An Roinn Airgeadais
Department of Finance

Our reference: 2016-3(a)

13 September 2016

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Mr Kevin Dillon
Senior Research & Policy Officer
Fianna Fáil Research & Policy Unit
Leinster House
Kildare Street
Dublin, D02 A272

Dear Mr Dillon,

I refer to Fianna Fáil's Budget 2017 costing request to the Department of Public Expenditure and Reform (submitted on 24 August, 2016). As you will be aware, seven of your policy costings were deemed more appropriate to this Department, and were transferred to us on 30 August 2016.

I attach a document which sets out our response to each of the seven policy costings.

We have received your taxation measures request of 9 September and will respond to it as soon as possible.

Please note that the costing exercise did not examine the interaction of individual measures with other tax and/or expenditure measures.

No account has been taken of the second round impact of measures proposed, such as their positive or negative impact on economic growth, job creation, inflation or their impact on tax buoyancy.

It should be borne in mind that that under the preventive arm of the Stability and Growth Pact, until Ireland has reached its objective of a balanced budget in structural terms, we may not introduce discretionary revenue reductions, over and above the available fiscal space permitted under the expenditure benchmark, unless they are matched by other revenue increases or expenditure reductions. Accordingly, tax reductions may have to be offset elsewhere.

The costings, including those provided by or in conjunction with other Departments, are provided on the basis that at no time will the Department be represented as endorsing the proposals costed. Equally, the Department will not comment on the merits or otherwise of those proposals. Where caveats or assumptions have been made in this response, the Departments' positions on such issues must be accurately, fully and fairly represented.

The Freedom of Information Act 2014 does not provide for an exemption for the costings of political parties proposals. Costings prepared by the Department in the context of the Budget will be treated in the same manner as all other pre–Budget submissions/requests. As is normal practice, the Department will publish all of these submissions and the responses on its website, redacting on the basis of the Freedom of Information exemptions as appropriate. Costings prepared in the context of general elections or Programmes for Government will also be dealt with in accordance with relevant provisions of the Act.

If you have any queries on any of the above matters or costings, please do not hesitate to contact me.

Yours sincerely,

Derek Moran

Secretary General

Costing Request 2016-3(a)

Policy Proposals Options costings for Verification

Policy 1

Extending the VRT Rebate for Electric Vehicle Purchase

First year cost (€ millions) provided: 2.7

Full year cost (€ millions) provided: 2.7

Basis/PQ reference: 22193/16

Notes provided by requestor: As per PQ reply 'Section 62 of the Finance Act 2014 provided for an extension of the reliefs from Vehicle Registration Tax (VRT) available for electric vehicles, hybrid electric vehicles and plug-in hybrid electric vehicles till 31 December2016. The estimated cost of the exemption in 2015 was €2.7m, for 550 vehicles.

Department of Finance Response:

VRT relief for electric vehicles in 2015 cost:

- Hybrid Electric Vehicles (max relief €1,500): €2.7 million
- Plug-in Hybrid Electric Vehicles: €0.3 million
- Electric Vehicles (max relief €5,000): €2.8 million
- Electric Motorcycles (exempt): Approx. €0.1 million

Policy 2

Introduce Childcare Tax Credit

First year cost (€ millions) provided: 142.2

Full year cost (€ millions) provided: 142.2

Basis/PQ reference:

Notes provided by requestor: Maximum €2,000 tax credit in respect of childcare costs

Department of Finance Response: The Department and the Revenue Commissioners are unable to verify the costings and the assumptions provided.

In addition, it is likely that there would be significant issues that would require resolution before such an incentive could be considered for implementation.

Policy 3

Cost of extending 8.5% PRSI rate to people earning up to €385; €390; €395 ; or €400

First year cost (€ millions) provided: 3.3

Full year cost (€ millions) provided: 3.3

Basis/PQ reference: 19904/15

Notes provided by requestor: As per PQ reply "Employer PRSI New Upper Threshold for 8.5% rate:

	Full Year Cost	Employments Affected
€385	€3.3 million	12,860
€390	€5.1 million	19,380
€395	€8.1 million	30,000
€400	€10.0 million	36,730

Department of Finance Response: The Department of Social Protection has verified that the figures are correct as being full year costs, but not as first year costs.

