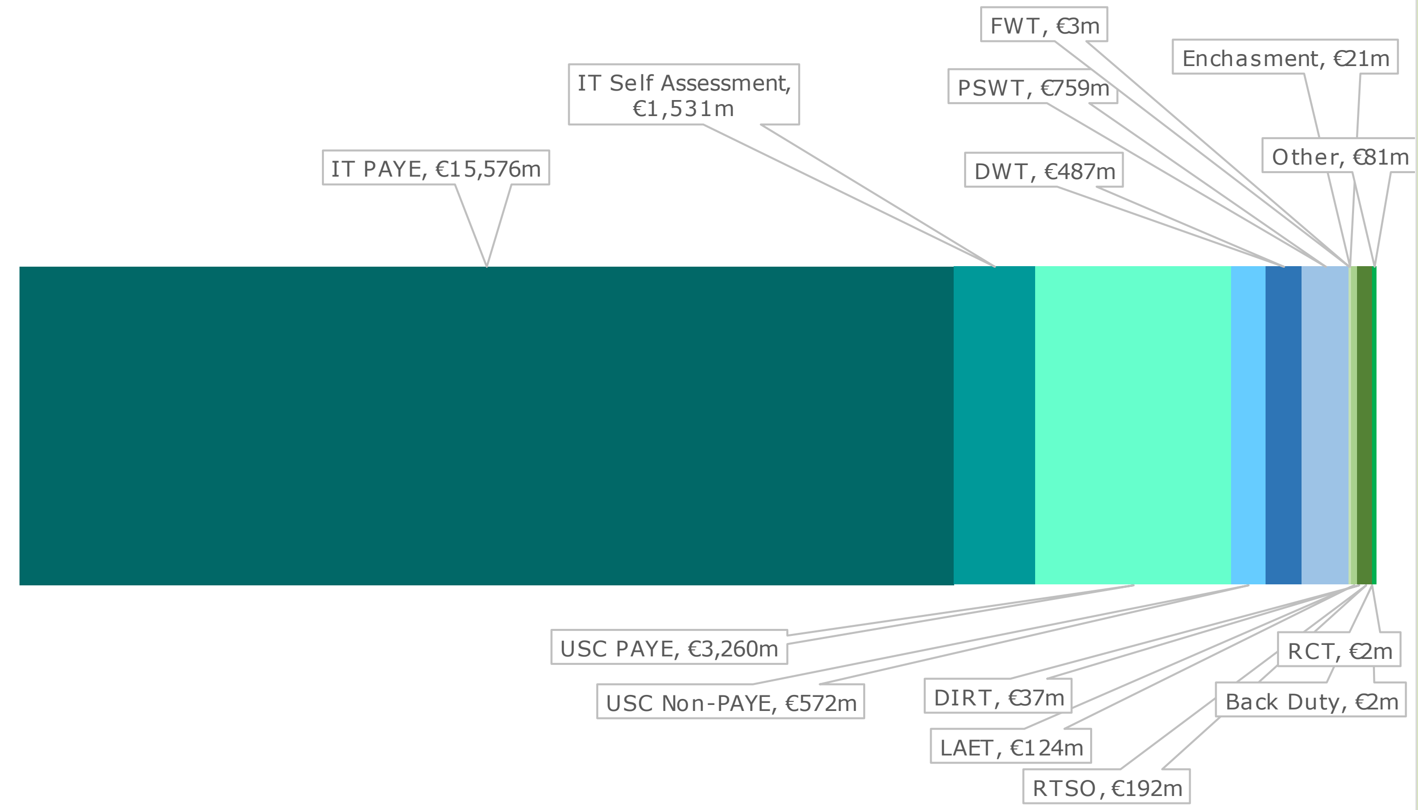
Income Tax Receipts in 2020

€ 22.6 billion

Income Tax (including USC) is the largest taxhead in receipts terms, making up 40 per cent of the overall net tax receipts in 2020. IT and USC receipts increased continuously over the period 2016 to 2019, by almost €3.8 billion, and were stable in 2020 despite the COVID pandemic.



