20 Corporation Tax Receipts

20.1 Corporation tax is a direct tax chargeable on a company's profits and collected by the Revenue Commissioners (Revenue). The tax is charged on profits (income and gains), wherever arising, of companies resident in the State, with some exceptions. Companies that are not resident but who trade in the State through a branch or agency are subject to corporation tax in respect of profits attributable to the branch or agency.[1]

20.2 Companies operating in Ireland are charged a statutory rate of 12.5% tax on trading profits. A rate of 25% applies to rental income, income from certain land dealings and oil, gas and mineral exploitation, and profits from non-trading (passive) income such as investment income. Certain capital gains are taxable at a rate of 33%.[2]

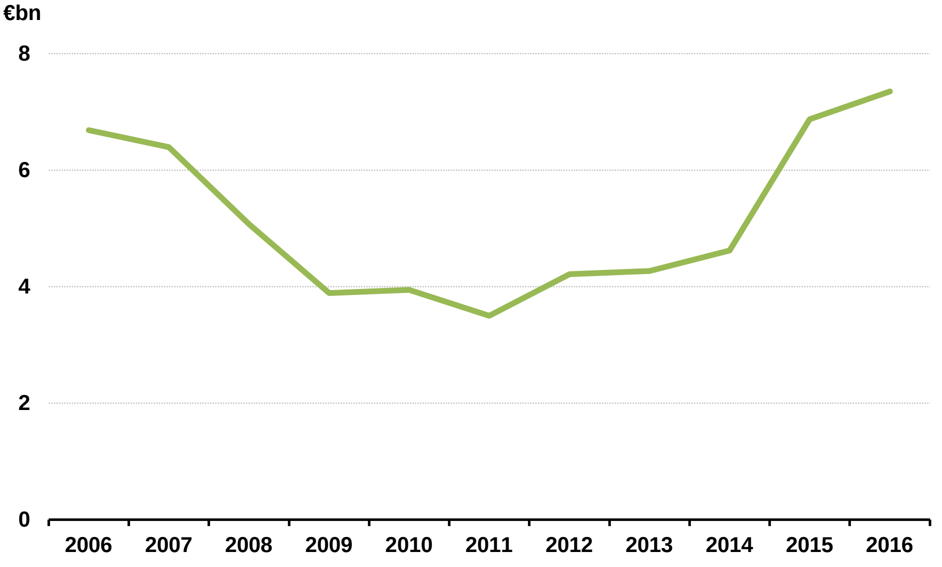
20.3 Corporation tax receipts accounted for 15% of the total tax receipts in 2016.

20.4 Corporation tax receipts have displayed volatility in recent years. This examination was conducted to review the factors contributing to this volatility at a sectoral level and at a national level.

Trends in corporation tax receipts

20.5 Figure 20.1 indicates net corporation tax receipts for the period 2006 to 2016.

Figure 20.1 Net corporation tax receipts, 2006 to 2016[a]



Source: Revenue Commissioners

Note: a Net corporation tax receipts are gross corporation tax receipts less corporation tax repayments in the year.

1 Companies incorporated in Ireland are regarded as tax resident unless they are treated as resident in a treaty partner country by virtue of a double taxation treaty. A company that is incorporated in a foreign country and is centrally managed and controlled in Ireland will be resident for tax purposes in Ireland.

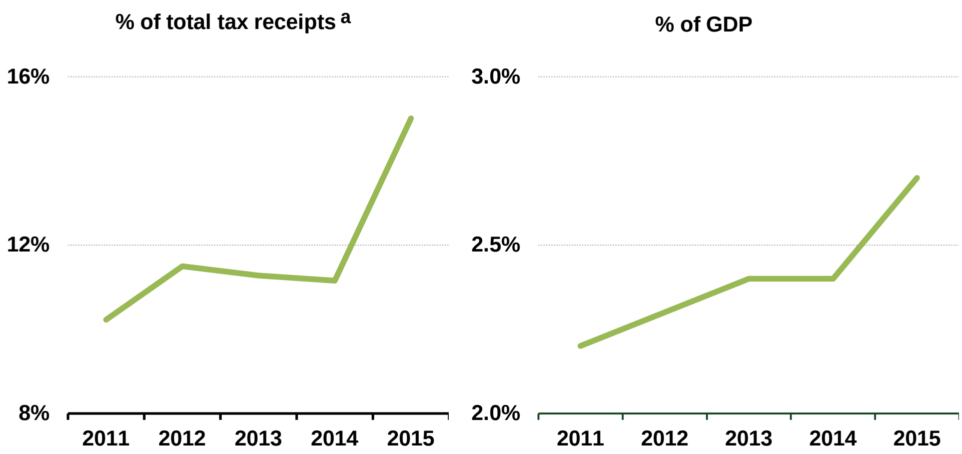
2 A company can make a capital gain from selling or transferring an asset. Corporation tax is chargeable on a capital gain made by a company (other than a gain on development land which is subject to capital gains tax).

20.6 Corporation tax receipts in 2011 amounted to €3.5 billion. By 2015, corporation tax receipts of €6.9 billion exceeded the pre-recession peak (€6.7 billion in 2006) for the first time. 2015 was exceptional, with a year–on–year increase of 49%. €7.35 billion was collected in 2016, an historic high for corporation tax. The forecast for 2017 is €7.7 billion, which if achieved, represents almost 5% more than 2016 receipts.

20.7 Corporation tax was the third largest tax receipt in 2015, representing 15% of total tax receipts. This can be contrasted to 2011 when corporation tax receipts accounted for just 10% of total tax receipts (see Figure 20.2).

20.8 Ireland's corporation tax as a percentage of total taxation was the seventh highest of the 28 member states of the EU in 2014 and the sixth highest of OECD countries in 2015.[1,2] Over the period 2011 to 2015, corporation tax receipts as a percentage of GDP have increased from 2.2% to 2.7%. In each of those years, Ireland's corporation tax receipts as a percentage of GDP was within three-quarters of a percentage point of the OECD average even though Ireland's corporation tax rate was the lowest in the OECD over the same period.[3]

Figure 20.2 Corporation tax receipts as a percentage of total tax receipts and as a percentage of GDP, 2011 to 2015



Source: Revenue Commissioners and OECD revenue statistics. Analysis of corporation tax receipts as a percentage of total tax receipts by Office of the Comptroller and Auditor General.

