



Costing Analysis on a Flat 20% Marginal Income Tax Rate on Overtime Earnings

12 August 2026

pbocostings@oireachtas.ie

Disclaimer

As part of its confidential costing service, the PBO endeavours to provide reasonable estimates (or ranges of estimates) for policy proposals (as submitted). Policy specifications are those supplied by the client. To respect the impartiality of the Office in providing this service, the PBO should not be represented as supporting the underlying proposals and will not comment on the merits or otherwise of the underlying proposals. For the detail of the costing service, refer to the [Policy Costing Service Guidelines](#) and [An Overview of the PBO Costing Process and our Prioritisation Framework](#). The PBO reserves the right to publish details relating to a confidential costing analysis when the results are made public. See also our comprehensive [Disclaimer Notice here](#). In any conflict between this Disclaimer and our comprehensive Disclaimer Notice, the latter will prevail.

Overview

This document publicly releases a costing analysis prepared on a confidential basis by the Parliamentary Budget Office (PBO) upon request from Deputy Michael Healy-Rae. The request involves the costing of introducing a flat 20% standard marginal income tax rate on overtime earnings.



1. Summary of Request

To introduce a flat 20% standard marginal income tax rate on overtime earnings.

2. Overview of Data and Methodology

- We faced a significant limitation in the availability of data. For this costing, we needed micro data on the combination of gross income from all income sources, total earnings (i.e., income from employment), overtime earnings, and the types of tax treatment (e.g., single vs. joint assessment) in Ireland, to identify the income tax liabilities of individuals and how overtime earnings could be taxed. To the best of our knowledge, no such dataset is currently available to researchers. We therefore had to make simplifying assumptions to carry out this costing. We outline these assumptions below.
- We statistically simulated micro data on total earnings, using aggregate administrative statistics on earnings in 2024 from the Central Statistics Office (CSO).¹ We validated the simulated data against these aggregate statistics.² The number of registered employments in 2024 was sourced from the CSO.³
- We sourced the overall average overtime earnings from the CSO.⁴ We then adjusted this figure by the ratio of the following two: (1) the average overtime earnings among employees whose earnings (excluding overtime earnings) exceed the standard 20% income tax rate band to (2) the average overtime earnings among all employees.⁵ This was to estimate the average overtime earnings within the subset of individuals whose earnings exceed the standard 20% income tax rate band.

¹ Central Statistics Office, [Earnings Analysis using Administrative Data Sources 2024](#), 29 July 2025.

² For an overview of this simulation methodology, see Akisato Suzuki, [Simulating Micro Data for Policy and Costing Analysis](#), PBO Working Paper Series No. 1 of 2022, July 2022.

³ Central Statistics Office, [EHA05: Average Annual Earnings and Other Labour Costs](#), 04 July 2025.

⁴ Central Statistics Office, [EHA05: Average Annual Earnings and Other Labour Costs](#), 04 July 2025.

⁵ The ratio was estimated based on the latest (2022) Structure of Earnings survey at the time of the analysis. Central Statistics Office, [Structure of Earnings Survey 2022](#), 18 October 2023. As the micro data are confidential, the two average values were provided by the CSO. Overtime earnings in a typical week of October (the measurement available in the survey) were annualised by multiplying them by 52.



- We annually uprated the simulated earnings data, the estimated average overtime earnings among those whose earnings exceed the standard band, and the volume of employments, up to 2031 to conduct a five-year multiannual costing. For uprating to 2025, we used historical quarterly data from the Central Statistics Office (as the annual version was unavailable at the time of the analysis).⁶ For uprating from 2026 to 2030, we used wage-per-head and employment forecasts produced by the Department of Finance.⁷ As these forecasts were available only up to 2030, we assumed the same forecast values for 2031 as for 2030.
- We assumed that the number of registered employments is equal to the number of employees.⁸ These individuals were assumed to be either under single assessment (without qualifying children) or under joint assessment where the lower earner has earnings of at least €44,000.⁹ Put differently, we assumed that they pay a 20% income tax rate for earnings up to the standard 20% income tax rate band of €44,000 and a 40% rate above this value.
- We excluded income from sources other than employment from the analysis because of data limitation. This implies that the proposed policy is applied only in terms of PAYE income. In other words, it is assumed that if a person's PAYE income is within the standard 20% income tax rate band, the proposed policy results in no revenue forgone, even if the person's other income makes their total income exceed this band.
- We assumed that the income tax system and rates remain the same over the projected years to calculate income tax payable. We identified the number of simulated individuals

⁶ Central Statistics Office, [EHQ53: Average Earnings, Hours Worked, Employment and Labour Costs](#), 06 July 2026.

