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Response from Derek Moran, Secretary General of the Department of Finance to Deputy Mary Lou McDonald, Sinn Féin re: Budget 2020 costings, 2 September 2019

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2 September 2019

Mary Lou McDonald, TD
Leinster House
Kildare Street
Dublin, D02 A272

Dear Deputy,

I refer to Sinn Féin's first request to the Department for Budget 2020 costings (submitted to us on 17 July, 2019). 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 also 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,

A handwritten signature in black ink, appearing to read 'Derek Moran', written over a horizontal line.

Derek Moran

Secretary General

Request the first year and full year costings for each of the following measures:

Tapering out of credits:

1. the revenue from tapering the personal, Pay As You Earn, and Earned Income Credits by 1.43 per cent per €1,000 on an 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, based on the latest individualised income figures available to the Revenue Commissioners.

The first and full year yield is estimated to be of the order of €170m and €210m respectively.

2. 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, based on the latest individualised income figures available to the Revenue Commissioners.

The first and full year yield is estimated to be of the order of €210m and €260m respectively.

3. 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, based on the latest individualised income figures available to the Revenue Commissioners.

The first and full year yield is estimated to be of the order of €195m and €240m respectively.

4. the revenue from tapering out the personal, 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, based on the latest individualised income figures available to the Revenue Commissioners.

The first and full year yield is estimated to be of the order of €250m and €305m respectively.

5. the revenue from tapering out the personal, 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,

It is presumed that this was intended to be asked in conjunction with an additional USC rate of 2%/ 3%/ 4%/ 5%/ 6%/ 7% in excess of €120,000, as per the questions below, as it is otherwise identical to the previous question. The first and full year yield of the proposed tapering measures and an additional USC rate on incomes above €120,000 are set out in the table below:

	First Year €m	Full Year €m
Tapering & USC 2%	410	515
Tapering & USC 3%	490	620
Tapering & USC 4%	570	725
Tapering & USC 5%	655	830
Tapering & USC 6%	735	935
Tapering & USC 7%	815	1040

6. 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, coupled with this an additional USC rate of 2%/ 3%/ 4%/ 5%/ 6%/ 7% in excess of €140,000, based on the latest individualised income figures available to the Revenue Commissioners.

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%	350	440
Tapering & USC 3%	415	530
Tapering & USC 4%	485	620
Tapering & USC 5%	555	710
Tapering & USC 6%	625	800
Tapering & USC 7%	690	890

7. 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, coupled with an additional USC rate of 2%/ 3%/ 4%/ 5%/ 6%/ 7% in excess of €150,000, based on the latest individualised income figures available to the Revenue Commissioners.

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%	325	410
Tapering & USC 3%	390	495
Tapering & USC 4%	450	575
Tapering & USC 5%	515	660
Tapering & USC 6%	580	745
Tapering & USC 7%	645	830

8. the revenue from tapering out the personal, PAYE credit and earned income credit from income in excess of €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, based on the latest individualised income figures available to the Revenue Commissioners.

The first and full year yield is estimated to be of the order of €400m and €480m respectively.

Notes:

- These figures are based on tax returns for 2017, 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, it is 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 it is assumed that the higher earner only has one credit available to them.
- 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 2019 value of the credit (€1,350), applied to the number of claimants in 2017. It has been assumed that the change in the value of the credit has not affected taxpayer behaviour and the number of claimants. 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 Revenue’s micro-simulation model, Tax Modeller, and are estimates for 2020. Therefore the figures provided in these Questions are a mixture of 2020 estimates and 2017 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 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.

Additional income levy (where the levy is based on the USC model):

9. The revenue from an additional USC rate of 2%/ 3%/ 4%/ 5%/ 6%/ 7% in excess of €100,000, based on the latest individualised income figures available to the Revenue Commissioners

The first and full year yields from the introduction of the additional USC rates on income in excess of €100,000, as set out, are provided in the following table:

Additional USC rate on income >€100,000	First Year Yield (€ Million)	Full Year Yield (€ Million)
2%	196	253
3%	295	379
4%	393	505
5%	491	631
6%	589	758
7%	688	884

These estimates have been generated by reference to 2020 incomes as calculated on the basis of actual data for the year 2017, 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.

10. Revenue from an additional USC rate of 2%/ 3%/ 4%/ 5%/ 6%/ 7% in excess of €120,000., based on the latest individualised income figures available to the Revenue Commissioners.

The first and full year yields from the introduction of the additional USC rates on income in excess of €120,000, as set out, are provided in the following table:

Additional USC rate on income >€120,000	First Year Yield (€ Million)	Full Year Yield (€ Million)
2%	162	210
3%	242	315
4%	323	420
5%	404	525
6%	485	630
7%	565	736

These estimates have been generated by reference to 2020 incomes as calculated on the basis of actual data for the year 2017, 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.

11. The revenue from an income levy of 2%/ 3%/ 4%/ 5%/ 6%/ 7% in excess of €150,000, based on the latest individualised income figures available to the Revenue Commissioners

The first and full year yields from the introduction of the additional USC rates on income in excess of €150,000, as set out, are provided in the following table:

Additional USC rate on income >€150,000	First Year Yield (€ Million)	Full Year Yield (€ Million)
2%	128	169
3%	192	254
4%	256	338
5%	321	423
6%	385	507
7%	449	592

These estimates have been generated by reference to 2020 incomes as calculated on the basis of actual data for the year 2017, 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.

