

Analysis of High Income Individuals' Restriction 2013

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Statistics & Economic Research Branch

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1 Background

The 2006 and 2007 Finance Acts introduced, with effect from 1 January 2007, measures to limit the use of certain tax reliefs and exemptions (known as 'specified reliefs') by high-income individuals. Such individuals, by means of the cumulative use of various tax incentive reliefs, had in previous years the potential to substantially reduce their tax liabilities.

The overall objective is to ensure that, from 2007, individuals with an adjusted income of €500,000 or more (where the full restriction applied) pay an effective rate of income tax of approximately 20 per cent on a combination of adjusted income and ring-fenced income.¹ The restriction began to apply where an individual's adjusted income exceeded €250,000 and a full restriction applied where an individual had adjusted income of €500,000 or more.

The 2010 Finance Act introduced further limitations on the use of specified reliefs, which took effect from 1 January 2010. These limitations are designed to ensure that individuals with an adjusted income level of €400,000 or more (where the full restriction applies) pay an effective rate of income tax of approximately 30 per cent on a combination of adjusted income and ring-fenced income. In addition, the adjusted income on which the restriction begins to apply was reduced to €125,000.

This report relates to the use of specified reliefs by high-income individuals who were subject to the restriction in the tax year 2013. Other high-income individuals are subject to the normal tax rules. Reports relating to the restriction in previous years, as well as statistics on the tax paid by all individuals, are available on the Revenue website.²

¹ Adjusted income is the taxable income of an individual before the restriction is applied, to which is added the amount of income sheltered in the year through the use of the specified reliefs. It excludes "ring-fenced income" (e.g., DIRT) which is normally liable to tax at specific rates regardless of the amounts involved or the marginal rate of tax at which the individual is liable.

² Prior year reports are published at <http://www.revenue.ie/en/about/publications/other.html#reports> and general Revenue statistics can be found at <http://www.revenue.ie/en/about/statistics/index.html>.

2 Results for 2013

Analysis of the application of the high-income individuals' restriction for the tax year 2013 shows that the objective of achieving an effective rate of income tax of approximately 30 per cent for individuals with an adjusted income of €400,000 or more was achieved.

Where adjusted income was less than €400,000, a tapering approach ensured that there was a graduated application of the restriction, with the effective rate of income tax increasing towards 30 per cent as adjusted income increased towards €400,000.

A brief summary of how the restriction operated for the tax year 2013, and the specified tax reliefs covered by the restriction, is included in Annex 1.

A breakdown of the 2013 results showing the effect of the restriction in its seventh year of operation is set out in Annex 2. These results are based on actual returns received. A comparison of the outcome for 2007 through 2012 is set out below.

Year	Total Number of Individuals	Additional Income Tax €m
2013	904	60.43
2012	1,050	63.21
2011	1,143	63.60
2010	1,544	80.18
2009	452	38.86
2008	423	39.68
2007	439	39.99

The results for 2013 show that the overall number of individuals who were subject to the restriction was 904 and that the additional income tax yield was €60.43m. Compared to 2012, this represents a decrease of 146 in the number of individuals and a decrease of €2.72m in the additional yield from the measure.

Cases where full restriction applies – Adjusted Income of €400,000 or more

Table 1A (Annex 2) shows that the 231 high-income individuals with an adjusted income of €400,000 or more (i.e., where the full restriction applied) paid an average effective income tax rate of 30.3 per cent on the combination of adjusted income and ring-fenced income. These individuals paid on average 40.5 per cent tax inclusive of Universal Social Charge (USC).

This meets the objective set out for the measure. The additional income tax involved was €40.7 million, representing a 194 per cent increase on the tax that would otherwise have

been paid if the restriction had not applied. Furthermore, of those 231 individuals, 55 who would not otherwise have paid income tax in 2013 were brought into the tax net.

Table 1B (Annex 2) summarises the distribution of the effective tax rates for the 231 cases with adjusted income of €400,000 or more. It shows that the majority of high-income individuals within this category fall into the effective income tax rate bands of 30% to 35% (196 cases).

Cases where restriction partly applies – Adjusted Income of up to €400,000

Table 2A (Annex 2) shows that the 673 high-income individuals with an adjusted income of up to €400,000 (i.e., where the restriction applies on a graduated basis) paid an average effective income tax rate of 18.89 per cent on the combination of adjusted income and ring-fenced income. These individuals paid on average 29.2 per cent tax inclusive of USC.

The additional income tax involved was €19.7 million representing a 160 per cent increase on the tax that would otherwise have been paid if the restriction had not applied. Furthermore, of those 673 individuals, 216 individuals who would not otherwise have paid income tax in 2013 were brought into the tax net.

Table 2B (Annex 2) summarises the distribution of the effective income tax rates for the 673 cases with adjusted income of up to €400,000. The spread reflects the graduated nature of the application of the restriction for cases in this category.