Note: a Tax receipts figures are on a net basis — gross tax receipts less tax repayments in the year.

1 *Taxation Trends in the European Union*, 2016 edition, Taxation and Customs Union.

2 https://stats.oecd.org. For 2015, data was available for 30 of the 35 countries.

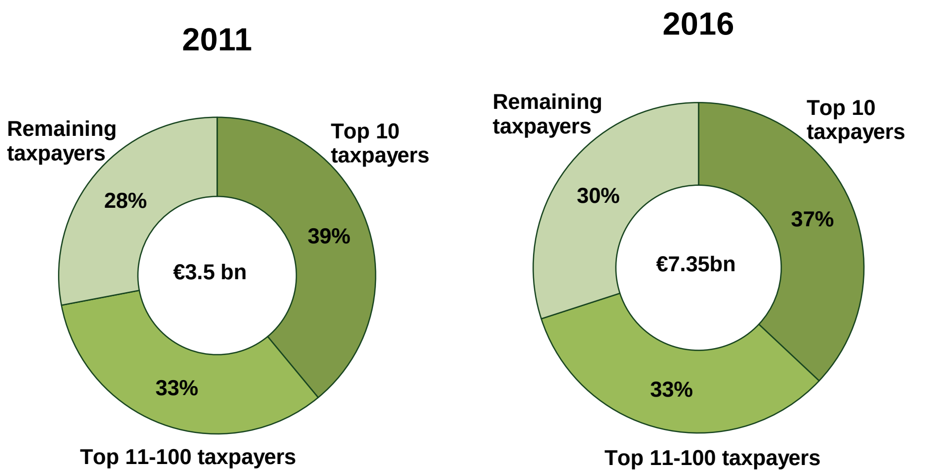
3 OECD published combined corporate income tax rates.

Concentration of corporation tax

20.9 Corporation tax in Ireland applies to a broad base of companies. In 2016, corporation tax was paid by over 44,000 taxpayers, but receipts were dominated by a small number of taxpayers, mainly multi-national enterprises (MNEs).[1] 37% of 2016 corporation tax receipts were paid by the top 10 taxpayers, and 70% by the top 100 taxpayers (see Figure 20.3).[2] By comparison, around 7,000 companies in the UK − accounting for just under 1% of all companies paying corporation tax − are responsible for the payment of 54% of all corporation tax collected in 2015-16.[3]

20.10 The Department of Finance has pointed out that reliance on a small cohort of large corporation taxpayers is a risk that needs to be carefully managed.[4]

Figure 20.3 Concentration of corporation tax receipts, 2011 and 2016[a]



Source: Revenue Commissioners

Note: a Percentages are net corporation tax receipts for each year.

Sectoral trends in corporation tax receipts

20.11 Figure 20.4 shows corporation tax receipts by NACE (sector of activity) code over the period 2011 to 2016.[5]

1 *An analysis of 2015 corporation tax returns and 2016 payments,* Revenue Commissioners, April 2017.

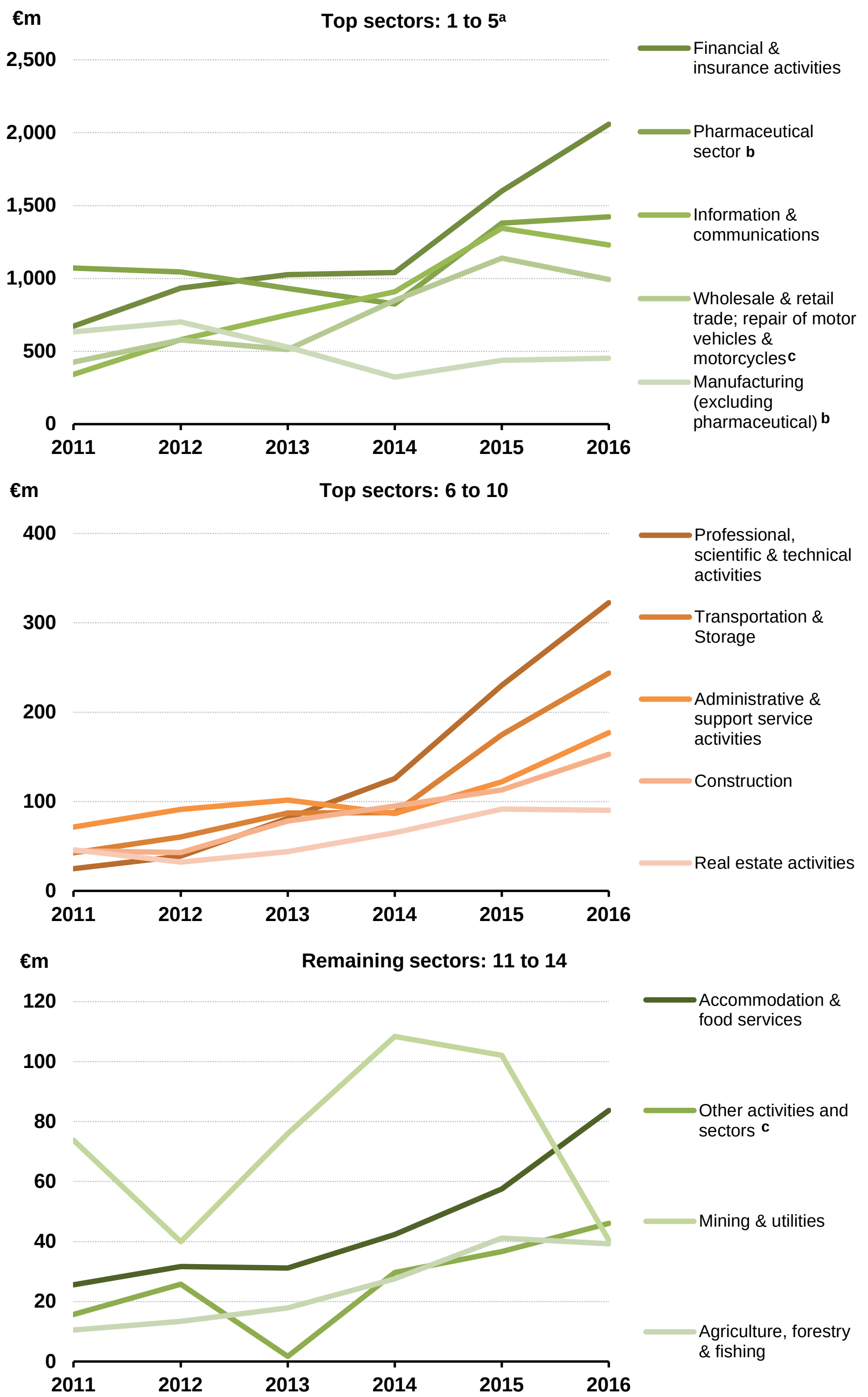
2 Movement of individual taxpayers in and out of the top 10 and top 100 taxpayers will occur over time.

