An Roinn Airgeadais
Department of Finance

Our reference: F 49/82/2015

8 October 2015

Mr Matthew Lynch

Head of Policy at the Fine Gael Policy & Research Office

Leinster House

Dublin 2

Dear Mr Lynch,

I refer to your most recent request to the Department for Budget costings, and I am pleased to attach the responses to the four questions you asked.

Please note that while the responses to your questions 1-2 were prepared by this Department, the responses to your two questions on PRSI reforms (questions 3 and 4) were supplied by the Department of Social Protection, and are attached separately.

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

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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 also 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.

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The costings, including those provided by or in conjunction with other Departments, are provided on the basis that at no time will the Department(s) be represented as endorsing the proposals costed. Equally, the Department(s) 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

Questions for the Department of Finance

1. Abolition of the USC

Reply: The estimated cost to the Exchequer of the proposal to completely abolish the Universal Social Charge (USC) would cost in the region of €4.5 billion.

2. Introduction of a new higher earners levy (on USC base) on incomes in excess of €70,044 (Rate of 5% and Rate of 6%) i.e. 0-€70,044 at 0% and levy on excess.

Reply: Based on the assumption in Question 1 that USC has been abolished, and a new higher earners levy has been introduced on all incomes in excess of €70,044 the estimated first and full year yields of a 5% rate on all income in excess of €70,044 are €375 million and €623 million respectively. The estimated first and full year yields of a 6% rate of higher earners levy on all income in excess of €70,044 are €450 million and € 747 million respectively.

The figures provided in both Question 1 and Question 2 are estimates from the Revenue tax forecasting model using latest actual data for the year 2013, adjusted as necessary for income, self-employment and employment trends in the interim. They are estimated by reference to 2016 incomes, and are provisional and may be revised.

Department of Finance

October 2015

POLITICAL PARTY PRSI COSTINGS NO. 1(c)/15
COSTING OF PRSI PROPOSALS

Introduction

A. Estimates are based on macro-economic indicators for 2016 only.
B. The estimates affecting employed contributors are based on the changes to social insurance contributions paid under PRSI Class A.
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 2016 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.

1. Proposal for:

- Cut in employees' entry point to PRSI to €250 p/w;
- Introduction of a new PRSI Allowance of €9 p/w up to €352 p/w;
- PRSI Allowance then tapered down by 1/6th difference between weekly income and €352 p/w (taper finishing at weekly earnings of €406 p/w).

Reply:

Increased Revenue	€3.8m
Employments Affected	227,486

2. Proposal for:

- Increase in PRSI rate of 1% across all PRSI classes;
- Cut in employees' entry point to PRSI to €250 p/w;
- Introduction of a new PRSI Allowance of €10 p/w up to €352 p/w;
- PRSI Allowance then tapered down by 1/6th difference between weekly income and €352 p/w (taper finishing at weekly earnings of €410 p/w).

Reply:

Increased Revenue	€584.0m
Employments Affected	1,716,167

It should be noted that this estimate is based on Class A contributors <u>only</u>.

It is estimated that increasing Class S PRSI rate by 1% would yield €97.7m in a full year. This estimate is based on 2012 figures, which is the most recent full year for which data on Class S contributors is available.

Department of Social Protection
October 2015.