

Chapter 13

Revenue

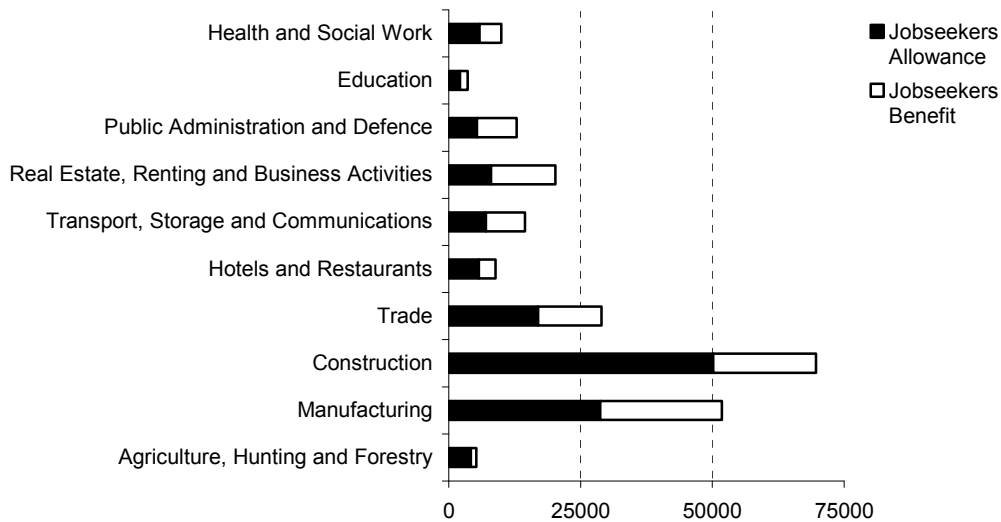
Collection Performance by Sector and Taxhead

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13.1 The net yield from tax and PRSI in 2009 was €42 billion. This represented a reduction of 25% (€14 billion) over the yield in 2007. A reduction in yield would be expected as a result of the severe contraction in output in the economy and the falls in prices. This is underscored by changes in some key indicators, including Gross National Product (GNP)¹⁰¹, jobseeker claimants, redundancies and energy consumption. GNP at current market prices fell by 18.5% over the period¹⁰².

13.2 The total number of claimants for jobseekers' allowance and jobseekers' benefit increased by 283,753 between 2007 and 2009 (an increase of 164,956 for jobseekers' allowance and 118,797 jobseekers' benefit claimants). The change in the composition of jobseeker claims in each economic sector is shown in Figure 56. This analysis is based on the occupation code assigned to claimants by the Department of Social Protection¹⁰³.

Figure 56 Net Increase in Jobseeker Claimants by Sector in the 24 months to December 2009^a



Note:

a Because the data is presented on a net basis, it does not capture those claimants who commenced and ceased claiming during the period. In addition, some of the increase in jobseekers' allowance claimants is likely to arise from those who had been claiming jobseekers' benefit.

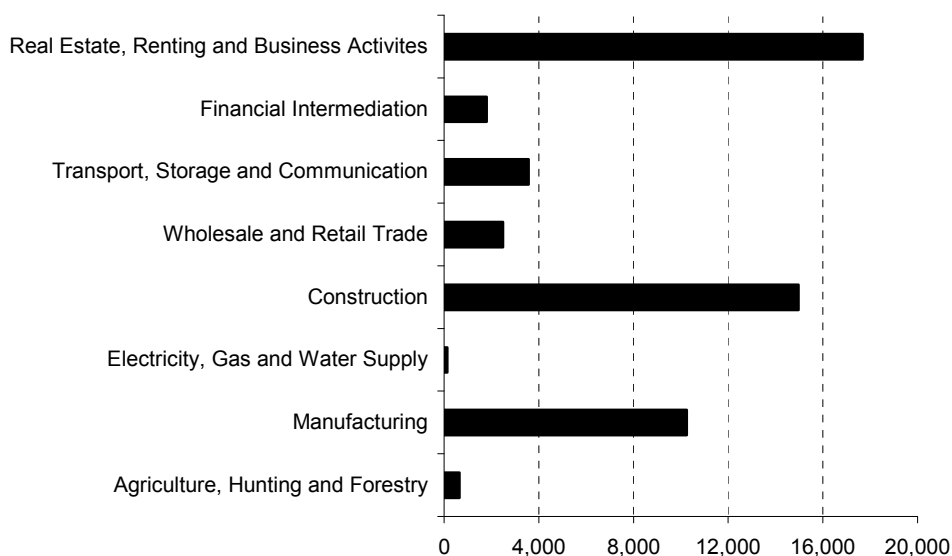
¹⁰¹ Gross National Product is the output produced by the factors of production owned by the residents of a country. It is distinguished from Gross Domestic Product which is the output produced by the factors of production located in a country regardless of the nationality of ownership.