⁷ Department of Finance, [Annual Progress Report: Incorporating the Department of Finance's Spring Forecast](#), April 2026.

⁸ CSO aggregate statistics on average overtime earnings are based on registered employments rather than individuals. Central Statistics Office, [EHA05: Average Annual Earnings and Other Labour Costs](#), 04 July 2025. In practice, it is possible that one individual is associated with more than one employment. Without micro data, we could not model such cases to calculate income tax liability.

⁹ Revenue, [Tax Rates, Bands and Reliefs](#), 1 January 2026. Under joint assessment, if only one side has income, they have an increased 20% standard income tax rate band of €53,000. If the other side also has income, this band increases by the lower of this person's income or €35,000. If the other side has income of €44,000 or greater, the band increases to €88,000 (€53,000 + €35,000). Then, joint assessment becomes equivalent to two individuals' single assessment, in that the 20% income tax rate band of €44,000 is shared between the two in a jointly assessed tax unit.



for each projected year whose earnings exceed the current standard 20% income tax rate band of €44,000.

- We then multiplied the number of simulated individuals whose earnings exceed the standard band by the average overtime earnings among these individuals for each projected year. This results in the sum of the overtime earnings taxed at the 40% marginal income tax rate under the current system across all these individuals.
- We calculated the income tax payable under the current system and under the proposed system on a full-year basis from 2027 to 2031. The difference is the cost, or revenue forgone, of the proposed policy.

3. Cost Estimates

Table 1 presents the full-year costs (revenue forgone) resulting from the policy in euro million from 2027 to 2031. On a full-year basis, the policy would cost €238.8 million in 2027, rising to €331.0 million by 2031.

Table 1: Full-year cost of a flat 20% standard marginal income tax rate on overtime earnings

Year	Revenue Forgone (€ million)
2027	238.8
2028	260.3
2029	282.8
2030	306.1
2031	331.0

Source: PBO modelling based on CSO data.



4. Areas of Uncertainty

Some points of uncertainty and important caveats are listed below.

Data uncertainty

- There is **medium** data uncertainty in the analysis.
- The data used are sourced from the CSO; however, some data are survey-based rather than from an administrative source. In general, survey data have greater uncertainty than administrative data because of sampling as well as errors and bias in responses.
- The sourced data are aggregate statistics rather than micro data, although the analysis required micro data for mathematical rigour.

Modelling uncertainty

- There is **high** modelling uncertainty in the analysis.
- We simulated micro data on total earnings based on aggregate statistics sourced from the CSO. While the simulated data were validated against these aggregate statistics, they are subject to modelling assumptions.
- We estimated the average overtime earnings among those whose earnings would exceed the standard 20% income tax rate band, based on aggregate statistics from the 2022 Structure of Earnings survey provided by the CSO on overtime earnings in a typical week of October. There is uncertainty how representative the survey data from 2022 is for the projected period, and whether overtime earnings in a typical week of October are representative of weekly overtime earnings throughout the year.
- More generally, there is uncertainty regarding how well the aforementioned estimated average overtime earnings map onto the simulated micro data on total earnings. First, some workers might have base salaries below the standard 20% income tax rate band, and only a portion of their overtime earnings is subject to the 40% income tax rate band. Second, with earnings growing as modelled, some of those who used to earn less than the standard band value would start to earn more than this band value, which might then



affect the average overtime earnings within the subset of those whose earnings exceed the band.

- Because of the data limitation, we excluded income from sources other than employment from the analysis. In practice, income tax is likely to apply to these sources as well.
- The amount of income tax revenue, and the amount of overtime earnings, are subject to macroeconomic developments in the projected years.

Behavioural uncertainty

- There is **high** behavioural uncertainty in the analysis.
- It is possible that a flat 20% tax rate on overtime earnings could incentivise more people to do overtime to earn extra money. These extra overtime earnings would reduce rather than increase the cost of the policy. The cost of the policy is the difference between revenue under the current system and revenue under the alternative system. The extra overtime earnings resulting from the policy are the earnings that would not emerge given the current system. Therefore, tax payable on these extra overtime earnings would not be part of the income tax revenue under the current system. Since these earnings would be taxed at 20%, they would add to the tax revenue, thereby reducing the net cost of the policy.

5. Appendix - Request (as submitted)

To introduce a flat 20% standard income tax rate on all qualifying overtime earnings, removing the progressive marginal rate barrier to boost national productivity, alleviate critical labor shortages, and increase take-home pay for workers.