An Roinn Airgeadais
Department of Finance

5 August 2016

Mr. Pearse Doherty T.D.
Sinn Féin
Leinster House
Kildare Street
Dublin 2

Re: FOI request 208/2016

Dear Deputy Doherty,

I refer to the request which you made under the Freedom of Information Act 2014 for records held by this body:

> *"All correspondence between the Department of Finance and stakeholders or within the Department regarding the proposed abolition or phasing out of the Universal Social Charge, and all records, briefings etc. which contain advice received from officials on the viability or otherwise of a plan to abolish or phase out USC over the next few years. My request pertains to the period of 1st January 2015 to 1st July 2016."*

I have now made a final decision to grant your request on 5 August 2016. A copy of the records is now enclosed including a copy of the schedule to these records.

Records already in the public domain are outside the scope of the Freedom of Information process and therefore are not included in the attached schedule. You may wish to note that such publicly available information includes:

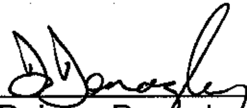
- The Minister's Brief 2016, presented to the Minister and the Minister of State upon their appointment; the Income Tax Reform Plan; and the Income Tax & Universal Social Charge Tax Strategy Group Paper TSG 16/05, all of which are available on the Department of Finance website.
- Papers prepared in advance of the National Economic Dialogue in June 2016, available on www.budget.gov.ie.

In the event that you are not happy with this decision you can make an appeal in relation to this matter, you can do so by writing to the Freedom of Information Unit, Department of Finance, Government Buildings, Upper Merrion Street, Dublin 2, or by e-mail to John.Uhlemann@finance.gov.ie. You should make your appeal within 4 weeks (20 working days) from the date of this notification, where a day is defined as a working day excluding the weekend and public holidays, however the making of a late appeal may be permitted in appropriate circumstances.

The appeal will involve a complete reconsideration of the matter by a more senior member of the staff of this body.

Should you have any questions or concerns regarding the above, please contact me by telephone on 01-6696387.

Yours sincerely,



Deirdre Donaghy
Assistant Principal Officer

FOI ref 208/2016

Record Number	Brief Description	Date	Time	File Ref	No. of Pages	Decision: Grant/Part Grant/Refuse	Basis of Refusal - Section of Act	Reason for Refusal - Section of Act	Public Interest Considerations (if applicable) (for and against release)	Identify deletions where record is part refused
1	USC incoming Government brief	February 2016			2	Grant	n/a	n/a		n/a
2	USC position paper	February 2016			4	Grant	n/a	n/a		n/a
3	Briefing for 15 June Estimates Debate	9 June 2016			1	Grant	n/a	n/a		n/a

Signed [signature]

Date 5/8/16

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Universal Social Charge – Incoming Government Brief, February 2016

Revenues:
Income tax (including USC) receipts of just under €19 billion are forecast for 2016. Of this, USC is expected to comprise c.€4 billion, over one-fifth of total income tax revenues.

Introduction:
The USC was introduced with effect from 1 January 2011, and replaced two existing levies, the Income Levy and the Health Levy. It was a measure intended to widen the tax base, as previous increases in income tax credits and rate bands combined with falls in incomes and employments in the recession had resulted in c.45% of income earners being exempt from income tax in 2010.

The USC was also a revenue-raising measure intended to reduce the budget deficit. However the projected net increase in revenue from replacing the two existing levies with the USC was only €420 million per annum.

By contrast to income tax, the USC is a simple tax with few exemptions or reliefs. The principal reliefs are:

- Social welfare income and income already subjected to DIRT is exempt from USC.
- The rate of USC for over-70s and medical card holders whose income does not exceed €60,000 is capped at 3%.
- Deductions are allowed for trading losses carried forward and trading capital allowances, but there is no provision for deductions from passive income (such as rental income) in respect of either losses carried forward from earlier years or capital allowances.

