An Roinn Airgeadais
Department of Finance

Our reference: 2016-2(a)

File Copy

21 September 2016

Mr Neil Ward
Chef de Cabinet, The Labour Party
Leinster House
Kildare Street
Dublin, D02 A272

Dear Mr Ward,

I refer to the Labour Party's request to the Department for Budget 2017 costings (submitted to us on 2 September, 2016). I am pleased to enclose the responses to 7 of the 11 costings you sought. Responses on your proposals 1 (Changes to USC), 2 (Expansion of PRSI relief for low or middle-income earners), 8 (National Training Fund Levy) and 11 (Capital Acquisitions Tax) will issue 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

**Areas submitted to Department of Finance for costing**

## Proposal 1 Changes to USC

1. Detailed description of item or policy on which a costing is required:

To determine the cost of reducing the 1%, 3% and 5.5% rates of USC by 0.5% (suggested as €331m by the Tax Strategy Group), but including an offsetting measure of withdrawing PAYE and Earned Income Tax Credits for all earnings between €100,000 and €120,000 so that anyone earning €120,000 or more will receive no benefit from such changes.

**Response to be supplied as soon as possible.**

2. What assumptions/parameters do you wish the Department to make/specify? We would like to receive an analysis of the tax reductions in the above scenario for anyone earning €10k, €20k, €30k, €40k, €50k, €60k, €70k, €80k, €90k, €100k, €110k and €120k.

**Response to be supplied as soon as possible.**

## Proposal 2 – Expansion of PRSI relief for low and middle income earners

1. Detailed description of item or policy on which a costing is required:

A PRSI credit was introduced in Budget 2016 in order to ameliorate the 'step effect' experienced by employees whose income is just over the threshold for liability to PRSI. We wish to explore the expansion of this credit providing relief of a maximum of €14 per week on incomes under €704 per week, or €36,608 per year. The tapering of this measure should apply at a rate of 4% per €1k income.

**Response to be supplied as soon as possible.**

2. What assumptions/parameters do you wish the Department to make/specify? The impact of this measure on individuals at the below salary levels should be included in the detail provided on this costing:

€18,305, €25,000, €30,000, €35,000, €36,608

**Response to be supplied as soon as possible.**

## Proposal 3 – Withdrawal of Tax Credits from High Earners

1. Detailed description of item or policy on which a costing is required:

**(i)** The gain to the exchequer from a withdrawal of PAYE and Earned Income tax credits by 5% per €1k income, on all income in excess of either €80,000 (scenario 1) or €100,000 (scenario 2).

**Response:** It is estimated that the first and full year yields to the Exchequer of tapering the

PAYE and the Earned Income Credits per €1,000 of income between €80,000 and €100,000 in the manner specified in scenario 1 are in the order of €366 million and €414 million respectively.

It is estimated that the first and full year yields to the Exchequer of tapering the PAYE and the Earned Income Credits per €1,000 of income between €100,000 and €120,000 in the manner specified in scenario 2 are in the order of €212 million and €240 million respectively.

**(ii)** The gain to the exchequer from a withdrawal of PAYE and Earned Income tax credits by 15% per €1k income, on all income in excess of either €80,000 (scenario 3) or €100,000 (scenario 4).

**Response:** It is estimated that the first and full year yields to the Exchequer of tapering the PAYE and the Earned Income Credits per €1,000 of income between €80,000 and €100,000 in the manner specified in scenario 3 are in the order of €435 million and €493 million respectively.

It is estimated that the first and full year yields to the Exchequer of tapering the PAYE and the Earned Income Credits per €1,000 of income between €100,000 and €120,000 in the manner specified in scenario 4 are in the order of €249 million and €283 million respectively.

It should be noted that the two credits tapered in these costings were reduced by 6 steps of 15% and a final step of 10% per €1k of income in excess of €80,000/€100,000.

**(iii)** The gain to the exchequer from a withdrawal of PAYE and Earned Income tax credits by 16.5% per €1k income, on all income in excess of either €80,000 (scenario 3) or €100,000 (scenario 4).

**Response:** It is estimated that the first and full year yields to the Exchequer of tapering the PAYE and the Earned Income Credits per €1,000 of income between €80,000 and €100,000 in the manner specified in scenario 5 are in the order of €439 million and €497 million respectively.

It is estimated that the first and full year yields to the Exchequer of tapering the PAYE and the Earned Income Credits per €1,000 of income between €100,000 and €120,000 in the manner specified in scenario 6 are in the order of €252 million and €285 million respectively.

It should be noted that the two credits tapered in these costings were reduced by 6 steps of 16.5% and a final step of 1% per €1k of income in excess of €80,000/€100,000.