Third rate of income tax:

12. The revenue from introducing a third rate of income tax set at each of 41%, 42%, 43%, 44%, 45%, 46%, 47%

The cost to the Exchequer of introducing a third rate of income tax at 41% and at 43%, at various income levels, is available on page 5 of Revenue's Ready Reckoner, available at <https://www.revenue.ie/en/corporate/information-about-revenue/statistics/ready-reckoner/index.aspx>. The yield from the introduction of other rates not given in the Ready Reckoner may be extrapolated on a straight-line basis.

Increased tax credits:

13. The cost of increasing the PAYE tax credit by €100, €150, €200 – to confirm any further increase would be a straight line calculation.

The cost to the Exchequer of increasing the PAYE tax credit can be found on page 6 of Revenue's Ready Reckoner at: <https://www.revenue.ie/en/corporate/information-about-revenue/statistics/ready-reckoner/index.aspx>. The cost from increasing the PAYE tax credit by amounts other than those given in the Ready Reckoner, specifically by €150 and €200, can be extrapolated on a straight-line basis. In general, for small changes costs can be extrapolated on a straight-line basis, however for larger changes to the PAYE tax credit this would not apply, due to the ability of taxpayers to absorb the increased portion.

14. The cost of increasing the single person and married person tax credit by €100, €150, €200 – to confirm any further increase would be a straight line calculation.

The cost to the Exchequer of increasing the single person and married person tax credit can be found on page 6 of Revenue's Ready Reckoner at: <https://www.revenue.ie/en/corporate/information-about-revenue/statistics/ready-reckoner/index.aspx>. The cost from increasing the single person and married person tax credit by amounts other than those given in the Ready Reckoner, specifically by €150 and €200, can be extrapolated on a straight-line basis. In general, for small changes costs can be extrapolated on a straight-line basis, however for larger changes to the PAYE tax credit this would not apply, due to the ability of taxpayers to absorb the increased portion.

15. The cost of equalising the earned income credit with the PAYE credit

The cost of increasing the earned income credit can be found on page 6 of Revenue's Ready Reckoner at: <https://www.revenue.ie/en/corporate/information-about-revenue/statistics/ready-reckoner/index.aspx>.

USC:

16. The cost of increasing by €1,000 the entry point to the 2% USC band and adjusting the other bands as a result (i.e. increasing all higher bands' entry point by €1,000)

The first and full year cost of increasing by €1,000 the entry point to the 2% USC band and increasing the entry points for subsequent bands as a result is estimated to be of the order of €76m and €88m respectively. It has been assumed that the 3% USC surcharge on non-PAYE income remains at €100,000.

17. The cost of increasing by €1,000 the 2% USC band entry point (and not increasing the entry point to the next rate)

The first and full year cost of increasing by €1,000 the entry point to the 2% USC band and not increasing the entry points for subsequent bands as a result is estimated to be of the order of €30m and €35m respectively.

18. The cost of exempting all income under €25,584 from USC (or €25,500 if more practicable)

The first and full year cost of exempting all income under €25,584 from USC is estimated to be of the order of €142m and €164m respectively.

19. The cost of exempting all income under €21,008 from USC (or €21,000 if more practicable)

The first and full year cost of exempting all income under €21,008 from USC is estimated to be of the order of €64m and €75m respectively.

Indexation:

- 20. The cost on indexing, based on latest forecasts, all income tax credits and bands and USC bands in line with each of (i) wage inflation and (ii) core inflation, showing what the new credits/bands would be set at, showing a breakdown of the cost of each credit/band to be indexed**
- 21. The cost on indexing all income tax credits, based on latest forecasts, in line with each of (i) wage inflation and (ii) core inflation, showing what the new credits/bands would be set at, showing a breakdown of the cost of each credit/band to be indexed**

The cost of 1% indexing of the main income tax credits (Personal, PAYE, Home carers and EIC), exemption limits, tax bands and USC bands and exemption limits can be found on page 10 of Revenue's Ready Reckoner, available at <https://www.revenue.ie/en/corporate/information-about-revenue/statistics/ready-reckoner/index.aspx>.

These figures are based on projected 2020 incomes as calculated on the basis of actual data for the year 2017, the latest year for which returns are available, adjusted as necessary for income, self-employment and employment trends in the interim. The figures are provisional and may be revised. Revenue does not provide cost estimates beyond the tax year 2020.

Increases greater than 1% can be estimated on a straight-line or pro-rata basis from the information given.

The 2019 Stability Programme Update was finalised and published in April this year. It sets out the Government's updated macroeconomic and fiscal forecasts for the period 2019-2023, including price developments that impact price and wage inflation. As this document sets out, there are a number of different metrics that could be used for indexation, such as "core" inflation which is forecast to be 1.1% for 2019. Wage inflation (compensation per employee) is forecast to be 3% for 2019.