An Roinn Airgeadais
Department of Finance

Our reference: 2018-3(c)

21 September 2018

Mr Pearse Doherty, TD
Leinster House
Kildare Street
Dublin, D02 A272

Dear Deputy,

I refer to Sinn Féin's third request to the Department for Budget 2019 costings (submitted to us on 24 August, 2018). I am pleased to enclose responses to all of the costings sought.

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 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 the responses issued to these requests on its website, redacting on the basis of the Freedom of Information exemptions as appropriate. Costings prepared in the context

The below requests for costings to be provided on the basis of the 2016 Individualised Gross Income Figures please

1. The revenue from tapering the personal Pay As You Earn, and Earned Income Credits by 1.43 per cent per €1,000 on individual income between €100,000 and €170,000 per year, resulting in no entitlement to these tax credits when income is in excess of €170,000.

The first and full year yield is estimated to be of the order of €150m and €180m respectively.

2. The revenue from tapering out the Single Personal *(tax credit)*, that is, no taper for married portion of credit entitlements €1,650 Pay As You Earn, and Earned Income Credits by 1.43 per cent per €1,000 on individual income between €100,000 and €170,000 per year, resulting in no entitlement to these tax credits when income is in excess of €170,000.

The first and full year yield is estimated to be of the order of €75m and €90m respectively.

3. The revenue from tapering out the personal, PAYE and Earned Income credit by 2.5% per €1,000 on individual income between €100,000 and €140,000 per year, resulting in no entitlement to these tax credits when income is in excess of €140,000.

The first and full year yield is estimated to be of the order of €185m and €220m respectively.

4. The revenue from tapering out the personal, PAYE and Earned Income credit by 2% per €1,000 on individual income between €100,000 and €150,000 per year, resulting in no entitlement to these tax credits when income is in excess of €150,000.

The first and full year yield is estimated to be of the order of €170m and €205m respectively.

5. The revenue from tapering out the PAYE and Earned Income credit by 5% per €1,000 on individual income between €100,000 and €120,000 per year, resulting in no entitlement to these tax credits when income is in excess of €120,000.

The first and full year yield is estimated to be of the order of €95m and €110m respectively.

6. The revenue from tapering out the PAYE and Earned Income credit by 5% per €1,000 on individual income between €100,000 and €120,000 per year, resulting in no entitlement to these tax credits when income is in excess of €120,000, coupled with this an additional USC rate of 2%/ 3%/ 4%/ 5%/ 6%/ 7% in excess of €120,000.

The first and full year yield of the proposed measures are set out in the table below:

	First Year €m	Full Year €m
Tapering & USC 2%	240	300
Tapering & USC 3%	315	400
Tapering & USC 4%	385	495
Tapering & USC 5%	460	590
Tapering & USC 6%	535	685
Tapering & USC 7%	610	785

Due to the way in which taxpayers are assessed, where the tax liability is calculated on the total income of the taxpayer unit, it is not possible to estimate the effect of applying an additional rate of taxation on individual incomes in excess of €100,000 in the manner outlined.

Notes:

- These figures are based on tax returns for 2016, an exercise undertaken on these data to break down the gross incomes of taxpayer units to an individualised level and a manual estimation process (outside of Revenue's usual tax modelling software) is required. As the exercise can only split gross incomes, this estimation process requires a number of assumptions to be made in relation to the distribution of credits.
- For those in a marriage or civil partnership, it is possible to elect to be singly assessed or separately assessed (i.e. where in the case of a married couple with one earner, there is no sharing of credits such as the Personal Credit). The majority of married cases have elected to be jointly assessed, and for this estimate it was necessary to assume that all such cases have elected to be jointly assessed.
- For the Personal Credit, in scenarios involving married couples with two earners, we have assumed that only one credit is available to the higher earner. In some cases it is to be expected that some of the second credit, where not fully absorbed by the spouse/partner, would become available to the spouse/partner with the larger income to utilise. However, due to the inherent design of the tax system, where a credit value is only assigned to the taxpayer unit, it is not possible to determine where this occurs. Therefore in these scenarios we have had to assume that the higher earner only has one credit available to them.
- In relation to Question 3, the Personal Credit was tapered for single (worth €1,650) and widowed (worth €2,190) cases only.
- In relation to the PAYE Credit, in the case of married couples with two earners, for taxpayer units where at least one of the PAYE Credits is availed of it is assumed that the higher earners are availing of the PAYE credit.
- The calculation of the yield from the Earned Income Credit is based on 2016 levels, when the credit was worth €550. The credit has subsequently been increased to €1,150 in 2018. The costings relating to the Earned Income Credit are particularly tentative due to issues with identifying the spouse/partner is utilizing the credit.
- In relation to those questions which contain changes to the Universal Social Charge, these figures for the USC are from our micro-simulation model, Tax Modeller, and are estimates for 2019. Therefore the figures provided in these Questions are a mixture of 2019 estimates and 2016 estimates.
- Cost estimates have been rounded. All figures provided are estimates and may be revised. These estimates assume no behavioural response on the part of taxpayers to the changes, if implemented.
- Finally it should be noted that, while these costings are provided where possible based on estimated individual incomes, the tax system and the Revenue IT infrastructure used to

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- Finally it should be noted that, while these costings are provided where possible based on estimated individual incomes, the tax system and the Revenue IT infrastructure used to assess tax liabilities remain configured on a taxpayer unit basis. There would be significant development work (and associated cost and time) required to implement any changes to this basis. Were such a change implemented, it may lead to outcomes different to those modelled presently using the estimated data. 2019 is the first year when employers will be providing Revenue with real-time payroll information, and there is a need to understand the data provided so that the population which might be subject to the taper/removal of credit could be correctly identified and taxed from early in the year. Furthermore, it will remain the case even after PAYE Modernisation is implemented that information on self assessed individuals will not be available until after Form 11 returns are filed, 9 months are the end of the tax year.