USC Structure:
The current structure of the USC is as follows:

Threshold: €13,000
Where income is below €13,000, no liability to USC arises. Where income is above €13,000, USC applies on all income, based on the following rate bands:

Income Band	Employee	Self-Employed
€0 - €12,012	1%	1%
€12,012 - €18,668	3%	3%
€18,668 - €70,044	5.5%	5.5%
€70,044+	8%	8%
€100,000+ (non-PAYE income only)	-	11%

Evolution of USC Structure:
When initially introduced, the entry threshold to USC was €4,004. This was increased to €10,036 in Budget 2012, then further increased to €12,012 in 2015 and €13,000 in 2016.

The ceiling of the first band was increased from €10,036 to €12,012 in Budget 2015, in line with the increase in the entry threshold to USC, but it has since remained at €12,012 despite the increase in the entry threshold to €13,000 in Budget 2016.

The ceiling of the second band, currently €18,668, ensures that a full-time worker on the minimum wage does not enter into the third rate of USC.

The third band ceiling, €70,044, was introduced in Budget 2015 in order to cap the benefit of the cut in the higher rate of income tax. Subsequently, the Budget 2016 income tax package also focussed tax reductions on the first €70,044 of income only.

A further 3% USC surcharge applies in respect of non-PAYE income (such as self-employed or investment income) in excess of €100,000. This surcharge was introduced as the ceiling for employee PRSI contributions was abolished at the same time that the USC was introduced, and in the absence of a counterbalancing measure on self-employed incomes, a disproportionate burden of the revenue raising measures would have fallen on employees.

Sector-Specific USC Surcharges
Two further sector-specific USC surcharges also exist.

- A property relief surcharge of 5% applies on taxable income sheltered by property-based or area-based incentive reliefs. It applies in respect of allowances available from the tax year 2012 forward, and only to individuals earning €100,000 or more in the relevant tax year.

- A 45% USC surcharge applies in respect of performance-related bonuses paid by banks which received financial support from the State, where the cumulative amount of any bonus payments exceeds €20,000 in a single tax year.

Considerations Relevant to Reducing / Abolishing USC

- **Base narrowing:** Of the three taxes on income (income tax, USC and PRSI), USC currently has the broadest base – in general, entry into the USC net starts at income of €13,000 per year. For a single employee, entry into income tax and PRSI nets occurs at c.€16,500 and €18,304 respectively.

- **Regressivity:** the USC is a progressive tax, therefore abolition of, or substantial reductions in the USC would be regressive. For example if the USC were to be abolished, a person on minimum wage would benefit by c.€316, whereas an employee earning €150,000 would benefit by over €9,500.

- **Marginal Rate Reduction:** cuts in the top rates of USC would reduce the top marginal rate of income taxation, often cited as a headline issue for global competitiveness.

- **Limited Benefits:** USC reductions will not benefit exempt income earners whose only income source is social welfare income or those with earnings below €13,000. The over 70s and medical card holders with incomes under €60,000 would benefit.

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The Future of Universal Social Charge – Position Paper for the Incoming Minister – February 2016

1. Overview of USC structure and developments since introduction
2. Policy basis for USC
3. Policy rationale – removal of USC
4. Options to abolish USC – alternative revenue sources
5. Options to phase out USC

1. Overview of USC Structure and Developments Since Introduction

The USC was introduced with effect from 1 January 2011, and replaced two existing levies, the Income Levy and the Health Levy. It was a measure intended to widen the tax base, as in 2010 c.45% of income earners were exempt from income tax. The USC was also a revenue-raising measure, however the projected net increase in revenue from replacing the two existing levies with the USC was only €420 million per annum. USC revenues are currently c.€4 billion per annum.

The current structure of the USC is as follows:

Threshold: €13,000
Where income is below €13,000, no liability to USC arises. Where income is above €13,000, USC applies on all income, based on the following rate bands:

Income Band	Employee	Self-Employed
€0 - €12,012	1%	1%
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€70,044+	8%	8%
€100,000+ (non-PAYE income only)	-	11%

When initially introduced, the entry threshold to USC was €4,004. This was increased to €10,036 in Budget 2012, then further increased to €12,012 in 2015 and €13,000 in 2016.

The ceiling of the second band, currently €18,668, ensures that a full-time worker on the minimum wage does not enter into the third rate of USC.

The third band ceiling, €70,044, was introduced in Budget 2015 in order to cap the benefit of the cut in the higher rate of income tax. Subsequently, the Budget 2016 income tax package also focussed tax reductions on the first €70,044 of income only.

