

Department of Social Protection

Submission to the Low Pay Commission

PRSI

1. The Department of Social Protection has responsibility for Pay Related Social Insurance (PRSI) contributions payable by employees, their employers and by the self-employed. In the case of employees, PRSI (along with income tax and USC) is deducted by employers and, together with the employer PRSI liability, remitted to the Revenue Commissioners as part of the PAYE system of collection.
2. The vast majority of employees pay PRSI as a Class A contributor. Class A employees earning €352 or less per week are not charged PRSI. Prior to 2016, Class A PRSI was charged at 4% on all earnings, once weekly earnings exceed €352.
3. Employers are also required to pay PRSI in respect of their employees, once weekly earnings exceed €38. Prior to 2016, employers of Class A employees were liable to PRSI at the rate of 8.5% where weekly earnings between €38 and €356. Once earnings exceeded €356, the higher employer PRSI rate of 10.75% applied, charged on all earnings.

2015 Low Pay Commission Report

4. The 2015 report of the Low Pay Commission report recommended an increase in the hourly rate of the minimum wage from €8.65 to €9.15. In its report, the Commission also recommended *“that the anomalies in relation to PRSI and USC set out in Chapter 6, which could adversely affect the position of low paid employees and employers costs, be addressed as a matter of urgency.”*
5. The report looked at the impact of changes to the hourly minimum wage on a single adult working a standard 39-hour week. At the €8.65 per hour minimum wage, employer PRSI was payable at the lower 8.5% rate. Increasing the hourly minimum wage to €9.15 would mean that weekly earnings exceeded €356 and accordingly attract the higher employer rate of PRSI of 10.75%. Employer costs would increase disproportionately. This led the Commission to conclude that *“any recommended increase in the National Minimum Wage must be accompanied by an appropriate adjustment to the PRSI system, to ensure that the entire burden of any adjustment should not fall solely, and unreasonably, on the employer”*.
6. In relation to employee PRSI, the Commission highlighted the fact that a €0.01 increase in the weekly earnings of €352 triggers a weekly employee PRSI contribution/liability of €14.07. This occurs because of the “step effect” caused by charging PRSI on all income, once weekly earnings exceed the €352 threshold. For a 39-hour a week Class A employee, the report found that an increase of €0.45 in the minimum wage would result in the employee being worse off. This led the Commission conclude that *“minimum wages must be closely co-ordinated with tax-benefit policies to be more effective in underpinning incomes of low-paid workers”*.

Budget 2016

7. In Budget 2016, the Department implemented changes to both employer and employee PRSI to (i) address the concerns of the Low Pay Commission and to (ii) deal with the long-standing “step-effect” within the system which particularly affected lower income employees. These changes were legislated for in the Social Welfare and pensions Act, 2015.

Employer PRSI

8. The upper threshold at which the 8.5% rate of employer PRSI is charged was increased from €356 to €376, with effect from 1 January 2016. The full year cost of this measure is €6.7 million.
9. This measure ensures that employers with employees earning the minimum wage and working a 39-hour week, continue to attract the lower 8.5% rate of employer PRSI, upon implementation of the new minimum hourly wage. This change benefits approximately 26,000 employments already earning between €356 and €376. It is important to note that this measure (i) had no impact on employers of persons earning the minimum wage who work less than 39 hours per week and (ii) benefited employers of persons earning more than the new minimum wage (sometimes considerably more) but who work a limited number of hours per week and earn between €356 and €376 per week.

Employee PRSI

10. From 1 January 2016, a new tapering PRSI credit was introduced for PRSI Class A and Class H employees earning between €352.01 and €424.00 per week. (In the case of these employees, PRSI is still not chargeable provided weekly earnings do not exceed €352.00.) The full year cost of this measure is €17.2 million. The maximum weekly PRSI credit of €12 applies at gross earnings of €352.01 and reduces the PRSI charge from €14.08 to €2.08. As earnings increase the maximum weekly PRSI credit of €12.00 is reduced by one-sixth of weekly earnings in excess of €352.01. Once earnings exceed €424, the PRSI credit no longer applies.
11. The tapered PRSI credit reduces the employee PRSI charge in a progressive manner, for weekly earnings between €352.01 and €424. In so doing it ensures that workers, who enter the PRSI net because of the increased minimum hourly wage, do not face an excessive weekly employee PRSI charge. The measure also benefitted some 88,000 employments already on weekly earnings between €352.01 and €424. It is also important to note that this measure (i) had no impact on employers of persons earning the minimum wage with the exception of those who would now earn between €352 and €356.85 per week (based on a 39 hour week), (ii) benefited all employees earning between €352 and €424 per week including employees earning more than the minimum wage (sometimes considerably more) but who work a limited number of hours per week.

Looking ahead

12. DSP notes the commitment in the new Programme for a Partnership Government to increase the minimum wage to €10.50 per week over the next 5 years and to *“rely on the annual recommendations of the Low Pay Commission on the level of adjustment each year. Working with the Oireachtas we will cut Employers' PRSI for low-income workers to mitigate the cost of minimum wage increases, in order to protect jobs.”* DSP is available for consultation both by the Low Pay Commission and Oireachtas in this regard. In addition, DSP will supply, if available, any relevant data and costings as may be required

PRSI Policy
Department of Social Protection
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