



Tithe an  
Oireachtais  
Houses of the  
Oireachtas



**An Oifig Buiséid Pharlaiminteach**  
Tráchttaireacht Réamh-Bhuiséid 2018  
don Choiste um Fhormhaoirsiú Buiséid

**Parliamentary Budget Office**  
Pre-Budget 2018 Commentary for the  
Committee on Budgetary Oversight

#### Séanadh

Is í an Oifig Buiséid Pharlaiminteach (OBP) a d'ullmhaigh an doiciméad seo mar áis do Chomhaltaí an Choiste um Fhormhaoirsiú Buiséid ina gcuid dualgas parlaiminteach. Sa doiciméad seo pléitear saincheisteanna a bhaineann le beartas buiséadach, tugtar míniú ar théamaí ábhartha agus cuirtear raon ceisteanna ina gcomhthéacsanna cuí. Ní bheartaítear é a bheith uileghabhálach ná críochnúil. Ní bheartaítear go scaipfí an doiciméad lasmuigh de Thithe an Oireachtais. Féadfaidh an OBP aon fhaisnéis atá ann a bhaint as nó a leasú aon tráth gan fógra roimh ré. Níl an OBP freagrach as aon tagairtí d'aon fhaisnéis atá á cothabháil ag tríú páirtithe nó naisc chuig aon fhaisnéis den sórt sin ná as ábhar aon fhaisnéise den sórt sin. Tá baill foirne an OBP ar fáil chun ábhar na bpáipéar seo a phlé le Comhaltaí agus lena gcuid foirne ach ní féidir leo dul i mbun plé leis an mórfhobal nó le heagraíochtaí seachtracha.

#### Disclaimer

This document has been prepared by the Parliamentary Budget Office (PBO) for use by the Members of the Committee on Budget Oversight to aid them in their parliamentary duties. It addresses budgetary policy issues, explains relevant themes and poses a range of questions set in context. It is not intended to be either comprehensive or definitive. It is not intended that this document should be circulated outside of the Houses of the Oireachtas. The PBO may remove, vary or amend any information contained therein at any time without prior notice. The PBO accepts no responsibility for any references or links to or the content of any information maintained by third parties. Staff of the PBO are available to discuss the contents of these papers with Members and their staff, but cannot enter into discussions with members of the general public or external organisations.

## Parliamentary Budget Office

### Pre-Budget 2018 Commentary for the Committee on Budgetary Oversight

## Contents

Introduction .....	3
Key Messages.....	4
Fiscal Policy Stance .....	6
Overall picture (pre-budget) .....	6
Medium-Term Budgetary Objective (MTO) .....	6
Expenditure Benchmark, MTO and fiscal space .....	7
Overheating .....	8
Use of Fiscal Space .....	8
Contingency reserve/ Rainy Day Fund .....	8
Sustainability of the public finances .....	11
Public sector numbers and pay .....	11
The sustainability of Corporation Tax receipts .....	12
Contributions to the EU Budget.....	13
Comprehensive Review of Expenditure.....	14

## Introduction

This is the first paper produced by the new Parliamentary Budget Office (PBO) of the Houses of the Oireachtas. The Parliamentary Budget Office was set up to assist Members of the Houses of the Oireachtas and the Committee on Budgetary Oversight in particular in their engagement with scrutiny of budgetary proposals both pre- and post-Budget.

The PBO is in the process of being established and the initial focus is primarily on the recruitment of a team of economists and other professionals and the establishment of processes which will ensure that we provide quality information, research and analysis for Members.

However, even in the initial set up phase I believe it is important that the PBO:

- inform and advise the Committee on Budgetary Oversight on the current economic and fiscal position;
- draw Members' attention to various revenue and expenditure issues that will have an impact on the decisions made in Budget 2018.

This paper, the first to be presented by the PBO to the Committee therefore identifies and briefly focuses on a range of such issues.

Once the PBO is fully established forthcoming publications will be provided which will be more detailed and provide more in-depth analysis.

*Annette Connolly*

Director of the Parliamentary Budget Office

25<sup>th</sup> September 2017

## Key Messages

### *Medium Term Objective (MTO)*

The Irish MTO is a structural budget balance of -0.5% of GDP. The structural budget balance is calculated based on an estimation of the output gap and a cyclical adjustment parameter. It is widely acknowledged that the European Commission's Common Agreed Methodology (CAM) for the calculation of the output gap is not particularly suitable for Ireland. The Department of Finance bases fiscal policy on its own calculation of the output gap using the CAM. The Stability Programme Update estimates the output gap for Ireland in 2017 at 1.4% of potential GDP. To meet the MTO in 2018, Ireland must make a fiscal effort of 0.7% of potential GDP which it is expected to achieve.

