

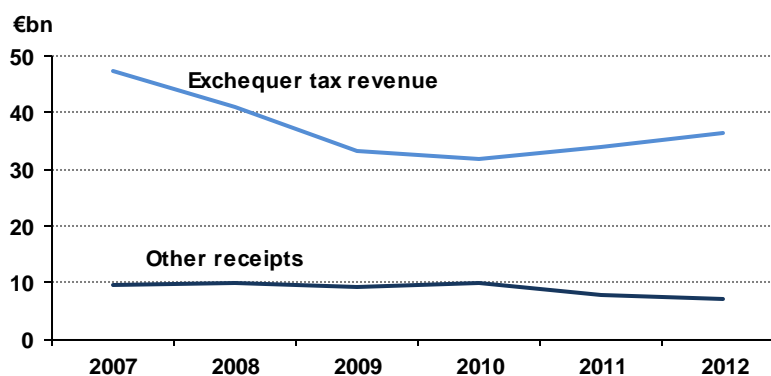
23 Revenue Collection

- 23.1** The Revenue Commissioners' (Revenue) primary function is the assessment and collection of taxes and duties that account for around 93% of the Exchequer's total annual receipts. It is also responsible for collecting a number of other charges on behalf of government departments and agencies including Pay Related Social Insurance (PRSI) which is payable into the Social Insurance Fund.
- 23.2** The Revenue Account on Receipt of the Revenue of the State for 2012 was presented to Dáil Éireann in April 2013. This report reviews the key trends in the amounts collected between 2007 and 2012, and the accuracy of forecasting of receipts.

Revenue Collected

- 23.3** Exchequer tax revenue increased in 2012 by around €2.4 billion or 7% to €36.5 billion (see Figure 23.1). This increase was, however, partially offset by a reduction of €0.7 billion or 9% in receipts from other charges which fell to €7.3 billion in 2012. Overall, Revenue collected a net €1.7 billion more in 2012 than in 2011.

Figure 23.1 Exchequer tax revenue and other receipts, 2007 to 2012



Source: Accounts of the Receipt of the Revenue of the State 2007 to 2012

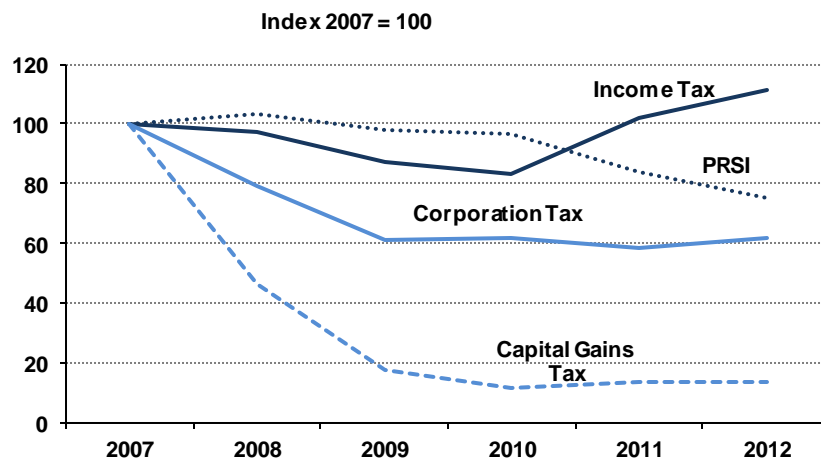
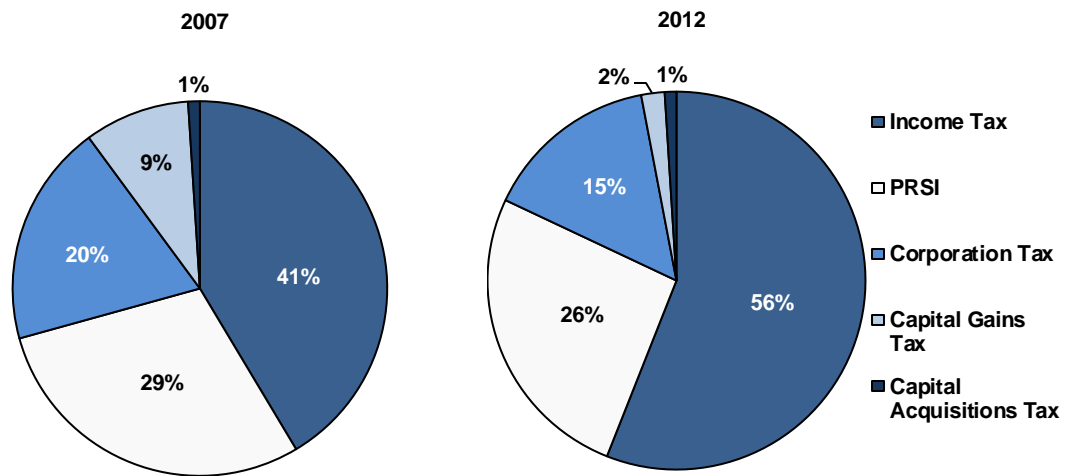
- 23.4** Direct taxes are taxes on personal income, the profits earned by companies and capital gains. Indirect taxes principally comprise transaction taxes and taxes on certain imports.

