

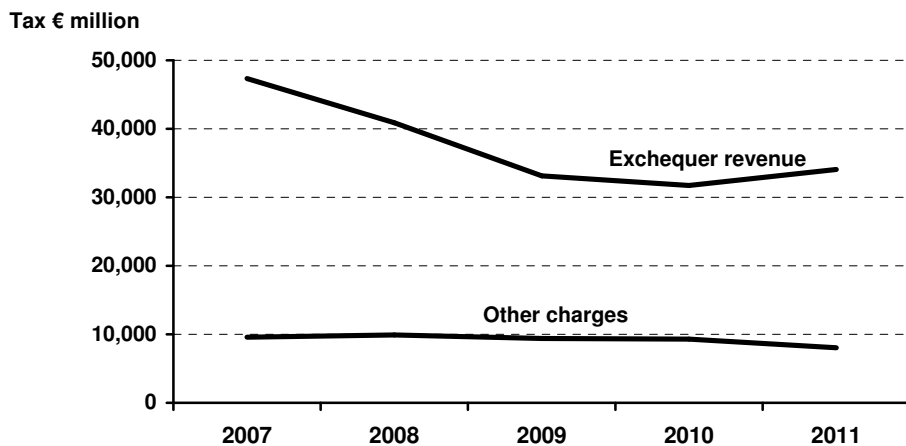
8 Revenue Outturn 2011

- 8.1 Revenue's primary function is the collection of taxes for central government. These amounts are collected and paid into the Exchequer account of the Central Fund. Revenue has also been assigned responsibility for the collection of a range of duties and levies which are payable to other departments and agencies, including Pay Related Social Insurance (PRSI) which is paid into the Social Insurance Fund.
- 8.2 Revenue is responsible for ensuring that taxable persons register for tax purposes, submit accurate tax returns and pay all taxes and duties as they become due. Repayments of tax are also a feature of the collection system. For example VAT is repaid to a trader where, in a particular VAT period, the VAT arising on purchases from suppliers exceeds the VAT charged on sales to customers. Refunds are also issued where preliminary tax paid exceeds the total tax payable or the taxpayer is entitled to tax reliefs or allowances not claimed at the time the tax return was made.
- 8.3 This chapter examines key trends in the amounts collected between 2007 and 2011.

Revenue Collected

- 8.4 Figure 8.1 summarises the total amounts collected between 2007 and 2011 broken down between taxes collected for transfer to central government and charges payable to other departments and funds.

Figure 8.1 Exchequer Revenue and Other Charges 2007 to 2011



Source: Accounts of the Receipt of Revenue of the State 2007 to 2011

- 8.5 Between 2007 and 2010, the total collected by Revenue decreased each year. However, in 2011, the total collected increased by €1 billion – an increase of 2.6% over 2010. In the main, this (net) increase is accounted for by the introduction of the Universal Social Charge and the levy on pension schemes, offset by decreases in receipts from Corporation Tax and VAT.
- 8.6 The total tax collected and subsequently transferred to the Exchequer as well as amounts collected on behalf of other agencies for the years 2007 to 2011 are summarised in Figure 8.2.

Figure 8.2 Collection and Repayment of Revenue 2007 to 2011

	2007	2008	2009	2010	2011	<i>Change 2010 to 2011</i>
	€m	€m	€m	€m	€m	
Gross amount collected	66,148	60,061	50,744	47,559	48,427	+1.8%
Repayments of taxes and duties	(9,137)	(9,178)	(8,148)	(6,420)	(6,269)	-2.4%
Repayments of other charges	(75)	(71)	(82)	(86)	(58)	-32.5%
Net amount collected	56,936	50,812	42,514	41,053	42,100	+2.6%
Of which:						
Income Tax	13,582	13,195	11,839	11,265	13,814	+22.6%
Value Added Tax	14,519	13,432	10,638	10,102	9,752	-3.5%
Excise	5,835	5,432	4,734	4,667	4,704	+0.8%
Corporation Tax	6,393	5,071	3,890	3,944	3,500	-11.2%
Stamp duties	3,244	1,763	1,001	962	1,383	+43.8%
Capital Gains Tax	3,097	1,424	544	345	416	+20.6%
Capital Acquisitions Tax	391	343	256	237	244	+3.0%
Custom duties	273	245	208	229	240	+4.8%
Exchequer revenue	47,334	40,905	33,110	31,751	34,053	+7.3%
Pay Related Social Insurance	9,404	9,707	9,207	9,110	7,857	-13.8%
Tobacco Levy ^a	168	168	168	168	168	—
Environmental Levy	22	26	24	19	16	-15.8%
Other	8	6	5	5	6	+20.0%
Other charges	9,602	9,907	9,404	9,302	8,047	-13.5%

Source: Account of the Receipt of Revenue of the State 2007 to 2011

Note: a Section 3 of the Appropriation Act 1999 (as amended) provides that each year an amount determined by the Minister for Finance shall be paid to the Health Service Executive from the proceeds of Tobacco Excise.