### *Expenditure Benchmark, MTO and fiscal space*

If a country is not at its MTO, the Expenditure Benchmark includes a Convergence Margin which reduces the allowed expenditure growth and thus fiscal space. The calculation of the output gap is central to the amount available for the fiscal space in 2018. If Ireland was at its MTO the convergence margin of the Expenditure Benchmark would not apply and permitted expenditure growth would be 4.7%, not the 2.4% set out in the Summer Economic Statement. This would imply a gross fiscal space of €3.3 billion (not €1.7 billion) and net fiscal space of €2.9 billion (not €1.3 billion).

### *Overheating*

While few commentators, with the exception of the OECD, suggest that the economy is overheating various economic commentators including the ESRI and the IFAC have suggested that Ireland should, in effect, have a neutral budget in 2018.

### *Use of Fiscal Space*

The Summer Economic Statement estimates that the gross Fiscal Space in 2018 will be €1.7 billion. However, when certain pre-commitments and the carryover costs are provided for there is approximately €530 million of fiscal space uncommitted. This does not include the cost of the new public sector pay agreement which is estimated at €180 million.

The Government has stated that it wishes to reduce the tax burden on middle income earners. It has focussed on widening the income tax bands. Currently, approximately €220 million in fiscal space is apportioned to taxation measures. The Revenue Commissioners have calculated that increasing the single person standard rate band by €1,000, with a similar increase for married couples (both one and two earner couples), would cost €175 million in the first year and €202 million in a full year. Those on the lower rate of income tax would not benefit.

### *Contingency Reserve / Rainy Day Fund*

The Government announced a Contingency Reserve and Rainy Day Fund (two related but different concepts) in the *Summer Economic Statement 2016*. The Contingency Reserve would appear to constitute a 'current account', which can be drawn upon in-year and, if not drawn down or not drawn down in its entirety, would be 'deposited' in the Rainy Day Fund for use in future years as appropriate. A cumulative balance would accumulate in the fund, the scale of which would depend upon what amount is ultimately set aside as a contingency each year and how much of that is ultimately deposited in the fund at year-end. The size of the contingency (to be implemented in 2019) was reduced from €1 billion per annum to €500 million in the *Summer Economic Statement 2017*. There is little other information on how the Contingency Reserve and Rainy Day Fund will

work and no proposed legislation establishing such a Fund appears in the Autumn legislative programme.

### ***Exchequer pay bill***

The exchequer pay bill is expected to increase sharply over the next few years. If the rate of increase in staff numbers continues to be in the region of 2% per annum, and pay increases are implemented as set out in the public service agreements, the overall pay bill could increase by 4%-6% per annum over the period 2018 to 2020. This would be in the region of €650m to €1 billion per annum. Over the medium term the sustainability of this is questionable without additional revenue-raising measures.

### ***Corporation Tax receipts***

The Coffey Report acknowledges that, while Corporation Tax receipts may be sustainable at a new higher level at least in the medium term to 2020, the inherent volatility of Corporation Tax receipts will remain and some of the factors that led to the 2015 level shift could unwind individually. In this context the report advises caution in terms of introducing increases in spending or permanent reductions in taxation.

### ***Contribution to the EU Budget***

In the medium-term Ireland is likely to increase its contribution to the EU Budget. This is a result of Brexit and other factors such as the increase in Gross National Income (which determines a large share of a country's contribution). There is little information on how Ireland's contribution to the EU Budget will evolve in the medium term but the increase in the net contribution is likely to be significant.

### ***Comprehensive Review of Expenditure***

A Spending Review of current expenditure has been carried out in advance of Budget 2018. The economic and fiscal backdrop has changed since two previous reviews of expenditure in the current round were conducted. The purpose of the review has therefore now progressed from making fiscal reductions to improving efficiency and effectiveness by evaluating the bulk of Government expenditure. Budget 2018 will be an opportunity to examine if the lessons from the Spending Review are incorporated into Government expenditure decisions.



## Fiscal Policy Stance

### Overall picture (pre-budget)

The Irish Economy, as measured by Gross Domestic Product (GDP), grew by 5.2% in 2016. The globalised nature of the Irish economy means that GDP is less useful as a measure of domestic economic activity. However, other measures of economic activity such as Gross National Product (GNP), Gross National Income (GNI) and the new modified Gross National Income (GNI\*) also grew strongly in 2016. The *Stability Programme Update* forecasts of GDP growth were 4.3% for 2017 and 3.7% for 2018. The Government has stated that the latest quarterly growth figures do not change these figures significantly. The growth figures will be updated in the budget.