Direct Taxes and PRSI

- 23.5** Direct taxes comprise mainly Income Tax, Corporation Tax, Capital Gains Tax and Capital Acquisitions Tax.¹ While not an Exchequer tax, PRSI is also a direct charge on income and is included in this analysis as a direct tax. Trends in the amounts collected under these headings are shown in Figure 23.2.

¹ The OECD defines direct taxes as those taxes imposed on income, capital gains and net worth. Gift tax, death duties and property tax are also considered direct taxes.

Figure 23.2 Direct Exchequer tax and PRSI revenue, 2007 to 2012



Source: Accounts of the Receipt of Revenue of the State 2007 to 2012

Income Tax and PRSI

23.6 In 2012, Income Tax and PRSI accounted for 82% of all direct taxes and PRSI, up from 70% in 2007.

Income Tax

23.7 In 2012, Income Tax accounted for just over half of all direct taxes and PRSI collected. Receipts declined steadily between 2008 and 2010 before increasing in 2011 following the introduction of the Universal Social Charge (USC). Receipts increased by a further net €1.3 billion between 2011 and 2012. The change was mainly attributable to

- An increase of €676 million to €3.8 billion in the amount collected for the USC. This accounted for almost 25% of all income tax receipts in 2012. In 2011, the first €4,004 of income was exempt from USC. From 2012, USC at the rate of 2% was applied to this income. Another cause of the increase was that in 2011, just 11 months of USC was collected while in 2012 a full year's revenue was collected.

- PAYE receipts increased by €562 million, or 7%, to €9.1 billion - 60% of all income tax receipts.
- An additional €108 million, or 23%, was collected in respect of Deposit Interest Retention Tax. An increase of 3% in the rates applied, from 27% to 30%, accounted for just under half the additional amount collected.
- The amount collected in respect of Dividend Withholding Tax increased by €81.6 million, or 71%, to €196 million.
- The amount collected in respect of some taxes fell. The most significant of these was a drop of €139 million in respect of the Income Levy to €45 million. The levy was abolished in January 2011 and the amounts collected in 2012 were attributable to the non-PAYE sector making payments in respect of earlier years.

Pay Related Social Insurance

23.8 In 2012, there was a continuing decline in the amount of PRSI collected which decreased by €776 million, or almost 10%, to €7.1 billion. This followed a decrease of €1.3 billion in 2011.

23.9 The fall in the amount of PRSI collected in 2011 arose mainly from the abolition of the health levy. This had previously been collected by Revenue as part of PRSI and paid over to the Social Insurance Fund and then on to the Health Service Executive. The Social Insurance Fund received €1.9 billion in respect of the health levy in 2010 falling to €115 million in 2011. The effect of the abolition of the levy was partially offset by increases arising from changes in the PRSI rates and rules introduced in the 2011 budget.

Corporation Tax

23.10 In 2012, the State collected €4.2 billion in Corporation Tax, an increase of 20% from the 2011 figure. €251 million in Corporation Tax payments received at the end of December 2011 were not transferred to the Exchequer until early January 2012. When this receipt is attributed to 2011, the underlying increase in Corporation Tax receipts from 2011 to 2012 is just under 6% (the data in Figure 23.2 have been adjusted to reflect the re-allocation of this payment to 2011).

23.11 Corporation Tax accounted for 21% of direct tax receipts in 2012. Receipts have remained relatively stable since 2009 following an overall decline of around 40% between 2007 and 2009.