Two sector-specific USC surcharges also exist:

- A property relief surcharge of 5% applies on taxable income sheltered by property-based or area-based incentive reliefs. It applies in respect of allowances available from the tax year 2012 forward, and only to individuals earning €100,000 or more in the relevant tax year.

- A 45% USC surcharge applies in respect of performance-related bonuses paid by banks which received financial support from the State, where the cumulative amount of any bonus payments exceeds €20,000 in a single tax year.

2. Policy Basis for USC

Revenue Raising: USC revenues amount to c.€4 billion per annum, approximately one-fifth of income taxes raised.

Broad Base: Of the three taxes on income (income tax, USC and PRSI), USC currently has the broadest base – in general, entry into the USC net starts at income of €13,000 per year. For a single employee, entry into income tax and PRSI nets occurs at c. €16,500 and €18,304 respectively. Notwithstanding the increase in the entry threshold from €4,004 to €13,000, the lack of credits or incentives still ensures a relatively broad base. It is estimated that in 2016 c. 29% of income earners will be exempt from USC, whereas c. 36% of income earners will be exempt from Income Tax.

Progressivity: USC is a progressive tax – the system of rates and bands imposes an increasing liability to tax as incomes rise. For example, a person on minimum wage pays €316 per annum whereas an employee earning €150,000 pays approximately €9,500. The 5 USC rates and bands allow for a more gradual increase in rates than income tax, where only 2 rates of tax (20% and 40%) apply.

Simplicity: As a tax on income, the USC is significantly less complex than Income Tax. There are no USC credits and few exemptions. This means that the tax is easier for taxpayers to understand and simpler for Revenue to administer.

Policy Lever: The USC is an additional policy lever which can be used to target higher income taxes at those with higher incomes. The 8% rate of USC introduced in Budget 2015 for incomes above €70,044 effectively capped the benefit of the reduction in the higher rate of income tax at income of up to this level. By contrast, in the absence of USC, the existing two-rate structure of Income Tax would allow for capped benefits within the standard rate band (€33,800 for a single individual) only, and uncapped benefits from reductions in the higher rate of tax.

Targeted Exemptions / Reliefs: A small number of targeted USC exemptions / reliefs are provided, in addition to the entry threshold. Social welfare income is not liable to USC – similar to the exemption provided previously from liability to the Income Levy. The over-70s and medical card holders whose income does not exceed €60,000 are liable to a maximum USC rate of 3%.

3. Policy Rationale – Removal of USC

Economic Growth: OECD research has identified a hierarchy of taxation, ranking taxes in order of their relative harm to economic growth. Property taxes on immobile bases are identified as the least harmful to growth, followed by consumption taxes. Corporate taxes were identified as most harmful to economic growth, followed by income taxes. Income taxes influence labour force participation and productivity. At lower income levels, high marginal rates reduce incentives to participate in the labour market or undertake additional training. At higher income levels, highly-skilled individuals are increasingly mobile in the global marketplace, so high marginal income tax rates can lead to skills shortages in some sectors. A shift in the balance of taxation away from income taxes towards property and/or consumption taxes would therefore be expected to strengthen economic growth.

International Competitiveness: The USC is one of the three elements which comprise the top rate of income taxes in Ireland, the other two factors being Income Tax and PRSI. USC comprises 8% of the 52% top rate applying to employment income, and 11% of the top 55% rate applying to self-employed and investment income. The marginal tax rate, and how it compares to that in other jurisdictions offering similar employment opportunities, is often cited by employers as a significant factor in attracting mobile high-skilled workers to Ireland.

Tax Simplification: At present three separate charges are levied on personal income – Income Tax, USC and Pay Related Social Insurance (PRSI). These taxes each operate on a different base, with different rates, bands, reliefs, exemptions and exceptions. USC and PRSI operate on an individualised basis, whereas Income Tax allows for joint assessment of spouses / civil partners. This results in a complex system for individuals to understand and for employers and Revenue authorities to operate. The removal of USC, would reduce the number of charges to two – one income tax and one social insurance levy – thereby significantly reducing the complexity of the system.