The *Stability Programme Update* showed that total General Government Expenditure in 2018 (before any Budget 2018 changes) is expected to be €78.38 billion, an increase of approximately €2 billion from €76.4 billion in 2017. These figures incorporate unallocated expenditure of €610 million. General Government Revenue is expected to be €78.02 billion, an increase of €2.83 billion or 3.8%. The General Government deficit is expected to be €355 million or -0.1% of GDP in 2018. The Structural Balance is expected to be -0.5% of potential GDP.

### Medium-Term Budgetary Objective (MTO)

Each EU Member State sets a budgetary target, known as a Medium-Term Budgetary Objective (MTO). MTOs are defined in structural terms, i.e. they take into consideration business cycle swings and filter out the effects of one-off and other temporary measures. The Irish MTO is a structural budget balance of **-0.5% of GDP**. All Member States are expected to reach their MTOs, or to be heading towards them by adjusting their structural budgetary positions at a rate greater than 0.5% of GDP per annum as a benchmark.

The structural budget balance is calculated based on an estimation of the output gap and a cyclical adjustment parameter. The output gap is an estimate of how close actual GDP is to potential GDP. Potential GDP is defined as the level of output that an economy can produce at a constant inflation rate. It depends on the capital stock, the potential labour force, the non-accelerating inflation rate of unemployment (NAIRU), and the level of labour efficiency. The cyclical adjustment parameter is set in advance and is based on (country specific) estimates of how responsive certain revenue and expenditure items are to changes in the GDP.

**Table 1: Calculation of the Structural Budget Balance**

<b>General Government Balance (GGB)</b>	<b>-0.43%</b>
<b>Output Gap (OG)</b>	<b>1.4%</b>
<b>Cyclical adjustment parameter (ε)</b>	<b>0.528</b>
<b>ε * OG</b>	<b>0.74%</b>
<b>Structural Balance (GGB - ε * OG)</b>	<b>-1.17%</b>

Source: *Stability Programme Update* and European Commission (2017) *Vade Mecum on the Stability and Growth Pact*.

It is widely acknowledged that the European Commission's Common Agreed Methodology (CAM) for the calculation of the output gap is not particularly suitable for Ireland. In addition, there is considerable volatility in the output gap and a variety of different methodologies to measure it. The Department of Finance bases fiscal policy on its own calculation of the output gap using the CAM. The *Stability Programme Update* estimates the output gap for Ireland in 2017 at 1.4% of potential GDP. The cyclical adjustment parameter is 0.528 and the structural balance at -1.2%. Thus, to meet

the MTO in 2018 Ireland must make a fiscal effort of 0.7% of potential GDP. The Government plans to make this effort in 2018 and Ireland is expected to meet its MTO under the EU fiscal rules.

### **Expenditure Benchmark, MTO and fiscal space**

The Expenditure Benchmark is a rule which constrains the growth rate of government spending at or below a country's medium-term potential economic growth rate, depending on the country's position with respect to its Medium-Term Budgetary Objective (MTO). Under the rule, spending increases beyond this rate must be matched by additional discretionary revenue-raising measures. The Expenditure Benchmark complements the MTO by putting growth in expenditure on a sustainable path and therefore helping to move towards or maintain its MTO target.

If a country is not at its MTO, the Expenditure Benchmark includes a Convergence Margin which reduces the allowed expenditure growth and thus fiscal space.

The calculation of the output gap is central to the amount available for the fiscal space in 2018. If Ireland was at its MTO the convergence margin of the Expenditure Benchmark would not apply and permitted expenditure growth would be 4.7%, not the 2.4% set out in the Summer Economic Statement. This would imply a **gross fiscal space of €3.3 billion (not €1.7 billion) and net fiscal space of €2.9 billion (not €1.3 billion)**.

If the output Gap was zero, Ireland would already be at its MTO in 2017 and thus no convergence margin would arise.

The IMF (using its own methodology) estimate the output gap for Ireland at 0.656% (April 2017) - using the above methodology this would give a structural balance of -0.78% of potential GDP in 2017 (lower than the Department of Finance's estimate) which is above the MTO. However, the fiscal effort needed in 2018 to get to the structural balance and hence the convergence margin would be much less, implying additional fiscal space.