Capital Taxes

23.12 Capital Gains Tax (€413 million) and Capital Acquisitions Tax (€283 million) accounted for the balance (around 4%) of direct taxes collected in 2012. The rate for both taxes was increased from 25% to 30% in Budget 2012.

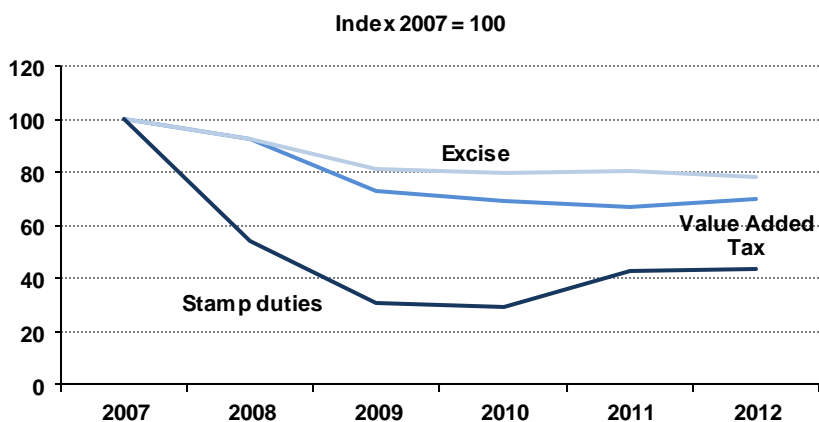
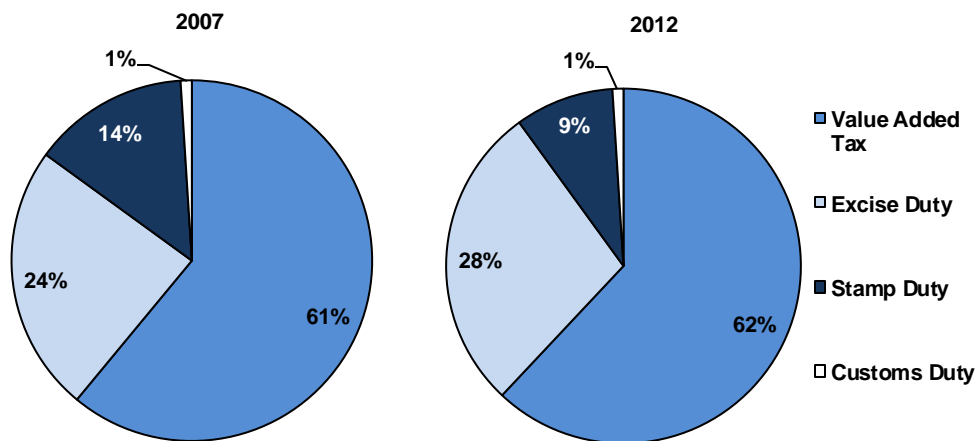
23.13 In 2007, receipts from Capital Gains Tax represented 9% of all direct taxes collected. By 2012, this had fallen to just over 2%. Notwithstanding the increase in the tax rate in 2012, the amount collected in 2012 was marginally lower than in 2011.

23.14 The amount collected in Capital Acquisitions Tax has represented around 1.5% of all direct taxes each year since 2008. The amount collected increased by €39 million, or 16%, to €283 million in 2012 when compared to 2011.

Indirect Taxes

23.15 The three principal indirect taxes are Value Added Tax (VAT), Stamp Duty and Excise Duties.¹ In 2012, these taxes accounted for over 98% of indirect taxes collected. Customs Duty represented the balance. Trends in the amounts collected over the period 2007 to 2012 are set out in Figure 23.3.

Figure 23.3 Indirect Exchequer tax revenue, 2007 to 2012



Source: Accounts of the Receipt of the Revenue of the State 2007 to 2012

23.16 The largest element of indirect taxes is VAT which accounted for 62% of indirect taxes in 2012. There were a number of changes to VAT rates in the 2012 budget, the most significant of which was an increase of 2% in the standard rate. The amount of VAT collected in 2012 increased by €414 million to €10.2 billion when compared to 2011.

23.17 Excise duties amounted to €4.6 billion in 2012 - around 28% of indirect taxes. The amount collected in 2012 was around 2% lower than in 2011.

¹ The OECD defines indirect tax as tax imposed on certain transactions, goods or events. Examples include VAT, excise duties and stamp duty.