3 *Corporation Tax Statistics 2017* — HM Revenue and Customs.

4 *Economic Impact Assessment of Ireland's Corporation Tax Policy: Summary Research Findings and Policy Conclusions*, October 2014, Department of Finance.

5 NACE is a statistical classification of economic activities developed in the EU.

Figure 20.4 Trends in corporation tax receipts by sector of activity, 2011 to 2016



Source: Revenue Commissioners

Notes:

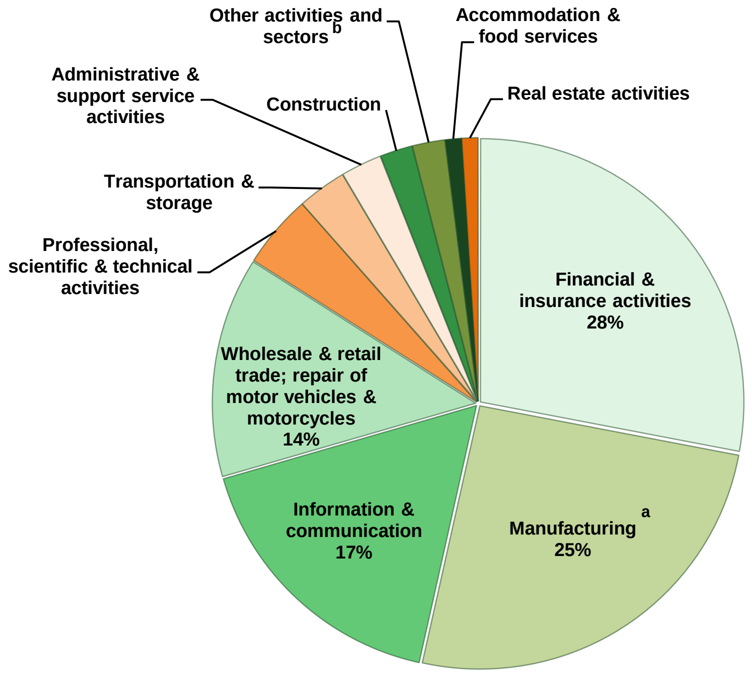
a Ranking is based on 2016 data.

b The manufacturing sector generally includes pharmaceutical manufacturing. However, the NACE codes relating to pharmaceutical manufacturing have been extracted and shown separately for the above analysis.

c Other activities and sectors comprises public administration and defence; education; human health and social work activities; and other activities and sectors.

20.12 Three sectoral categories account for 70% of the total corporation tax receipts. These are financial and insurance activities; manufacturing (including pharmaceutical manufacturing); and information and communications. These three sectors are dominated by MNEs. When the wholesale and retail trade sector is considered along with these three sectors, 84% of total corporation tax receipts in 2016 originate from four sectors of the economy (see Figure 20.5 below).

Figure 20.5 Corporation tax receipts by sector, 2016



Source: Revenue Commissioners

Notes:
a 76% of the corporation tax receipts from the manufacturing sector comprise pharmaceutical manufacturing.

b Other activities and sectors comprises public administration and defence; education; human health and social work activities; arts, entertainment and recreation, agriculture, forestry and fishing; mining and utilities; and other activities and sectors.