It should also be noted that the Department for Finance adjusted the Convergence Margin for 2018 contained in the *Summer Economic Statement* to 2.3% from the 1.7% presented in Budget 2017. If it had not changed, then net fiscal space would be €1.8 billion for 2018. The convergence margin rose as the output gap rose from 1.1% at Budget 2017 to 1.4% in the SES implying further fiscal effort is needed to get to the MTO in 2018 and less fiscal space is available. It is unclear what is driving the rise in the output gap.

The European Commission's spring forecasts estimated the output gap at 1.1% in 2017 - this again would imply that the convergence margin to get to the MTO could be slightly lower for 2018, implying slightly more fiscal space. However, the OECD forecasts (October 2017) estimate the output gap for Ireland in 2015 at 1.7% and, using the above methodology, the structural balance would be -1.3%<sup>1</sup> implying a greater fiscal effort than currently planned is needed to reach the MTO.

The above illustrates that the different ways of measuring the output gap imply different levels of fiscal effort to meet the MTO and impacts the allowable fiscal space under the fiscal rules.

<sup>1</sup> Note that the OECD uses a different methodology to calculate the structural balance and estimate Ireland's structural balances as -1.1% of potential GDP in 2017.



## Overheating

While few commentators, with the exception of the OECD, suggest that the economy is overheating various economic commentators including the ESRI and the IFAC have suggested that Ireland should have in effect a neutral budget in 2018. They claim that there is no need for the Government to stimulate the economy. This would imply any tax changes should be revenue neutral and expenditure growth be constrained to below the nominal economic growth rate.

## Use of Fiscal Space

The *Summer Economic Statement* (SES) updated the estimate of available fiscal space for 2018 and beyond. Fiscal Space is calculated as the total amount of new tax and expenditure measures that the government is able to introduce, while still being in compliance with the Expenditure Benchmark rule.

As discussed above, the SES estimates that the gross Fiscal Space in 2018 will be €1.7 billion. However, when certain pre-commitments and the carryover costs of Budget 2017 are provided for there is approximately **€530 million of fiscal space uncommitted**. This is currently divided between unallocated current expenditure measures (€140 million), revenue measures (€220 million) and capital expenditure (€180 million). The extension of the Lansdowne Road Agreement (LRA), estimated at €180 million for 2018, is not included in the figures and would exceed the amount set aside for new current expenditure measures.

The Government has stated that it wishes to reduce the tax burden on middle income earners. It has focussed on widening the income tax bands, especially the point where a single earner begins paying the higher tax rate. The Revenue Commissioners have calculated that increasing the current single person standard rate band by €1,000 (from €33,800 to €34,800) would cost €73.8 million - €84.6 million in a full year. Extending the widening of the bands for married couples (by €1,000 for both one and two earner couples) along with a €1,000 increase in the single person standard rate would cost €175 million in the first year and €202 million in a full year. This would use up most of the fiscal space currently apportioned to taxation measures. Such a threshold increase would benefit those above €34,800 by €200 per annum (for couples above the thresholds by €400 per annum). Those on the lower rate of tax would not benefit.

## Contingency reserve/ Rainy Day Fund

The Department of Finance has associated the Rainy Day Fund and a new lower debt to GDP target<sup>2</sup> as “buffers in the public finances”<sup>3</sup> which should help to mitigate Brexit and other economic shocks. The Government has also stated that, “pro-cyclical fiscal policy will be avoided by, for instance, the establishment of a rainy day fund.”<sup>4</sup> It is based on the previous experience of having a substantial reserve built up in the National Pensions Reserve Fund (NPRF) which was drawn down in the crisis.

It was also announced in the Summer Economic Statement (SES) 2016 that the Rainy Day Fund would commence in 2019 after Ireland has achieved its Medium Term Objective under the EU’s fiscal rules and is running balanced or surplus budgets. SES 2016 stated that, in the period following

<sup>2</sup> The Government undertook in SES 2017 to continue to reduce the debt-to-GDP ratio until the 60 per cent legal threshold is achieved and, thereafter, work towards reducing the ratio to 55 per cent of GDP. Once major capital projects have been completed, the Government will target a further reduction in the debt ratio to 45 per cent of GDP.

<sup>3</sup> Getting Ireland Brexit Ready, Department of Finance (2017, p.12)

<sup>4</sup> SES 2016, p.ii

achievement of the MTO, “the projections provide for a €1 billion per annum contribution from 2019 onwards to a rainy day fund or contingency reserve.”

