An Roinn Airgeadais
Department of Finance

Our reference: F 49/72/15

21 September 2015

Mr Pearse Doherty, TD
Leinster House
Kildare Street
Dublin 2

Dear Deputy,

I refer to your second request to the Department for Budget costings and I am pleased to attach the responses to various questions. A response to the one outstanding point from your first costing request, and to your third request will be forwarded to you as soon as they are available.

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,

Derek Moran

Secretary General

Unless otherwise stated each query presumes no change in any other parameters. In each case and where appropriate please provide the first year and full year costs

High Earners Restriction

Q: The revenue from cumulative effect of all six:

i. reduce adjusted income threshold from €125,000 to €100,000
ii. reduce the absolute level for adjusted income from €400,000 to €250,000
iii. reduce the relief threshold to €35,000
iv. reduce to % in the test formula from 20% to 15%

General Note: Any increases in yield would be in cash flow terms only, as unclaimed relief as a result of this restriction may be carried forward to future tax years.

Reply: The data required to provide a definitive estimate of the yield from the measures outlined are not readily available. Additionally, Form RR1s, which must be returned in respect of the use of specified reliefs, are not available for the additional cases who would newly be subject to the relief restrictions under (iii - the reduction of Relief Threshold Amount from €80,000 to €35,000) and (iv - the reduction of the alternate Adjusted Income criteria from 20% to 15%) concerning the computation of the unrestricted amount of specified reliefs.

In relation to (i) and (ii), based on personal income tax returns filed for the year 2013, the latest year for which data are available, it is tentatively estimated that reducing the entry level adjusted income threshold to €100,000 and full restriction level to €250,000,would generate an additional yield in the order of €41 million.

It should be noted that this estimate takes no account of any changes in taxpayer behaviour.

v. Inclusion of <u>every</u> relief e.g. EII as specified relief, except normal tax deductible items, normal business expenses and normal capital allowances, and genuine business & rental trading losses.

Reply: Information in respect of the future potential expenditure in respect of all reliefs by individuals that could be affected by the high earners restriction is not available. It should be noted that the exclusion of EII (temporary) from the High Earners Restriction rules was costed at €1 million at the time of the exclusion so the potential gain from the re-inclusion of the relief should be of that order.

vi. Apply to higher earners restriction to trusts

Reply: It is unclear what is meant by the proposal. The tax rate on income of Trusts is subject to a rate of 20% and the income generated by assets left in trust is subject to Income Tax at the standard income tax rate of the beneficiaries. Assuming it is the latter that the proposal refers to, the income from trusts is aggregated in tax returns with other classes of income and cannot be separately distinguished so there is no statistical basis on which an estimate of the yield requested can be provided.

Pensions - PRSA, ARF & AMRF

The revenue from cumulative effect of all five:

Q: The revenue from ensuring that PRSAs, ARFs and AMRFs transferred to child over 21 are taxed at 40% as opposed to current 30%.

Reply: The rate of tax was increased from 20% to 30% by section 18(3)(f) FA 2012. At the time of this change, the estimated yield was €0.1m in a full year. The proposed change to 40% is likely to be similar in magnitude but information required for a more detailed assessment is not presently available.

Q: The revenue from increasing the annual imputed distribution rates for ARFs and PRSAs to 6% of the value of the assets of the relevant fund to €1 million and 7% on the value of the excess.

Reply: An annual imputed distribution rate of 5% applies to approved retirement funds (ARFs) with asset values of €2 million or less and also to 'vested' Personal Retirement Savings Accounts (PRSAs where benefits have commenced) on the same basis. A higher imputed distribution rate of 6% applies to ARFs and /or 'vested' PRSAs with asset values of more than €2 million.

It is assumed this proposal is to increase in the imputed distribution from 6% to 7% for ARFs and/or 'vested' PRSAs of more than €1 million in value and an increase from 5% to 6% where the asset values are less than €1 million.

