SIPTU

A PROGRESSIVE ALTERNATIVE TO THE UNIVERSAL SOCIAL CHARGE (USC)

June 2015

ORGANISING FOR FAIRNESS AT WORK AND JUSTICE IN SOCIETY

1 Moving from the USC to the Social Solidarity Contribution and Credit

The Universal Social Charge (USC) was introduced in the early stages of the economic crisis solely as a revenue-raising measure.

It remains firmly associated with the years of austerity and a very significant imposition on low to middle income earners, which should be abolished.

It is time to begin the process of moving from the USC to a new progressive mechanism. SIPTU is proposing a new **Social Solidarity Contribution** accompanied by a specifically linked **Social Solidarity Contribution Credit**. Our proposals are based on four key principles:

i) Retaining the progressive elements of the existing USC;
ii) Dedicating the yield for social investment purposes;
iii) Ensuring transparency as to the use of contributions;
iv) Reducing the charge on low to middle-income earners.

2 Eliminating the charge on incomes below the Living Wage (i.e. €23,250) per annum

In order to reduce the current levy on low and middle income earners we propose that the current rates and bands should remain unchanged. A new Social Solidarity Contribution Credit of €775 for all income earners earning up to €100,000 should be introduced and a 10% rate (as suggested by the Department of Finance in 2011) should be applied on income over €100,000.

The effect of these measures would be to exempt all incomes up to the Living Wage (i.e. approximately €23,250) and to considerably reduce the levy on other low to middle-income earners, as set out in Table 1.

Table 1 - Sample comparison of current structure to proposed SSC Credit

Gross Income	*Current USC liability*	*Current USC as % of income*	*Proposed SSC Credit*	*Proposed € liability under SSC Credit*	*Proposed liability as % of income*
€12,012	€0	0	0	0	0%
€23,251	€772.17	3.3%	-€772.17	0	0%
€30,000	€1,244.60	4.1%	-€775.00	€469.60	1.6%
€33,800	€1,510.60	4.5%	-€775.00	€735.60	2.2%
€40,000	€1,944.60	4.9%	-€775.00	€1,169.60	2.9%
€50,000	€2,644.60	5.3%	-€775.00	€1,869.60	3.7%
€60,000	€3,344.60	5.8%	-€775.00	€2,569.60	4.3%
€70,000	€4,044.60	5.8%	-€775.00	€3,269.60	4.7%
€80,000	€4,844.16	6.0%	-€775.00	€4,069.16	5.1%
€90,000	€5,644.16	6.3%	-€775.00	€4,869.16	5.4%
€100,000	€6,444.16	6.4%	0	€6,444.16	6.4%
€110,000	€7,244.16	6.6%	0	€7,444.16	6.8%
€120,000	€8,044.16	6.9%	0	€8,444.16	7.0%

3 Dedicated to social investment for all our futures

The yield from the Social Solidarity Contribution would not go into central exchequer funds. It would be dedicated exclusively to redressing the ongoing social damage caused by the crisis and to addressing the key social challenges now facing Irish society.

Alongside other revenue streams, the Social Solidarity Contribution would be used to prepare people for life's challenges rather than waiting to 'repair' social damage after the event – in short, a **Social Investment approach** for all our futures.

The Social Solidarity Contribution would invest in childcare and early-school learning, education, life-long learning and retraining, healthcare, and eldercare services and support for independent living (thereby helping to address the issue of late discharges from hospitals).

Contributions would also be used to prepare for the ageing of Ireland's population in the years ahead, such as by developing the statutory component of a second pillar pension system.

4 Full transparency as to the use of contributions

In contrast to the existing USC (which simply merges into central exchequer funding), the Government would be required to provide clear and regularly updated information to the public as to how SSC contributions are being used. Countries such as Norway, Sweden and the UK, have begun to do this over recent years. Ireland should now do the same, starting with the SSC.

5 Keeping the progressive elements of the existing USC

There is little doubt that some aspects of the existing USC are progressive, particularly in comparison to other parts of the Irish taxation system. The USC applies to many different types of income and has fewer exceptions and reliefs. This means that wealthier income earners cannot avoid paying the USC whereas they can (and do) quite easily escape other forms of taxation. These progressive features should not only be retained under the Social Solidarity Contribution but should be 'exported' across the wider Irish taxation system so as to ensure all income earners pay their fair share.