### ***Defining the Contingency Reserve/Rainy Day Fund***

The SES 2016 proposes €1 billion of the available fiscal space within the Exchequer in 2019 as a contingency reserve. If this reserve is not deployed (i.e. if it is not used in the event of an adverse shock to the economy), it will be remitted to a Rainy Day Fund towards the end of that year. The purpose of the fund would be to support activity and employment should the economic situation deteriorate.<sup>5</sup>

Therefore, the reserve would appear to constitute a ‘current account’, which can be drawn upon in-year and, if not drawn down or not drawn down in its entirety, would be ‘deposited’ in the Rainy Day Fund for use in future years as appropriate. This means that it would differ from the NPRF which was intended for long term pension payments. A cumulative balance would therefore accumulate in the fund, the scale of which would depend upon what amount is ultimately set aside as a contingency each year and how much of that is ultimately deposited in the fund at year-end.

In 2016, the Government undertook that the Department of Finance would, “produce a paper, for consultation with the Oireachtas in late 2016 - early 2017 outlining the proposed operational modalities, including *inter alia* the trigger for deploying the fund.”<sup>6</sup>

In SES 2017<sup>7</sup> the Government maintained its commitment to a Rainy Day Fund beginning in 2019, but reduced the annual contribution to €500 million. The remaining €500 million (of the €1 billion originally envisaged for the rainy day fund) will be used to finance investment in physical and social infrastructure.

### ***Providing extra capital for the Rainy Day Fund***

The Government also undertook (SES 2016) to consider the merits of, “using any one-off receipts (such as windfall corporate tax receipts – or indeed other windfall tax revenues) or part of the Ireland Strategic Investment Fund (ISIF) to capitalise the rainy day fund.” This undertaking was given on the basis that this approach, “helps reduce net indebtedness while at the same time ensuring that liquid assets are available to be deployed in a timely and counter-cyclical manner to help smooth the business cycle.”<sup>8</sup>

According to SES 2017, a review of the ISIF’s investment strategy is currently ongoing and the Government will consider whether an element of the ISIF should be re-oriented towards complementing the role of the Rainy Day Fund, while also ensuring that the majority of the ISIF continues its statutory objective of investing for a commercial return and economic impact.

However, on 6 July 2017, the Minister for Finance stated that the possibility of lodging the sale of State assets (for example, a bank)<sup>9</sup> to the Rainy Day Fund would depend upon the legislation

<sup>5</sup> *Ibid*

<sup>6</sup> SES 2016, p.14

<sup>7</sup> P.v

<sup>8</sup> SES 2016, p.14

<sup>9</sup> Any proceeds from a sale of shares held in a bank by the State would not result in a beneficial impact to the General Government Balance (GGB) under the European System of Accounts 2010 (ESA 2010) framework. This is due to the fact that such transactions are classified as a ‘financial transaction’ whereby it is essentially the exchange of one form of asset (shares, equities, loans) for another kind (cash). Consequently, any such sale would not count as general government

establishing such a Fund.<sup>10,11</sup> No reference is made to such legislation in the [Autumn 2017 Legislative Programme](#).

***Margin of compliance with the Expenditure Benchmark (EB)***

As noted, it is projected that the Rainy Day Fund will be established in 2019 following achievement of the MTO. At that stage, the fund will become one of the components constituting the calculation of the EB.

---

revenue. Accordingly, if any such proceeds are used for general government expenditure at any time, the general government balance will worsen.

<sup>10</sup> Reply to Parliamentary Question No. 69 of 06 July 2017 available [here](#).

<sup>11</sup> In the first instance, the proceeds would go to the ISIF. Such proceeds can then be transferred on to the Exchequer if the Minister for Finance so directs. As set out in SES 2017 (p.2), the Government will reassess the role of the ISIF.

## Sustainability of the public finances

### Public sector numbers and pay

During the period from 2000 to 2008 the number of public sector employees increased at about a rate of approximately 2.7% a year.<sup>12</sup> Table 2 below shows the number of whole time equivalent employees (WTE) across the public sector decreased by 10% between 2008 and 2013 though this varied across sectors but has steadily increased since then in most public sector areas. The rate of increase over the 2014 to 2016 period was 1.9% per annum.