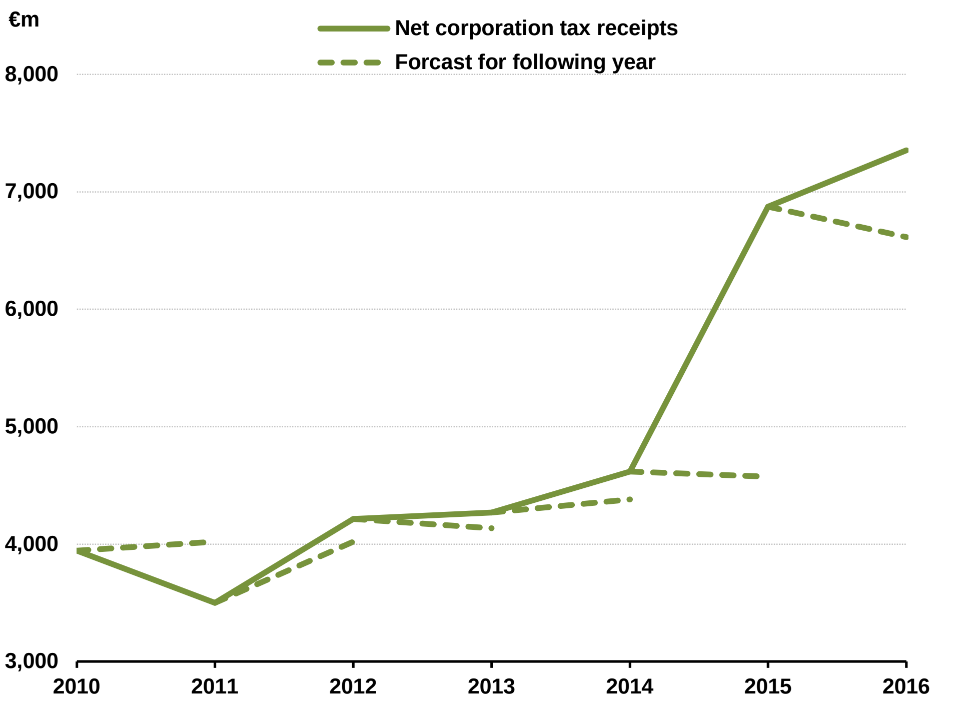
Forecasting corporation tax receipts

20.13 The accurate forecasting of tax revenue is a fundamental part of overall public sector budgeting. The Department of Finance has responsibility for the calculation and publication of tax forecasts each year, which is done with assistance from Revenue. Corporation tax receipts are by nature difficult to forecast, especially in economies such as Ireland, with both a concentration of tax receipts from a small number of taxpayers and a reliance on MNEs. This is because there is greater exposure to factors such as changes in group structure, currency fluctuations and market shocks.

20.14 Figure 20.6 sets out corporation tax forecasts compared to net receipts for the period 2010 to 2016. Significant variations are evident over this period. In 2011, corporation tax receipts were 13% below the forecast. The following year, almost 5% more was received than was forecast. In 2015, corporation tax receipts were 50% higher than had been anticipated. 2016 receipts were 11% greater than the forecasted amount.

20.15 The Department of Finance uses gross operating surplus (taken from the National Accounts) together with information derived from Revenue's Large Cases Division to forecast corporation tax. In 2016, the Irish Fiscal Advisory Council tested a number of alternatives to the Department's approach and concluded that nominal GDP appears to be a slightly better predictor of receipts.[1,2]

Figure 20.6 Corporation tax receipts compared to forecasts, 2010 to 2016



Source: Revenue Commissioners (net corporation tax receipts) and Department of Finance tax profiles 2011 to 2016.

1 *Challenges forecasting Irish corporation tax*: Irish Fiscal Advisory Council – September 2016.

2 The Department of Finance use nominal GDP as a secondary predictor of corporation tax receipts.

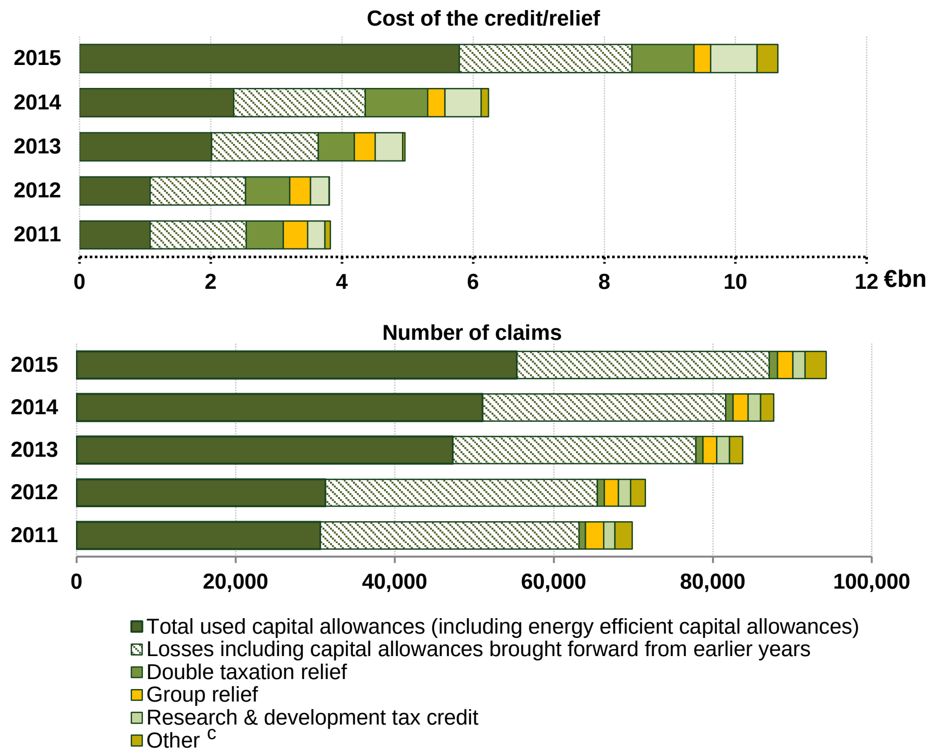
Credits and reliefs

20.16 The corporation tax code includes a number of tax expenditures in the form of tax reliefs and tax credits, which if applicable, have the effect of reducing the tax liability of a company. Generally, such reliefs and credits are designed with certain policy objectives in mind. Figure 20.7 shows the tax credits and reliefs pertaining to corporation tax, including both the number of claims and the cost over the period 2011 to 2015.

20.17 For the years 2011 and 2012, the utilisation of losses brought forward accounted for the largest expenditures at almost €1.5 billion in each of the two years. For the period 2013 to 2015, capital allowances accounted for the largest category of credits and reliefs available in each year. In 2015, capital allowances accounted for 54% of the overall cost of credits and reliefs at €5.8 billion, with losses brought forward accounting for 25%. Relief for double taxation was the third highest cost in 2015 at €948 million.

20.18 The cost of capital allowances increased from €2.4 billion in 2014 to €5.8 billion in 2015, an increase of almost 150%. This increase is consistent with increases in productive capital stock in 2015. The number of claims associated with capital allowances only increased by 8%. The cost of the research and development tax credit also increased significantly from €553 million in 2014 to €708 million in 2015 (a 28% increase). The number of claims related to this tax credit decreased over the same period by 2%.

Figure 20.7 Corporation tax credits and reliefs by cost and number, 2011 to 2015[a,b]



Source: Revenue Commissioners

Notes:

a All figures are based on tax due in respect of assessments for each year and not on tax receipts within that year. The costs included are by reference to accounting periods which ended in the year shown.