¹⁰² **Quarterly National Accounts, Quarter 4 2009 and Year 2009 (preliminary), March 2010**, Central Statistics Office.

¹⁰³ The code assigned to each claimant is based on their most recent occupation and therefore may not represent that in which they are most skilled or spent most time employed in. The data was analysed and where possible the occupation codes were categorised by economic sector. Over 80% of the claimants were categorised in this way.

13.3 Redundancy claims received by the Department of Enterprise, Trade and Innovation in the same 24 months totalled 117,608¹⁰⁴. Figure 57 depicts changes in redundancies by sector for the three years 2007 to 2009.

Figure 57 Redundancies by Sector 2007 to 2009^a



Note:

- a Data from the Department of Enterprise, Trade and Innovation analyses redundancies by the industrial group of the enterprise where the employees were made redundant. The ten industrial groups have been redefined into eight to coincide with the economic sectors employed in this chapter.

13.4 The contraction in output in the economy was also evident in the reduction in energy consumption in the key productive sectors in 2008 as indicated in Figure 58.

Figure 58 Shares and Growth Rate of Total Final Energy Consumption by Sector, 2008

	Share in 2008	Growth in 2008
Industry	18.6%	- 5.4%
Transport	41.9%	- 1.3%
Residential	23.8%	+ 8.8%
Commercial/Public	13.5%	+ 6.9%
Agriculture	2.2%	- 0.4%
	100%	+ 1.2%

Source: Energy in Ireland 1990 – 2008, 2009 Report, Sustainable Energy Ireland.

13.5 As the figures for jobseeker claimants, redundancies and energy consumption show, the contraction in the economy did not bear equally on all sectors.

¹⁰⁴ Redundancy claims received in 2008 and 2009 include claims in respect of redundancies arising in earlier years. In addition, claims for redundancies arising in 2008 and 2009 may not be received until later years.

Chapter Focus

Based on the foregoing, it would be expected that taxes on business activity, profits and employment would decrease. The audit sought to examine the sectoral impact of the general downturn and in particular

- isolate sectoral performance outcomes
- examine the movements by tax type within sectors.

13.6 €1 billion of the reduction in yield of €4 billion is capable of being analysed on a sectoral basis. The balance is made up of a variety of taxes and levies which are separately reviewed at the end of this chapter.

Receipts 2007 to 2009 by Sector¹⁰⁵

13.7 A breakdown by sector is available for domestic VAT, PAYE, PRSI in respect of employees¹⁰⁶, Self-Assessed Income Tax, Corporation Tax and Capital Gains Tax¹⁰⁷. These accounted for 77% of total receipts of tax and PRSI in both 2007 and 2009. The composition of the tax for which sectoral data is available together with the change between 2007 and 2009 is set out in Figure 59.

Figure 59 Tax Proceeds by Taxhead for which Sectoral Analysis is Available, 2007 to 2009

Taxhead	2007	2009	Change 2007 to 2009 ^a	
	€m		€m	€m
Domestic VAT	12,978	9,628	(3,350)	(26%)
PAYE	10,155	8,488	(1,667)	(16%)
PRSI	8,947	8,911	(36)	(0.4%)
Self-Assessed Income Tax	2,309	987	(1,322)	(57%)
Corporation Tax	6,393	3,890	(2,503)	(39%)
Capital Gains Tax	3,097	544	(2,553)	(82%)
Total	43,879	32,448	(11,431)	(26%)

Note:

- a Changes introduced in Budget 2008 in relation to these taxes were estimated at the time of the Budget to have a net cost in 2008 in terms of reduced collection of about €700 million. The net additional yield in 2009 arising from the measures in relation to these taxes introduced in Budget 2009 and Supplementary Budget 2009 was estimated at around €3.5 billion.