The information provided to Revenue in the context of the tax paid on these deemed or imputed distributions does not include information on the value of the ARFs and/or 'vested' PRSAs out of which the distributions are deemed to arise. There is therefore no basis on which a definitive estimate of the impact on the Exchequer could be compiled.

Q: When an individual has a number of funds (ARF/AMRF/PRSA) not all managed by the same fund manager, a nominee manager must be appointed by the individual where the aggregate of such funds exceed €500,000 to ensure imputed distribution are applied properly.

Reply: The information provided to Revenue in the context of the tax paid on these deemed or imputed distributions does not include information on the value of the ARFs and/or 'vested' PRSAs out of which the distributions are deemed to arise. There is therefore no basis on which a definitive estimate of the impact on the Exchequer could be compiled.

Q: The revenue from abolishing relief under s787RA which reduces the amount of tax levied on the chargeable excess of the SFT by the amount of tax paid on excess of pension lump sum i.e. (20% of first €300,000 after the tax free lump sum of €200,000).

Reply: Data in respect of chargeable excess in accordance with Section 787RA is not captured in such a way as to provide a basis for estimating the information sought.

Q: The revenue from reducing the pension tax free lump sum to €120,000, with the next €100,000 taxed at 40% and the remainder at 47%.

Reply: There is no general requirement for data on the number of persons who are receiving payments of retirement lump sums of less than €200,000 (the current life-time limit on tax-free retirement lump sums) to be returned to Revenue. There is therefore no basis on which a definitive estimate of the impact on the Exchequer could be compiled.

Capital Acquisitions Tax - Dwelling House Exemption

Q: The revenue from restricting the Dwelling House exemption relief to a value €500,000 with any value over this being taxed at 33%.

Reply: Restricting the Dwelling House Exemption to a value of €500,000 would yield the following amounts:

First Year Yield €m	Full Year Yield €m
2	2.3

Capital Acquisitions Tax - Agricultural Relief

Q: The revenue from restricting the Agricultural relief to a value of €500,000 (i.e only available for 90% reduction in value up to €500,000 when all conditions met) with any value over this being taxed at 33%.

Reply: Restricting the Agricultural Relief to a value of €500,000 would yield the following amounts:

First Year Yield €m	Full Year Yield €m
47.7	55.5

This is on the basis of the latest statistical information available to Revenue using revised methods of calculation.

Standard Fund Threshold (SFT) – public service high earners to have the tax due of the *

Q: Revenue from reducing ability of public service high earners to have the tax due of their excess of SFT paid over a period of 10 years, reduced from 20 years. Also for this liability to remain payable from their estate in death (currently if individual dies death is discharged)

Reply: On the basis of the information available to Revenue, it is not possible to cost this change for public service earners.

**This is the text as it was submitted to the Department*

Capital Acquisitions Tax - Business Relief

Q: The revenue from restricting the Business relief to a value of €500,000 (i.e. only available for 90% reduction in value up to €500,000 when all conditions met) with any value over this being taxed at 33%.

Reply: Restricting the Business Relief to a value of €500,000 would yield the following amounts:

First Year Yield €m	Full Year Yield €m
92.4	107.4

This is on the basis of the latest statistical information available to Revenue using revised methods of calculation.

Trusts and ability to claim Principle Private Residence relief

Q: Revenue from abolishing ability of trusts to claim Principle Private Residence relief.

Reply: As tax returns require information in respect of the consideration associated with the disposal of principal private residences (in certain instances) and not the actual capital gain, there is no dedicated basis for separately identifying the yield that would arise from the proposed measure.

Industrial buildings allowance

Q: We are aware according to Revenue that 50 people possess building tax reliefs of €600 million.

Also we understand that due to recent changes Industrial Building allowances cannot be carried forward beyond the life the asset for passive investors.

What is the revenue that would be raised by restricting the ability of active investors to carry forward industrial building allowances beyond the life the asset for passive investors.

Reply: Underlying information in respect of the amount of outstanding buildings allowance available in respect of active investors is not available and therefore it is not possible to cost this proposal.