Universal Social Charge

8.7 Income Tax receipts increased by a net €2.5 billion in 2011 when compared to 2010. These increases were due to

- the collection in 2011 of €3.1 billion in respect of the Universal Social Charge, which was introduced with effect from 1 January 2011
- an offsetting reduction due to the abolition of the income levy (Revenue collected €1.45 billion of income levy in 2010)
- other increases arising mainly as a result of reductions in tax credits and a lowering of tax bands.

- 8.8** The Universal Social Charge, is payable if an individual's income exceeds €10,036 per year.¹ The rates are 2% in relation to the first €10,036, 4% on the next €5,980 and 7% on the balance. These rates are modified in certain circumstances in relation to individuals aged 70 or over or those that hold a full medical card. The Universal Social Charge replaced both the income levy and the health levy (also known as the health contribution).²
- 8.9** The amount of PRSI collected by Revenue on behalf of the Department of Social Protection decreased by a net €1.3 billion between 2010 and 2011. This reduction arose as a result of the combined impact of
- a reduction in amounts collected due to the abolition of the health levy – Revenue had previously collected the health levy as part of PRSI and these amounts were paid over to the Department of Social Protection as a composite amount (in 2010, the Social Insurance Fund received €1.9 billion in respect of the health levy)³
 - increases due to changes in PRSI rules and rates announced in Budget 2011 – the changes included the abolition of the annual earnings ceiling and an increase of the rate for self employed persons – from 3% to 4%.

Levy on Pension Schemes

- 8.10** Stamp duty receipts increased by a net €421 million in 2011. This included €463 million arising as a result of a levy on pension schemes. A stamp duty levy of 0.6% of the value of assets under the management of pension schemes was introduced in 2011.
- 8.11** The levy will operate for each year 2011 to 2014 with a view to raising €470 million per year to fund the various measures set out in the Jobs Initiative.

Changes in Other Taxes

- 8.12** In 2011, receipts of Corporation Tax were €444 million (11%) lower than in 2010. Revenue noted that €251 million in Corporation Tax payments – equivalent to 7% of the receipts in 2011 – were received into one of Revenue's commercial bank accounts on 28 December 2011 but were not available for transfer to the Exchequer until early January 2012. As a result, those receipts will be reported in the 2012 account.
- 8.13** Receipts from VAT fell by €350 million (3.5%). Some of the reduction may be due to the decrease of the VAT rate for certain goods and services mainly related to the hospitality industry, which was reduced from 13.5% to 9% in July 2011.
- 8.14** The remainder of the increase in other taxes and duties including Capital Gains Tax and Excise duties accounted for €126 million.

1 Effective from 1 January 2012. In 2011, the Universal Social Charge was payable where an individual's total income exceeded €4,004.

2 The income levy was applied at a rate of 2% on income up to €75,036; 4% on income between €75,037 and €174,980 and 6% on income above €174,980. The health levy rate was applied at a rate of 4% on income up to €75,036 and 5% on income above €75,036.

3 Accounts of the Social Insurance Fund at 31 December 2010.

Tax and National Output

- 8.15 The relationship between the amounts collected by Revenue and Gross Domestic Product (GDP) is set out in Figure 8.3.⁴

Figure 8.3 Amounts collected by Revenue and GDP 2007 to 2011

	Gross Domestic Product (current prices)	Net receipts collected by Revenue ^a	Net receipts as a % of GDP
	€m	€m	
2007	189,933	56,936	30.0%
2008	179,990	50,812	28.2%
2009	160,596	42,514	26.5%
2010	155,992	41,053	26.3%
2011	156,438	42,100	26.9%

Source: Central Statistics Office Quarterly National Accounts, Quarter 4 2011 (Preliminary); Account of the Receipt of Revenue of the State