¹⁰⁵ The sectoral analysis is an estimate of the yield by sector based on information in relation to the payments by each taxpayer contained in Revenue's Integrated Taxation Processing system.

¹⁰⁶ A breakdown by sector is not available for PRSI paid by self-employed persons.

¹⁰⁷ The income levy paid by PAYE employees and the self-employed, which was introduced from 1 January 2009, has been excluded from the sectoral analysis to provide more meaningful comparisons with collection in 2007 and 2008. The payments received by Revenue in respect of PAYE and self-assessed income tax on which this analysis is based include amounts in respect of the income levy which cannot be separately identified for each sector. Therefore, the levy has been deducted from the amounts allocated to each sector for these taxheads in the same proportion as total receipts for the taxheads, including the levy, are distributed across the sectors.

13.8 Without taking into account the effect of changes in the 2008 and 2009 budgets, there was an overall reduction for this element of tax of €1.4 billion or 26% in the yield in the two years ended on 31 December 2009. This is analysed by sector in Figure 60. Reductions were recorded in most sectors and these ranged from 90% (€739 million) in the case of the agriculture, hunting and forestry sector to 11% (€243 million) in the case of the transport, storage and communications sector.

Figure 60 Sectoral Tax Yield – Change 2007 to 2009^a

Sector	2007	2009	Change 2007 to 2009	
	€m	€m	€m	%
Construction	3,619	1,128	(2,491)	(69%)
Wholesale and Retail Trade	8,870	6,453	(2,417)	(27%)
Real Estate, Renting and Business Activities	7,740	5,503	(2,237)	(29%)
Manufacturing	5,823	4,663	(1,160)	(20%)
Financial Intermediation	4,515	3,525	(990)	(22%)
Agriculture, Hunting and Forestry	817	78	(739)	(90%)
Hotels and Restaurants	1,500	1,190	(310)	(21%)
Transport, Storage and Communications	2,197	1,954	(243)	(11%)
Mining and Quarrying	247	118	(129)	(52%)
Community, Social and Personal Services	1,148	959	(189)	(16%)
Fishing	15	10	(5)	(33%)
Activities of Households	11	7	(4)	(36%)
Extra-Territorial Organisations	4	5	1	25%
Electricity, Gas and Water Supply	541	544	3	1%
Education	587	670	83	14%
Health and Social Work	2,177	2,334	157	7%
Public Administration and Defence	2,632	3,011	379	14%
All Other Sectors/Unknown ^b	1,436	296	(1,140)	(79%)
All Sectors	43,879	32,448	(11,431)	(26%)

Notes:

