entry rate to this to the upper rate to €50,000 to incentivize work and boost economic growth.

2. **Introduce a cap on PRSI Contributions:** The PRSI contributions of workers in Ireland should be capped. PRSI is designed as a tool to provide social insurance, not as a means of income redistribution, so the amount a worker is expected to pay should be capped, as it is in countries like Germany.

3. **Broaden the tax base**: We recommend broadening the tax base to ensure that everyone pays their fair share. According to the Tax Institute, 28% of income earners paid either income tax or USC in 2022, while in 2021, 25% of earners paid 83% of the total income tax and USC collected by the state.

4. **Expand SARP:** SARP's existence is an admission by the Government that Ireland's personal tax regime makes it difficult to attract top international talent. It should be expanded to allow indigenous businesses to recruit external talent.

1. Increase the threshold for the higher rate of income tax.

At a minimum, the Government should raise the entry point for the higher rate of income tax to €50,000. Workers in Ireland pay one of the highest marginal tax rates in the world and it is applied on salary levels below the average wage. In fact, only flat tax countries have a lower entry point to their marginal rates. A high marginal rate of tax distorts behaviour in such a way that the Government never gets anywhere near the full economic value of an increase. The OECD has starkly warned that Ireland's "high marginal rates of personal taxation may constrain indigenous entrepreneurship as well as the attraction of talented entrepreneurial labour from abroad".

Introducing a middle tax band would provide a more balanced approach to taxation and could promote greater equality, generate more revenue, and encourage economic activity. Excessively high tax rates inevitably discourage work and investment.

Taking our closest neighbour, the UK, as an obvious example, Irish workers on an average salary face a higher effective rate than their UK counterparts (as seen in the table below), with the gap rising significantly as salaries increase. Companies here must compete with employers in the UK for the same pool of talent, and our uncompetitiveness will stifle economic growth at the very time the UK, post-Brexit, will compete aggressively for new investment opportunities.

Income tax plus employee and employer contributions less cash benefits Single, no Child

Effective income tax paid as a percentage of Labour Costs

	At 100% of Average Wage	At 167% of Average Wage
Ireland	34.0	42.4
UK	31.3	37.7

OECD Taxing Wages 2022

2. Introduce a cap on PRSI Contributions.

In Ireland, PRSI is a scheme devised as a means to fund social insurance but it has an unlimited cap on contributions. While it could be argued that this is equitable for PAYE as a means of income redistribution, PRSI is not at its heart meant to be such. It results in those on higher incomes paying significantly disproportionate amounts of PRSI while unable to benefit from many of the means tested social programmes that it funds. The equivalent to PRSI in Germany is capped at just over €82,000, a mechanism which should be introduced here in Ireland where our distortive application of PRSI is effectively a tax on job creation.

3. Broaden the Tax Base.

28% of income earners paid neither income tax nor USC in 2022 while at the other end of the working, taxpaying community, in 2021, 25% of earners paid 83% of the total income tax and USC collected by the State. This excessively narrow tax base is inequitable to middle earners who must subsidise those earning slightly less than them. Ireland is an outlier in the OECD in that those on lower salaries effectively pay zero tax, placing the full burden of tax on a squeezed middle of workers. This is unsustainable in the long run and harms the creation of well-paying jobs at home in Ireland.

4. Expand SARP

The Special Assignee Relief Programme is an example of a welcome and pragmatic solution to the challenges faced by businesses in attracting talent to Ireland due to the high taxes levied on these employees. While the existence of the scheme is itself an admission that to compete for talent on the global stage, employees need to be given special relief from these high tax rates, it is a scheme that indigenous family businesses cannot avail of in the majority of cases. It is limited to transfers of employees internationally within a company, which rules out the majority of indigenous family-owned firms who operate solely within the State. This disparity has led to an uneven playing field between multinationals and indigenous businesses, further exacerbating the difficulties that indigenous businesses face in attracting the best and brightest to come to Ireland and work for them here.

About Us

The Family Business Network International is the world's leading family business organisation. It provides a shared-learning space for enterprising families to flourish across generations through the exchange of excellent, innovative and impactful practices. Founded in 1989, it is a global network of thousands of business-owning families across 65 countries. The Irish Chapter of the Family Business Network was founded in 2013 by leading Irish business families. It operates as an all-island organization and currently has members from across the island covering a broad variety of sectors, all crucial to supporting and driving the domestic economy.

The purpose of Ireland's Family Business Network is to promote the success and sustainability of Family Businesses in the Irish economy. It is a not for profit and non-solicitation organisation that provides a confidential forum for families to discuss and address challenges specific to family businesses. The organization also provides advice on corporate governance and business structures along with assistance on succession planning. Family-run businesses exist in every Constituency in Ireland, accounting for most of Ireland's food sector, hotels and hospitality, retailers and manufacturing. They hire locally, they buy locally, they support local communities, and their 720,000 employees vote in every local Constituency in Ireland.