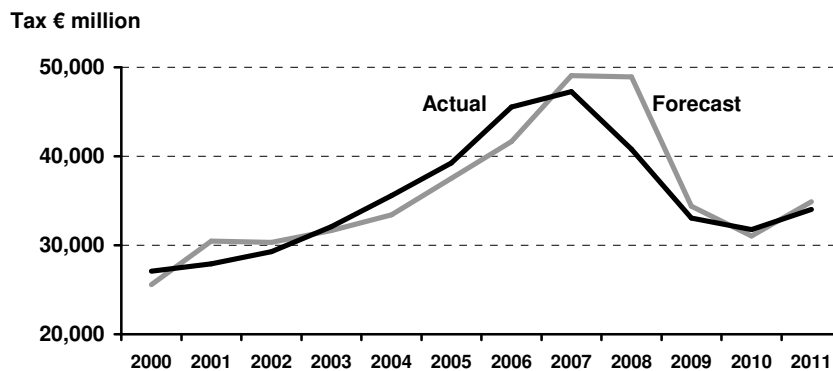
Note: a Includes net tax receipts, PRSI and other charges (see Figure 8.2).

- 8.16 The proportion of GDP collected by Revenue in the form of taxes and levies also declined from a rate of about 30% in 2007 to a level of around 27% between 2009 and 2011.
- 8.17 In commenting previously on the relationship between tax and GDP, the Accounting Officer noted that the composition of GDP in Ireland changed between 2001 and 2007 as property and construction related activities grew faster than other components that make up GDP. She noted that the construction and property sectors yielded relatively high levels of tax receipts compared to other sectors in this period. The decline in the proportion of GDP collected as tax and levies is largely attributed to the decline in those high tax yielding sectors.

Revenue Forecasting

- 8.18 Exchequer tax forecasts are prepared by the Department of Finance with the assistance of Revenue. Forecasting of tax receipts includes adjusting the previous year's receipts to take account of once-off factors which are not likely to re-occur, estimating the growth in individual tax heads by reference to macroeconomic projections and capturing the impact of changes to tax rates.
- 8.19 In 2011, the forecast for taxes and duties receivable by the Exchequer was €34.9 billion. Overall, tax revenues in 2011 were below the levels forecast by €873 million, or 2.5%. The difference between actual and forecast tax receipts in the period 2000 to 2011 is set out in Figure 8.4.

⁴ Gross Domestic Product measures the total output of the economy in a period i.e. the value of income generating work done by employees, companies, and self-employed persons.

Figure 8.4 Tax Transferred to the Exchequer Compared to Forecast 2000 to 2011

Source: Department of Finance

- 8.20** Some significant variances between forecast and actual amounts occurred over the period. Tax revenues were below forecast in 2007 and 2008 by 3.7% and 16.6% respectively. Between 2009 and 2011, actual tax collected has been within 2.3% and 3.9% of the amounts forecast.
- 8.21** A report of a tax forecasting methodology group completed in 2008 examined tax revenue forecasting over the period 1996 to 2006.⁵ While the report concluded that other countries also had difficulty in accurately forecasting tax receipts, it found that the level of forecasting error in Ireland over the period examined was high by international standards. The report noted the following factors which made accurate forecasting in Ireland more difficult.
- Substantial structural changes within the economy and within the tax system meant that relevant tax bases and their economic drivers may have changed over time. It noted that establishing a 'steady state' relationship during a transitional period of deep structural change may be highly problematic. For example, the report noted that the responsiveness of tax receipts to changes in GDP averaged at just over 1:1 over the period 1999-2006 but was estimated at 0.3:1 for 2002 and almost 2:1 in 2006.⁶
 - The Irish economy is one of the smallest and most open within the OECD with output concentrated in a relatively small number of sectors. As a result, overall economic activity and the tax revenue this generates is potentially more volatile than in larger more sectorally diversified countries.

Views of the Department of Finance

- 8.22** The Department of Finance noted that tax revenue forecasting relies on a number of inputs, the most important of which are the macroeconomic variables which largely drive the tax revenue forecasts. The heightened uncertainty, in 2007 and 2008, led to increased risks to economic and fiscal forecasting. For example, the International Monetary Fund published its macroeconomic forecasts in its World Economic Outlook in October 2008 but was forced to publish new forecasts in November 2008, followed by an update in January 2009. The outturn in 2008 was 16.6% below the target set in the 2008 budget largely as a result of extraordinary developments affecting both the international and domestic economies at that time. Also, the economic volatility over the past five years, in particular the extremely large and sudden decline in the Irish economy, were key factors underpinning deviations from profiled tax revenues.