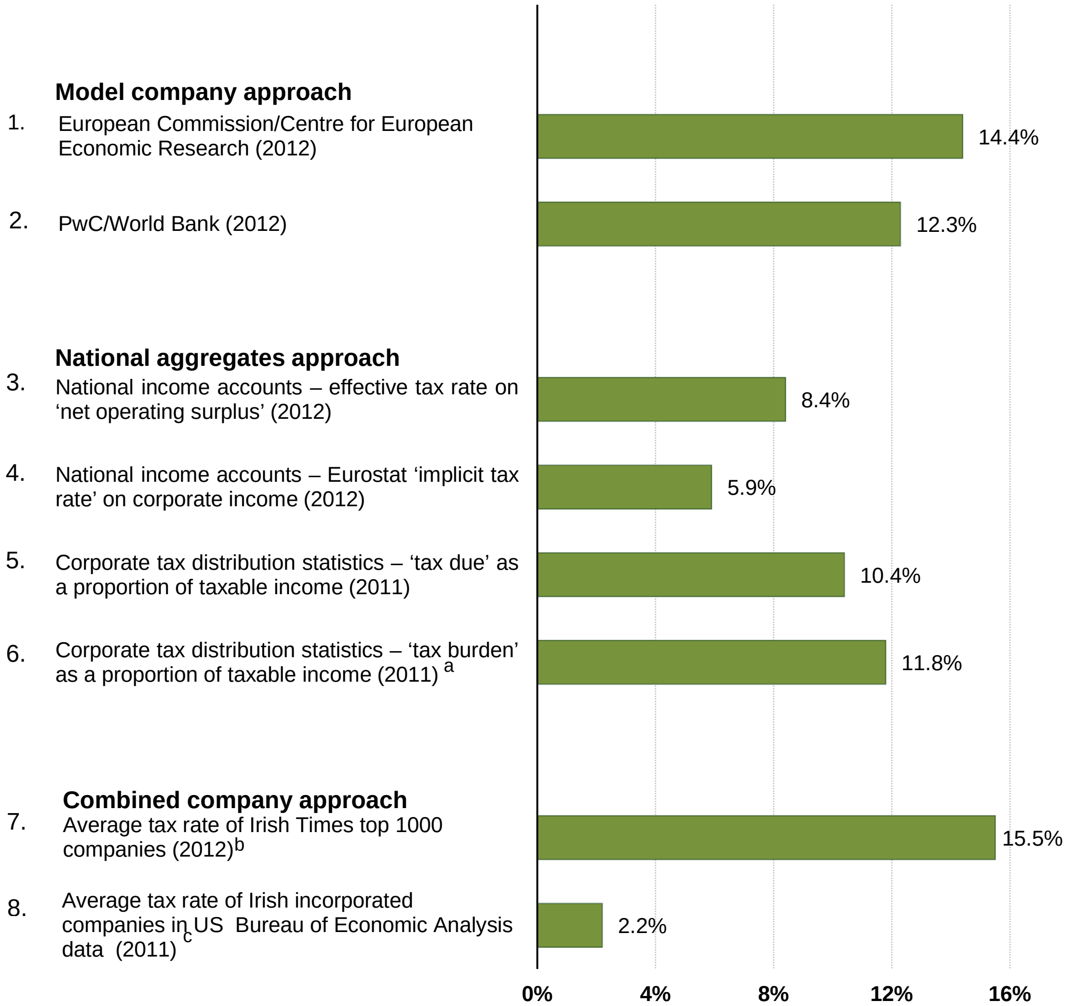
b A taxpayer can have claims in more than one category. For example, in 2015 there were just over 94,000 individual claims for reliefs and credits but there were just over 65,000 claimants.

c Other comprises effective rate of 10% for manufacturing and certain other activities (only in 2011), foreign earnings deduction, additional foreign credit, relief on donations, film relief and start-up relief.

Effective rates of corporation tax

20.19 The effective rate of corporation tax paid by a company may differ from the statutory rate due to the impact of allowable reliefs.[1] A 2014 report produced by the Department of Finance identified eight approaches for calculating the effective rate on company profits.[2] The various approaches are outlined in Figure 20.8.

Figure 20.8 Selected effective corporation tax rates attributed to Ireland – identified by the Department of Finance



Source Department of Finance

Notes:

a This is before the deduction of double taxation relief for corporation tax paid on that income in other jurisdictions.

b Profits earned and taxes paid outside of Ireland are included in this approach.

c This approach uses data from US-owned Irish-incorporated subsidiaries collected by the Bureau of Economic Analysis, which is the federal economics statistics agency in the United States. Data used in this approach includes financial data from their operations everywhere, not just in Ireland. As such it is not necessarily reflective of their operating activities in Ireland or corporation tax paid in Ireland.

1 Annex 20A presents illustrative cases of how the effective rate may differ from the standard tax rate.

2 *Effective Rates of Corporation Tax in Ireland: Technical Paper*, April 2014, Department of Finance.

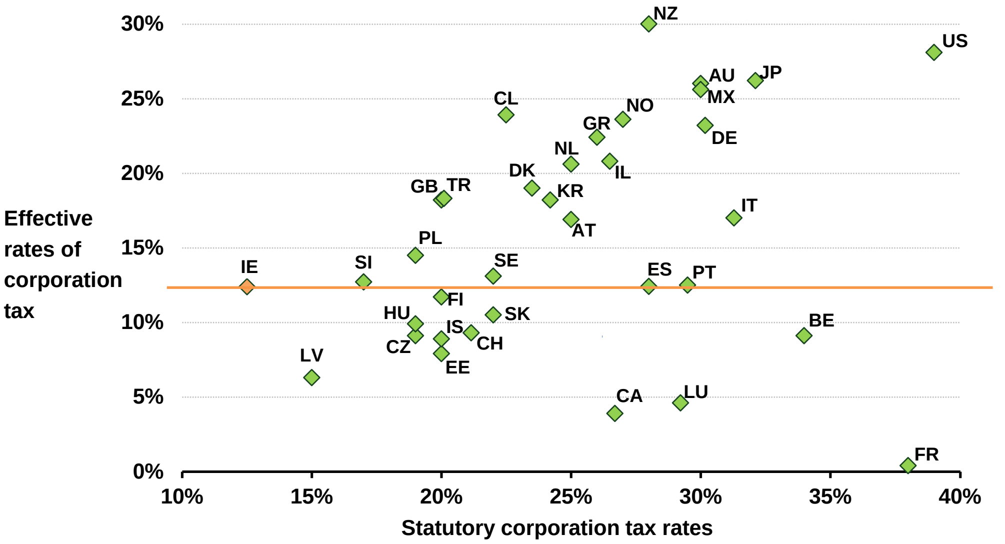
20.20 The eight approaches considered by the Department of Finance resulted in estimated effective rates ranging from 2.2% to 15.5%.[1] While the paper notes that there is no single best measure of the effective rate, two of the approaches are identified as the most appropriate to measure the effective rate of Irish corporation tax on the total profits that are subject to Irish tax. These are