Note: Receipts for some subheads may be subject to revision.

This report gives a statistical overview of the components (subheads) of Income Tax to provide the context underlying the headline collection of €22.6 billion. Factors driving changes in receipts due to COVID-19 in 2020 are also considered.

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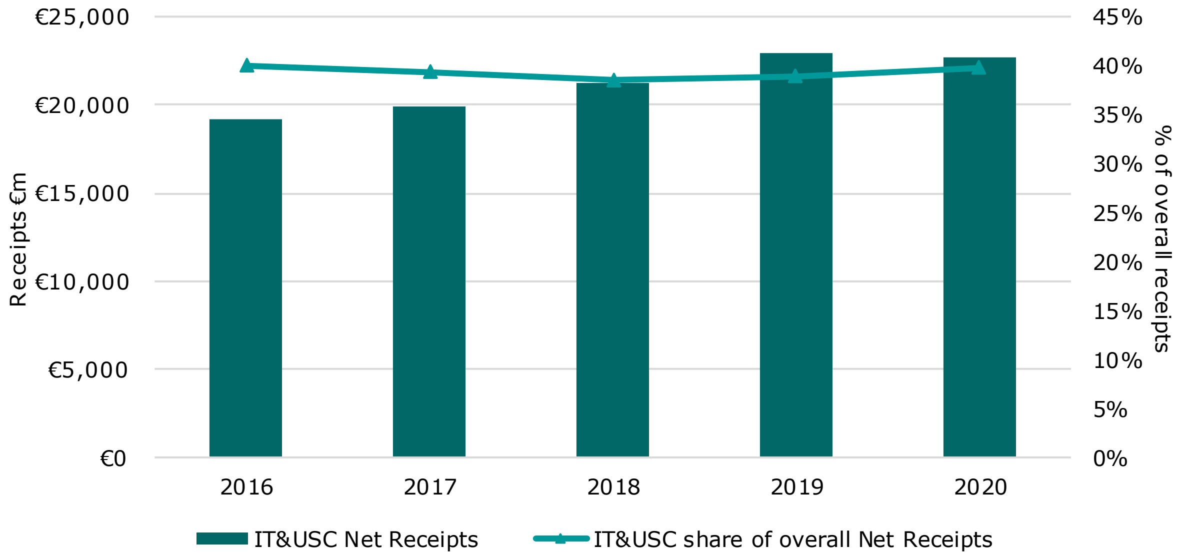
1 Introduction

Revenue's gross receipts of Income Tax ("IT"), including Universal Social Charge ("USC"), in 2020 were €25.2 billion. With repayments of €2.5 billion, the net transfer to the Exchequer in the year was €22.6 billion.

IT (including USC) is the largest taxhead in receipts terms, making up 40 per cent of the overall net tax receipts in 2020.[1] IT and USC receipts increased continuously over the period 2016 to 2019, by almost €3.8 billion. While receipts fell slightly in 2020, by €293 million or 1.3 per cent, this is still €1.4 billion or 6.5 per cent higher than 2018. IT and USC as a share of overall net receipts remained relatively stable over the period, representing 39 per cent of the overall net receipts on average.

Figure 1: Income Tax Receipts



Source: Revenue analysis.

A large share of Income Tax receipts in 2020 were made up of PAYE (69 per cent). Aside from this, PAYE USC (14 per cent), IT self assessment (7 per cent), Professional Services Withholding Tax (3 per cent), Dividend Withholding Tax (2 per cent) and Non-PAYE USC (3 per cent) were also relatively large contributors to receipts.

This report provides, in the following sections, a statistical overview of the subheads of IT, as well as repayments, presenting the main data available on each. Section 8 discusses the impact of COVID-19 on 2020 receipts and Section 9 concludes.