National Perceptions: Notwithstanding that the USC replaced two existing levies and was designed to produce only 10% of additional Exchequer revenue (over and above that collected via the Health Levy and the Income Levy), it is viewed by many as a 'recession tax', and there are calls for it to be repealed, or for the burden of the charge on low and middle income earners to be reduced, from many quarters.

4. Options to Abolish USC – Alternative Revenue Sources

An immediate abolition of USC would require an alternative source of revenue for the Exchequer, to replace the c. €4 billion per annum raised by USC. Taking into account the OECD's hierarchy of tax and economic growth, a transfer of revenue raising to property taxes would be least harmful, followed by consumption taxes, alternative income taxes, and corporation taxes. A number of illustrative options are set out below, based on the post-Budget 2016 Revenue Ready Reckoner, where available. These options are high level estimates only, and do not take into account potential behavioural effects of their implementation.

Option A: Property / Capital Taxes	
Increase Local Property Tax by a multiple of 6	2,640m
Increase commercial property stamp duty by 1.75%	173m
Increase stamp duty on shares from 1% to 3%	964m
Increase Capital Gains Tax from 33% to 38%	106m
Increase Capital Acquisitions Tax from 33% to 43%	114m
Total	3,997m

Option B: Indirect Taxes	
Increase petrol and diesel by 18c per litre	617m
Increase excise on beer by €1.50 per pint	975m
Increase excise on spirits by €1 per half-glass	330m
Revert 9% tourism-related VAT rate to 13.5%	350m
Increase 0% VAT to 5%	462m
Increase 13.5% VAT to 15.5%	616m
Increase 23% VAT to 25%	636m
Total	3,986m

Option C: Income Taxes	
Increase 20% income tax rate to 25%	2,755m
Increase 40% income tax rate to 45%	1,230m
Total	3,985m

Option D: Corporation Tax[1]	
Increase 12.5% corporation tax to 19.75%	3,986m

[1] No ready reckoner figure available. Calculations based on 2015 yield.

Options to Phase-Out USC

Alternatively, the USC could be phased-out over time, using the available fiscal space. It is estimated that fiscal space of c. €10 billion is available over the period 2017-2021, to be split between tax and expenditure measures. A gradual phasing-out of the USC could therefore be achieved over this period, within the available fiscal space. However it would leave little scope for other tax-relieving measures or targeted tax incentives. Furthermore, as the USC is a highly progressive tax, this would provide the greatest benefits to those on highest incomes, with little or no benefit to those on very low incomes.

The regressive nature of a total phasing-out of USC could be counterbalanced by the introduction of a new high-earners levy, or a third income tax rate, in order to limit the benefit at a chosen income level. However the introduction of a new levy would result in the complexity of three separate charges on income being maintained, and transition from USC to Income Tax on high earners would require consideration of the different bases of assessment which can apply – individualised and joint assessment respectively.

Briefing for Estimates Debates – PPG commitment to phase out USC

- The Programme for Partnership in Government (PPG) contains a commitment to ask the Oireachtas to continue the process of phasing-out the USC as part of a wider medium-term reform of income tax.

- Continuing to reduce the USC will reward work and support enterprise and employment. As set out in the PPG, further reductions in USC will be funded largely through:
  - Extra revenues from not indexing personal tax credits and bands.
  - Removal of PAYE credit for high earners and other measures to ensure the tax system remains fair and progressive.
  - Higher excise duties on cigarettes.
  - Increased enforcement and sanctions on fuel laundering and illegal importation of cigarettes.
  - A new tax on sugar sweetened drinks.
  - Improving tax compliance.

- Work on the income tax reform plan is currently under way and it will be submitted to the Oireachtas Committee on Finance in July. The objective of the plan is to keep the tax base broad and reduce excessive tax rates for middle income earners, while limiting the benefits for high earners. Reductions will be introduced on a fair basis and targeted at low and middle income earners.

- Increases in take-home pay directly impact on consumer confidence, with positive knock-on benefits for businesses and jobs in the domestic economy. Budgets 2015 and 2016 provided tax reductions for all income earners liable to USC, while also capping the benefit of the reductions at income of €70,044 to ensure that high earners did not receive a disproportionate benefit.