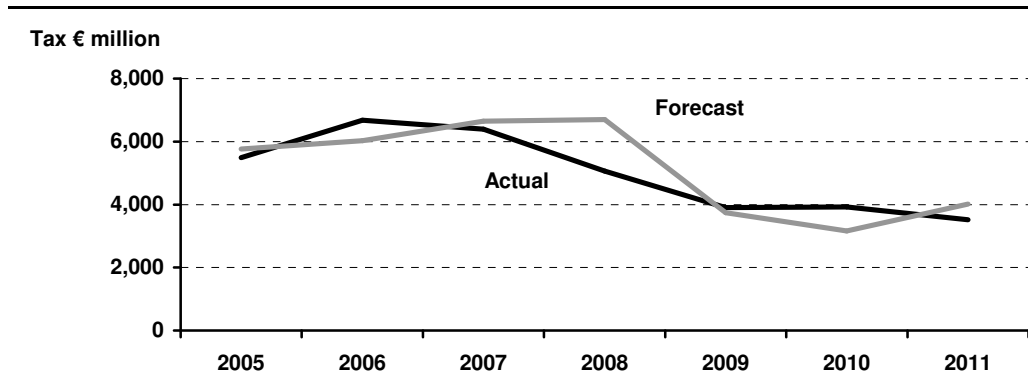
⁵ Report of the Tax Forecasting Methodology Review Group, February 2008.

⁶ The report estimated the tax:GDP elasticity at 1.1:1. This means that for every 1% rise in GDP, tax revenues rise by 1.1%.

Forecasting Corporation Tax Receipts

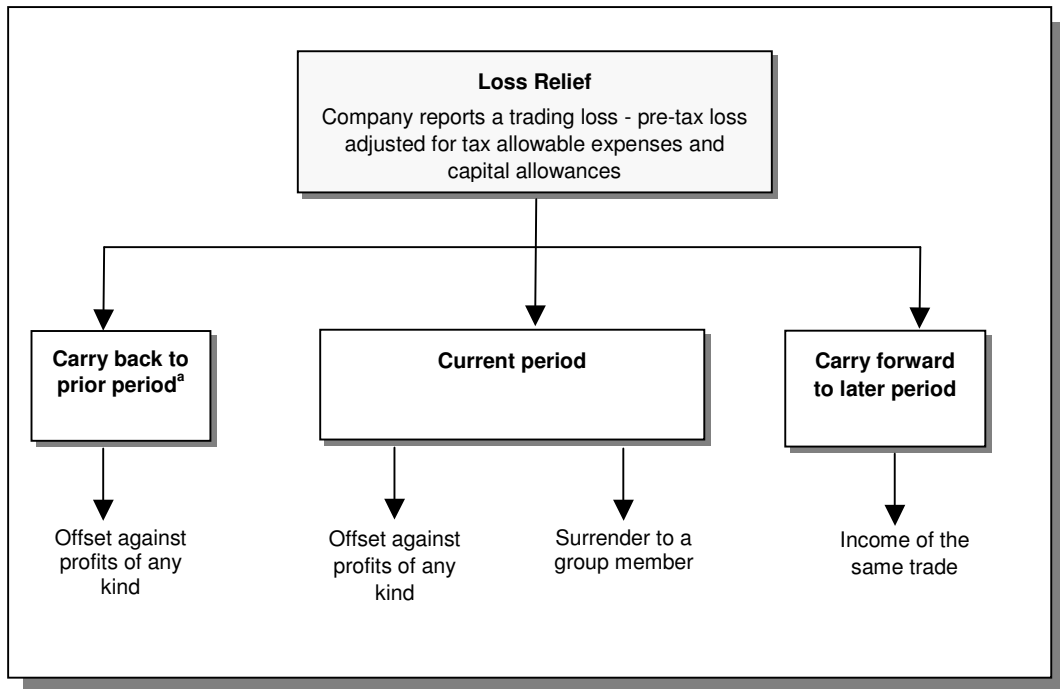
- 8.23** The 2008 tax forecasting methodology report noted that Corporation Tax receipts recorded the largest forecasting error of the four largest tax heads between 1999 and 2006. The report concluded that given the scale of multinational operations relative to the size of the domestic economy, it was not surprising that this tax head proved difficult to forecast with any degree of accuracy. The report noted that other jurisdictions (the UK for instance) had experienced similar problems in accurately forecasting Corporation Tax receipts.
- 8.24** Between 2007 and 2011, Corporation Tax receipts varied by between 4% and 24% from forecast amounts. Corporation Tax as a proportion of the total tax take has decreased from 15% in 2006 to 10% in 2011. Figure 8.5 shows the forecast and actual Corporation Tax receipts for the period 2005 to 2011.

