



Our reference: F 49/81/2015

October 2015

Marie Sherlock
Head of Manifesto Development
Labour Party
Leinster House
Dublin 2

Dear Ms. Sherlock,

I refer to your recent request to the Department for General Election costings dated 25/09/2015, and I am pleased to attach responses to each of the eight questions you asked.

Please note that while the responses to your questions 1-6 were prepared by this Department, the responses to your two questions on PRSI reforms (questions 7 and 8) 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.

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.

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,

A handwritten signature in black ink, appearing to read 'Derek Moran', with a horizontal line underneath the signature.

Derek Moran

Secretary General

Tax

1. Estimate the cost of abolishing the PAYE tax credit and introducing a new work credit available to both schedule D (case 1 and case 2 only) and schedule E income tax payers
Assume no change in the numbers declaring as schedule D and E.

Reply: On the basis of 2013 returns, the latest year for which data are available, abolishing the existing PAYE tax credit and introducing a new work credit of €1,650 per person per annum, to cases identified to be in receipt of Trading or Professional (Case1 or Case2) income and to Schedule E taxpayers is estimated to cost in the region of €137 million. The estimate does not take into account the ability of the credit to be fully absorbed. An estimated 82,800 cases were identified to be in receipt of Case1 or Case 2 income, and not currently in receipt of the PAYE credit. It is assumed that these cases would benefit from the introduction of the new credit.

2. Estimate the cost of (i) widening the standard rate threshold by €1,200 in year 1 and by €1,250 in year 2 and thereafter to reach €40,000 in year 5 and (ii) estimate the cost of pegging the standard rate threshold to 150% of average earnings.

Reply:

(i)

The estimated cost to the Exchequer of increasing the standard rate threshold over 5 years is set out in the table below:

| Increase in Standard Rate Band* | Year 1 Cost | Year 2 Cost | Year 3 Cost | Year 4 Cost | Year 5 Cost | Year 6 Cost | Total Cost of Measure |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|-----------------------|
| Increase to €35,000 | €153m | €54m | | | | | €207m |
| Increase to €36,250 | | €150m | €53m | | | | €203m |
| Increase to €37,500 | | | €143m | €50m | | | €193m |
| Increase to €38,750 | | | | €134m | €48m | | €182m |
| Increase to €40,000 | | | | | €126m | €45m | €171m |
| Total Cost Per Year | €153m | €204m | €196m | €184m | €174m | €45m | €956m |

*Assumes the current standard rate band variations between married, widowed and one parent income earners are maintained.

These figures are estimates for 2016 from the Revenue tax forecasting model using the latest actual data for the year 2013, adjusted as necessary for income, self-employment and employment trends in the interim. They are provisional and may be revised.

(ii)

Central Statistics Office (CSO) statistics for all NACE economic sectors for Quarter 2, 2015 show €697.52 is the average weekly earnings, which calculates to approximately €36,400 earnings per annum (link below):

http://www.cso.ie/quicktables/GetQuickTables.aspx?FileName=EHQ03.asp&TableName=Earnings+and+Labour+Costs&StatisticalProduct=DB_EH

Based on the assumption 150% of the average annual earnings being in the region of €54,600, the estimated first and full year cost of increasing the standard rate threshold to €54,600 is €1,713 million and €2,327 million respectively.

Confidential General Election costings - request 2015-4

3. Estimate the income generated from withdrawing the personal tax credit for those earning over €100,000, tapering at a rate of 20% per €1000

Reply: The estimated full year yield to the Exchequer of withdrawing the personal tax credit from all those earning over €100,000, tapering at a rate of 20% per €1,000 is €275 million.

These figures are estimates for 2016 from the Revenue tax forecasting model using the latest actual data for the year 2013, adjusted as necessary for income, self-employment and employment trends in the interim. They are provisional and may be revised.

It should be noted that the 'tapering' of credits would present very significant administrative challenges

4. Estimate the cost of introducing a new introductory rate band of half the standard rate band at 19% in year 1 down to 15% by year 5.

Reply: The estimated cost to the Exchequer of introducing a new rate and band over 5 years is set out in the table below:

| Changes to 19% Rate Band | Year 1 Cost | Year 2 Cost | Year 3 Cost | Year 4 Cost | Year 5 Cost | Year 6 Cost | Total Cost of Measure |
|---------------------------------------|--------------|--------------|-------------|--------------|--------------|-------------|-----------------------|
| Introduce a 19% rate band of €16,900* | €219m | €82m | | | | | €301m |
| Decrease 19% rate to 18% | | €208m | €77m | | | | €285m |
| Decrease 18% rate to 17% | | | €202m | €75m | | | €277m |
| Decrease 17% rate to 16% | | | | €198m | €73m | | €271m |
| Decrease 16% rate to 15% | | | | | €192m | €71m | €263m |
| Total Cost Per Year | €219m | €290m | €279 | €273m | €265m | €71m | €1,397m |

*Assumes the current standard rate band variations between married, widowed and one parent income earners are maintained.