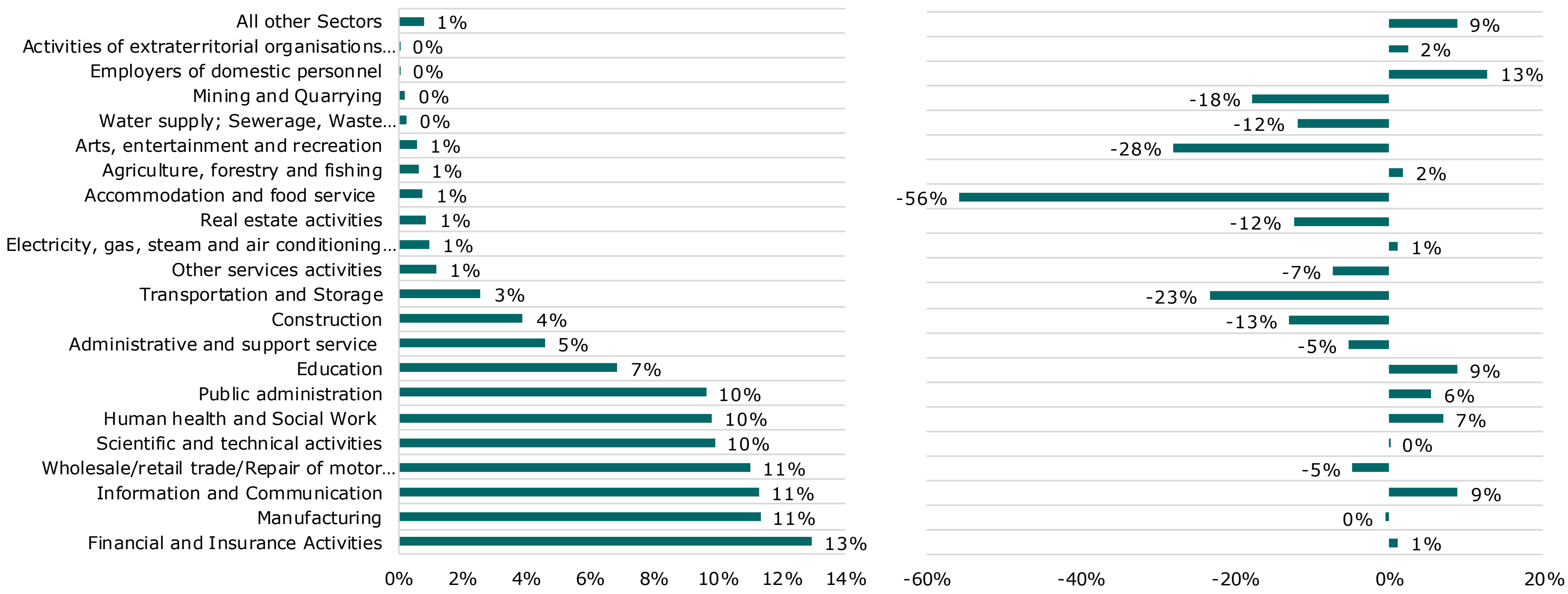
[1] This does not include Pay Related Social Insurance ("PRSI") either here or in any of the analysis presented in this report.

2 Pay As You Earn

Pay As You Earn ("PAYE") is the largest component of IT and USC. For a PAYE employee, the employer deducts IT, PRSI and USC each time an employee is paid and pays the amount deducted to Revenue. PAYE is also used for those receiving an occupational pension.

PAYE IT net receipts grew steadily over the period 2016 to 2019 and declined slightly in 2020, by about €202 million (1.2 per cent), but the share of receipts arising from PAYE continues to grow. PAYE USC receipts have remained relatively static since 2016. There have been a number of policy changes in this period in relation to USC rates and bands, which counterbalance some increases that might have been expected as a result of increased economic activity.