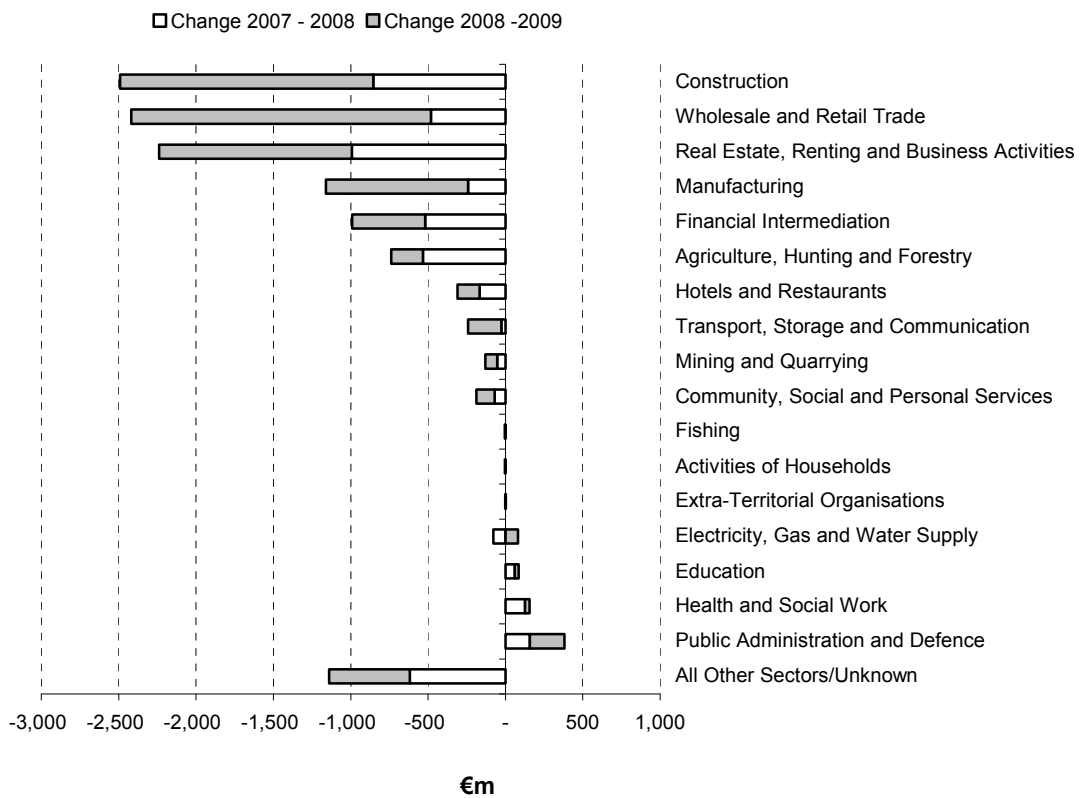
- a The allocation to sectors is based on NACE codes which are used in the European Union to classify economic activities for statistical purposes. The NACE code assigned to each tax registration is based on the primary economic activity undertaken by that registration. Revenue has pointed out that the allocation of NACE codes to taxpayers is not completely precise.
- b A considerable volume of tax collection is not assigned to a sector – the second largest drop in tax take in percentage terms from €1.4 billion in 2007 to €0.3 billion in 2009 was recorded here. The bulk of this drop related to capital gains tax which comprises two thirds of the total tax in this sector. It is likely that the high level of Capital Gains Tax allocated to the other/unknown sector is a result of payments of Capital Gains Tax by those who are not registered for other self-assessed taxes and have therefore not been allocated a sector code.

13.9 In absolute terms €8.3 billion of the total reduction of €1.4 billion is accounted for predominantly by reductions in the following sectors

- construction (€2.5 billion)
- wholesale and retail trade (€2.4 billion)
- real estate, renting and business activities (€2.2 billion)
- manufacturing (€1.2 billion).

13.10 The rate of reduction increased in 2009 with €7.1 billion occurring in that year compared with €4.3 billion in 2008. Figure 61 outlines the extent of change in each of the years 2008 and 2009 by sector. While the yield dropped in both years for most sectors, three sectors showed an increase in each year — public administration and defence, education, and health and social work.

Figure 61 Changes in Tax Receipts by Sector 2007 to 2009



Receipts 2007 to 2009 by Nature of Tax

13.11 When tax is classified by the nature of the activity giving rise to the tax, it gives four main classifications – domestic VAT, employment taxes (PAYE and PRSI), taxes on profits (Self-Assessed Income Tax and Corporation Tax) and Capital Gains Tax. The reduction of €1.4 billion between 2007 and 2009 is not evenly spread between the tax types as shown in Figure 62.

Figure 62 Changes in Receipts by Tax Year 2007 to 2009

Tax Classification	Reduction 2008	Reduction 2009	Total
	€m	€m	
Domestic VAT	913	2,437	3,350
Employment Taxes	(267)	1,970	1,703
Taxes on Profits	1,974	1,851	3,825
Capital Gains Tax	1,673	880	2,553
Total	4,293	7,138	11,431