**Table 2 – Public Service Numbers by Sector 2008, 2013 -2016 (WTE)**

	End-2008	End-2013	End-2014	End-2015	End-2016	% Change 2008- 2013	% Change 2013- 2016
<b>Total serving numbers</b>	320,387	288,217	289,643	298,199	306,571	-10%	6%
<b>Civil Service</b>	39,313	36,118	36,172	36,339	37,147	-8%	3%
<b>Defence</b>	11,265	9,797	9,785	9,654	9,613	-13%	-2%
<b>Education</b>	95,024	91,590	94,045	96,443	99,801	-4%	9%
<b>Health</b>	111,025	99,959	97,791	103,884	107,085	-10%	7%
<b>Justice</b>	15,692	13,021	12,787	13,034	13,411	-17%	3%
<b>Local Authorities</b>	35,008	27,544	26,786	26,630	26,862	-21%	-2%
<b>Non-Commercial State Agencies (NCSAs).</b>	13,060	10,190	12,276	12,225	12,652	-22%	24%

Source: Report of the Public Service Pay Commission (2017, p.57).

### *Public service pay Bill – 2007 to 2016<sup>13</sup>*

The gross public service pay bill net of Pension Related Deductions (PRD) decreased by 9% from €16.6 billion in 2007 to €15.6 billion in 2016.

The savings on the pay bill were a result of:

- the 2009-2013 pay retrenchment measures;
- the moratorium on recruitment introduced in 2009; and
- a reduction in the headcount over the period.

According to 2015 data from Eurostat, employee compensation as a percentage of General Government Expenditure in Ireland was 25% compared to 21% for the Euro Area (19 countries) and 21% for the UK.

### *Wage growth in the Public Sector*

The exchequer pay bill is expected to increase sharply over the next few years due to a combination of additional staff and the restoration of pay through various public service pay agreements and the unwinding of the Financial Emergency in the Public Interest (FEMPI) Acts.

<sup>12</sup> Based on CSO figures.

<sup>13</sup> Data and commentary in this section is drawn from the Report of the Public Service Pay Commission (2017)

If the rate of increase in staff numbers continues to be in the region of 2% per annum and pay increases are implemented as set out in the public service agreements the overall pay bill could increase by 4%-6% per annum over the period 2018 to 2020. This would be in the region of €650m to €1,000 million per annum.

Over the medium term the sustainability of such an annual increase in public sector numbers and pay is questionable without additional revenue. The Stability Programme Update estimates revenue growth of approximately 3.9% per annum over the period 2018 to 2020 (on a no policy change basis).

### The sustainability of Corporation Tax receipts

In 2014, the Corporation Tax yield was €4,614 million, representing the fifth largest tax in terms of total tax receipts, and the fourth largest contributor to the Exchequer.

In 2015, the Corporation Tax yield rose by 49% to €6,872m, representing the fourth largest tax in terms of total tax receipts, and the third largest contributor to the Exchequer. In 2016, Corporation Tax yield rose to €7,351 million.

**Table 3 – Corporation Tax receipts by NACE Rev 2. Sector, 2011-2016**

Sector	2011-2014 Average	2015	Change over 2011-2014	Change	2016	Change over 2015	Change
	€m	€m	€m	%	€m	€m	%
<b>Manufacturing</b>	1,516	1,818	303	20%	1,875	57	3%
<b>Financial &amp; insurance activities</b>	918	1,601	683	74%	2,058	457	29%
<b>Information &amp; communication</b>	646	1,345	700	108%	1,229	-116	-9%
<b>Wholesale &amp; retail trade</b>	592	1,139	548	93%	993	-146	-13%
<b>Other sectors</b>	479	970	487	103%	1,196	226	23%
<b>Total receipts</b>	4,151	6,873	2,721	65.6%	7,351	478	7%

Source: Adapted from Table 9.2, Coffey Report

As illustrated in table 3 above, Corporation Tax receipts in 2015 were 66% greater than the average amount collected over the previous four years with further growth of 7% recorded in 2016. The figures for 2016 show that that increase was largely concentrated in the financial sector, with receipts from that sector increasing by almost 30 per cent and rising above €2 billion to become the largest source of Corporation Tax (surpassing manufacturing).

The *Review of Ireland's Corporation Tax Code* (the 'Coffey Report') states that sectoral distribution of receipts indicates that the level-shift in receipts seen since 2015 was not the result of increased payments from one company or group of companies. Although the payments remain concentrated, increases in Corporation Tax receipts came from virtually all sectors of the economy in addition to a number of independent factors that arose at the same time and which contributed to the level shift increase in Corporation Tax receipts in 2015. It suggests that it is unlikely that any reversal of these factors would similarly coincide.