- Effective tax rate on 'net operating surplus' (option 3) — taxes on the income or profits of corporations divided by net operating surplus, both taken from the national accounts, provide an overall effective tax rate
- 'Tax due' as a proportion of taxable income (option 5) — these figures are obtained from Revenue's Corporation Tax Distribution Statistics.

International comparison

20.21 When comparing corporation tax rates across countries, the effective tax rate provides a better means of comparison than the statutory rate, as it reflects tax actually paid. Figure 20.9 compares the statutory rate of corporation tax with the effective rate for OECD countries for 2015, using a 'model company' approach (option 2) for estimating the effective tax rate on profits.[2]

Figure 20.9 International comparison of statutory rates of corporation tax compared to effective rates of corporation tax, for OECD countries for 2015



Source: Statutory corporation tax rates for 2015 sourced from OECD. Effective corporation tax rates sourced from *Paying Taxes 2017* PwC and World Bank Group.

Notes:

a Central government corporation income tax rate used with the exception of Belgium, Canada, France, Germany, Italy, Japan, Korea, Luxemburg, Portugal, Switzerland and the United States where the combined corporate income tax rate is used. This rate includes the sub-central government corporate income tax rate.

b The *Paying Taxes 2017* report uses a case study company to evaluate taxes paid by a medium sized company. The case study scenario is based upon a standardised set of financial statements with all items in the financial statements calculated as a fixed multiple of gross national income per capita for each economy. Other standard assumptions are also used. Data relates to 2015. The total tax rate is the total of all taxes borne as a percentage of commercial profit.

c The statutory corporation tax rate in France for 2015 was 33.33%. A rate of 38% was calculated by the OECD to take account of a temporary surtax applicable to large companies and a surcharge for companies with a turnover over a certain threshold.

d The statutory corporation tax rate in Portugal for 2015 was 21%. A rate of 29.5% was calculated by the OECD to take account of a surcharge on taxable profits above a certain threshold.

1 Effective rates can be higher than the standard statutory rate of 12.5% as well as lower. A tax rate of 12.5% is charged on trading profits. An effective rate higher than 12.5% is usually due to passive income charged at the 25% rate. In addition, some approaches take account of profits earned in other jurisdictions where higher corporation rates may apply.

2 *Paying Taxes 2017*, PwC and World Bank Group.

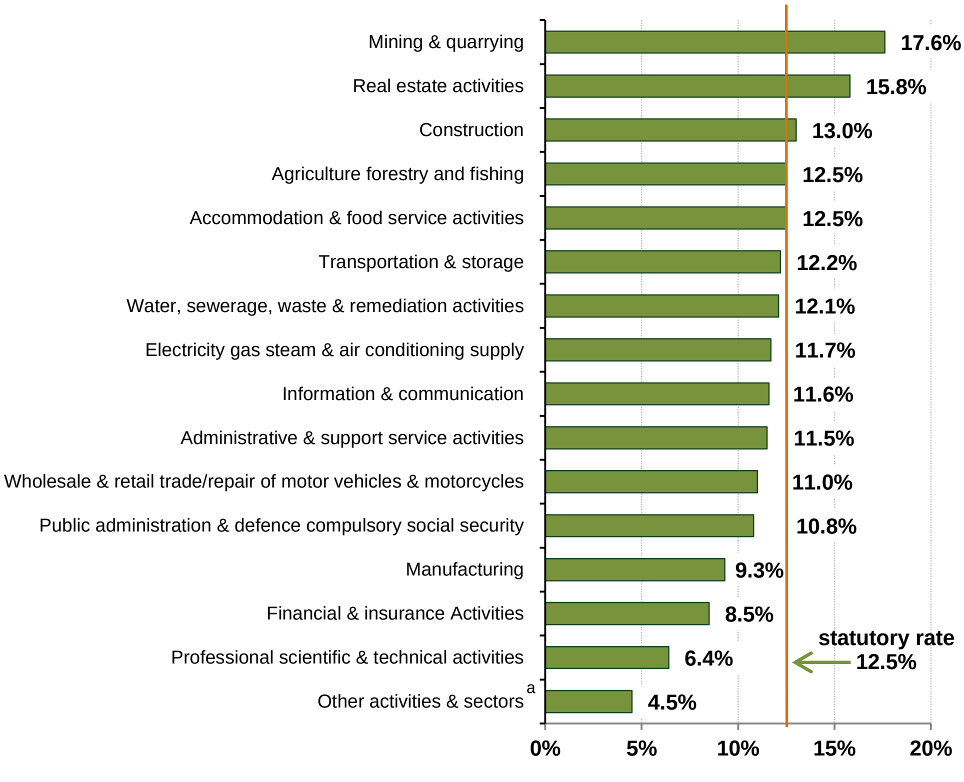
20.22 In 2015, Ireland had the lowest statutory rate of corporation tax of all OECD countries.[1] Based on the PwC/World Bank report, Ireland's estimated effective rate of corporation tax was 12.4%, which was just 0.1% below the statutory rate. 12 OECD countries had an effective rate of corporation tax which was lower than this; one had a rate which was equal; and 21 had an effective rate which was higher.