Figure 8.5 Forecast and Actual Corporation Tax Receipts 2005 to 2011



Source: Account of the Receipt of Revenue of the State, Department of Finance Cumulative Profile of Expected Tax Revenue Receipts

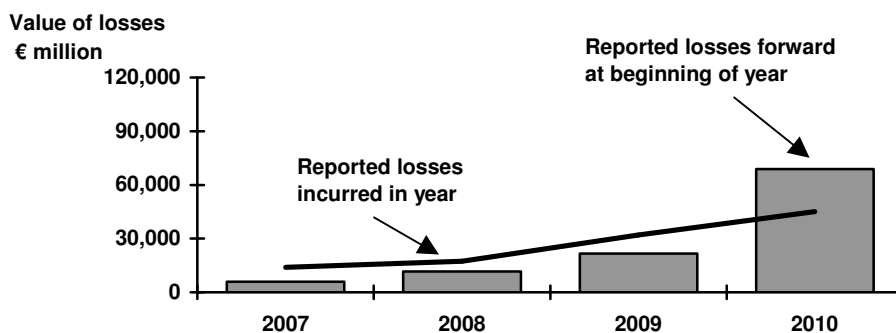
- 8.25** Accurate forecasting of Corporation Tax receipts has become more difficult as a result of the emergence of significant losses which businesses can use to offset against profits. Where a company reports a loss in an accounting period, that loss can be used to obtain relief from the payment of Corporation Tax in a variety of ways. Figure 8.6 shows the different ways a trading loss incurred can be used by a company to obtain relief from Corporation Tax.

Figure 8.6 Corporation Tax Loss Relief

Note: a Where a company ceases to trade and reports a loss in the last twelve months of trade, this loss can be carried back and used to reduce trading income of the same trade in the preceding three years.

8.26 Historically, Corporation Tax returns did not capture the cumulative value of losses available for offset against future profits. This under-reporting arose because companies making returns (for years up to 2010 inclusive) were only obliged to declare a loss on their return once. They did not have to restate any unused losses in subsequent years, except to the extent that they wished to offset some of the built-up losses against profits in that year. As a result, Revenue does not have complete information in relation to the total value of losses available to companies for future offset.

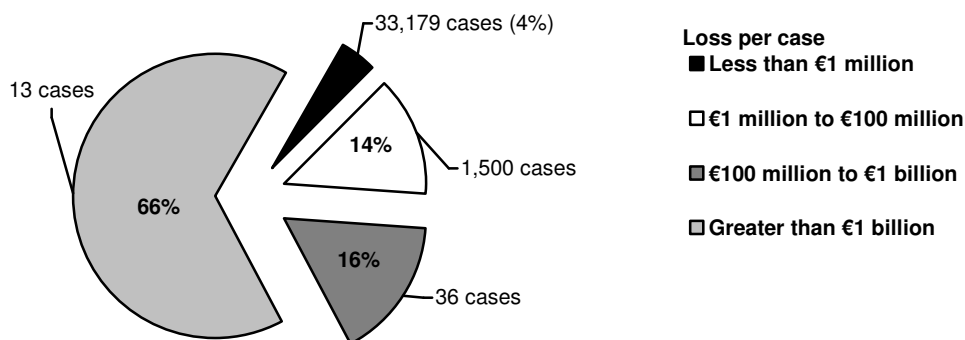
8.27 Figure 8.7 shows the trend in reported losses brought forward from earlier accounting periods and declared losses incurred in the accounting periods 2007 to 2010. The information was derived from Corporation Tax returns due in September each year in respect of accounting periods ending in the previous year.