23.18 Stamp duty receipts increased by 3% in 2012 to just over €1.4 billion. The main changes in 2012 were

- An increase of €90 million, or 26%, in the health insurance levy to €437 million. The levy, which is applicable to health insurance contracts, was increased in 2012 by 39% to €285 for each insured person aged 18 or over and by 44% to €95 for each insured person aged under 18.
- The amount collected through the levy of 0.6% of the value of assets under the management of pension schemes increased by €20 million to €483 million.

Insurance Fund Compensation Levy

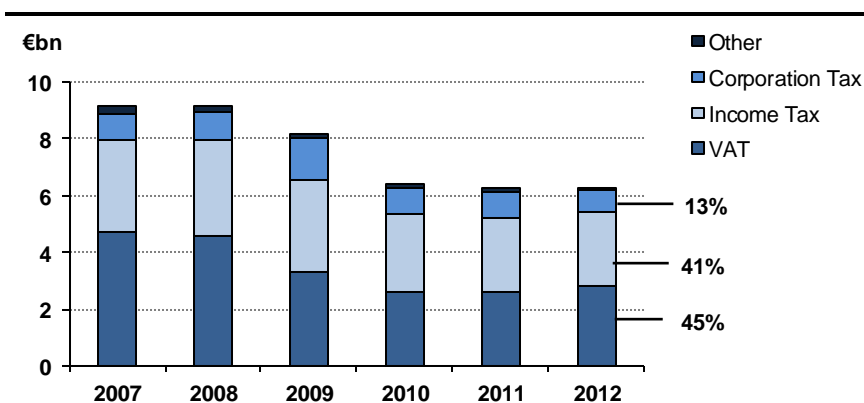
23.19 In 2012, €46 million was collected in respect of the Insurance Fund Compensation Levy on behalf of the Insurance Compensation Fund. The Central Bank has responsibility under the Insurance Act, 1964 (as amended) for determining whether the Insurance Compensation Fund requires financial support and the level of contribution to be paid to the Fund by insurers. It set the levy, which applies to the gross premiums paid to insurers for policies issued in respect of risks in the State at the maximum level of 2% permitted under the Insurance Act. The levy was introduced in January 2012. The levy is collected quarterly in arrears, therefore the amount collected represents receipts for nine months.

Tax Refunds and Repayments

23.20 Entitlement to tax refunds and repayments is statutorily underpinned.¹ 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.

23.21 A total of €6.3 billion was repaid to taxpayers in 2012 — the same as in 2011. Tax repayments for the years from 2007 to 2012 are set out in Figure 23.4.

Figure 23.4 Repayments by Revenue, 2007 to 2012



Source: Accounts of the Receipt of Revenue of the State 2007 to 2012

Note: Other includes Stamp Duty, Capital Gains Tax, Capital Acquisitions Tax and Customs Duties

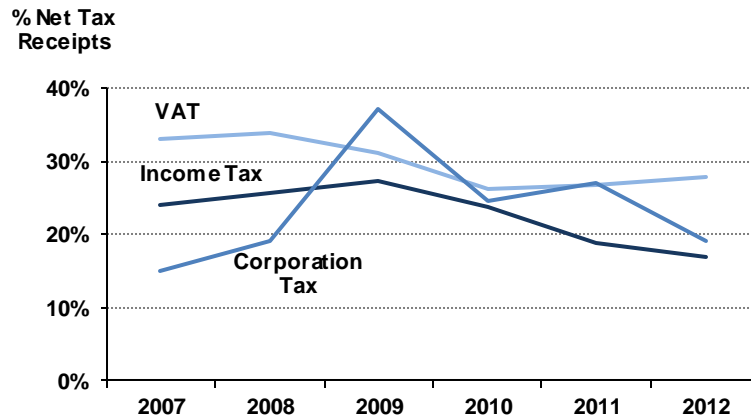
23.22 Three taxes accounted for 99% of repayments in 2012

- repayments in respect of VAT of €2.8 billion
- €2.6 billion of Income Tax repayments
- €800 million of Corporation Tax repayments.

¹ Section 865, Taxes Consolidation Act 1997.

- 23.23** Overall, repayments in 2012 amounted to 17% of net taxes and duties collected (2011: 18%). The trends in repayments for VAT, Income Tax and Corporation Tax are shown in Figure 23.5. The trend, since 2009, of a fall in repayments as a proportion of net receipts continued for both Income Tax and Corporation Tax.

