An Roinn Airgeadais
Department of Finance

Our reference: 2017-4(a)

31 August 2017

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

Dear Deputy,

I refer to Sinn Féin's first request to the Department for Budget 2018 costings (submitted to us on 31 July, 2017). Further to my letter and enclosures of 24 August, I am pleased to enclose responses to the five outstanding costings sought (questions 9, 13, 14, 24, and 27).

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

Costing Request 2017-4(a)

Responses to 5 outstanding questions (9, 13, 14, 24 & 27),

## 9. Legislated changes

Q: An itemised list of legislated tax changes which are due to take effect in 2018, their cost and their impact on net fiscal space in 2018 e.g. pre committed plans regarding the mortgage interest deduction for landlords.

The 2018 and full year costs and yields for the tax measures announced in Budget 2017 are set out below.

| **1. REVENUE RAISING MEASURES** | **Yield 2018 €m** | **Yield Full Year €m** |
|---|---|---|
| **EXCISE** | | |
| **Tobacco Products Tax**<br>Excise duty on a pack of 20 cigarettes is increased by 50c, with a pro-rata increase on other tobacco products. It will raise the price of cigarettes in the most popular price category to €11.00 per pack of 20 cigarettes. | 65 | 65 |
| **COMPLIANCE MEASURES** | | |
| **Section 110**<br>Draft amendments to Section 110 will be made in the Finance Bill to address unintended uses of the section. Further amendments will address other issues arising in relation to Funds and property. | See Note 1 | 35 |
| **Tackling offshore tax evasion**<br>A comprehensive programme of targeted compliance interventions against those engaged in offshore tax evasion. | | See Note 2 |

| 1. REVENUE RAISING MEASURES | Yield 2018 €m | Yield Full Year €m |
|---|---|---|
| **Increase resources to confront non-compliance**<br>Increasing Revenue staff resources on audit and investigation activities as well as enhancing ICT systems capacity. | | See Note 3 |

| 2. REVENUE RELIEVING MEASURES | Cost 2018 €m | Cost Full Year €m |
|---|---|---|
| **USC** | | |
| Incomes of €13,000 or less are exempt. Otherwise,<br>• €0 to €12,012 @ 0.5%<br>• €12,013 to €18,772 @ 2.5%<br>• €18,773 to €70,044 @ 5%<br>• €70,045 to €100,000 @ 8%<br>• PAYE income in excess of €100,000 @ 8% | -390 | -390 |

| 2. REVENUE RELIEVING MEASURES | Cost 2018 €m | Cost Full Year €m |
|---|---|---|
| • Self-employed income in excess of €100,000 @ 11%<br><br>Medical card holders and individuals aged 70 years and over whose aggregate income does not exceed €60,000 will now pay a maximum USC rate of 2.5%. | | |
| **INCOME TAX** | | |
| An increase in the Home Carer Tax Credit from €1,000 to €1,100 | -8 | -8 |
| An increase in the Earned Income Credit from €550 to €950 | -58 | -58 |
| **Interest Relief – Rented Residential Property**<br>The deduction available for qualifying interest payments on monies borrowed to purchase, improve or repair residential rental property is being increased from 75% to 100% over the next 5 years. The deduction will be increased by 5 percentage points each year, with the first increase from 75% to 80% to take effect from 1 January 2017. This measure will apply to both new and existing mortgages. The full-year cost of €70 million, being the cost for full restoration to 100%, will be reached in 2022.<br><br>Interest Relief on rented residential property to increase from 80% to 85% in 2018. This will cost €8 million of fiscal space in 2018 | -22 | -70 |
| **Deposit interest retention tax (DIRT)**<br>Reduced rate of DIRT: The rate of DIRT will be decreased by 2% each year for the next 4 years until it reaches 33%. The costs shown are in relation to the first 2% reduction. Each subsequent reduction is currently costed at the same amount. (The full year cost will be reached in 2020). | | See Note 4 |
| **OTHER INCOME TAX MEASURES** | | |