Figure 8.7 Trend in Losses Forward and Losses Incurred 2007 to 2010

Source: Corporation Tax returns for accounting periods ending between 2007 and 2010

- 8.28** The increase in the reported losses brought forward at the beginning of 2010 is influenced by the fact that, in order to obtain better information, Revenue engaged with a number of the largest loss-making companies to ensure that their 2010 returns included data on cumulative losses being brought forward.
- 8.29** Revenue estimate that €119 billion of losses and capital allowances remained unused at the end of 2010 and are available to carry forward for offset in future years. This level of losses may have a significant effect on future Corporation Tax receipts.
- 8.30** Using information derived from the 2010 Corporation Tax returns, Revenue estimate that €22 billion of losses and capital allowances were used to reduce the amount of Corporation Tax payable for 2010. The resulting reduction in Corporation Tax receipts is estimated at around €2.75 billion.
- 8.31** While the long term impact of losses on Corporation Tax receipts is difficult to estimate, it is notable that in 2011, while some 36,000 taxpayers paid Corporation Tax, just 129 taxpayers accounted for almost two thirds of total tax receipts. In addition, a large proportion of the losses brought forward is accounted for by a relatively small number of taxpayers.
- 8.32** Analysis of the €70 billion losses brought forward in 2010 from earlier accounting periods shows that just 49 cases account for €56 billion (82%) of the total value of the losses as shown in Figure 8.8. This includes
- five financial institutions participating in NAMA, whose combined losses brought forward from earlier accounting periods account for just over a third of the total value (€21 billion) – the extent to which these losses can be used in the future is restricted.⁷
 - 44 other companies, whose combined losses brought forward from earlier accounting periods is €35 billion.

Figure 8.8 Losses Forward by amount 2010



Source: 2010 Corporation Tax Returns

- 8.33** Given the concentration of accumulated losses in a relatively small number of companies, analysis on a case-by-case basis of those companies with large losses available for offset should provide useful information in relation to the potential effect on future tax receipts.

⁷ The National Asset Management Agency Act 2009 amended the Taxes Consolidation Act 1997 to restrict the use of losses of participating institutions in accounting periods commencing after the passing of the NAMA Act. The maximum amount of losses carried forward that can be used in each period is half of the excess of group trading profits over group trading losses for that period, so that a minimum of 50% of group trading profits will remain chargeable to tax in each period.

Refunds and Repayments

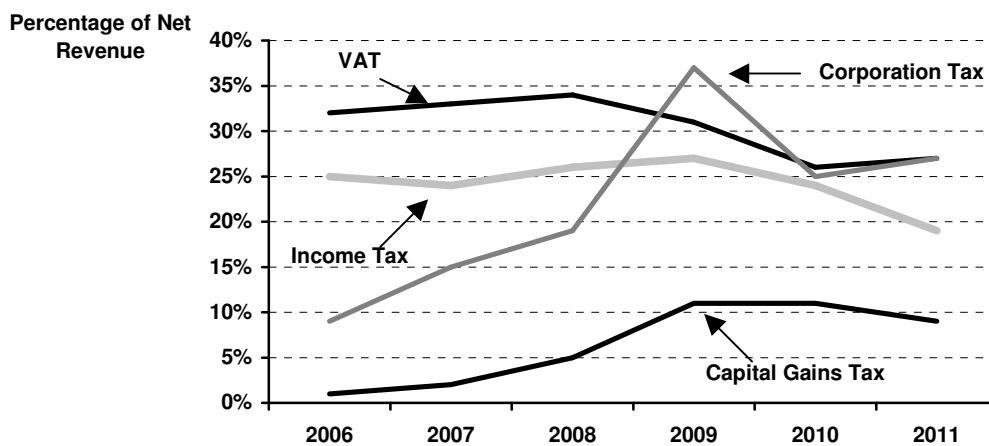
- 8.34** Entitlement to refunds and repayments is statutorily underpinned.⁸ Repayments are subject to a valid claim being made to Revenue within four years from the end of the period to which the claim relates.
- 8.35** A total of €6.3 billion was repaid to taxpayers in 2011. These repayments represented 18% of the net taxes and duties collected. The repayment under each tax heading over the past five years is set out in Figure 8.9.
- 8.36** Figure 8.10 displays the relationship of tax repayments to net receipts over the period 2006 to 2011 in respect of the taxes that accounted for the greatest repayment levels in recent years.
- 8.37** Repayments to customers in 2011 in the case of Corporation Tax and VAT represented over one quarter of the net take under each of those taxheads. Repayments of Income Tax have been decreasing as a proportion of net receipts since 2009 and now stand at 19%.