PAYE credit to self employed

Q: Cost of allowing all self-employed individuals to claim to PAYE credit

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 respective first and full year costs for introducing a new income tax credit of €1,650 for all the self-employed is estimated to be approximately €295 million and €544 million.

These figures 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.

Capital Gains Tax Relief for Start Ups

Q. The cost of implementing a scheme similar to the UK's Entrepreneur Relief Scheme by applying a lower rate of 20% CGT on the first €3 million earned from investments by founders of start-ups after a holding period of 6 years.

Reply: There are gaps in the data available to the Revenue Commissioners which prevent a definitive costing of this proposal to be provided. Firstly, Revenue have no information on the length of time that investments are held after a business commences. It is not clear from the proposal whether the intention is that the lower CGT rate should apply to the value of gains on all investments by all relevant business owners (e.g. owners of incorporated and non-incorporated businesses) above the threshold specified in the proposal. In any event, tax returns data available to the Revenue Commissioners do not in all cases clearly distinguish between disposals of business assets and non-business assets.

Subject to these caveats and by making certain broad assumptions about the data available, it is estimated that the cost of the proposal could amount to about €60m in a full year. This estimate assumes no behavioural impact."

A Third rate of Income Tax & PAYE credit for self employed

The cumulative revenue from both below:

Q: the revenue that would be raised for the Exchequer from the introduction of a new rate of 47% and of 48% on an individual's income in excess of €100,000

&

Q: The cost of providing a Pay As You Earn credit to self-employed persons of €700 with income up to €80,000, a reduced credit, by 5% per €1,000, for gross income between €80,000 and €100,000, and a 0% credit on gross income in excess of €100.000

Reply: The net yield to the Exchequer from both the introduction of a new rate of 47% on an individual's income in excess of €100,000 and introducing a credit of €700 (with tapering) to self-employed persons is estimated to be in the order of €228 million in Year 1 and €364 million in a full year.

The net yield to the Exchequer from both the introduction of a new rate of 48% on an individual's income in excess of €100,000 and introducing a credit of €700 (with tapering) to self-employed persons is estimated to be in the order of €276 million in Year 1 and €434 million in a full year.

A Third rate of Income Tax & PAYE credit for self employed

The cumulative revenue from both below:

Q: the revenue that would be raised for the Exchequer from the introduction of a new rate of 47% and of 48% on an individual's income in excess of €100,000

&

Q: The cost of providing a Pay As You Earn credit to self-employed persons of €600 with income up to €80,000, a reduced credit, by 5% per €1,000, for gross income between €80,000 and €100,000, and a 0% credit on gross income in excess of €100.000

Reply: The net yield to the Exchequer from both the introduction of a new rate of 47% on an individual's income in excess of €100,000 and introducing a credit of €600 (with tapering) to self-employed persons is estimated to be in the order of €236 million in Year 1 and €382 million in a full year.

The net yield to the Exchequer from both the introduction of a new rate of 48% on an individual's income in excess of €100,000 and introducing a credit of €600 (with tapering) to self-employed persons is estimated to be in the order of €284 million in Year 1 and €452 million in a full year.

A Third rate of Income Tax & PAYE credit for self employed

The cumulative revenue from both below:

Q: the revenue that would be raised for the Exchequer from the introduction of a new rate of 47% and of 48% on an individual's income in excess of €100,000

&

Q: The cost of providing a Pay As You Earn credit to self-employed persons of €500 with income up to €80,000, a reduced credit, by 5% per €1,000, for gross income between €80,000 and €100,000, and a 0% credit on gross income in excess of €100.000

Reply: The net yield to the Exchequer from both the introduction of a new rate of 47% on an individual's income in excess of €100,000 and introducing a credit to self-employed persons of €500 (with tapering) is estimated to be in the order of €244 million in Year 1 and €399 million in a full year.

The net yield to the Exchequer from both the introduction of a new rate of 48% on an individual's income in excess of €100,000 and introducing a credit of €500 (with tapering) to self-employed persons is estimated to be in the order of €292 million in Year 1 and €469 million in a full year.

