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An Roinn Airgeadais
Department of Finance

Our reference: 2018-3(d) & 3(e)

1 October 2018

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

Dear Deputy,

I refer to Sinn Féin's fourth and fifth requests to the Department for Budget 2019 costings (submitted to us on 5 September and 14 September 2018 respectively). I am pleased to enclose responses to all of the costings sought.

Please note we have included an updated response to question 3 in the costing that was issued to you on the 14 September as confirmed by our email on 17 September. Revenue have provided us with updated figures in regards to the cost of extending the Young Trained Farmers Relief based on the up-take to August 2018.

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 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

Vacant sites/properties:

1. **The total revenue yielded from an annual vacant property tax of each of €2,000, €5,000 and €10,000**

> No distinction is made in the Tax Code between vacant and occupied properties. It is not possible therefore to derive estimates from Revenue statistics in relation to this costing request. Section 86 of Finance Act 2017 provides that the Minister for Finance shall prepare and lay before Dail Éireann a report on the issues relating to making provision in law for a tax on vacant residential property, the administration and implementation of such a tax, the availability of reliable baseline data and the estimated annual revenue from any such tax within nine months of the passing of the Act. This report was laid before Dáil Éireann on 18 September and contains an evidence based assessment of vacancy rates, etc. The central finding is that there is limited scope for a vacant property tax to bring significant numbers of currently vacant properties back into housing supply in the areas in which demand is most acute. The Minister and officials in the department are considering the report in detail in conjunction with the relevant departments.

2. **The cost of reducing by one third, and one half, the rate of the Local Property Tax rate.**

>The cost of reducing the LPT by one third is €156m and by one half is €235m.

3. **The revenue that would be raised by introducing a non-principal private residence charge of €400 on properties indicated as such by owners in LPT returns and including commercial landlords but excluding local authorities and approved housing bodies**

>The Revenue Pre-Budget 2019 Ready Reckoner, available at https://www.revenue.ie/en/corporate/information-about-revenue/statistics/ready-reckoner/index.aspx, shows the yield from additional charge of €100 on every Non- Principal Private Residence, (the yield from a €400 charge can be estimated on a pro rata basis). These figures exclude local authorities but it is currently not possible to exclude approved housing bodies.

Wealth Tax:

4. **The revenue raised by introducing a wealth tax at a rate of 1%, set at a personal threshold of €1m of net wealth with no asset exemptions**

5. **The revenue raised by introducing a wealth tax at a rate of 1%, set at a personal threshold of €1m of net wealth with no asset exemptions, with a rising rate of 1% at every additional €500,000 wealth threshold (1% at €1m, 2% at €1.5m, 3% at €2m, 4% at €2.5m and 5% at €3m)**

6. **The revenue raised by introducing a wealth tax at a rate of 1%, set at a personal threshold of €1m of net wealth, with asset exemptions for voluntary pensions and farms**

7. **The revenue raised by introducing a wealth tax at a rate of 1%, set at a personal threshold of €1m of net wealth, with asset exemptions for voluntary pensions and farms, with a rising rate of 1% at every additional €500,000 wealth threshold (1% at €1m, 2% at €1.5m, 3% at €2m, 4% at €2.5m and 5% at €3m)**

Response to 4, 5, 6 &7: In order to estimate the potential revenue from a wealth tax, it is necessary to identify the wealth held by individuals. As there is currently no such wealth tax in operation in Ireland, the Department understands that the Revenue Commissioners have no basis or requirement to compile the data needed to produce estimates in relation to a potential wealth tax. Although an individual's assets and liabilities are declared to the Revenue in a number of specific circumstances (for example, after a death), this information is not a complete measure of assets and liabilities in the State, nor is it recorded in a manner that would allow analysis of the implications of an overarching wealth based tax.

However, in 2013 the Central Statistics Office conducted the first comprehensive survey of household wealth in Ireland (the Household Finance and Consumption Survey (HFCS)). The survey provides information on the ownership and values of different types of assets and liabilities along with more general information on income, employment and household composition.