Figure 23.5 Repayments by Revenue as proportion of net tax yields, 2007 to 2012



Source: Accounts of the Receipt of Revenue of the State 2007 to 2012

Tax and National Output

- 23.24** In 2012, net receipts collected by Revenue as a proportion of Gross Domestic Product (GDP)¹ was 26.7%, an increase of around 0.8% when compared with 2011 (see Figure 23.6). This reversed the trend from 2008 to 2011 when net receipts as a proportion of GDP fell each year.

Figure 23.6 Amounts collected by Revenue and GDP, 2008 – 2012

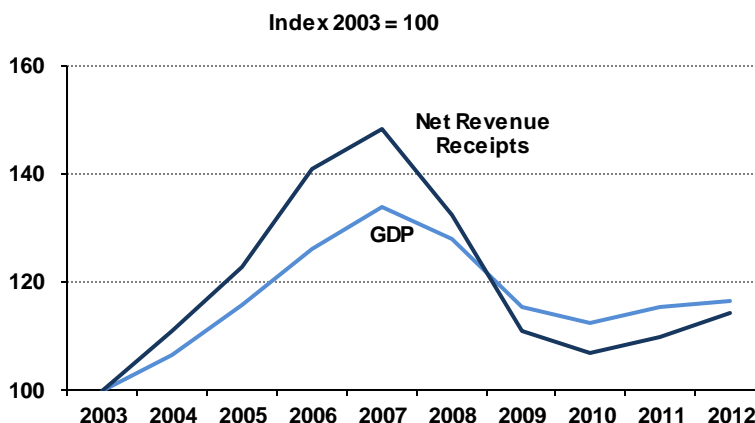
	Gross Domestic Product (current prices)	Net receipts collected by Revenue ^a	Receipts as a % of GDP
	€m	€m	
2008	180,249	50,812	28.2%
2009	162,284	42,514	26.2%
2010	158,097	41,053	26.0%
2011	162,600	42,100	25.9%
2012	163,938	43,806	26.7%

Source: Central Statistics Office Quarterly National Accounts, Quarter 1 2013. Accounts of the Receipt of Revenue of the State 2008 to 2012.

Note: a Includes net tax receipts, PRSI and other charges.

- 23.25** Figure 23.7 shows the trends in net receipts and GDP from for the years from 2003 to 2012.

¹ 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 23.7 Index change in net tax receipts and GDP, 2003 to 2012

