An Roinn Airgeadais
Department of Finance

Our reference: F 49/127/2015

21 December 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 1/12/2015, and I am pleased to attach responses to your questions. The one additional query contained in your mail of 11/12/15, in which you also provided clarification on one of your queries relating to PRSI, is now shown as number 10 in the attached response material

Please note that while the responses to your questions 1-3 and 6-10 were prepared by this Department, the responses to your two questions on PRSI reforms (questions 4 (as clarified), and 5) 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

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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,

Derek Moran

Secretary General

Taxation

1. Estimate the cost of abolishing USC for all income under €70,000.

Response: The estimated first and full year cost of increasing the exemption to the Universal Social Charge (USC) is in the order of €1.43 billion and €1.93 billion respectively. This cost is based on increasing the USC exemption threshold of €13,000 as set out in Budget 2016 to €70,000.

These costs are estimates for 2016 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 provisional and may be revised.

2. Estimate the cost of abolishing the USC surcharge of 3%.

Response: The estimated first and full year cost of abolishing the Universal Social Charge (USC) surcharge of 3% that is applied to the non-PAYE income in excess of €100,000 is in the region of €59 million and €144 million respectively.

These costs are estimates for 2016 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 provisional and may be revised.

3. Estimate the income generated from withdrawing the personal tax credit for those earning over €100,000, tapering at a rate of 5% per €1,000.

Response: The net yield to the Exchequer from the withdrawing of the personal tax credit on an individual's income in excess of €100,000 by 5% per €1,000 is estimated to be in the order of €58 million in Year 1 and €192 million in a full year.

These costs are estimates for 2016 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 provisional and may be revised.

4. Estimate the cost of full PRSI relief of €14.08 per week on incomes of €353.01 per week and the cost of tapering this at a rate of one sixth of income up to €633.66 per week.

Response: See separate response from the Department of Social Protection

5. Estimate the income generated from increasing Class S PRSI contributions from 4% to 5.5%.

Response: See separate response from the Department of Social Protection

6. Estimate the revenue generated by introducing a minimum effective corporate tax rate of 6% on all corporate income.

Response: In relation to the effective rate of corporation tax, a Technical Paper on Effective rates of Corporation Tax in Ireland has been published on the Department of Finances website at

http://www.finance.gov.ie/sites/default/files/140407%20FINAL%20Technical%20Paper%20on%20Effective%20Rates%20of%20Corporation%20Tax%20in%20Ireland.pdf

It is not possible to accurately cost the proposal to introduce a minimum effective rate of corporation tax. While it is true to say that the effective rate on taxable profits for some companies is lower than the 12.5% headline rate, this is due to reliefs such as double taxation relief and a small number of corporate tax incentives such as the Research and Development Tax Credit and the Tax Relief for New Start-Up Companies for example.

To introduce a minimum effective rate would effectively abolish these reliefs and this would most likely have significant behavioural effects on multinational companies and discourage these types of activities.

To give an idea of the potential impact of behavioural changes as a result of changes to corporation tax, an OECD multi-country study found that a 1% increase in general corporate tax rates reduces inward investment by 3.7% on average. Introducing a minimum effective corporation tax rate is likely to have an even more severe effect on the Exchequer.

These behavioural changes also mean that any attempt to estimate changes in corporation tax rates or effective rates are likely to be highly inaccurate and misleading. Given this, Revenue cannot provide robust estimates for the costing requested and for this reason, we are not in a position to provide an estimate of the Exchequer effect of the proposal.

7. Estimate the cost of increased CGT relief for entrepreneurs, in which CGT would be chargeable at 15% and the lifetime limit would be increased to €10m.

Response: Tax returns do not separately identify "entrepreneurial" gains from other gains which means that there are no reliable data available to accurately cost the proposed change. Subject to these caveats it is very tentatively estimated that the cost of introducing a €10m cap and 15% CGT rate for individuals could cost in excess of €50 million in a full year. This assumes that the reduced rate would apply in respect of all unquoted shares, commercial property disposals by proprietary directors and self-employed individuals and also agricultural land disposals by farmers. This estimate also assumes no behavioural impact.

8. Estimate the revenue generated by introducing a volumetric tax on sugar sweetened drinks at a rate of €7.16 per hectolitre.

Response: Assuming that a charge of €7.16 per hectolitre would be applied to all soft drinks (full sugar soft drinks, diet soft drinks, energy drinks, concentrates, ready-to-drink tea and coffee drinks, *but* <u>not</u> including fruit juices) the VAT-inclusive yield would be €35.4 million in a full year.

This would increase the price of a can of 33cl soft drink by a VAT-inclusive 2.9c, assuming a full pass through of the duty increase.'

9. Identify the cost and the number of persons availing of the cycle to work scheme over the past three years.

Response: Retailers are not required to provide details to the Revenue Commissioners in relation to the number of people availing of the scheme. Accordingly, no centralised records are kept by Revenue. The Irish Bicycle Business Association estimated that 90,000 bicycles had been sold as a result of the scheme in its first three years of operation. Allowing for some drop-off in uptake of the scheme and some replacement of bikes by existing users, it is tentatively estimated that the annual number sold would be around 20,000 and the amount of revenue foregone in the last three years is estimated at €12 million, or €4 million annually.

10. Estimate the yield from the phasing out of both the personal tax credit (€1,650) and the PAYE tax credit (€1,650) on incomes in excess of €100,000 per annum, at a rate of 16.5% of income in excess of €100,000, with credits fully withdrawn once income reaches €120,000 per annum. "

Response: The estimated first and full year cost to the Exchequer of phasing out both the PAYE credit and the Personal Credit, at a rate of 16.5% of gross income in excess of €100,000 with both credits fully phased out when the level of gross income reaches €120,000, is in the order of €218 million and €306 million respectively.

These costs are estimates for 2016 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 provisional and may be revised.

POLITICAL PARTY PRSI COSTINGS NO. 4(b)
COSTING OF PRSI PROPOSALS RECEIVED ON 14 December 2015

Introduction

A. Estimates at 1 and 2 are based on macro-economic indicators for 2016 only.
B. Estimates of full year costs/yields are provided.
C. The estimates affecting employed contributors at 1 and 2 are based on the changes to social insurance contributions paid under PRSI Class A.
D. The estimates at 1 and 2 do not take possible changes in employer or employee behaviour into account.
E. The estimate at 3 is based on data received by DSP from Revenue on PRSI monies received (to date) in respect of 2013 in relation to Schedule D taxpayers and on an analysis of data held on DSP systems in relation to Class S contributors who pay under Schedule E.

1. Taper at a rate of one twentieth (5%) with relief to fully taper out at €633.60 per week.

Cost	€59.6m
Employments Affected	352,091

2. Taper at a rate of 4% with relief to fully taper out at €704 per week.

Cost	€81.6m
Employments Affected	464,159

3. Estimate the income generated from increasing Class S PRSI contributions form 4% to 5.5%

Additional Yield	€146m
Contributors Affected	382,505

Department of Social Protection
17 December 2015.