However, the Coffey Report acknowledges that, while Corporation Tax receipts may be sustainable at a new higher level at least in the medium term to 2020, the inherent volatility of Corporation Tax receipts will remain and some of the factors that led to the 2015 level shift could unwind individually. The report advises caution in terms of introducing increases in spending or permanent reductions in taxation.

Speaking to the Select Committee on Budgetary Oversight on 13<sup>th</sup> September 2017, Seamus Coffey explained that Corporation Tax receipts increases in 2015 and 2016 were unexpected and that it now constitutes a relatively large share of overall tax revenue, i.e. some 15% of tax revenue comes from Corporation Tax, which equates to between €7.5 billion and €8 billion a year. Mr Coffey also explained to the Committee that:

- Corporation Tax is Ireland's most volatile main tax head with the greatest movement, up and down. It was €4 billion a couple of years ago and now it has jumped to almost €8 billion;
- Concentration risk is present in Ireland and may be an issue in other small countries - Ireland may not be unique in this regard;
- The figures provided by the Revenue Commissioners show that the top ten companies paid €2.8 billion of the large increase in 2015;
- In 2016, however, they paid €2.3 billion and overall Corporation Tax revenue rose by €0.7 billion – therefore, “there are clearly a lot of moving parts and there is a lot going on”.

## Contributions to the EU Budget

In 2015, payments to the EU Budget were €1.952 billion. This increased to €2.022 billion in 2016 and the provisional estimate for 2017 is €2.4 billion. According to Department of Finance figures, Ireland became a net contributor to the EU budget<sup>14</sup> in 2014 (net contribution of €182 million) with a small net contribution of €33.5 million in 2015 (2016 figures are not yet available).<sup>15</sup>

The 2017 estimate of the EU Budget contribution is, according to the Minister for Finance, contingent on a number of variables, including the size of the overall EU budget for the year and other EU budget operational developments which will only emerge as the year progresses. Payments from the Exchequer to the EU Budget to end-August 2017 are €229 million below profile.<sup>16</sup> However, the EU Budget contribution is €323 million higher at end-August in 2017 than at end-August 2016 suggesting that the €2.4 billion estimate may be considered reasonably accurate.

Ireland's net contribution to the EU budget will likely increase over the next few years for two main reasons:

- **The rise in GNI:** The bulk of the EU Budget Contribution is based on the VAT base of the country and the GNI. As Ireland's GNI has risen rapidly in recent years, Ireland's EU budget contribution is similarly expected to rise.

<sup>14</sup> The EU Commission records payments to the EU Budget differently from the Irish Government and does not consider the Traditional Own Resources (mainly customs duties on imports from outside the EU and the sugar levy) as contributions from member states. Under the Commission methodology Ireland was still a net beneficiary in 2014 (€39 million) and 2015 (€349 million).

<sup>15</sup> Reply to PQ available [here](#).

<sup>16</sup> Department of Finance (2017) Fiscal Monitor August 2017.



- **Brexit:** The UK is a net contributor to the EU Budget. While the exact nature of its relationship with the EU post-Brexit is unclear, it is likely that its payments to the EU Budget as a non-member (if any) will be much less than as a member of the EU. This means that the EU budget may shrink post-Brexit. Alternatively, Member States may have to increase budget contributions.

The dependence of the main measures of Irish economic output (GDP and GNI) on foreign multinationals means that unlike other countries, the output base from which taxes can be raised is highly mobile and volatile and is not taxed as heavily.

The Coffey Report on Corporation Tax illustrated the point with regard to capital allowances for intangible assets. There was a €26 billion increase in intangible-asset related gross trading profits in 2015 - mostly related to multinational companies. However, this was offset by an increase in the amount of capital allowances for intangible assets of a similar scale. These gross trading profits are included in Ireland's GDP and GNI but the use of capital allowances results in a much smaller amount being included in the taxable income base for Ireland's Corporation Tax. The Coffey Report recommended some limiting of the use of capital allowances for intangibles as that this would provide some moderate tax-revenue-smoothing benefits.