The estimates above have been generated by reference to projected 2017 incomes, generated on actual data for the year 2014, the latest year for which returns are available, after adjustments for income, self-employment and employment trends in the interim. The estimates are provisional and may be revised. An analysis of the First Year/Full Year apportionment of costs was also undertaken to ensure the estimated apportionment is as accurate as possible. It should be noted that this revision does not impact on the total cost/yield of a measure; it only changes the apportionment of the Exchequer impact over the first and second years in which it comes into effect.

Given the current tax structures, major issues would need to be resolved as to how in practice such credit tapering could be integrated into the current system and how this would affect the relative position of different types of income earners.

2. What assumptions/parameters do you wish the Department to make/specify?

The first two scenarios outlined in this proposal have been costed by the Tax Strategy Group to take effect from 2018. We are seeking to have the same assumptions and parameters applied to cost this measure to take effect from 2017. Scenarios 3, 4, 5 and 6 replicate this approach, but with a more rapid withdrawal of tax credits as income increases.

## Proposal 4 – Disability Tax Credit

1. Detailed description of item or policy on which a costing is required:

How much will it cost the Exchequer to introduce a Disability Tax Credit of €1,650 per year for single people and a tax credit of €3,000 for married or cohabiting couples. The Disability Tax Credit would cover disabilities as recognised under existing social welfare entitlements criteria.

2. What assumptions/parameters do you wish the Department to make/specify?

The cost of setting up a credit, the time it would take to be implemented, the financial criteria to be applied to applicants as is applied to the Blind Person's Tax Credit.

**Response:** There is no basis available to Revenue upon which to estimate the cost of this measure to the Exchequer as the potential uptake in numbers is unknown in advance, as is the scope for which the credit could be absorbed by claimants.

## Proposal 5 – Medical A&E Tax credit

1. Detailed description of item or policy on which a costing is required:

How much to establish a €3,300 Tax Credit for Medical Practitioners, employed or retired, to be awarded if they complete a minimum of 24 hours per quarter in A&E in their locality, to be able to treat patients presenting at A&E who could be easily treated outside of the bed areas.

2. What assumptions/parameters do you wish the Department to make/specify?

To assume that 200 people will take part in the first year, and to ensure that the tracking of such hours by hospital groups will be of a reasonable cost in this regard.

**Response:** Assuming 200 claimants were entitled to claim and fully absorb the proposed €3,300 tax credit the potential cost to the Exchequer is estimated to be in the order of €0.66 million.

## Proposal 6 - Introduction of minimum effective rates of corporation tax

i. Detailed description of item or policy on which a costing is required:

To determine the gains that would accrue to the exchequer over the years 2017- 2020 from the introduction of a minimum effective corporation tax rate of 2%, 4%, 8%, 10% or 12%.

ii. What assumptions/parameters do you wish the Department to make/specify?

We wish to assume that the introduction of this measure would impact on all profitable companies in each year, would be calculated as a share of total profits regardless of offsetting costs of expenses, and that the possible thresholds outlined above would be phased in over four years, as follows:

To achieve a minimum effective corporation tax rate of 2% by 2020, a rate of 0.5% would be set in 2017, increasing to 1.0% in 2018, 1.5% in 2019 and 2.0% in 2020.

To achieve a minimum effective corporation tax rate of 4% by 2020, a rate of 1% would be set in 2017, increasing to 2% in 2018, 3% in 2019 and 4% in 2020.

To achieve a minimum effective corporation tax rate of 8% by 2020, a rate of 2% would be set in 2017, increasing to 4% in 2018, 6% in 2019 and 8% in 2020.

To achieve a minimum effective corporation tax rate of 10% by 2020, a rate of 2.5% would be set in 2017, increasing to 5% in 2018, 7.5% in 2019 and 10% in 2020.

To achieve a minimum effective corporation tax rate of 12% by 2020, a rate of 3% would be set in 2017, increasing to 6% in 2018, 9% in 2019 and 12% in 2020.

**Response:** It is not possible to accurately cost the measure to introduce a minimum effective corporation tax rate at the various levels outlined. While the effective rate is lower than the 12.5% headline rate, this can be attributed to the availability of double taxation relief and a small number of corporate tax incentives such as the Research and Development Tax credit and the Tax Relief for New Start-Up companies, for example.

To accurately cost the measure would require ex ante knowledge of any behavioural changes on the part of taxpayers as a consequence. In terms of any increase in corporation tax rates, the negative impacts of behavioural effects on the corporation tax yield are likely to be relatively significant.