Figure 2: Share of PAYE Receipts by Sector in 2020 (left chart) and Change Compared to 2019 (right chart)



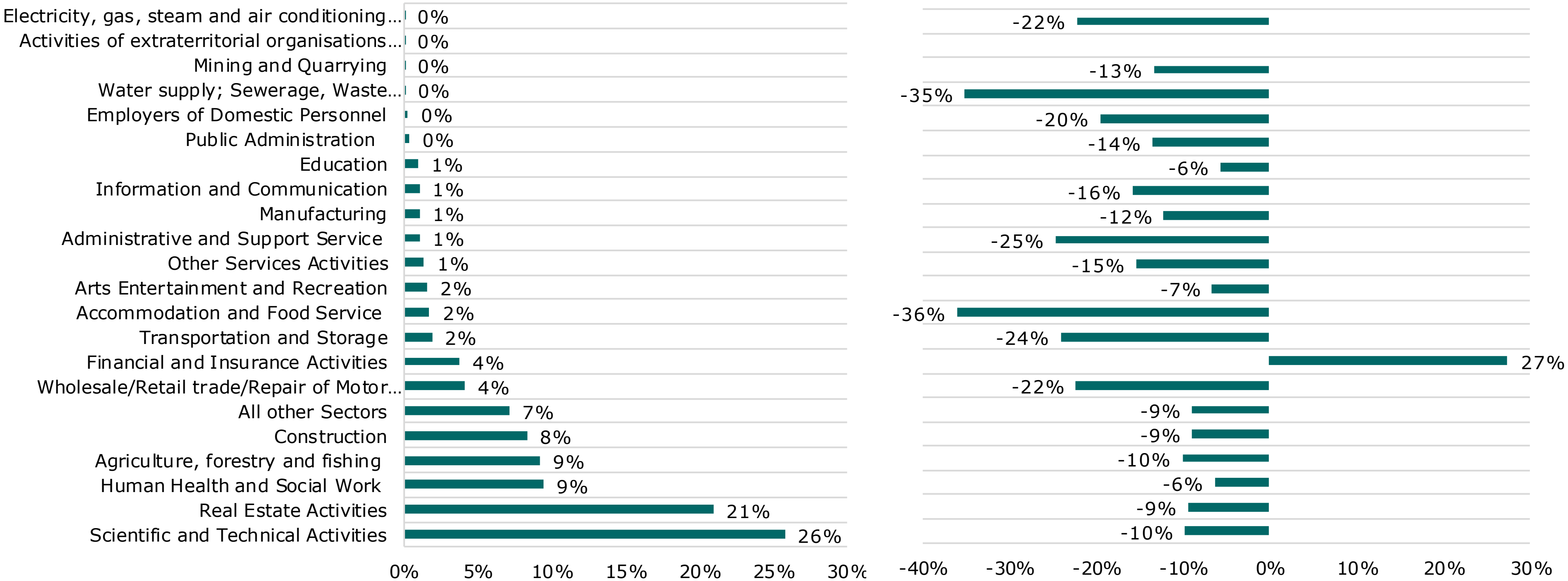
Source: Revenue analysis. Note: PAYE includes IT and USC.

3 Self Assessment Income Tax

After PAYE, self assessment is the largest source of IT receipts. IT self assessment receipts have generally been in decline since 2016, with the exception of 2019. Receipts further decreased in 2020, by €210 million or 11 per cent. USC non-PAYE receipts also decreased since 2016, but there was a slight increase in both USC receipts and the share of the overall receipts in 2020.

IT self assessment receipts are generally paid around the filing deadline for the Form 11 tax return, in November of each year for electronic filers (extended to December in 2020). Over 80 per cent of IT self assessment receipts are paid in the final quarter in most years.

Figure 3: Share of Schedule D Receipts by Sector in 2020 (left chart) and Change Compared to 2019 (right chart)



Source: Revenue analysis. Note: Figure includes IT and USC self assessment as well as other receipts under Schedule D; Change to 2019 not shown on left hand chart for *Activities of extraterritorial organisations* (+153%) due to size on chart, large increase is down to a small base effect given the low level of activity in this sector.

4 Withholding Taxes

A number of withholding type taxes operate under IT or have their receipts recorded under this taxhead.

Dividend Withholding Tax (DWT)

Irish resident companies must withhold tax on dividend payments and other distributions that they make (with some exceptions). The DWT rate is currently 25%, while the rate prior to 2020 was 20%. Irish resident individuals are liable to Income Tax on dividend income at their marginal rate.

