



# Economic Research

Personal tax rates in Ireland and the UK

20 November 2013

The CSO publishes an annual estimate of the Irish population as at April each year, including figures for migration. The latest data, for April 2013, put the numbers leaving over the previous twelve months at 89k, taking the annual average outflow over a three-year period to 86k and prompting much commentary and debate, particularly in the wake of an extensive UCC study showing half their sample of emigrants were leaving employment in Ireland. This in turn focused attention on the Irish tax system as a factor although the scale of immigration, averaging 54k a year over the past three years, would not point to Ireland being significantly uncompetitive in that area.

A closer look at the personal tax burden in Ireland and the UK is instructive in that regard as the UK is still the most popular destination for Irish emigrants. The chart below plots the average tax burden (including PRSI/USC) on a single person (assuming just the basic credits) across a range of Irish incomes, with the UK equivalent adjusted at an exchange rate of £0.85.

The results are interesting in that there is an advantage for Ireland at lower to average incomes but that changes as one approaches €40k per annum, with the tax burden above being lower in the UK. One key difference between the respective tax regimes is the tax credit (or allowance in the UK) which is much higher in Ireland and this has a very significant impact at lower income levels. The Irish credit (including the PAYE credit) is €3,300 which at a 20% tax rate translates into a pre-tax allowance of €16,500 against a UK personal allowance of €9,440.

Against this, the UK national insurance rate, although a standard 12%, does not kick in until annual earnings exceed £7,748, but this only provides a partial offset at below average incomes. Consequently, the personal tax burden on a single person working in Ireland earning €20k is 11% against 15% for the equivalent in the UK. At €30k the Irish burden is 18% against 21% and by €37k (the average wage in Ireland based on weekly earnings data) is equal. Beyond that, the UK burden is 6 to 7 percentage points lower as one's income rises, primarily reflecting a quirk in the national insurance rate, which reverts to 2% on marginal income above £41,444.

The analysis does not include other factors of course (including average pay rates, the cost of living, housing costs) and the UK does have a 45% tax rate on incomes above £150k but the tax data alone would support the view that the Irish tax burden over relevant incomes is lighter on lower incomes relative to our nearest and most popular labour market but heavier as one climbs the income scale.