| 2. REVENUE **RELIEVING** MEASURES | Cost 2018 €m | Cost Full Year €m |
|---|---|---|
| **Foreign Earnings Deduction (FED)[1]**<br>FED is being extended until the end of 2020. Colombia and Pakistan are being added to the list of qualifying countries. The minimum number of days required to be spent in the qualifying countries is being reduced from 40 to 30 per annum. This will help smaller businesses to access the relief to identify trading opportunities in non-traditional markets for Irish goods and services. | – | -3 |
| **Special Assignee Relief Programme[2]**<br>To provide certainty to the FDI sector, SARP, which was due to expire at the end of next year, is being extended for an additional 3 years until the end of 2020. | -8 | -8 |
| **HOUSING** | | |
| **Help to Buy**<br>A rebate of Income Tax paid is being introduced to assist first time buyers of newly built homes to fund the deposit required under the Central Bank macro-prudential rules. Income Tax paid over the previous four years will be available for rebate, up to a total value of 5% of the purchase price, up to a maximum of €400,000. Where the new home is valued between €400,000 and €600,000 the maximum relief (i.e. €20,000) will continue to be available. Homes valued at greater than €600,000 will not qualify for any relief. This scheme will run until the end of 2019. | -40 | -40 |
| **Capital acquisitions tax**<br><br>Changes to tax-free thresholds:<br><br>1. The Group A lifetime tax-free threshold applying to gifts and inheritances from parents to children is being raised from €280,000 to €310,000,<br>2. The Group B lifetime tax-free threshold applying to gifts and inheritances made to parents, siblings, nieces, nephews or grandchildren is being raised from €30,150 to €32,500. | -25 | -25 |

| 2. REVENUE <u>RELIEVING</u> MEASURES | Cost 2018 €m | Cost Full Year €m |
|---|---|---|
| 3. The Group C lifetime tax-free threshold applying to gifts and inheritances made to all others (except spouses and civil partners who are exempt) is being raised from €15,075 to €16,250 | | |
| **Rent a Room**<br>The ceiling for the rent-a-room scheme is being increased from €12,000 to €14,000 for 2017 and subsequent years. This scheme provides that where a homeowner rents out a room or rooms in their principle private residence they can earn up to €14,000 tax free. The increase will allow homeowners to rent out an additional room at standard rental rates without breaching the new ceiling. | -1 | -1 |
| **Living City Initiative**<br>The Living City Initiative is being amended to encourage an increase in the take-up of the scheme. This initiative is being extended to landlords in respect of rented residential property. In addition, the restriction on the maximum floor size of the property is being removed, along with the requirement that the property must have been previously used as a dwelling. | -2 | -3 |
| **Home Renovation Incentive**<br>The HRI is being extended until 31 December 2018. | -19 | -38 |
| **<u>ENTREPRENEURS/SELF-EMPLOYED</u>** | | |
| **Accelerated Capital Allowances for energy efficient equipment**<br>The existing scheme of accelerated capital allowances for energy efficient equipment is being made available to sole traders and non-corporates. | -3 | -3 |
| **Start Your Own Business Relief**<br>The Start Your Own Business relief provides a limited income tax exemption for individuals who are long term unemployed who set up their own business. It is being extended for a further 2 years until the end of 2018 to encourage additional new start-up businesses. | -10 | -10 |

| 2. REVENUE RELIEVING MEASURES | Cost 2018 €m | Cost Full Year €m |
|---|---|---|
| **Revised CGT entrepreneur relief:** A reduced CGT rate of 10% will apply to the disposal in whole or in part of a business up to an overall limit of €1 million in qualifying chargeable gains. | -14 | -14 |
| **RURAL ECONOMY** | | |
| **Fishers Tax Credit** A new tax credit is being introduced for fishers to assist the viability of the fishing sector. Fishers who have fished for at least 80 days in a tax year will be entitled to an income tax credit of €1,270 per annum. | -6 | -6 |
| **Agri-Taxation** The Income Averaging regime allows a farmer's taxable profit to be averaged out over a 5-year period. It is being amended to allow a farmer to "step out" of averaging in a year where income is low. This will be available immediately for farmers who will be paying their preliminary tax towards the end of this month. | – | – |
| **Increase in Farmer's Flat-Rate Addition from 5.2% to 5.4% (VAT)** The farmer's flat-rate addition will be increased from 5.2% to 5.4% with effect from 1 January 2017 | -11 | -11 |
| Bog restoration (€2m one-off cost) | – | – |
| Farm restructuring | -1 | -1 |
| Fishing vessel decommissioning | -2 | -2 |
| **MISCELLANEOUS OTHER TAXATION MEASURES** | | |
| **EXCISE** **High Efficiency Combines Heat and Power** A full carbon tax relief is being provided to incentivise the uptake of HE CHP for fuel inputs used in highly efficient electricity generation | -2 | -2 |
| **Microbreweries Relief** The special relief reducing the standard rate of Alcohol | | |

| 2. REVENUE RELIEVING MEASURES | Cost 2018 €m | Cost Full Year €m |
|---|---|---|
| Products Tax by 50% on beer produced in microbreweries which produce not more than 30,000 hectolitres per annum is being extended to apply to microbreweries which produce not more than 40,000 hectolitres per annum. The amount of hectolitres upon which a brewery can claim relief remains at 30,000 hectolitres. This increase is an interim measure to allow for a review of the relief with a view to introducing a tapered relief. | – | – |
| **Vehicle Registration Tax (VRT)[3]** The VRT reliefs available for the purchase of hybrid electric vehicles and plug-in hybrid electric vehicles, are being extended to 31 December 2018. Electric vehicles, and electric motorcycles are being extended to 31 December 2021. | -15 | -15 |