The deadline for paying and filing DWT by companies is day 14 of the month following the month in which the distribution is paid.

Professional Services Withholding Tax (PSWT)

PSWT is a tax that applies at a rate of 20% to payments by accountable persons for certain professional services.

Generally, PSWT is deducted by state and semi-state bodies. These include government departments, local authorities, Health Service Executive, authorised health insurers, commercial and non-commercial semi-state bodies, or any subsidiary of the above or a body funded by any of the above.

Film Withholding Tax (FWT)

A qualifying company may employ non-resident actors from outside the EU or EEA. FWT applied at the rate of 20% must be withheld from their payment.

A company must file their FWT return monthly (by the 23 of the month after a payment is made).

FWT receipts are a sub-component of Schedule D.

Encashment Tax

Encashment Tax is a withholding tax deducted from income from public revenue dividends and dividends of a non-resident body.

From 1 January 2021 an applicable rate of 25% must be deducted from encashment tax payments.

Encashment tax receipts are a sub-component of Schedule D.

Table 1: DWT

Year	Receipts €m
2016	375
2017	431
2018	458
2019	511
2020	613
+/- 2016	**63%**
+/- 2019	**20%**

Table 2: PSWT

Year	Receipts €m
2016	608
2017	636
2018	689
2019	728
2020	759
+/- 2016	**29%**
+/- 2019	**8%**

Table 3: FWT

Year	Receipts €m
2016	0
2017	3
2018	1
2019	0
2020	3
+/- 2016	**n/a**
+/- 2019	**n/a**

Table 4: Encashment

Year	Receipts €m
2016	0
2017	47
2018	15
2019	15
2020	21
+/- 2016	**n/a**
+/- 2019	**46%**

Source: Revenue analysis. Note: DWT and PSWT are gross receipt amounts.

5 Taxes on Financial Products

Three subheads of Income Tax focus on the taxation of incomes from financial products as outlined below.

Deposit Interest Retention Tax (DIRT)

DIRT is deducted by Irish financial institutions from deposit interest paid or credited to the accounts of Irish residents. DIRT is a final liability tax, meaning that the financial institution deducts the tax before they pay the interest due to the account holder.

DIRT is paid over to Revenue on a quarterly basis.

The DIRT rate has been reduced 2 percentage points annually since 2017, to reach the current rate of 33%.

Life Assurance Exit Tax (LAET)

LAET is payable on the gain made on a life assurance policy. If a policy has a return that is greater than the amount invested, that difference is a gain and LAET is deducted on this amount. The life assurance company is obliged to deduct any tax due directly from the gain and pay it to Revenue.

The current LAET rate is 41%. LAET payments are due twice yearly in February and August.

Relevant Tax on Share Options (RTSO)

The tax due on the exercise of a share option is known as Relevant Tax on Share Options (RTSO).

It is payable within 30 days of exercising the options, at the marginal rate of the individual taxpayer.

Table 5: DIRT

Year	Receipts €m
2016	170
2017	118
2018	96
2019	64
2020	37
+/- 2016	**-78%**
+/- 2019	**-41%**

Table 6: LAET

Year	Receipts €m
2016	228
2017	184
2018	165
2019	128
2020	124
+/- 2016	**-46%**
+/- 2019	**-3%**

Table 7: RTSO

Year	Receipts €m
2016	112
2017	125
2018	101
2019	116
2020	192
+/- 2016	**72%**
+/- 2019	**65%**

Source: Revenue analysis.

6 Relevant Contracts Tax and Back Duty

Relevant Contracts Tax ("RCT") is a withholding tax that applies to certain payments by principal contractors to subcontractors in the construction, forestry, and meat-processing industries. The rates of tax are 0%, 20% and 35%. Back Duty can arise when payments made arising from a Revenue audit or other intervention covering several prior tax years and the monies are allocated to this heading initially.

While not directly related (in most cases), RCT and Back Duty are presented together here as they usually reduce to close to zero by year end. Where RCT is withheld by the principal, it is generally offset or set against tax due by the subcontractor. For Back Duty, payments are generally reallocated to the correct taxhead and tax year before the end of the accounting year of receipt.