20.23 In 2015, the United States had the highest statutory rate of corporation tax in the OECD at 39%, coupled with the second highest effective rate of 28.1%. France had the second highest statutory rate at 38% but the lowest effective rate at just 0.4%. The OECD reported that for 2015, France's corporation tax as a percentage of total taxation was 4.6%.

Sectoral analysis of the effective tax rate

20.24 Revenue calculates the effective tax rate using the tax due as a proportion of taxable income approach, as set out in Figure 20.8 — option number 5. Figure 20.10 sets out the effective tax rate by NACE code in 2015.

Figure 20.10 Effective corporation tax rate by NACE code, 2015



Source: Revenue Commissioners

Note: a Other activities and sectors comprises education; human health and social work activities; arts, entertainment and recreation, activities of households as employers of domestic personnel; other services and activities; and unknown sectors. It accounts for 1.4% of total taxable income.

1 Based on the combined corporate tax rates from the OECD's 2015 revenue statistics.

20.25 The effective tax rate for all sectors in 2015 was 9.8%. The rate varied from 6.4% for the professional, scientific and technical activities sector to 17.6% for the mining and quarrying sector.

Effective corporation tax rates of the top 100 companies

20.26 In order to identify the effective rates of corporation tax for the 'top 100' companies, a method must be selected for ranking them. There are two main approaches to the ranking.

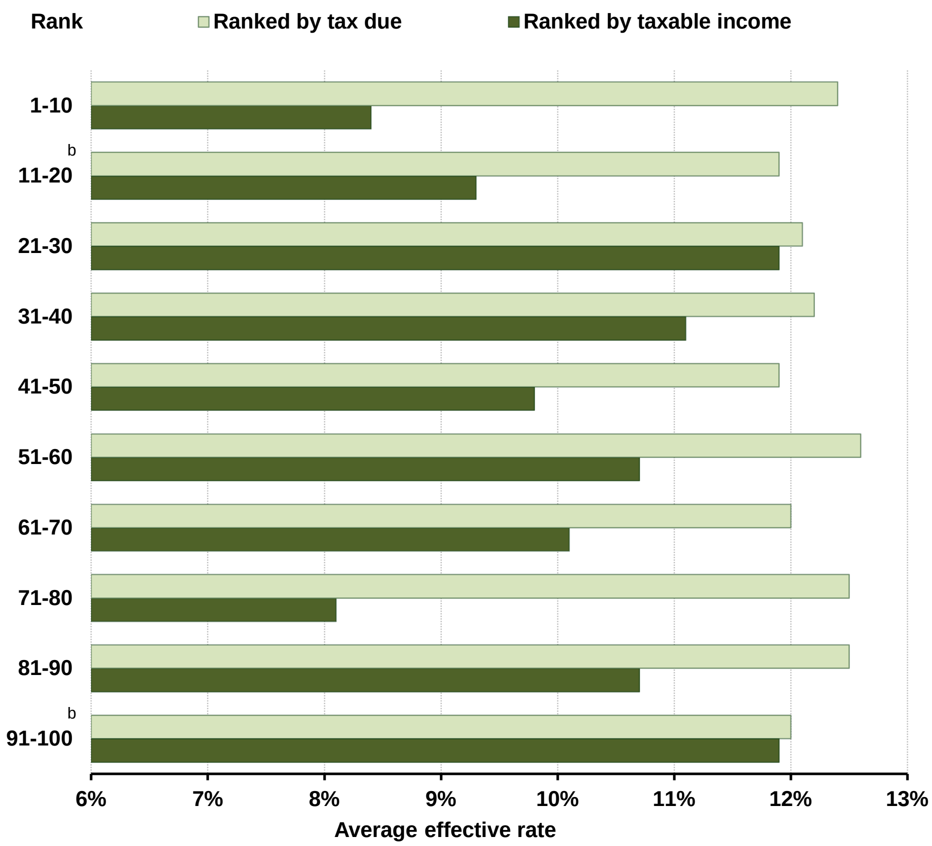
- Tax due — Tax due is determined based on taxable profits as set out in corporation tax returns, which are filed by reference to accounting periods. Ranking the top 100 companies by tax due generally results in a higher average effective rate because those companies with the highest tax liabilities are automatically included.
- Taxable income — Ranking companies in this way highlights companies with the highest taxable income in a given year but which do not necessarily have the highest corresponding tax liabilities, depending on tax credits and reliefs availed of.

20.27 There is overlap between the groupings. In 2015, 83 taxpayers were in the top 100 ranked by both tax due and taxable income. The average effective tax rate in 2015 for the top 100 companies ranked by tax due is 12.4%. This compares to an average effective tax rate of 9.3% when companies are ranked on the basis of taxable income.

20.28 Figure 20.11 presents the average effective corporation tax rate for the top 100 taxpayers for 2015, ranked by taxable income and by tax due. Taxpayers have been grouped in bands of ten to show the variances arising when companies are ranked using taxable income. While there is relatively little variation in the average effective rate between bands when companies are grouped on the basis of tax due, there is considerable variation when companies are ranked by the amount of taxable income.

Top 100 corporation taxpayers by tax due and taxable income — 2015

Figure 20.11 Top 100 corporation taxpayers — average effective corporation tax rate 2015 [a]



Source: Revenue Commissioners, with analysis by Office of the Comptroller and Auditor General.

