



Our reference: 2016-2(a)

29 September 2016

File copy

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), and to my initial response dated 21 September. I am pleased to enclose the responses to 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) which were not available at the time of my initial response.

The responses to your proposals 2 and 8 have been supplied by the Department of Social Protection and are on a separate document in the enclosures with this letter.

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,

A handwritten signature in black ink, appearing to read 'D Moran', written over a horizontal line.

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: The proposal is understood to limit the tapering/withdrawal of PAYE tax credit and Earned Income tax credit to the amount of USC reduction. Due to the fact that Income Tax applies on a joint assessment basis with liability determined by joint income of couple and that USC applies on an individual basis it is not possible to cost the proposal in this manner. However, the proposal has been costed on the basis of the USC rate reductions and the tapered withdrawal of the PAYE tax credit and the Earned Income tax credit per €1,000 of income between €100,000 and €120,000 but not limiting the withdrawal of credits to the amount of USC reduction. On this basis, it is estimated that the first and full year cost is in the order of €98 million and €122 million respectively.

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? 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: While it was not possible to cost the proposal suggested, the effect of the proposal for a single individual at various income ranges is shown in the table below.

Single Individual's Income €	Gain/Loss per annum
10,000	0
20,000	100
30,000	150
40,000	200
50,000	250
60,000	300
70,000	350
80,000	350
90,000	350
100,000	350
110,000	0
120,000	0

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.

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

See separate response material supplied by the Department of Social Protection.

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.

See separate response material supplied by the Department of Social Protection.

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: It is tentatively estimated that this measure would yield in the region of €3m.

POLITICAL PARTY PRSI COSTINGS NO. 6/16
COSTING OF PRSI PROPOSALS RECEIVED ON 8 SEPTEMBER 2016

Introduction

- A. Estimates are based on macro-economic indicators for 2017 only.
- B. The estimates affecting employed contributors are based on the changes to social insurance contributions paid under PRSI Class A only.
- C. Estimates of full year costs/yields are provided. First year costs/yields are a function of the chosen implementation date of PRSI changes in 2017 or in the relevant year. If implemented in January of the particular year, it is estimated that 85% of the full year estimate is realised in the first year.
- D. The estimates do not take possible changes in employer or employee behaviour into account

Proposal 2. Expansion of PRSI Relief for low and middle income earners.

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 the rate of 4% per €1k income.

The estimated full year cost is as follows:-

Full Year Cost	Employments affected
€90.25m	551,345

Note: The income range for the taper proposed is €352 per week to €702 per week.

The following is the impact of this proposal at the level of annual earnings specified.

Annual Earnings (€)	Equivalent Weekly Earnings (€)	Weekly PRSI Charge Current (€)	Weekly PRSI Charge Proposed Measure (€)
18,305	352.02	2.08	0.08
25,000	480.77	19.23	10.38
30,000	576.92	23.08	18.07
35,000	673.07	26.92	25.77

36,608	704.00	28.16	28.16
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Proposal 8. National Training Fund Levy

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 the 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.

The estimated full year costs are as follows:-

% Increase in National Training Fund Levy	Full Year Yield
0.1%	€67.1m
0.2%	€134.3m
0.3%	€201.2m

It is estimated that this measure would impact 2,433,475 employments.

Department of Social Protection

26 September 2016.