Figure 4: RCT Net Receipts 2016-2020

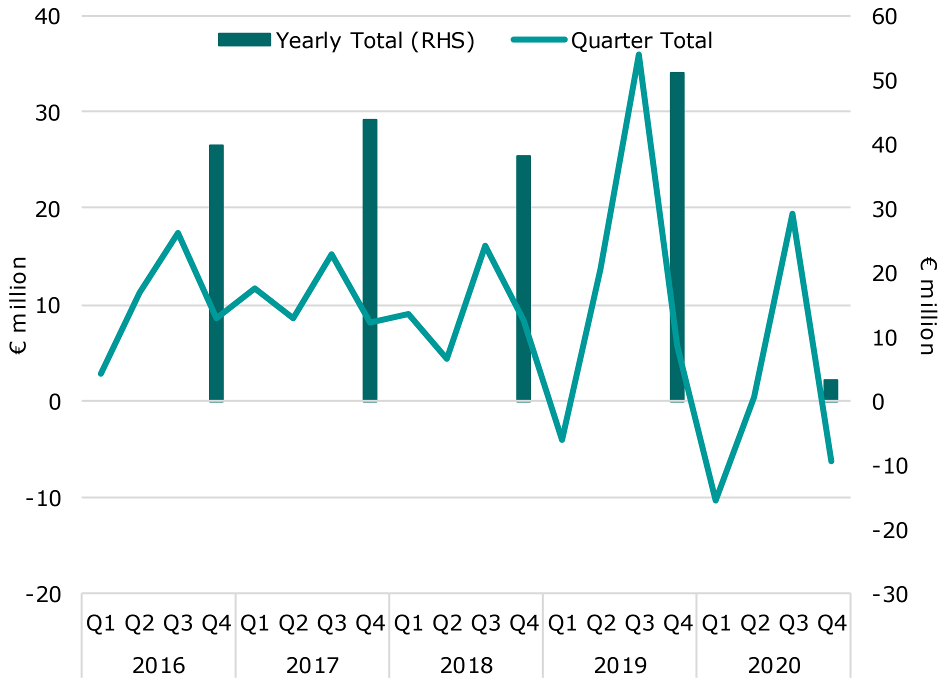
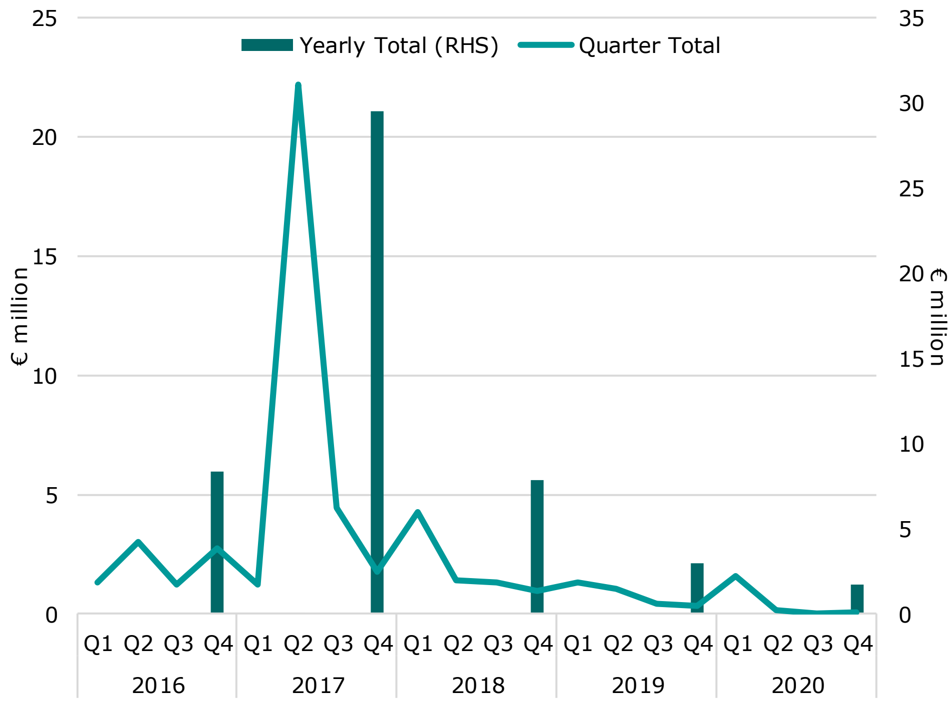