During 2016, the Department of Finance, jointly with the Economic and Social Research Institute (ESRI), conducted a research project into the distribution of wealth in Ireland and the potential implications of a wealth tax using the HFCS. The research formed part of an on-going joint-research programme with the ESRI on the Macro-Economy and Taxation. The research paper, available on the ESRI website, presented results on the composition of wealth across both the wealth and income distributions in Ireland. A number of wealth tax scenarios were then applied to the Irish data (wealth tax regimes from other jurisdictions and hypothetical scenarios). In each case, the associated tax bases and revenue yields, the number of liable households across the income distribution, and the characteristics of the households affected are outlined.

The wealth tax scenarios in the research paper that are closest to the wealth taxes outlined in the costings are the high threshold-large exemptions scenario and the high threshold-no exemptions scenarios in Table 5 of the Department of Finance/ESRI study.

The first of these scenarios (high threshold-large exemption) has a personal threshold of €1.0 million (doubled if married and a €500,000 increase per child), applies a 1% tax rate and excludes farms, the household main residence, business and pension assets. This scenario, given the distribution of household wealth in Ireland in 2013, is estimated to raise €53 million as outlined in Table 8 of the Department of Finance/ESRI study. The research notes that its tax revenue estimates are static; in other words, no behavioural response to the tax is modelled. The estimate of €53 million, therefore, is likely to be an upper estimate of the revenue that could be raised.

The second scenario (high threshold-no exemption), applies a 1% tax rate but allows for no exclusions. This scenario, given the distribution of household wealth in Ireland in 2013, is estimated to raise €248 million as outlined in Table 8 of the Department of Finance/ESRI study. Again, the research notes that its tax revenue estimates are static; in other words, no behavioural response to the tax is modelled. The estimate of €248 million, therefore, is also likely to be an upper estimate of the revenue that could be raised.

Given that the above scenarios are not identical to those outlined in the costings sought, care should be taken in interpreting the revenue estimates.

In order to estimate the yield from a tax with the precise parameters as outlined, it would be necessary to seek the agreement of the CSO to revisit its original survey data for this specified purpose. This would be a significant undertaking that would take considerable time and resources to complete. It is also noted that the HFCS does not include specific data on the global assets for those domiciled or ordinarily resident and the domestic assets for those resident for tax purposes. As such, any estimate on the yield obtained from HFCS data would not fully capture the parameters outlined in the costing request.

However, there are a number of additional scenarios set out in the ESRI/Department of Finance paper which you may find informative.

<u>Tax reliefs:</u>

8. **The cost of introducing a 10% tax relief on rent paid by tenants to private landlords excluding those who receive any subsidy from the State towards a payment including a refundable element, with a personal annual cap of €1,500 per tenant**

>It is assumed that the proposal relates to a relief which would be available to the tenant, rather than the landlord. A rent credit was available to those paying for private rented accommodation. The credit was only available to be claimed by taxpayers that started renting on or before 7 December 2010 and ended in 2017.

As the rent relief tax credit has been phased out since 2010, tax returns do not provide a basis for Revenue to accurately predict the numbers of taxpayers that could be eligible to claim the proposed 10% tax relief outlined above, nor the amounts of rent paid by these taxpayers. Also, as the cost of a relief is associated with the marginal rate of a taxpayer, the cost would differ for each taxpayer, according to their income levels. Therefore, it is not possible to provide an estimated cost for the proposal outlined.

Excise:

9. **The cost of equalising the excise duty on cider/Perry with beer (by reducing the excise on Cider/Perry)**

>The rate of Excise on standard Cider and Perry (i.e. less than 6% ABV) is already less than the rate of Excise on Beer. The rate of Excise on a pint of lager at 4.5% ABV is 58 cent and an equivalent pint of cider is 54 cent. In 2017 Cider and Perry clearances of less than 6% ABV accounted for over 99% of all cider. To reduce the rate of Excise on cider exceeding 6% ABV to that of standard Cider it would cost in the region of €0.1m based on current consumption.

Farming Sector:

10. **The cost of allowing famers "step out" of income averaging more than once in a five-year period where he/she is not carrying an unpaid deferred tax amount from a previous "step out"**

>The provision to 'step out' does not have a net cost, since any outstanding balance is paid over the subsequent period of 4 years, therefore the effects of the 'step out' provision relates to the timing of the payment of tax, rather than a net saving (at a cost to the Exchequer). It is not possible to estimate the timing / cash flow cost based on Revenue data.

