



Our reference: 2016-4(c)

23 September 2016

Mr Pearse Doherty, TD  
Leinster House  
Kildare Street  
Dublin, D02 A272

*File WP 7*

Dear Deputy,

I refer to Sinn Féin's third request to the Department for Budget 2017 costings (submitted to us on 9 September, 2016). I am pleased to enclose the responses to the costings sought.

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.

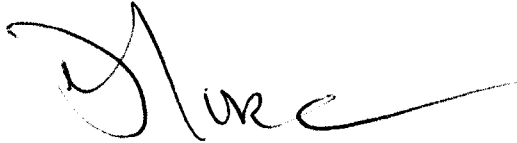
The costings, including those provided by or in conjunction with other Departments, are provided on the basis that at no time will the Department be represented as endorsing the proposals costed. Equally, the Department will not comment on the merits or otherwise of those proposals. Where caveats or 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 'Derek Moran', with a long horizontal flourish extending to the right.

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Derek Moran

Secretary General

## Budget Costing Finance – 9<sup>th</sup> September 2016

Please provide the first and full year cost of each of the following measures for 2017.

### Tapering out PAYE, earned income credit and personal tax credits<sup>1</sup>

**Query:** The revenue from tapering the personal, Pay As You Earn, and Earned Income Credits by 0.7 per cent per €1,000 on individual income between €100,000 and €170,000 per year, resulting in no entitlement to these tax credits when income is in excess of €170,000 coupled with this a 2%/3%/4%/5% levy on individual income over €170,000.

**Response:** The estimated first and full year yields to the Exchequer of tapering the Personal, PAYE and Earned Income Credits per €1,000 on income between €100,000 and €170,000, resulting in no entitlement to these credits on income in excess of €170,000, and imposing a 2%/3%/4%/5% levy on all income in excess of €170,000 are set out in the following table:

	First Year €M	Full Year €M
Tapering & 2%	423	524
Tapering & 3%	476	596
Tapering & 4%	529	667
Tapering & 5%	582	739

**Query:** The revenue from tapering the personal, Pay As You Earn, and Earned Income Credits by 0.7 per cent per €1,000 on individual income between €100,000 and €170,000 per year, resulting in no entitlement to these tax credits when income is in excess of €170,000 coupled with this a 2% levy on individual income between €170,000 to €250,000, a 4% levy on income over €250,000.

**Response:** The estimated first and full year yields to the Exchequer of tapering the Personal, PAYE and Earned Income Credits per €1,000 on income between €100,000 and €170,000, resulting in no entitlement to these credits on income in excess of €170,000, and imposing 2% and 4% levies as outlined is in the order of €492 million and €620 million respectively.

**Query:** The revenue from tapering the personal, Pay As You Earn, and Earned Income Credits by 0.7 per cent per €1,000 on individual income between €100,000 and €170,000 per year, resulting in no entitlement to these tax credits when income is in excess of €170,000 coupled with this a 4% levy on individual income between €170,000 to €250,000, a 5% levy on income over €250,000.

**Response:** The estimated first and full year yields to the Exchequer of tapering the Personal, PAYE and Earned Income Credits per €1,000 on income between €100,000 and €170,000, resulting in no entitlement to these credits on income in excess of €170,000, and imposing 4% and 5% levies as outlined is in the order of €564 million and €716 million respectively.

<sup>1</sup> It should be noted that the Department of Finance, in conjunction with the Revenue Commissioners, is reviewing the methodology and the assumptions underpinning estimates of yield from the withdrawal of tax credits. Therefore the estimates shown in relation to that aspect of any costings should be considered as provisional and subject to change.

**Note:** The estimates above have been generated by reference to projected 2017 incomes, based 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.