Figure 5: Back Duty Net Receipts 2016-2020



Source: Revenue analysis.

7 Repayments

The IT system, particularly the PAYE component, features a significant number and level of repayments. Certain credits and reliefs are netted off prior to the deduction of the tax by employers. Others are claimed back by taxpayers themselves, dependent on their circumstances, via filing of a tax return following the year end.

As Figure 6 shows, total PAYE repayments have followed a relatively similar trend from year to year with the majority of repayments made in the earlier half of the year, though there was a noticeable increase in the level of repayments in Q1 of 2020. A similar pattern continued in 2021, with greater numbers of taxpayers completing their "Form 12" tax returns earlier in the subsequent year.

Figure 7 shows a breakdown of PAYE repayments into mortgage interest relief granted at source, medical insurance relief granted at source and "Other", encompassing all other repayments. While medical is relatively steady throughout, mortgage is falling, reflecting the phasing out of this relief. Other repayments show a strong cyclical pattern, and an overall gradual increase over the period.

Figure 6: Total PAYE Repayments by Month 2016-2020

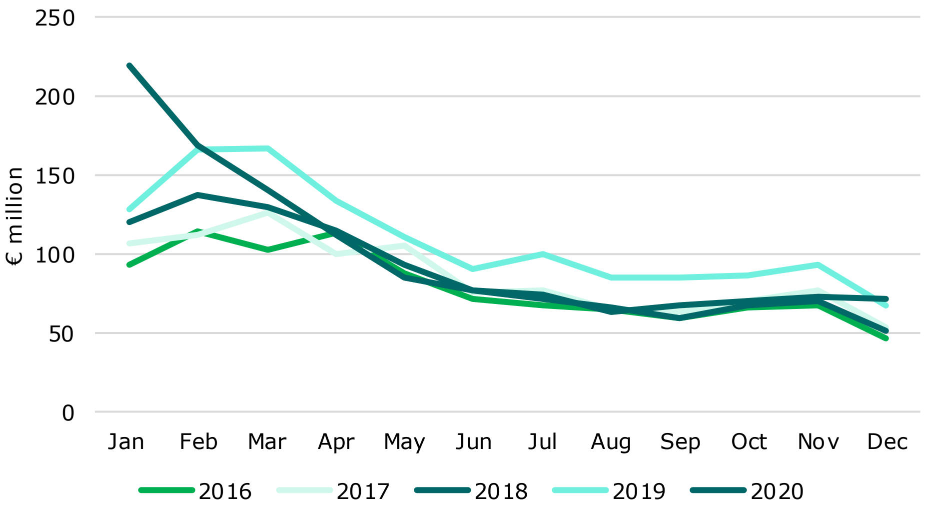
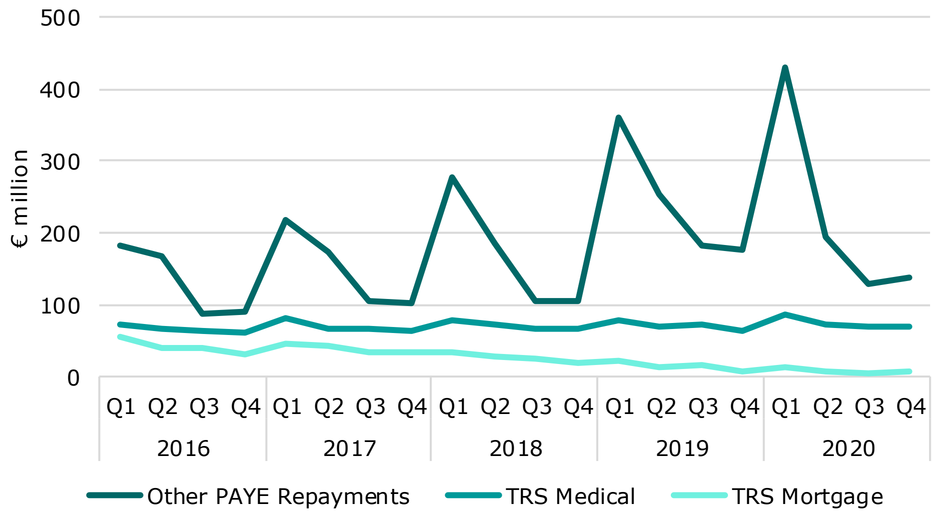