All the above estimates have been developed on the basis of estimated income for 2016, using the actual data for the year 2013 (the latest year for which data are available) adjusted as necessary for income, self-employment and employment trends in the interim.

Withholding Tax for visiting performers and sportspeople

Q: Revenue from ensuring that Tax is required to be withheld by the payer (the promoter) at 15% and remitted to Revenue in relation to visiting performers and sportspeople.

The promoter must withhold tax on **ANY** component of the gross fee actually paid to the talent or its agent. Such tax must be remitted to the Australian Tax Office (ATO) in the month following that month in which a payment is made to the talent.

Reply: Data are not available in respect of the potential income that could be subject to the proposed tax to be withheld by promoters in respect of visiting performers and sportspeople. It should be noted that visiting performers and sportspeople would often probably not have a tax liability in Ireland in respect of the performance/event and therefore any tax withheld would most likely result in a repayment.

It should be noted also there may be implications in the administration of such a withholding tax, should it result in potential double taxation. This may be in conflict with Ireland's Double Taxation Agreements and the implications of this would need careful consideration.

Seed Capital Scheme (SCS) for Entrepreneurs

Q: The cumulative cost of following changes to the Seed Capital Scheme:

i. Putting in place a mechanism to provide, with appropriate safeguard, that the tax refund was available up front to the investor. Safeguard of requiring taxpayer to send proof of purchase of the shares to Revenue within a set period of time after receiving the refund (or suffer a clawback)

Reply: The refund is currently available to any qualifying applicant once the subscription of shares has been made. It is not clear what change is envisaged.

ii. Changing the criteria of relief to facilitate previously self-employed individuals from benefitting from the relief.

Reply: Information is not available in respect of previously self-employed individuals that would be in a position to claim the relief if the proposal was brought into effect. Therefore, a cost has not been provided.

VAT

Q: The revenue from increasing VAT on restaurants & tourism from 9% to 10%/11%/12%/13.5%.

Reply:

Rate	Estimated Additional Yield
10%	€128m
11%	€257m
12%	€385m
13.5%	€577m

Q: a list of all current 0% or reduced rate VAT exemptions in force and the cost of abolishing each one

Reply:

Zero Rated Activities:

The information sought is available through the Revenue Commissioner's website, and is too extensive to be copied with this reply

See: http://www.revenue.ie/en/tax/vat/guide/sch-2-zero-rated-activities.pdf

Reduced rate of 9%:

The second Reduced Rate of VAT continues to apply only to those supplies listed in paragraphs 3(1) to (3), 7, 8, 11, 12, and 13(3) of Schedule 3 of the VAT Consolidation Act 2010 which include:

- the supply of food and drink (excluding alcohol, soft drinks and bottled water) in the course of catering
- the supply, by means of a vending machine, of food and drink that would otherwise be zero-rated
- hot take-away food and hot drinks
- hotel lettings, including guesthouses, caravan parks, camping sites etc
- admissions to cinemas, theatres, certain musical performances, museums, art gallery exhibitions
- amusement services of the kind normally supplied in fairgrounds or amusement parks
- the provision, by a person other than a non-profit making organisation, of facilities for taking part in sport
- printed matter e.g. newspapers, magazines, brochures, leaflets, programmes, maps, catalogues, printed music (excluding books)

- hairdressing services (Note: beauty treatments such as: facials, nail treatments, tanning, sunbed services, remain liable at the Reduced Rate of VAT).

See: http://www.revenue.ie/en/tax/vat/leaflets/rate-change-9-percent.html

Reduced rate of 13.5%:

The information sought is available through the Revenue Commissioner's website, and is too extensive to be copied with this reply

See: http://www.revenue.ie/en/tax/vat/guide/sch-3-reduced-rate-activities.pdf

Current Rate	Estimated Yield at 23% Standard Rate
Zero-Rated	€2,077m
9%	€2,951m
13.5%	€6,622m