



Our reference: F 49/74/15

2 September 2015

Mr Kevin Barrett
Fianna Fáil Policy Advisor
Leinster House
Kildare Street
Dublin 2

Dear Kevin,

I refer to your request to the Department for Budget costings and I am pleased to attach the responses to various tax and PRSI related questions

You may recall that the appendix to my letter of 22 June to Micheál Martin, TD, indicated that requests for costing of expenditure proposals should be addressed to the Secretary General of the Department of Public Expenditure and Reform, who would oversee their coordination. In that regard, the following aspects of your request were forwarded to that Department, which will respond directly to you on them;

- Section 1; Rewarding people and incentivising small business – items related to commercial rates and the Valuation Act
- Section 3; promoting entrepreneurship
- Section 4; technology to enhance enterprises and learning (with the exception of the issue of the shadow economy)
- Section 5; process to simplify the regulatory framework

Please also 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', written over a horizontal line.

Derek Moran

Secretary General

1: Rewarding people and incentivising small businesses

- Create fairer tax treatment for self-employed people by introducing an earned income tax credit. Our projected cost of this would be €450m per annum when fully introduced, while we would phase in the introduction of this measure over three years.

Reply: Assuming that this measure involves extending this tax credit to all self-employed currently not in receipt of the PAYE allowance in respect of PAYE income, the full year cost for introducing a new income tax credit of €1,650 for all the self-employed is estimated to be approximately €544 million.

- Our proposal for a voluntary PRSI scheme for the self employed

Reply: See separate reply material provided by the Department of Social Protection, which is the responsible policy Department.

- Extend entrepreneurs' capital gains tax relief (15% CGT rate applying for people who establish and subsequently sell their own business. Limited to relief of the first €5m of chargeable gains.)

Reply: As 2017 is the first year for entrepreneurial relief claims, there is no basis on which Revenue can produce a costing at present.

- First additional employee taken on should be exempt from Employers PRSI for a period of 2 years and the next 5 employees subject to a reduction of 50% of the first €50,000 of salary.

Reply: See separate reply material provided by the Department of Social Protection, which is the responsible policy Department.

- Support family business succession by increasing threshold

Reply: As tax returns associated with capital gains tax require the input of the disposal consideration associated with retirement relief cases and not the actual amount of retirement relief claimed there is no basis on which to provide a costing for this proposal. Additionally the cost of the measure would greatly depend on the take up in the year it was introduced.

- Where a company has produced audited accounts that it should have an R&D credit of up to €50,000 automatically refunded (subject to future audit).

Reply: Information is not readily available on which to base a costing. However, as the proposal relates to the claims process it would appear to be revenue neutral (on the assumption the proposal is not extending the existing relief). There would, however, be cash-flow costs for the Exchequer in circumstances where the payable credit was paid out in year one as opposed to over three years as is currently provided for.

- Reduce the VAT rate for the hospitality sector permanently to 9% and the 13.5% rate for the supply of goods and services to 9% over a 4 year period.

Reply: It is estimated that the 2nd Reduced Rate of 9% costs the exchequer €577m a year when compared with charging those goods and services with the Reduced Rate of 13.5%.

Reduce the 13.5% VAT Rate on Goods and Services to 9%.

<u>Year</u>	<u>Estimated Cost</u>
2016	€288m
2017	€285m
2018	€282m
2019	€419m

Please note the estimate makes the following assumptions:

- Elasticity of demand is not considered.
 - Figures for each year are calculated on a reduced balance basis.
 - 1 % reduction for each of the 3 years and a 1.5% reduction in the final year (2019).
- Allow firms to off-set trading losses against other taxes due in start-up phase.

Reply: It is assumed that firms in this instance refers to companies and therefore the proposal is the offsetting of losses against taxes other than corporation tax. The primary other taxes against which losses could be offset are likely to be VAT and PAYE/USC/PRSI. Given that these taxes are fiduciary taxes, whereby the taxes are being paid on behalf of others instead of the company itself, offsetting corporation tax losses against such taxes would be administratively complex and significant legal issues would need to be addressed. Given these issues would need to be considered in more detail, it is not possible at the current time to provide a study of the feasibility or the cost of implementing this proposal.

2. Providing seamless accessible funding sources

- Support the establishment of a fully licenced state enterprise bank

Reply: Section 6(i) of the Department of Finance Guidelines "Costing Political Party Proposals for General Elections and Budgets" states that "individual costings must be sufficiently detailed to allow a costing to be carried out ..." This is not the case with this proposal, so no costing can be supplied for it.