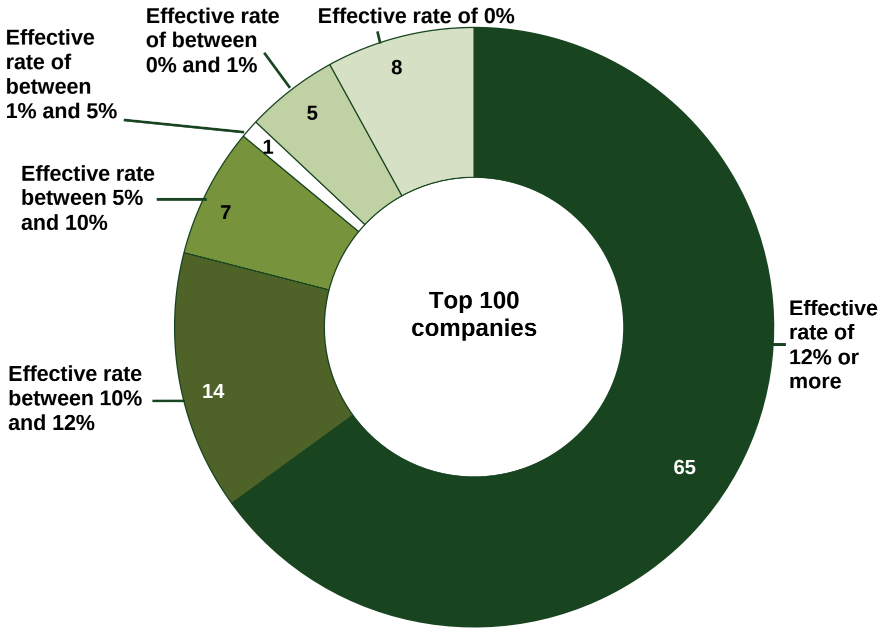
Notes: a 83 taxpayers are in the top 100 taxpayers ranked by both taxable income and ranked by tax due for 2015.

b One taxpayer has been excluded from this subset because the majority of tax due related to withholding tax under S.239 of the Taxes Consolidation Act 1997. In the absence of the withholding tax classified as tax due, the taxpayer would not come within the top 100 taxpayers ranked by tax due for 2015.

1 Of the 13 taxpayers with an effective rate of less than 1% for 2015, they had availed either of double taxation relief to offset Irish corporation tax or of the research and development tax credit or of both these reliefs. The other 43 taxpayers with an effective rate of less than 12.5% had also availed of various reliefs.

20.29 Even within the top 100 companies ranked by taxable income, the average effective tax rate masks significant variations. As indicated in Figure 20.12, 13 of the top 100 companies with the highest taxable income had an effective rate of less than 1%. 79 companies had effective tax rates of 10% or more, and almost two thirds had effective tax rates of 12% or more.[1]

Figure 20.12 Effective corporation tax rates of the top 100 taxpayers — 2015



Source: Revenue Commissioners, with analysis by Office of the Comptroller and Auditor General.

Notes: a Top 100 corporation taxpayers ranked by taxable income for 2015.

b The category of zero effective tax rate includes cases with negative effective tax rates.

Conclusions

20.30 Corporation tax receipts are subject to dramatic changes year-on-year, and have been difficult to forecast. Apart from economic trends, concentration of receipts among taxpayers affects the ability to produce accurate forecasts.

20.31 Corporation tax receipts are highly concentrated both in terms of sectors and by number of taxpayers. Three sectors of the economy account for around 70% of the total corporation tax receipts — financial and insurance activities; manufacturing (including pharmaceutical manufacturing); and information and communications. For 2016, 37% of corporation tax receipts were paid by the top 10 taxpayers and 70% by the top 100 taxpayers.

Effective rate of corporation tax

20.32 The effective rate of corporation tax allows for comparison of tax rates between countries. While Ireland had the lowest statutory rate of corporation tax in the OECD, a study by PwC and the World Bank showed that when looking at effective corporation tax rates, 12 OECD countries had a lower rate than Ireland.

20.33 The effective corporation tax rate also allows for useful comparisons between companies in Ireland. In 2015, the top 100 companies, ranked by taxable income, had a lower average effective corporation tax rate (9.3%) than the rate applying to all companies of 9.8%. This masks significant variations within the top 100 companies. While 79 of the top 100 companies had an effective corporation tax rate of between 10% and 15%, 13 had an effective rate of less than 1%. This reflects the use of significant tax credits and reliefs, in particular double taxation relief and research and development tax credits.

Annex 20A

Figure 20A.1 Illustration of impact of reliefs and credits on the effective tax rate paid

The table below shows how different circumstances can impact the effective tax rate for a company.

- Company A is an example of a company that pays an effective rate identical to the statutory 12.5% rate.
- Company B is an example of a start-up company involved in research and development work. A number of tax reliefs and tax credits have the effect of reducing the company's tax liability and therefore the effective rate of corporation tax charged, which in this instance is 5.8% − 6.7 percentage points lower than the statutory rate of 12.5%.
- Company C has rental income of €50,000 in addition to trading income. Non-trading income is charged at a rate of 25% and this, in combination with trading losses carried forward, results in an effective tax rate for the company of 17.1%.

Example: Impact of reliefs and credits on the effective tax rate paid

	Company A	Company B	Company C
Sales income (trading activity)	300,000	300,000	250,000
Less			
Salaries and wages	90,000	60,000	100,000
Materials	50,000	60,000	40,000
Research and development expenditure	—	20,000	—
Plant and machinery capital allowances[a]	—	6,250	—
Trading income	**160,000**	**153,750**	**110,000**
Less			
Trading losses forward from earlier years[b]	—	4,000	25,000
Taxable trading income	**160,000**	**149,750**	**85,000**
Rental income (non-trading activity)	—	—	50,000
Total taxable income	**160,000**	**149,750**	**135,000**
Tax payable[c]			
at 12.5%	20,000	18,719	10,625
at 25%	—	—	12,500
Start up relief[d]	—	(5,000)	—
Research and development tax credit[e]	—	(5,000)	—
Tax due	20,000	8,719	23,125
Effective tax rate (tax due/taxable income)	**12.5%**	**5.8%**	**17.1%**

Source: Office of the Comptroller and Auditor General

Notes:
a Capital allowances for the wear and tear of plant and machinery is calculated by reference to the cost of the assets and allowable expenditure may be written off over 8 years (12.5% per annum).
b Trading losses carried forward may only be offset against income from the same trade in a subsequent accounting period(s).
c Corporation tax is charged at 12.5% on trading income and 25% on non-trading income, such as investment income and rental income.
d Tax relief for start-up companies commencing a new trade is available. The relief is based on employers' PRSI contributions and is limited to €5,000 per employee up to a limit of €40,000 in any one period. Marginal relief is also available.
e The research and development tax credit is calculated at 25% of qualifying expenditure.