If implemented from 1 January, the first and full year costs would be as follows:

	First Year Cost	Full Year Cost	Employments Affected
€385	€2.8 million	€3.3 million	12,860
€390	€4.3 million	€5.1 million	19,380
€395	€6.9 million	€8.1 million	30,000
€400	€8.5 million	€10.0 million	36,730

Policy 4

Establish a First Time Buyers Savings Scheme

First year cost (€ millions) provided: 84.2

Full year cost (€ millions) provided: 84.2

Basis/PQ reference: Based on UK "Help to Buy ISA" model (Appendix 2 referenced in the spread sheet setting out the request was not relevant)

Notes provided by requestor: Scheme involves a 25% government top up on deposit savings account for first time buyers. Cost is based on the maximum contribution of €5,000 by the Government per account in total and €1,700 per annum for an average of 16,500 eligible account holders per annum reaching a peak of 49,500 savers at a maximum cost €84.15 million. See appendix for further details and sources.

Department of Finance Response: The Department and the Revenue Commissioners are unable to verify the costings and the assumptions provided, however the cost calculated is correct for the time when the assumed peak take-up figure of 49,500 accounts has been reached, if operated as set out. €84.2 million is not therefore a figure for a first year cost.

The total number of first time buyer residential mortgage loans (so excluding cash buyers) in the four quarters ending 30th June 2016 was 13,203. If each of them were to open one of the new accounts suggested, and the €1,700 average was to apply from the first year, however unlikely that is, the first year cost would be some €22.4 million.

Policy 5

Toll Saver Initiative

First year cost (€ millions) provided: 7.0

Full year cost (€ millions) provided: 7.0

Basis/PQ reference: Detailed Cost Estimate in appendix 10

Notes provided by requestor: N/A

Department of Finance Response: The Department and the Revenue Commissioners are unable to verify the costings and the assumptions provided.

In addition, it is likely that there would be significant issues that would require resolution before such an incentive could be considered for implementation.

Policy 6

Waiving Motor tax for Electric Vehicles

First year cost (€ millions) provided: 1.3

Full year cost (€ millions) provided: 1.3

Basis/PQ reference: Detailed Cost Estimate in appendix 11 "Cost estimates for electric car proposals"

Notes provided by requestor: All Electric Vehicles would be given a waiver on their Motor Tax on assumption that there would be 11,000 Electric Cars by 2020 and average Motor Tax for an Electric Vehicle at present is €120 per annum (According to SEAI).

Department of Finance Response: Based on figures from August 2016 when there 1,425 electric cars on the road, the cost in a full year of this proposal would be €171,000, plus €6,000 for electric goods vehicles.

Policy 7

Tax Saver for Park and Ride Users

First year cost (€ millions) provided: 1.0

Full year cost (€ millions) provided: 1.0

Basis/PQ reference: Detailed cost estimate in Appendix 12 "Cost Estimates Allowing Rail Passengers to Add Park and Ride to their Tax Saver"

Allowing Rail Passengers to Add Park and Ride to their Tax Saver

We propose to allow rail commuters, currently availing of the Tax Saver package to pay for their monthly/ annual rail tickets, to add the cost of their Park and Ride ticket to their Tax Saver.

The below costings assume that of 50,000 daily rail commuters, 10% of these use a park and ride facility and a Tax Saver ticket, to paying an average of €10 euro per week (for 33 working weeks). They can claim back 30% of these costs via the Tax Saver.

Estimated Cost of Addition Allowing Commuters Add Cost of Park and Ride Tickets to Tax Saver						
Number Annual Daily Rail Commuters 2015	**Assumed Number Using Park and Ride**	**Average Weekly Cost Park and Ride at Rail**	**Annual Cost of Park and Ride**	**Percentage Tax Saver Cost Back**	**Average Annual Saving Using Park and Ride Tax Saver**	**Cost (millions, euro)**
50000	10000	10	330	0.3	99	0.99

Notes provided by requestor: N/A

Department of Finance Response: As regards the figures quoted it is not possible to verify whether they are correct as they contain a number of assumptions. The charge quoted for average weekly cost may be low as park and ride charges vary considerably. Also the estimate of 33 weeks per year would seem conservative.

Overall cost would depend on how many people took up the park and ride option, how much it cost per person and what their particular tax situation was. It would be difficult also to predict what, if any, behavioural change would be caused by the introduction of such a measure.

The Tax Saver / travel pass scheme was introduced originally to encourage greater use of public transport by providing an exemption from BIK (Benefit-In-Kind taxation) for employer-provided bus and rail passes. There would be a concern that to extend the scheme in the manner proposed, in addition to increasing the cost to the Exchequer, would perhaps have the unintended effect of increasing the distance driven by commuters before they switch to public transport. There could also be difficulties in terms of administering such a change and minimising any opportunity for its misuse.