6 Eliminating its regressive features

Despite these progressive features, other aspects of the USC are deeply regressive. The charge amounts to a 'flat tax' on all income between €17,576 and €70,044 with the 7% rate applying throughout. There are also substantial 'step-effects', with sizeable jumps in liability over a relatively narrow increase in income (e.g. from 1.5% to 3.5% over €12,012 and 3.5% to 7% over €17,576). Furthermore, the standard rates do not increase in line with income beyond the 8% rate above €70,044.

In our view, the best remedy is a credit of €775 which would be specifically linked to the Social Solidarity Contribution. Everyone would get the same on all liable income up to €100,000 per annum. Thereafter, it would cease to apply. Moreover, those on incomes above that level would pay a higher levy of 10%. This would ensure that the greatest proportionate benefit would accrue to low and middle income earners.

7 Keep the current yield of €4 billion

The current USC has contributed between one-fifth and one-quarter of total income tax each year since its introduction in 2011 (see Table 2). The most recent estimate is that it will make the same yield in 2015.

Table 2 - USC yield 2011-15

Year	*Total USC receipts*	*Total Income Tax*	*USC receipts as % of total Income Tax*
2011	€3.1b	€13.8b	22.5%
2012	€3.8b	€15.1b	25.0%
2013	€3.9b	€15.8b	24.9%
2014	€3.7b (est.)	€17.2b	21.5%
2015	€4.2b (est.)	€18.0b	23.2%

Source - Min. of Finance's answer to Dail question 47791/14 (16 December 2014).

Our proposal is aimed at yielding at least the same amount as the USC but through a fairer mechanism that involves effectively lower contributions from low to middle income earners counter-balanced by higher contributions from higher income earners.

8 Direct available resources in a 2:1 ratio – two-parts for public services and one-part for tax reform targeting low to middle-income earners

Any further cuts to the top rate of tax, aside from accruing to a minority of taxpayers, would only undermine the progressive elements of our proposals and should not be pursued.

The resources that become available as the economy grows should now be directed over the short to the medium term in a minimum 2:1 ratio. At least two-thirds should go towards improving healthcare, education and training, childcare and eldercare as well as providing for the housing needs of all the population. The remaining one-third should go towards tax reform, exclusively targeting low and middle income earners. This latter could be rendered close to cost neutral through the introduction of new taxes on capital and the wealthy. This would mirror the approximate 2:1 ratio of cuts versus tax increases incurred in the €30 billion in 'fiscal adjustments' that took place between 2008 and 2014.

Thereafter, there should be no further tax cuts and the focus should be on improving public provision. The ultimate objective should be the development of Northern/Central European levels of public services incrementally over time; this would require European levels of taxation.

9 Funding the Social Solidarity Contribution

The Minister for Finance recently stated that introducing the 'highly progressive' USC model which the Department of Finance suggested in 2011 - which included an 8% rate on income over €75,000 and a 10% rate on income over €120,000 - could now cost an estimated €878 million in the first year and €1.17 billion in a full year.

We estimate that introducing a Social Solidarity Contribution Credit of €775 per annum for all income earners earning up to €100,000 could cost in the region of €900 million. The cost of maintaining reduced rates such as for medical card holders and income earners aged 70 and over on incomes of less than €60,000 would also have to be considered. A full costing of these proposals could be done by the Revenue Commissioners.

10 Raising the necessary resources

In order to introduce the SSC Credit within the context of the 2:1 ratio, additional resources would be raised by bringing in the 10% rate proposed by the Department of Finance in 2011 on income above €100,000. This could reduce the estimated €900 milion cost by approximately €100 milion to €125 milion.

Additional resources could also be raised through new revenue raising measures. These could include reform of Capital Acquisitions Tax and the introduction of a net Wealth Tax (estimated yield of €400m), reform of tax expenditures such as those related to property and pensions (estimated yield of €100m), on-line betting tax (estimated yield of €70m), and increases in excise on tobacco (estimated yield of €35m). (Source - ICTU's Pre-Budget Submission for Budget 2015 *Jobs, Growth and Homes).*

These measures would be in line with EU rules that 'excess' spending growth (i.e. beyond Ireland's permitted 'fiscal space') be resourced through discretionary taxation.