These figures are estimates for 2016 from the Revenue tax forecasting model using the latest actual data for the year 2013, adjusted as necessary for income, self-employment and employment trends in the interim. They are provisional and may be revised.

5. Estimate the repeated reduction in the 7% USC rate by 1% each year for the next five years.

Reply: The structure of the USC rate bands assumed in this costing is set out in the table below:

| | Rate | Band | Rate | Band | Rate | Band |
|--------|------|---------------|------|---------------|------|----------|
| | 7% | 17,576-70,044 | 3.5% | 12,012-17,576 | 1.5% | 0-12,012 |
| Year 1 | 6% | 17,576-70,044 | 3.5% | 12,012-17,576 | 1.5% | 0-12,012 |
| Year 2 | 5% | 17,576-70,044 | 3.5% | 12,012-17,576 | 1.5% | 0-12,012 |
| Year 3 | 4% | 17,576-70,044 | 3.5% | 12,012-17,576 | 1.5% | 0-12,012 |
| Year 4 | 3% | 17,576-70,044 | 1.5% | 0-17,576 | - | - |
| Year 5 | 2% | 17,576-70,044 | 1.5% | 0-17,576 | - | - |

Confidential General Election costings - request 2015-4

As the above table displays, this costing assumes the eventual merger, in Year 4, of the two lowest USC bands and no change to the reduced rate for medical card holders and over 70s with income less than €60,000. This amalgamated band will be subjected to a rate of 1.5% in Year 4 and Year 5. It also displays the eventual drop in the 7% rate to 2% in Year 5.

The estimated cost to the Exchequer of decreasing the 7% USC rate is set out in the table below:

| Rate Change | Year 1 Cost | Year 2 Cost | Year 3 Cost | Year 4 Cost | Year 5 Cost | Year 6 Cost | Total Cost of Measure |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------|
| 7% - 6% | €264m | €100m | | | | | €364m |
| 6% - 5% | | €264m | €100m | | | | €364m |
| 5% - 4% | | | €264m | €100m | | | €364m |
| 4% - 3%, 3.5% - 1.5% | | | | €418m | €156m | | €574m |
| 3% - 2% | | | | | €264m | €100m | €364m |
| Total Cost Per Year | €264m | €364m | €364m | €518m | €420m | €100m | €2,030m |

These figures are estimates for 2016 from the Revenue tax forecasting model using the latest actual data for the year 2013, adjusted as necessary for income, self-employment and employment trends in the interim. They are provisional and may be revised.

6. Estimate net cost of phasing out tuition tax relief and replacing with a means tested education grant worth €1000 to be administered to a maximum of 50,000 eligible students.

Reply: On the basis of 2013 data, the latest year for which data are available, the estimated cost of tax relief for tuition fees is €12.5 million. Therefore on this basis the cost of the proposal to replace the cost of the current 3rd level tax relief with a means tested grant worth €1,000 up to a maximum of 50,000 eligible students would be in the order of €37.5 million. It is unclear how a means-tested system can be limited to an absolute number of beneficiaries.

Department of Finance
October 2015

POLITICAL PARTY PRSI COSTINGS NO. 4/15

COSTING OF PRSI PROPOSALS

Introduction

- A. All estimates are based on macro-economic indicators for 2016 only.
- B. The estimates 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. Estimate the income generated from increasing Class S PRSI Contributions from 4% to 6%.

Reply: It is estimated that increasing Class S PRSI contributions from 4% to 6% would yield €195.4m in a full year.

(Note: This estimate is based on 2012 figures, which is the most recent full year for which data on Class S contributors is available.)

2. Estimate the income generated from an increase in employer's PRSI from 0.7% to 1.4% applicable to class A and H employees.

Reply: Under the current system, the employer rates for classes A and H are 8.5%/10.75% and 10.07% respectively. The Class A includes the National Training Levy at 0.7% but the Class H does not.

Following clarification of question, the costing has been calculated based on an increase of 0.7% on top of the existing reduced and standard Class A rate only with class H excluded from the estimates.

The following table sets out the estimated yield from an increase in Class A employer's PRSI rates from (i) 8.5% to 9.2% and (ii) 10.75% to 11.45%.

| | |
|-----------------------------|-----------|
| Increased Revenue | €421.5m |
| Employments Affected | 2,095,454 |

Department of Social Protection
October 2015.