13.12 The movement in receipts between 2007 and 2009 analysed by sector and nature of tax is set out in Figure 63.

Figure 63 Change in 2009 Tax Receipts over 2007 by Tax Type and Sector

Sector	Domestic VAT ^a	Employment Taxes	Taxes on Profits	Capital Gains Tax	Total
	€m	€m	€m	€m	€m
Construction	(933)	(804)	(672)	(82)	(2,491)
Wholesale and Retail Trade	(1,800)	(176)	(281)	(160)	(2,417)
Real Estate, Renting and Business Activities	(170)	(420)	(895)	(752)	(2,237)
Manufacturing	(617)	(266)	(212)	(65)	(1,160)
Financial Intermediation	213	(72)	(1,076)	(55)	(990)
Agriculture, Hunting and Forestry	(164)	(19)	(133)	(423)	(739)
Hotels and Restaurants	(67)	(80)	(87)	(76)	(310)
Transport, Storage and Communications	(41)	(34)	(112)	(56)	(243)
Mining and Quarrying	(38)	(1)	(89)	(1)	(129)
Community, Social and Personal Services	(105)	22	(52)	(54)	(189)
Fishing	(1)	2	(4)	(2)	(5)
Activities of Households	1	1	-	(6)	(4)
Extra-Territorial Organisations	(1)	1	1	-	1
Electricity, Gas and Water Supply	(23)	37	(2)	(9)	3
Education	37	54	(3)	(5)	83
Health and Social Work	46	160	(11)	(38)	157
Public Administration and Defence	359	5	16	(1)	379
All Other Sectors/Unknown	(46)	(113)	(213)	(768)	(1,140)
All Sectors	(3,350)	(1,703)	(3,825)	(2,553)	(11,431)
% Change	(26%)	(9%)	(44%)	(82%)	(26%)

Note:

a VAT is allocated to the sector of the VAT registered business which pays over the VAT collected to Revenue.

13.13 Eight sectors showed a decline across all tax types¹⁰⁸

- construction
- wholesale and retail trade
- real estate, renting and business activities
- manufacturing
- agriculture, hunting and forestry
- hotels and restaurants
- transport storage and communications
- mining and quarrying.

13.14 Total taxes in the financial intermediation sector fell by €90 million with taxes on profits declining by just over €1 billion. This and a fall in employment taxes and Capital Gains Tax in this sector was partly offset by an increase of €13 million in VAT. The fall of €89 million in the community, social and personal services sector arose from decreases in three of the tax types partially offset by an increase of €2 million or 4% in employment taxes.

13.15 Substantial increases in total tax occurred in three sectors

- an increase of €379 million in the public administration and defence sector is largely accounted for by increases in VAT
- increases in employment taxes and VAT in the education sector totalled €1 million and were only partially offset by falls in taxes on profits and CGT
- the increase in the health and social work sector is mainly due to increases in employment taxes.

13.16 Over half of the total reduction in VAT of €3.4 billion is accounted for by a reduction of €1.8 billion in the wholesale and retail trade sector. The construction sector accounted for a further €33 million of the decrease.

13.17 In both absolute and percentage terms, employment taxes were the least affected by the downturn. There was an increase of €67 million in 2008 due to an increase in PRSI, followed by a reduction of €1.97 billion in 2009. Overall, employment tax receipts fell in ten sectors by a total of almost €2 billion. This was partially offset by an aggregate increase of €82 million in eight sectors.

13.18 Taxes on profits recorded the largest reduction (€3.8 billion) over the two years with receipts falling in almost all sectors. The financial intermediation (€1.1 billion), the real estate, renting and business activities sector (€895 million) and the construction sector (€672 million) accounted for most of the decline.

13.19 The fall of €2.5 billion in CGT effected all sectors with 'All other sectors/unknown' falling by €768 million, the real estate, renting and business activities sector by €752 million and the agriculture, hunting and forestry sector by €423 million.

¹⁰⁸

The 'all other sectors/unknown' category also recorded a reduction in all tax types.

Receipts 2007 to 2009 — Other Taxes

13.20 The details of the taxes for which no sectoral analysis is available together with the movement in receipts between 2007 and 2009 is set out in Figure 64.

Figure 64 Tax Proceeds by Taxhead for which no Sectoral Analysis is Available 2007 to 2009

Taxhead	2007	2009	Change 2007 to 2009	
	€m	€m	€m	Percentage
Income Tax – Withholding Tax, Income Levy, etc	1,118	2,364	1,246	111%
VAT on Imports	1,541	1,010	(531)	(34%)
Excise	5,835	4,734	(1,101)	(19%)
Stamp Duties	3,244	1,001	(2,243)	(69%)
Custom Duties	273	208	(65)	(24%)
Capital Acquisitions Tax	391	256	(135)	(35%)
	12,402	9,573	(2,829)	(23%)

13.21 The net reduction of €2.8 billion is largely accounted for by a decline in stamp duties and excise duties. These were partially offset by the proceeds of the income levy introduced in 2009.