Figure 7: PAYE Repayments by Type



Source: Revenue analysis.

8 COVID-19 Impacts

IT receipts have proven highly resilient throughout the COVID-19 pandemic in 2020. As noted in the Introduction, receipts only decreased by €293 million or 1.3 per cent. While many of the subheadings showed falls in receipts, as noted above, the largest component, PAYE, was relatively steady with a reduction of only 1.1 per cent.

Given the level of jobs losses and reduced economic activity in 2020, a greater fall in PAYE may have been expected. This relatively steady performance explained by two factors, the supports put in place for employees and employers, and the composition of those losing their jobs.

The Temporary Wage Subsidy Scheme ("TWSS") supported over 664,000 employees and 66,500 up to end August 2020 when it was replaced by the Employment Wage Subsidy Scheme ("EWSS"). Due in part to the success of TWSS and EWSS in helping employers to retain employees on payroll, overall employment in 2020 reduced by only 4 per cent compared to 2019.

Several sectors were worst hit by the pandemic, including *Accommodation & food* (-18 per cent or a 60,100 reduction in employees compared to 2019), *Administrative & support services* (-10 per cent or -29,400) and *Wholesale & retail trade* (-4 per cent or -23,200) sectors. These sectors typically feature significant shares of employees working part-time or on a seasonal basis, with lower average incomes as a result and therefore less tax being paid (despite their levels of employment). As indicated in Figure 2, these sectors are not significant tax-paying sectors.

Furthermore, certain sectors, due to the nature of their activities, were relatively unaffected by the pandemic or even recorded increases in PAYE receipts (e.g., *Professional services*, *Public administration* or *ICT*).

There is a contrast with the uneven but in places positive performance of PAYE (Figure 2) and the much more uniformly negative experience in Schedule D receipts (Figure 3). Schedule D receipts, dominated by self assessment, usually refers to sole traders or other types of SME and the incomes of this segment and consequently their tax payments were significantly impacted by the pandemic.

Revenue has published ongoing weekly updates on the COVID-19 support schemes for the labour market and quarterly analysis on PAYE trends throughout 2020.[2]

[2] Weekly and quarterly reports available at: https://www.revenue.ie/en/corporate/information-about-revenue/statistics/number-of-taxpayers-and-returns/covid-19-support-schemes-statistics.aspx.

9 Conclusion

Revenue has in recent years published a series of research reports and other statistics, particularly in relation to the largest taxheads (including a statistical report on the first year of real-time reporting for PAYE in 2019).[3] This supports Revenue's continued focus on making the best use of the tax record data, encouraging openness and accountability, strengthening public debate and improving the evidence base for policy making.

This report is the first to take a holistic view of IT (including USC), the largest individual taxhead with receipts of €22.6 billion in 2020. This report complements and builds on the extensive IT statistics published on Revenue's website by providing analysis of receipts across all subheads of the tax.

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[3] Research reports available at: https://www.revenue.ie/en/corporate/information-about-revenue/research/research-reports/index.aspx.

One of the authors, Michael Collins, is a member of the Irish Government Economic & Evaluation Service ("IGEES"). Any opinions expressed in this paper are the views of the authors and do not necessarily reflect the views of IGEES.