- Incentivise crowdfunding of SMEs by waiving PRSI and USC on the interest on such investments up to €20k at the standard 20% income tax rate.

Reply: On the basis of information available to Revenue, it is not possible to provide a cost as data are not available upon which a reasonable estimate could be based.

- Allow credit unions be used as a source of direct funding for SME's utilising the €6 billion which is currently held by the league of credit unions.

Reply: Section 6(i) of the Department of Finance Guidelines "Costing Political Party Proposals for General Elections and Budgets" states that "individual costings must be sufficiently detailed to allow

a costing to be carried out ..." This is not the case with this proposal, so no costing can be supplied for it.

- Enhance the employment and investment scheme by allowing full tax relief when investment is made in a start-up company.

Reply: The potential cash flow loss in the first year of the change could be in the region of €10 million. This loss assumes a small increase in the level of claims as presumably allowing full relief up front could cause increased investment to avail of the enhanced relief.

- Engage with the public banking forum of Ireland to determine the merits of such a banking system in Ireland.

Reply: Section 6(i) of the Department of Finance Guidelines "Costing Political Party Proposals for General Elections and Budgets" states that "individual costings must be sufficiently detailed to allow a costing to be carried out ..." This is not the case with this proposal, so no costing can be supplied for it.

- Urgent action to tackle legacy debt issues in SMEs.

Reply: Section 6(i) of the Department of Finance Guidelines "Costing Political Party Proposals for General Elections and Budgets" states that "individual costings must be sufficiently detailed to allow a costing to be carried out ..." This is not the case with this proposal, so no costing can be supplied for it.

4. Technology to enhance enterprises and learning

- **Closing the net on the shadow economy**

Reply: It is noted that a no-change policy is envisaged. Accordingly no additional costs would arise

COSTING OF PRSI PROPOSALS

REPLY MATERIAL PROVIDED BY THE DEPARTMENT OF SOCIAL PROTECTION

Proposal: "On a phased and voluntary basis, we propose to extend a full range of social protection payments including Jobseeker's Benefit and Illness Benefit to self-employer PRSI contributors as part of commitment to foster an entrepreneurial culture as well as enhancing social solidarity.

Our policy would allow the self-employed to opt into the existing Class A structure, paying the rate corresponding to their income level. They would continue to make Class S payments as they currently do. This additional payment will equate to 4% of self-employed income above €356 a week. As part of the programme of extending benefits, we propose that limited recognition will be given for Class S payments made to date by self-employed persons."

It is not possible, at this stage, to estimate the take-up of an extension of social insurance benefits to self-employed contributors on a voluntary basis. Accordingly the Department of Social Protection is unable to provide estimates of:

- the additional PRSI income which this proposal would generate;
- the additional cost of providing entitlement to the schemes.

The provision of cover for Jobseekers' Benefit to the self-employed was examined in the report of 2010 Actuarial Review of the Social Insurance Fund, published in June 2012. The report indicated that:

- *"The effective average annual rate of contribution needed to provide the core SPC (100%) is approximately 15%." The self-employed, who pay PRSI at 4%, can establish entitlement to the core SPC, i.e. the State Pension (Contributory).*
- *The Review then examined the cost of providing short-term benefits to the self-employed, using assumptions based on factors such as age, employment and unemployment statistics. The Review concluded that "the average annual rate of contribution needed to provide Jobseeker's Benefit to the self-employed is therefore estimated to typically require an incremental increase in contribution rates from approximately 15% (where only the core SPC is provided) to 16% (where jobseeker's Benefit in addition to the core SPC is provided)."*

This estimate is based on extending social insurance on a compulsory basis. If such a revenue neutral extension was based on voluntary participation in social insurance, the increase in the self-employed contribution rate could be higher than that estimated in the Actuarial Review, if the probability of accessing benefits for those contributing on a voluntary basis is higher than for the self-employed population generally.

Proposal: "...a scheme that focuses on early stage companies and rewards growth by offering exemptions from and reductions in Employers PRSI relative to the number of staff employed or the company's wage bill. For example, the first additional employee taken on should be exempt from Employer PRSI for a period of 2 years and the next 5 employees subject to a reduction of 50% on the first €50,000 of salary."

It is not feasible to provide overall costings on this proposal as the Department of Social Protection does not have data on new employees engaged by individual employers. In the event of an individual employer engaging an additional employee at earnings of, for example €50,000, this proposal would mean that the first additional employee would result in a reduction in employer PRSI of €5,375 per annum for the first 2 years. If additional employees earning up to €50,000 were engaged, the proposal would result in a reduction in employer PRSI of up to €2,687 per employee per annum.