Figure 8.9 Repayments by Revenue 2007 to 2011

Payments	2007	2008	2009	2010	2011
	€m	€m	€m	€m	€m
Income Tax	3,206	3,398	3,229	2,680	2,597
Value Added Tax	4,729	4,560	3,325	2,642	2,604
Corporation Tax	936	975	1,445	976	948
Excise	124	103	48	54	53
Capital Gains Tax	64	70	62	38	38
Stamp duties	65	49	23	23	18
Capital Acquisitions Tax	6	8	12	6	10
Custom duties	7	15	4	1	1
Total	9,137	9,178	8,148	6,420	6,269
<i>as % of net yield</i>	<i>19%</i>	<i>22%</i>	<i>25%</i>	<i>20%</i>	<i>18%</i>

Source: Account of the Receipt of Revenue of the State 2007 to 2011

⁸ Section 865, Taxes Consolidation Act 1997.

Figure 8.10 Tax Repayments as a Proportion of Net Revenue Receipts 2006 to 2011

Source: Account of the Receipt of Revenue of the State 2006 to 2011

Methods of Payment

8.38 Figure 8.11 indicates that taxpayers are increasingly using online mechanisms to pay taxes and duties. In 2011, over three quarters of receipts (in value terms) were processed through the Revenue On-Line Service (ROS). The amount paid by way of cheques and direct debits or giros is decreasing.

Figure 8.11 Methods of Payment to the Collector General 2009 to 2011

Payment Mechanism	Proportion of gross receipts ^a		
	2009	2010	2011
Revenue On Line Service	61%	70%	78%
Cheques	21%	14%	9%
Direct debits ^b and Giro	17%	15%	12%
Sheriff	0.4%	0.3%	0.3%
Solicitor	0.1%	0.1%	0.1%
Total	100%	100%	100%

Source: Office of the Revenue Commissioners, Collector General's Division

Notes: a This analysis accounts for approximately €40.5 billion (84%) of all revenue receipts, which were collected by the Collector General's Division in 2011. It excludes taxes and duties paid to Revenue Divisions other than the Collector General's Division.

b Includes single debit authority (SDA) payments whereby the taxpayer provides details of his/her bank account on the payslip portion of the relevant tax form. This is valid for a single debit and only for the amount specified.

Conclusions and Recommendation

- 8.39** The amounts collected by Revenue fell by 28% between 2007 and 2010. In 2011, this trend was reversed and the total collected increased by 2.6%. In the main, the net increase in 2011 is accounted for by the introduction of the Universal Social Charge and the levy on pension schemes offset by decreases in receipts from Corporation Tax and VAT.
- 8.40** The relationship between tax and national output (GDP) altered between 2007 and 2011. While GDP has fallen each year until 2011, the proportion of GDP collected as tax also fell from 30% in 2007 to 26% in 2010. In 2011, just under 27% of GDP was collected as tax and other charges.
- 8.41** Tax forecasting is, in the main, based on macroeconomic projections and estimates of the relationship between tax revenues and GDP. Structural changes within the economy make the task of forecasting future tax receipts more difficult. The emergence of significant Corporation Tax losses complicates the estimation of Corporation Tax receipts further. In 2010, the utilisation of losses is estimated to have reduced potential Corporation Tax receipts by €2.75 billion. A relatively small number of large companies account for over 80% of the losses available for carry forward against future profits.

Recommendation 8.1: Given the level of change in national output and the structural change within the Irish economy in recent years, the Department of Finance should review the effectiveness of its tax forecasting methods. Such a review would examine the reasons for tax forecast divergences, review the structural parameters of tax elasticities and make recommendations for changes in the methodology, where appropriate.

Department of Finance Response: The Irish economy has undergone significant structural changes since the publication of the Tax Forecasting Methodology Group report in 2008. In that regard, the Fiscal Division in the Department has recently begun an exercise to re-examine the elasticities used in the tax forecasting model. The results of this analysis will help inform whether improvements can be made in the forecasting process. The Department takes its role in macroeconomic and fiscal forecasting very seriously and is determined to ensure this job is done to the highest standard. The Department has recently undergone a significant recruitment campaign at all levels to augment the specialist skills available. Recruitment has concentrated on individuals with high skill levels in economics, tax, human resources and finance.