Schedule of declared use of Reliefs

Table 3 (Annex 2), in relation to each specified relief, shows:

- The overall number of individuals subject to the restriction, who declared that they used the relief; and
- The total combined amount of the relief declared as used by those individuals.

Annex 1

Operation of the restriction in the tax year 2013

The restriction works by limiting the total amount of “specified reliefs” that a high-income individual can use to reduce his or her tax liability in any one tax year.

In the tax year 2013, the overall objective was to ensure that individuals with an adjusted income of €400,000 or more would pay an effective rate of tax of approximately 30 per cent on a combination of adjusted income and ring-fenced income. A graduated application of the restriction below an adjusted income level of €400,000 would ensure that the effective rate of tax increased towards 30 per cent as adjusted income increased towards €400,000.

For the tax year 2013, the restriction applied to an individual where all of the following criteria applied:

- The Adjusted Income of the individual for the tax year was equal to or greater than an Income Threshold Amount which was, in general, €125,000 but was less if the individual had ring-fenced income (e.g. deposit interest);
- The aggregate of specified reliefs used by the individual for the tax year was equal to or greater than a Relief Threshold Amount which was set at €80,000; and
- The aggregate of specified reliefs used by the individual for the tax year was greater than 20 per cent of the individual’s adjusted income.

In the case of a married couple, application of the restriction to each spouse is determined separately. Therefore, in 2013, the restriction applied to each individual spouse only where the three circumstances above applied to that spouse for that tax year.

Specified Reliefs

Broadly speaking, the reliefs that are restricted include:

- The various sectoral and area-based property tax incentives;
- Certain exemptions (e.g., relating to artists’ income, woodlands etc.);
- Certain investment incentive reliefs such as Business Expansion Scheme (BES), Employment and Investment Incentive Scheme (EII) relief and film relief;³ and
- Relief for interest paid on loans used to acquire an interest in a company or in a partnership.

³ Finance (No. 2) Act 2013 provided that where an investment which qualifies for EII relief is made after 15 October 2013 and before 1 January 2017, then it will not be a specified relief.

Normal business-related expenses, deductions for capital allowances on plant and machinery, business-related trading losses and losses from a rental activity that do not arise from the use of specified reliefs are not restricted. In addition, personal tax credits are not affected by the restriction.

Annex 2

Table 1A: Cases with Adjusted income of €400,000 or more

Range of Adjusted income	Number of Cases	Tax before restriction	Tax after restriction	Additional Tax after application of restriction	Average Effective rate before application of restriction	Average Effective rate after application of restriction	Tax including USC payable after restriction	Average Effective Rate (including USC) after application of restriction
€		Amount €	Amount €	Amount €	Rate %	Rate %	Amount €	Rate %
400,000 500,000	74	4,458,815	10,206,353	5,747,538	16.7%	29.7%	13,487,392	39.3%
500,001 650,000	65	3,653,620	11,723,423	8,069,803	13.5%	29.9%	15,800,012	40.5%
650,001 800,000	28	2,063,010	6,512,535	4,449,525	12.5%	31.0%	8,681,238	41.4%
800,001 1,000,000	23	2,162,792	6,637,783	4,474,991	12.4%	30.4%	8,830,436	40.5%
1,000,001 1,500,000	18	2,381,800	7,151,143	4,769,342	12.5%	31.5%	9,542,299	42.0%
1,500,001 2,000,000	10	1,840,783	5,618,743	3,777,960	12.4%	31.7%	7,377,475	41.7%
Over 2,000,000	13	4,379,973	13,775,520	9,395,548	11.0%	30.8%	19,031,018	43.2%
Totals	231	20,940,793	61,625,500	40,684,707	14.0%	30.3%	82,749,870	40.5%

Table 1B: Effective Tax Rates – cases with Adjusted Income of €400,000 or more

Effective Rate	Number of cases	% of all cases
< 15%	0	0.00%
>15% < 20%	4	1.73%
>20% < 25%	7	3.03%
>25% < 30%	24	10.39%
>30% < 35%	196	84.85%
>35% < 40%	0	0%
> 40%	0	0%
Totals	231	100%

Table 1C: Effective Tax Rates – inclusive of USC – cases with Adjusted Income of €400,000 or more

Effective Rate (Including USC)	Number of cases	% of all cases
< 20%		
>20% < 25%	2	0.87%
>25% < 30%	4	1.73%
>30% < 35%	13	5.63%
>35% < 40%	79	34.20%
>40% < 45%	101	43.72%
>45% < 50%	29	12.55%
>50% < 55%	3	1.30%
>55%	0	0.00%
Totals	231	100%

Note: Certain items are deductible when arriving at adjusted income (e.g., pension contributions, certain rental capital allowances on plant and machinery, trading losses against other income etc.) that are not deductible against income on which USC is chargeable. These differences can give rise to taxpayers having effective USC inclusive tax rates on their adjusted income in excess of the top rate of tax plus the top rate of USC.