Excise Duty

13.22 An analysis of excise duty by type of duty is available and is set out in Figure 65 which shows that Vehicle Registration Tax accounts for €1 billion or 94% of the total fall in receipts of €1.1 billion.

Figure 65 Excise Duty by Type of Duty, 2007 to 2009

Type of Duty	2007	2009	Increase/ (Decrease) €m	Percentage Increase/ (Decrease)
	€m	€m		
Beer	465	404	(61)	(13%)
Cider and Perry	68	57	(11)	(16%)
Spirits	368	264	(104)	(28%)
Wine	230	243	13	6%
Tobacco ^a	1,024	1,049	25	2%
Hydrocarbon Light Oils	1,051	1,075	24	2%
Hydrocarbon Oils Other	1,153	1,120	(33)	(3%)
Vehicle Registration Tax	1,406	375	(1,031)	(73%)
Other Excise	70	147	77	110%
Total	5,835	4,734	(1,101)	(19%)

Note:

a Excludes Tobacco Levy paid to the Health Service Executive from the proceeds of tobacco excise duty - €168 million in 2007 and 2009.

Stamp Duty

13.23 An analysis of stamp duties by category of charge is available and is set out in Figure 66. A decline in duty from transactions in land and property accounted for €2 billion or 92% of the total reduction of €2.2 billion.

Figure 66 Stamp Duties by Category of Charge, 2007 to 2009^a

Category of Charge	2007	2009	Increase/ (Decrease)	Percentage Increase/ (Decrease)
	€m	€m		
Residential Property	1,018	149	(869)	(85%)
Non-Residential Property	1,363	178	(1,185)	(87%)
Shares	609	210	(399)	(66%)
Cheques	19	37	18	95%
Insurance Policies	3	2	(1)	(33%)
General Deeds	18	36	18	100%
Penalties	15	18	3	20%
Credit Cards	72	62	(10)	(14%)
Non-Life Levy	85	86	1	1%
Life Assurance Levy ^b	–	9	9	100%
ATM Cards	18	3	(15)	(83%)
Debit Cards	–	1	1	100%
Combined Cards	24	13	(11)	(46%)
Health Insurance Levy ^c	–	197	197	100%
Total	3,244	1,001	(2,243)	(69%)

Notes:

- a Companies Capital Duty receipts totalled €0.1 million in 2009 and €0.3 million in 2007 and is therefore not shown.
- b Introduced in Supplementary Budget April 2009.
- c Introduced in September 2009 for a three year period.

Conclusion

Leaving aside the impact of budgetary increases, the revenue of the State including PRSI decreased by €15 billion in the 24 months to the end of 2009 before taking account of the proceeds of an income levy which yielded €1 billion in 2009 bringing the net reduction to €14 billion. 79% of this reduction is capable of analysis on a sectoral basis.

All tax types fell significantly over the two year period with the largest reductions occurring in taxes on profits (€3.8 billion) and domestic VAT (€3.3 billion). In percentage terms, Capital Gains Tax was the most affected falling by 82% (€2.5 billion). Employment taxes were least affected falling by €1.7 billion or 9%.

Almost 73% of the reduction can be attributed to four sectors which were among those where receipts fell for all tax types in the period

- construction where yield reduced by almost €2.5 billion
- the wholesale and retail trade sector where the reduction was more than €2.4 billion
- the real estate, renting and business activities sector with a reduction of over €2.2 billion
- manufacturing where the yield fell by over €1 billion.

Chapter 18 examines performance outcomes at organisational level. There would be merit in Revenue exploring whether and to what extent the suggestions for enhancing performance information outlined in that chapter could be applied at sectoral level.

In particular, Revenue should explore whether the accumulated random audit results to date can be exploited to give an indication of sectoral audit gaps¹⁰⁹.

The Accounting Officer stated that Revenue will examine the feasibility of doing so.

¹⁰⁹ Chapter 12 of the Annual Report 2008 examined the random audit results for two sectors and indicated significant differences in the financial impact of non-compliance between sectors.