## Proposal 7 – Introduction of a Minimum Unit Price on alcohol

1. Detailed description of item or policy on which a costing is required:

To assess the exchequer gains arising from the introduction of a Minimum Unit Price of 100c per 10g of alcohol, as discussed in the report of the Tax Strategy Group.

2. What assumptions/parameters do you wish the Department to make/specify? The tax strategy group report on this matter suggested that the introduction of a minimum unit price in Ireland should await the determination of the Scottish courts, and that there could be impacts on cross-border trade.

We are asking for it to be assumed that the impact on cross-border trade will be negligible, and that the price increases modelled by the Tax Strategy Group serve as the basis for estimating the potential exchequer gains.

**Response:** The Revenue Commissioners does not have available information to estimate the tax yield from a minimum unit price on alcohol of 100c per 10g of alcohol. The information provided on tax returns does not require a trader to provide the unit price or volume of a specific type of good sold.

The example provided in the Tax Strategy Group paper is illustrative but there is no basis to which to estimate the volumes of alcohol products that would be affected. A prerequisite to such a costing would require determining the total price change affecting all alcoholic goods presently sold below the MUP and the volume of these goods sold. The extent of this policy's impact on tax yield would also depend upon an analysis of the supply and demand side responses resulting from the increased price.

## Proposal 8 – National Training Fund Levy

1. Detailed description of item or policy on which a costing is required:

The report of the Expert Group on Future Funding for Higher Education "strongly recommends the introduction of a structured contribution from employers as a core element of future funding for higher education. This should be delivered by increasing the National Training Fund levy." We are seeking to establish the exchequer gain (which would be held in the National Training Fund) which would arise from increases of 0.1% (scenario 1), 0.2% (scenario 2), or 0.3% (scenario 3) in the National Training Fund Levy.

2. What assumptions/parameters do you wish the Department to make/specify? The report of the Expert Group on Future Funding for Higher

Education identified
that the current levy applies to employees in class A and class H employments. We
are proposing no change to this, and would assume the increases outlined in the above scenarios should take effect from January 2017.

**Response to be supplied as soon as possible.**

## Proposal 9 – Save to buy scheme

1: Detailed description of item or policy on which a costing is required:

We are proposing the establishment of a 'save to buy' scheme, modelled on the SSIA, but restricted to first-time buyers and operated through a fixed-term savings account available through the post office network. A five year term would apply to these accounts, at the end of which an interest rate of 25% on savings would apply, to a maximum of €6,000 interest in total over the five years.

1. What assumptions/parameters do you wish the Department to

make/specify? We wish to assume that the number of first-time buyers would

double between now
and 2020, at an even annual growth rate; that two-third of first time buyers would
avail of this scheme, and that all of those participating would make the maximum contribution.

**Response:** Applying the assumptions as given above, the estimated cost to the Exchequer would be in the region of €350m.

## Proposal 10 – capping of capital losses against corporation tax

1. Detailed description of item or policy on which a costing is required:

We are seeking to (1) establish the estimated level of capital losses current held on the balance sheets of companies registered in Ireland, (2) the anticipated period of time required to bring about a situation where 80% of those losses have been recouped allowing these companies to once again make tax returns, and (3) for an estimate to be provided of the revenue likely to accrue to the state if the law was changed to cap the length of time for which such losses could be offset against tax liabilities at 2 years (scenario a), 3 years (scenario b), 5 years (scenario c) and 10 years (scenario d).

2. What assumptions/parameters do you wish the Department to

make/specify?

No additional assumptions/parameters

**Response:**

(1) It is assumed the request is referring to capital gains tax losses held by companies. From information included in the capital gains tax panel on the corporation tax return for 2014, over €5bn of losses, including losses carried forward, are recorded (it should also be noted that companies are required to file a tax return regardless of their loss situation).

(2) For companies with capital losses, the levels of capital gains / profits recorded in 2014 is very low compared to the €5bn noted in (1). On the basis of 2014 performance of these companies, the anticipated period required to offset 80% of these losses would appear to be in the very distant future. However, it cannot be assumed that 2014 performance is a reasonable basis to forecast gains in subsequent years and therefore there is no basis to accurately estimate this costing.

(3) It is not possible to accurately forecast the measure to cap the length of time losses can be offset.

## Proposal 11 – Capital Acquisitions Tax

1. Detailed description of item or policy on which a costing is required:

The savings that will accrue to the exchequer from an immediate amendment of the dwelling house exemption under Capital Acquisitions Tax, to restrict the availability of inheritance tax exemptions to a single primary residence.

2. What assumptions/parameters do you wish the Department to make/specify? Based on the proposal submitted to the Minister for Finance by Joe Lynch on 26th June 2014 at 12.29pm.

**Response to be supplied as soon as possible.**