Table 2A: Cases with Adjusted income of up to €400,000

Range of Adjusted income	Number of Cases	Tax <i>before</i> restriction	Tax <i>after</i> restriction	Additional Tax <i>after</i> application of restriction	Average Effective rate <i>before</i> application of restriction	Average Effective rate <i>after</i> application of restriction	Tax including USC payable <i>after</i> restriction	Average Effective Rate (including USC) <i>after</i> application of restriction
€		Amount €	Amount €	Amount €	Rate %	Rate %	Amount €	Rate %
Under 125,000	26	443,300	630,442	187,142	9.2%	11.1%	969,588	21.07%
125,001 160,000	157	1,225,087	3,022,960	1,797,873	6.1%	11.3%	5,387,647	21.35%
160,001 200,000	164	2,064,064	5,477,345	3,413,282	8.3%	16.8%	8,711,510	27.48%
200,001 250,000	135	2,261,281	6,613,011	4,351,730	11.1%	21.3%	9,747,569	31.39%
250,001 325,000	119	3,099,626	8,793,145	5,693,518	12.1%	25.0%	12,396,958	35.34%
325,001 399,999	72	3,257,383	7,558,451	4,301,068	15.2%	28.5%	10,255,669	38.68%
Totals	673	12,350,741	32,095,354	19,744,613	10.01%	18.89%	47,468,941	29.2%

Table 2B: Effective Tax Rates – cases with Adjusted Income of up to €400,000

Effective Rate	Number of cases	% of all cases
>0% < 5%	9	1.34%
>5% < 10%	75	11.14%
>10% < 15%	116	17.24%
>15% < 20%	161	23.92%
>20% < 25%	162	24.07%
>25% < 30%	135	20.06%
>30% < 35%	13	1.93%
>35% < 40%	2	0.30%
Above 40%	0	0.00%
Totals	673	100%

Table 2C: Effective Tax Rates – inclusive of USC – Adjusted Income of up to €400,000

Effective Rate (Including USC)	Number of cases	% of all cases
>0% < 5%	2	0.30%
>5% < 10%	2	0.30%
>10% < 15%	19	2.82%
>15% < 20%	70	10.40%
>20% < 25%	112	16.64%
>25% < 30%	159	23.63%
>30% < 35%	152	22.59%
>35% < 40%	112	16.64%
>40% < 45%	31	4.61%
>45% < 50%	6	0.89%
>50% < 55%	5	0.74%
>55% < 60%	2	0.30%
> 60%	1	0.15%
Totals	673	100%

Note: Certain items are deductible when arriving at adjusted income (e.g., pension contributions, certain rental capital allowances on plant and machinery, trading losses against other income etc.) that are not deductible against income on which USC is chargeable. These differences can give rise to taxpayers having effective USC inclusive tax rates on their adjusted income in excess of the top rate of tax plus the top rate of USC.