11 A progressive mechanism, not a tax-cutting agenda

Our proposal is a demand for a progressive mechanism that effectively eliminates the charge entirely for income earners below the Living Wage (i.e. €23,250 a year), that cuts it by half for all individuals on the standard band threshold (i.e. €33,800) and that reduces it considerably for middle income earners. Meanwhile, it would raise the same level of much-needed revenue.

Any further cuts to the top rate of tax, aside from accruing to a minority of taxpayers, would only undermine the progressive elements of our proposal, and should not be pursued.

12 Conclusion

If we are to put the era of 'boom and bust' truly behind us and move to sustainable long-term growth, we need to achieve a more progressive taxation system.

Replacing the USC with a progressive and transparent Social Solidarity Contribution dedicated exclusively to key elements of public provision and introducing a Social Solidarity Credit benefiting low to middle income earners would be an important building bloc of such a system.

This should be the priority in future taxation reform. Pursuing it would also enhance public support for raising overall taxation levels over the medium to longer term in order to fund Northern/Central European levels of public provision.

A TASC survey in November 2014 found that half of Ireland's adult population (50%) are willing to pay higher taxes if guaranteed high quality public services or new/expanded public services.

We have put forward these proposals as a constructive contribution to the debate on the development of the highest standards of universal public provision and the reform of the tax system necessary to bring it about.

Annex 1

The Universal Social Charge (USC) was introduced in Budget 2011 (i.e. budget announced in December 2010), replacing both the Income Levy and the Health Levy. To recall, an income earner was subject to the Income Levy if their income was greater than €15,028. If above this amount, they were charged at 2% on all income up to €75,036, at 4% between €75,036 and €174,980 and at 6% above €174,980. Income earners were also subject to the Health Levy if earning over €26,000. If earning over this amount, all income up to €75,036 was charged at 4% and at 5% if earning over €75,036. The USC is payable on all gross income. This includes 'notional' pay such as benefits-in-kind (e.g. an employer's contribution to a permanent health insurance scheme or to a personal retirement savings account (PRSA)). It is paid after any relief for certain capital allowances (e.g. for a business vehicle) but before any pension contributions. Certain payments are exempt from the USC, (such as Department of Social Protection payments and similar payments from other Departments (e.g. under Community Employment Schemes) and income already subject to the Deposit Interest Retention Tax (DIRT). Table 3 below compares liabilities under the Income and Health Levies with the USC as it applied in 2011.

Table 3 - Comparison of replacing 2010 Health and Income Levies with 2011 USC

Income	*Total Health and Income Levies in 2010 in €*	*Health & Incomes Levies as % of gross income 2010*	*USC Charge in 2011 in €*	*USC as % of gross income in 2011*	*% change between Levies and USC in 2011*
20,000	400	2%	718.80	3.6%	-1.6%
30,000	1,800	6%	1,418.80	4.7%	+1.3%
40,000	2,400	6%	2,118.80	5.3%	+0.7%
50,000	3,000	6%	2,818.80	5.6%	+0.4%
60,000	3,600	6%	3,518.80	5.9%	+0.1%
70,000	4,200	6%	4,218.80	6.0%	0%
80,000	4,899.28	6.1%	4,918.80	6.1%	0%
90,000	5,699.28	6.3%	5,618.80	6.2%	+0.1%
100,000	6,499.28	6.5%	6,318.80	6.3%	+0.2%
110,000	7,299.28	6.6%	7,018.80	6.4%	+0.2%
120,000	8,099.28	6.7%	7,718.80	6.4%	+0.3%

Source – SIPTU calculations

Among the main changes made to the USC since 2011 include the raising of the entry threshold from €4,004 to €10,036 in Budget 2012 (December 2011) and to €12,012 in Budget 2015 (October 2014). These two steps removed approximately 400,000 income earners from the scope of the charge. In total approximately 650,000 income earners are now exempt from the USC.

Budget 2015 also saw the reduction of the previous 2% and 4% rates to 1.5% and 3.5% respectively and the introduction of a new 8% rate on income over €70,044.

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