## Comprehensive Review of Expenditure

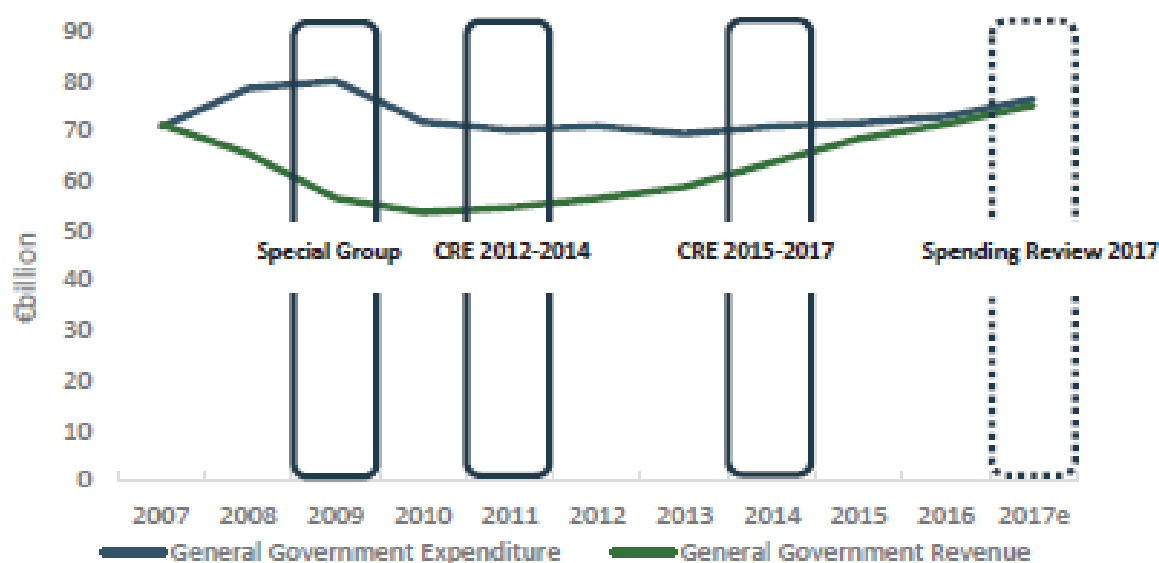
On Budget day last year, the Minister for Public Expenditure and Reform announced that a Spending Review of current expenditure would be carried out in advance of Budget 2018.

The overarching objective of the Spending Review process is the development of an evidence base to inform the prioritisation of current expenditure.

The following short and long-term objectives were set out:

- the evidence would assist in preparations for Budget 2018 both in the consideration of existing expenditure policy and the consideration of new policy proposals;
- the current and future stock of papers can be used to inform medium-term allocation decisions and longer-term improvements in the sustainability of expenditure and progress towards the achievement of better public policy outcomes.

Two previous reviews of expenditure in the current round were conducted when Ireland was about to enter, or already in an Excessive Deficit Procedure (EDP) under the corrective arm of the Stability and Growth Pact (SGP). The economic and fiscal backdrop has changed since then (see Figure 1). Ireland now operates within the 'preventive arm' of the SGP which also puts in place binding constraints on deficits, underlying deficits, expenditure growth and debt levels. The purpose of reviews have therefore now progressed from making fiscal reductions to improving efficiency and effectiveness by evaluating the bulk of Government expenditure.

**Figure 1 – Recent Spending Reviews in Ireland**

Source: MYER 2017, p.30

***Comprehensive Spending Review 2017***

The current review (undertaken in January to June) is the first year of a three-year cycle of reviews that will examine all annual Departmental current expenditure (with the exception of pay rates) by 2019. In terms of the [output from the 2017 Spending Review](#), there are two main elements:

(i) Key sectoral trend analyses

These provide an analysis of broad trends in Government expenditure over the past twenty years. Also included is a more in-depth analysis undertaken at a sectoral level of the long-run expenditure trend, an exploration of changes in key performance indicators, a brief discussion of the outcomes achieved and an overview of emerging expenditure pressures/demands.

(ii) Individual topic papers

These were selected to reflect priority areas of expenditure both in terms of the quantum of expenditure and significance of the emerging policy challenges.

### Houses of the Oireachtas

Leinster House  
Kildare Street  
Dublin 2  
D02 XR20

[www.oireachtas.ie](http://www.oireachtas.ie)  
Tel: +353 (0)1 6183000  
or 076 1001700  
Twitter: @OireachtasNews

### Connect with us



### Download our App

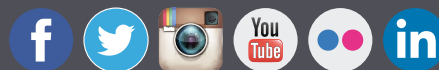


### Tithe an Oireachtais

Teach Laighean  
Sráid Chill Dara  
Baile Átha Cliath 2  
D02 XR20

[www.oireachtas.ie](http://www.oireachtas.ie)  
Guthán: +353 (0)1 6183000  
nó 076 1001700  
Twitter: @OireachtasNews

### Déan ceangal linn



### Íoslódáil an Aip