Table 3 – Schedule of declared use of different reliefs

Ref Number	Specified Relief	Number of Cases	Amount of Relief used in 2013 by those affected by the restriction
1/2/3/4	Sect 140, 141, 142 and 143 – dividends and distributions out of exempt income from stallion fees, stud greyhounds, woodlands, patents, certain mines and other mining operations	14	536,031
5	Sect 195 – Exempt income, profits or gains of artists, writers or composers	12	1,264,622
6	<i>Sect 231 – Exempt stallion fees</i>		<i>Did not apply in 2013</i>
7	Sect 232 – Exempt woodland income	7	319,805
8	<i>Sect 233 – Exempt stud greyhound fees</i>		<i>Did not apply in 2013</i>
9	<i>Sect 234 – Exempt patent royalty income</i>		<i>Did not apply in 2013</i>
10/11/	Sect 248 and 250 – relief for interest paid on loans to acquire an interest in a company	33	366,697
12	Sect 253 – relief for interest paid on loans to acquire an interest in a partnership	6	54,802
13	Sect 272 – writing down allowances in respect of capital expenditure on:		
	hotels and holiday camps/cottages	214	34,667,224
	nursing homes, residential units attached to nursing homes and convalescent homes	61	7,761,969
	hospitals, sports injury clinics and mental health centres	59	5,685,076
14	Sect 273 – accelerated writing down allowances in respect of certain industrial buildings or structures	14	1,470,601
15	Sect 274 – balancing allowances in respect of capital expenditure on:		
	hotels and holiday camps/cottages	61	8,150,786
	nursing homes, residential units attached to nursing homes and convalescent homes	14	1,500,181
	hospitals, sports injury clinics and mental health centres	25	3,166,665
15A	Sect 304(4) – Carry forward of capital allowances (relating to specified reliefs) in trading situations		
15B	Sect 305(1) – Set off and carry forward of capital allowances (relating to specified reliefs) in rental situations	18	3,847,294
15C	284 (subject to section 485C(1B) – wear & tear allowances on plant and machinery claimed by a passive trader when leasing the plant and machinery to a manufacturing trade.	1	3,583
15D	288 (subject to section 485C(1B) – balancing allowances on plant and machinery claimed by a passive trader when leasing the plant and machinery to a manufacturing trade		
16/17	Sect 323 and 324 – Custom House Docks Area: capital allowances for commercial premises and double rent allowance in respect of rent paid for certain business premises	8	3,960,394
18/19/20	Sect 331, 332 and 333 – Temple Bar Area: capital allowances for industrial buildings, commercial premises and double rent allowance in respect of rent paid for certain business premises	3	31,455
21	Sect 341 – Urban Renewal Scheme: capital allowances for industrial buildings	25	2,181,300
22	Sect 342 – Urban Renewal Scheme: capital allowances for commercial buildings	33	5,581,000
23	Sect 343 – Enterprise Area: capital allowances for certain buildings	12	876,919
24	Sect 344 – Multi Story Car Park capital allowances	18	807,529
25	Sect 345 - Urban Renewal, Enterprise Area, Multi Story Car Park: double rent allowance in respect of rent paid for certain business premises	3	1,208,642
26	Sect 352 – Qualifying Resort Area: capital allowances for certain industrial buildings	4	124,805

Ref Number	Specified Relief	Number of Cases	Amount of Relief used in 2013 by those affected by the restriction
27	Sect 353 – Qualifying Resort Area: capital allowances for certain commercial buildings	3	21,065
28	Sect 354 – Qualifying Resort Area: double rent allowance in respect of rent paid for certain business premises	0	0
29	Sect 372C – Qualifying (Urban) Areas: capital allowances for certain industrial buildings	30	2,196,055
30	Sect 372D – Qualifying (Urban) Area and Living over the shop scheme: capital allowances for certain commercial buildings	19	5,871,021
31/32	Sect 372M and Sect 372N – Qualifying Rural Areas: capital allowances for certain industrial and commercial buildings	14	1,481,250
33/34	Sect 372V and 372W – Park and Ride Scheme: Capital allowances for Park and Ride Facilities and for certain commercial buildings	2	323,586
35	Sect 372AC – Town Renewal Area: capital allowances for certain industrial buildings	8	561,690
36	Sect 372AD – Town Renewal Area: capital allowances for certain commercial buildings	13	669,648
36A/36B	Sect 372AX and 372AY – Mid Shannon Corridor Tourism Scheme: capital allowances for certain registered holiday camps and tourism infrastructure facilities	3	255,550
37/38	Sect 372AP and Sect 372AU(1) – Relief for lessors of residential premises (“section 23” type relief, including old schemes)	47	6,796,731
39	Sect 381 – Repayment of tax due to losses (arising from use of Specified .Reliefs)	4	227,582
40	Sect 381 – Repayment of tax due to losses (arising from use of specified reliefs), as extended by Sect 392	1	101,471
41	Sect 382 – Carry forward of losses (arising from use of specified reliefs) to future years	5	399,125
42/43/44	Sect 383, Sect 384 and Sect 385 – Relief (arising from use of specified reliefs) for losses under Case IV and Case V and for Terminal losses	59	9,633,366
45	Sect 481 – Relief for investment in Films	17	800,000
46	Sect 482 – Relief for investment on significant buildings and gardens	9	1,592,818
47	Sect 485F – Carry forward of excess relief	475	114,907,340
47A	Sect 489(2)(a) – Employment and Investment Incentive Scheme ⁴	37	2,346,788
48	Sect 489(3) – BES relief	4	437,562
49	Sect 843 – Capital allowances for buildings used for third level education purposes	13	2,600,221
50	Sect 843A – Capital allowances for certain child-care facilities	19	1,195,015
51	Sect 847A – Donations to certain sports bodies	1	50,000
52	Sect 848A – donations to approved bodies		<i>Did not apply in 2013</i>
53	Paragraph 11 of Schedule 32, Urban Renewal Scheme 1986: Capital allowances for certain commercial premises in designated areas	4	70,505
54	Paragraph 13 of Schedule 32, Urban Renewal Scheme 1986: Double rent allowances in relation to certain premises in designated areas	2	196,371
	Totals	1,433	236,298,557

Note: for publication purposes some categories have been amalgamated.

⁴ Finance (No. 2) Act 2013 provided that where an investment is made after 15 October 2013 and before 1 January 2017, then it will not be a specified relief.