11. **The cost of treating the sale of agricultural land as residential land for the purposes of Stamp Duty i.e. 2%**

>The cost of treating the sale of agricultural land as residential land is estimated at €36m.

12. **and the cost of reducing the 6% rate for agricultural by one percentage point, to 5% etc.**

>The cost of reducing the 6% rate for agricultural by one percentage is estimated at €9m.

13. **the cost of reducing to 5% the VAT applied to non-oral animal medicines:**

>Ireland's reduced VAT rates are at 9% and 13.5%. Member States are only allowed to have one or two reduced rates under the EU VAT Directive. As Ireland currently does not operate a reduced rate of 5%, the application of VAT at the 5% rate to non-oral animal medicines would not be permitted.

In addition Ireland operates a Farmer Flat Rate (FFR) addition scheme where farmers who chose not to register for VAT add a Flat-Rate percentage to their sales. On average this FFR addition offsets the total VAT incurred on agriculture inputs for non-VAT registered farmers. The net effect of reducing VAT from 23% to 5% for non-oral animal medicines would be a reduction in the FFR addition so that the total value of the FFR addition applied to sales would equate to the total VAT incurred on agriculture inputs costs by non-VAT registered farmers.

14. the cost of including agricultural workers on the flat-rate expense allowance list

>An estimate of the cost of a flat rate expense allowance for agricultural workers would be dependent on the number of claimants and the ability of the taxpayers to absorb the allowance. The cost would also be dependent on the amount of the expense granted, as the expense allowed varies greatly between sectors. It is not possible to estimate a cost of including agricultural workers to the list without an indication as to the value of the expense allowed. Agricultural workers who are self-employed/non-PAYE workers can offset their business expenses from their income on their Form 11 returns and would not be impacted by the introduction of a flat-rate expense (this would reduce the likely cost of a flat rate expense and could eliminate it entirely if all relevant expenses are already claims). Further consideration would also be required to assess whether a flat rate expense is appropriate for the agricultural workers. In general, the case for a flat rate expense is convincing where all individuals in a sector incurs an expense (as part of their trade) and where the costs are roughly the same amount for all individuals.

SMEs:

15. Raise the lifetime cap on qualifying gains for Entrepreneur Relief from €1 million to each of €5, €10 and €15 million

>On the basis that the thresholds proposed, applied to the gains associated with entrepreneur relief claims on the 2016 returns, and making certain assumptions, the full year costs are tentatively estimated to be €39m, €47m and €50m respectively. The first year costs can be assumed to be 11/12ths of the full year costs. These estimates make no account of behavioural changes that could arise from changes to the thresholds.

16. Allow an upfront claim of the R&D tax credit cash refund for SMEs

>The cash flow effect of the proposal would depend on the expenditure on R&D by SMEs and the extent to which the cost is brought forward from one calendar year to an earlier year. The amount of credit claimed by SMEs for the most recent year available was in the region of €150m and it could be assumed the majority of this cost could be brought forward from one year into an earlier year.

17. The cost of ending the restriction of the value of share options granted to any individual to 50% of the value of his/her annual remuneration should be lifted for SMEs only (KEEP scheme)

> The cash flow effect of the proposal would depend on the expenditure on R&D by SMEs and the extent to which the cost is brought forward from one calendar year to an earlier year. The amount of credit claimed by SMEs for the most recent year available was in the region of €150m and it could be assumed the majority of this cost could be brought forward from one year into an earlier year.

18. Reinstate BIK tax exemption for membership fees of professional bodies (including those not statutorily necessary)

>There is no information available to Revenue from tax returns to indicate the likely numbers availing or the amounts paid in fees that would enable an estimate of the cost to be provided.

19. The effect of decreasing the R and D credit to each of 15% and 20% generally but increasing it to 30% for SMEs

>On the basis of claims for the most recent year available (2016), the gain from a credit of 20% for large companies and 30% for SMEs could be in the region of €75m in a full year. The gain from a credit of 15% for large companies and 30% for SMEs could be in the region of €180m. These gains do not take into account any behavioural change.