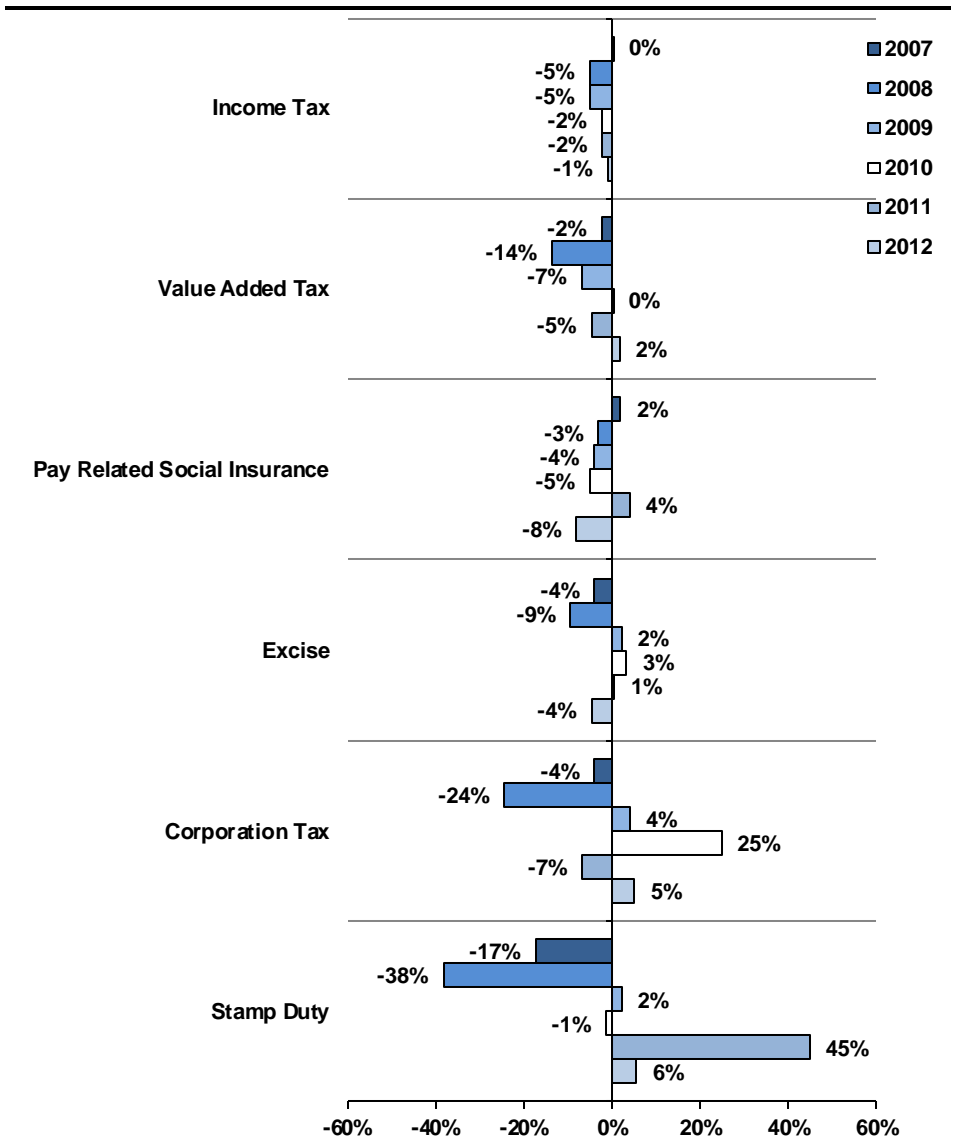
Analysis: Office of the Comptroller and Auditor General

- 23.26** In the period between 2003 and 2007, net tax receipts grew at a faster rate than GDP while between 2008 and 2010 the decline in tax receipts exceeded the fall in GDP. Over those three years, GDP fell by 12% while net tax receipts fell by 19%. Since 2011, that trend has reversed - in the two years to the end of 2012, GDP increased by around 3.7% while net tax receipts increased by 6.7%.
- 23.27** The Accounting Officer has previously pointed out that the tax yield from the construction and property sectors, which contribute to the investment component of GDP, is higher than in other sectors and the decline in these sectors largely contributed to the sharper decline in tax revenues when compared with the fall in GDP over the period 2008 to 2010.

Tax Forecasting

- 23.28** For Budget purposes, Exchequer tax receipt forecasts are prepared by the Department of Finance with the assistance of Revenue. Forecasting of tax receipts includes taking into account changes to tax rates, adjusting prior year receipts for once-off factors and estimating the growth in individual tax heads by reference to macroeconomic projections. Forecasts of PRSI receipts are prepared by the Department of Social Protection.
- 23.29** Overall, tax revenues in 2012 were 0.4% ahead of the levels forecast, while receipts from PRSI were around 8% below forecast. The differences between actual and forecast receipts each year from 2007 to 2012 are set out in Figure 23.8.

Figure 23.8 Exchequer tax revenue and PRSI compared to forecast, 2007 to 2012



Source: Accounts of the Receipt of Revenue of the State, Department of Finance Cumulative Profile of Expected Tax Revenue Profiles, Revised Estimates of Public Expenditure and Social Insurance Fund Accounts.

23.30 For the two largest taxheads, Income Tax and VAT, outturn was below forecast for most years in the period 2007 to 2012.

PRSI Receipts

23.31 The outturn for PRSI has varied significantly from forecast for all years from 2007 to 2012. It might be expected that there would be a correlation between the outturn when compared with forecast for Income Tax and PRSI. However, as Figure 23.8 shows, there has been a difference in the outturn against forecast for these two revenue sources over that period. In 2011, PRSI receipts were 4% above the forecast. By contrast, in 2012, PRSI receipts were 8% below the levels forecast. I asked the Accounting Officer for the Department of Social Protection (DSP) what had given rise to that variation.