Note 1:

I am advised by the Revenue Commissioners that to forecast the yield for section 110 companies and Irish Real estate funds in 2018 requires predicting changes in taxpayer behaviour; as such it is still too early for the Department or Revenue to estimate any potential yield beyond 2017, however based on receipts received to date it is likely that the expected yield in 2017 will be exceeded. This position will become clearer in the last quarter of this year.

Note 2:

The success of this compliance measure considerably exceeded expectations and I am advised by Revenue that so far the one-off (2017) yield has exceeded €75m.

Note 3:

This measure was estimated at the time to have a full-year yield for 2017 of €50m. Increased resources to confront non-compliance have been introduced in both Budgets 2016 and 2017, such measures increase the budget yield forecast but only in the year of the measure. These amounts are then in the base for future years rather than leading to additional yield in future years.

Note 4:

This is a four-year reduction in the rate of DIRT for which the estimated full year cost is €36m. It is estimated that the cost of decreasing the rate of DIRT by 2 percentages points in 2018 is €9 million. This cost will be reviewed in the context of the Budget.

[1] No impact on the fiscal space.

[2] No impact on the fiscal space.

[3] No impact on the fiscal space.

## 13. Betting Duty

Q. The revenue generated by each of the following measures:
i) applying 2.6%/3% betting duty on remote and in shop bets
ii) increasing the Commission based tax on betting intermediaries to 20%/ 24% and to 30%

A(i) Scenarios for changes in betting duty rates are shown in the Pre-Budget 2018 Ready Reckoner:

http://www.revenue.ie/en/corporate/documents/statistics/ready-reckoner.pdf.

The Ready Reckoner shows a range of scenarios including some of those requested, others can be estimated on a straight-line or pro-rata basis from the information in the Ready Reckoner.

A(ii) The additional yield from increasing the Commission to 20%, 24% and 30% is €0.6 million, €1.1million and €1.9 million respectively in a full year.

These figures do not take account of any potential behavioural impact.

## 14. Excise Duty

Q: The revenue that would be generated through increasing the tax on cigarettes by €0.10/€0.20/€0.50 per packet of 20, with a pro rate increase on other tobacco products and the impact on the net fiscal space for 2018.

A: Scenarios for changes in taxes on cigarettes are shown in the Pre-Budget 2018 Ready Reckoner:

http://www.revenue.ie/en/corporate/documents/statistics/ready-reckoner.pdf.

The Ready Reckoner shows a range of scenarios including some of those requested, others can be estimated on a straight-line or pro-rata basis from the information in the Ready Reckoner.

It should be noted that the revenue generated from increasing the tax on cigarettes as set out in the Pre-Budget 2018 Ready reckoner would qualify as additional fiscal space in 2018.

## 24. Motor Tax

Q: The cost of abolishing the punitive charge of an excess where you tax your vehicle for less than 12 months i.e. a motor being more expensive when charged for 6 months as opposed to 12 months.

A: €55.4m (it is assumed the question also applies to quarterly discs).

Q: The cost of changing the rates applicable for the half-yearly and quarterly options for motor tax renewal from 55.5% to 51% for half and 26.25% for a quarter of the annual charge.

A: €37.7m

Q: The cost of changing the rates applicable for the half-yearly and quarterly options for motor tax renewal from 55.5% to 50.5% for half and 26% for a quarter of the annual charge.

A: €42.1m

Q: The cost of changing the rates applicable for the half-yearly and quarterly options for motor tax renewal from 55.5% to 50.25% for half and 25.5% for a quarter of the annual charge.

A: €48.6m

**27. Gambling**

Q: The expected revenue from any expected changes to legislation which have been modelled by the Department of Finance around taxing some forms of tax exempt income such as gambling in casinos etc.

A: The Department cannot speculate on expected revenues until such time as the Gambling Control Bill and the consequent Gambling Regulator are put in place by the Department of Justice and Equality.