20. The cost of increasing the R and D credit for SMEs to 30%

> On the basis of claims for the most recent year available (2016), the gain from a credit of 20% for large companies and 30% for SMEs could be in the region of €75m in a full year. The gain from a credit of 15% for large companies and 30% for SMEs could be in the region of €180m. These gains do not take into account any behavioural change.

General:

21. The revenue that would be raised by increasing Capital Gains Tax by 30% on passive gains only (excluding active gains through the sale of an active business for example)

> On the basis of claims for the most recent year available (2016), the cost from a credit of 30% for SMEs could be in the region of €30m in a full year.

22. The cost of an increase in bands of Employer's and Employee's PRSI to reflect a minimum wage of €10.50 per hour

Employer

Cost to increase employer higher rate PRSI threshold from €376 to €409.50	Employments affected
€11.8m	47,883

Employee

Cost of increasing the employee PRSI exemption threshold to €409.50	Employments affected
€17.7m	101,989

This calculation does not include a employee PRSI credit starting at €409.51

(17,768 employments with weekly income between €409.50 and €424 will pay slightly more. If they left those employments with a small credit as it is at the moment it would cost €0.6m more than the 17.7m below.)

USC:

23. The cost exempting all those earning €21,294 or less from USC

The cost of increasing the exemption threshold for USC to €21,294 is given in the table below.

Exemption Level €	First Year €m	Full Year €m
21,294	69	81

This estimate has been generated by reference to 2019 incomes as calculated on the basis of actual data for the year 2016, the latest year for which returns are available, adjusted as necessary for income, self-employment and employment trends in the interim. The estimate is provisional and may be revised.

24. The cost of removing all income earned under each of €15,000, €18,00 and €21,000 from USC

>It is assumed that the figure of €18,00 is meant to be €18,000. The costs of removing all income earned under the income levels as set out above (USC only applies to the income in excess of these amounts) are given in the table below.

No USC liability on income under €	First Year €m	Full Year €m
15,000	231	270
18,000	338	394
21,000	465	542

These estimates have been generated by reference to 2019 incomes as calculated on the basis of actual data for the year 2016, the latest year for which returns are available, adjusted as necessary for income, self-employment and employment trends in the interim. The estimates are provisional and may be revised.

25. The cost of extending to €21294 the 0.5% of USC

>The cost of increasing the 0.5% USC band to €21,294 is given in the table below. This estimate assumes that the current rates of USC would apply to income in excess of €21,294, i.e. that income in excess of €21,294 (up to €70,044) would be subject to a USC rate of 4.75% on this excess income. This estimate also assumes no change to the current reduced rate of 2% which applies to medical card holders and those aged 70 or over.

USC 0.5% Band €	First Year €m	Full Year €m
First 21,294	284	331

This estimate has been generated by reference to 2019 incomes as calculated on the basis of actual data for the year 2016, the latest year for which returns are available, adjusted as necessary for income, self-employment and employment trends in the interim. The estimate is provisional and may be revised.

1. **"The revenue that would be raised by capping the R and D Credit any company could avail of in a single year to each of €2.5m, €5m, €10m, €20m and €50m"**

   Based on the 2016 cost, a yield in the region of €418 million could be achievable if the total research and development credit, including refundable credits, was capped at €2.5 million. Similarly a yield of €375 million for a €5 million cap. However, due to the low number of companies claiming in excess of these amounts, for confidentiality reasons it is not possible to provide an estimate for the higher amounts shown in the proposal.

2. **"The extra tax receipts were the bailed-out banks (AIB, BOI and PTSB) limited to using carried forward losses equal to 25% of profits in any given year"**

   It is not possible to accurately estimate the yield from the proposal as information in respect of future profits is not available. However, based on the use by the three banks of deferred tax assets in 2016/2017, it is estimated that a yield of c.€175 million could arise should the named banks be limited to sheltering 25% of profits with losses carried forward.

3. **"why the transfer to trained young farmers costs €24m given that the cost to the exchequer was only €4.6m"**

******** UPDATED RESPONSE********

   We can confirm that the original costing figure given of €24 million has been revisited by Revenue and we can now provide an updated estimate of approximately € 15 million. This new figure is a Revenue projection based on the level of uptake of the relief 2018, to end-August.