Views of the Accounting Officer of the Department of Social Protection

- 23.32** The Accounting Officer has pointed out that there were a total of 17 changes affecting PRSI receipts in Budget 2011, the 2011 Jobs Initiative and Budget 2012. These included the introduction of the Universal Social Charge (which is part of Income Tax) and the abolition of the Health Levy.
- 23.33** The Department prepared its projections of 2012 PRSI receipts on an 'existing level of service basis', and taking account of the emerging receipts outturn in 2011. This was adjusted to take account of the expected impact of Budget 2012 changes.
- 23.34** In early 2012, Revenue brought to the Department's attention an issue with the classification of PRSI and Income Tax in 2011. This came to light from the 2011 P35 forms, due for filing by end February 2012. Revenue's examination found that some employers had misclassified the 2011 Universal Social Charge deductions as PRSI. In addition, direct debit receipts in 2011 had been apportioned based on employers' last available P35 returns (for 2010 or earlier).
- 23.35** Following the Revenue analysis, the Department reduced its estimate of PRSI receipts for 2012 by €300 million. This was reflected in a revised estimate published in April 2012.
- 23.36** The Accounting Officer stated that the outturn for 2012 was 4.5% below forecast when compared to the revised estimate. She also noted that the PRSI measures introduced in the 2011 and 2012 budgets along with PRSI measures introduced in the Jobs initiative in 2011 were complex and interact with one another. She stated that it was not possible based on PRSI data contained in the P35 returns, to disaggregate the individual impact of these measures.

Conclusions and Recommendation

- 23.37** The net amount collected by Revenue in 2012 was 4% higher than in 2011. This followed a 2% increase in 2011. The overall increase masks a significant shift between PRSI and Income Tax receipts, following the introduction of the Universal Social Charge in 2011.
- 23.38** Net tax receipts in 2012 were 26.7% of Gross Domestic Product. This was 0.8% higher than in 2011. This increase reverses the trend from 2008 to 2011 when net receipts, as a proportion of GDP, were falling.
- 23.39** The accuracy of forecasting receipts from Income Tax, which is the highest yielding tax, has improved steadily since 2008. However, despite the expectation that there would be correlation between PRSI and Income Tax, PRSI receipts have been significantly different from the amount forecast. The Accounting Officer for the Department of Social Protection stated that the Department would continue to review its forecasting methodology and liaise with the Departments of Finance and Public Expenditure and Reform on the interpretation of relevant macro-economic information in order to ensure greater consistency in the approach to forecasting Income Tax and PRSI receipts.

Annex A Collection and Repayment of Revenue, 2008 to 2012

	2008	2009	2010	2011	2012	Change 2011 to 2012	
	€m	€m	€m	€m	€m	€m	
Gross amount collected	60,061	50,744	47,559	48,427	50,175	1,748	3.6%
Repayments of taxes and duties	(9,178)	(8,148)	(6,420)	(6,269)	(6,302)	33	0.5%
Repayments of other charges	(71)	(82)	(86)	(58)	(67)	9	15.5%
Net amount collected	50,812	42,514	41,053	42,100	43,806	1,706	4.1%
Of which							
Income Tax	13,195	11,839	11,265	13,814	15,151	1,337	9.7%
Corporation Tax	5,071	3,890	3,944	3,500	4,215	715	20.4%
Capital Gains Tax	1,424	544	345	416	413	(3)	(0.7%)
Capital Acquisitions Tax	343	256	237	244	283	39	16.0%
Total direct taxes	20,033	16,529	15,791	17,974	20,062		
Value Added Tax	13,432	10,638	10,102	9,752	10,166	414	4.2%
Excise	5,432	4,734	4,667	4,704	4,592	(112)	(2.4%)
Stamp duties	1,763	1,001	962	1,383	1,426	43	3.1%
Customs duties	245	208	229	240	242	2	0.8%
Total indirect taxes	20,872	16,581	15,960	16,079	16,426		
Exchequer Revenue	40,905	33,110	31,751	34,053	36,488	2,435	7.2%
Pay Related Social Insurance	9,707	9,207	9,110	7,857	7,081	(776)	(9.9%)
Tobacco Levy	168	168	168	168	168	0	0.0%
Insurance Compensation Fund Levy	—	—	—	—	46	46	100.0%
Environmental Levy	26	24	19	16	14	(2)	(12.5%)
Other	6	5	5	6	9	3	50.0%
Non Exchequer Revenue	9,907	9,404	9,302	8,047	7,318	(729)	(9.1%)

Source: Accounts of the Receipt of the Revenue of the State, 2008 to 2012