Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

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Dear Margaret,

I refer to your letter of 16 October 2018 requesting a note for the Public Accounts Committee on the work carried out by Revenue in relation to Corporation Tax receipts.

I must state at the outset that insofar as I provide information in respect of specific cases or small groups of taxpayers, your attention is drawn to Revenue's obligation to protect taxpayer confidentiality, as provided for in section 851A of the Taxes Consolidation Act 1997. Revenue's statistical disclosure control practice is to not publish data for groups of less than 10 taxpayers.

Given the increases in Corporation Tax receipts recorded in recent years, Revenue has since 2016 annually published detailed research papers that present the latest data on payments, returns and related information for this tax.[1] These complement and extend the Corporation Tax data included in Revenue statistics webpages.[2]

I have appended key data tables from our Corporation Tax statistics: receipts and forecasts since 2013, receipts to date in 2018, the contribution to receipts from the largest ten companies as an indicator of the concentration of the tax and the receipts by sector of economic activity. These provide context to understand the forecast for receipts in 2018.

As with all taxes, the primary responsibility for compiling and publishing forecasts of Corporation Tax receipts rests with the Department of Finance. Revenue's contribution is to take account of significant once-off factors in either the outgoing year or the forecast year that have been identified (to Revenue). Estimates are also adjusted to include the projected impact of past and future Budget changes on tax receipts.

For Corporation Tax, forecasts are derived by the Department of Finance by applying the growth rate for gross operating surplus to the expected tax collection of the outgoing year. For once-off factors affecting Corporation Tax, Revenue undertakes an annual survey of the 10 largest taxpaying groups in our Large Corporate Division (LCD), to identify any significant factors that could affect future tax collection and to provide an indication from them of their expected trends in profit levels. LCD case managers also gather similar information throughout the year through their regular engagement with companies.

[1] https://www.revenue.ie/en/corporate/information-about-revenue/research/research-reports/corporation-tax-and-international.aspx.
[2] https://www.revenue.ie/en/corporate/information-about-revenue/statistics/index.aspx

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Corporation Tax has always been challenging to forecast accurately but this has been particularly the case given strong performance in receipts in recent years. In response to the significant increase in receipts in 2015, Revenue established an internal working group to review Corporation Tax forecasting. This group met approximately quarterly in 2016. The main outcome of its work was to implement a new approach to the survey of large companies, starting with the survey conducted in September 2016. The survey was redesigned and is easier to complete. It should however be noted that the survey is voluntary and furthermore depends on the forecasts by companies for future years, which are themselves subject to volatility.

Turning to the expected outturn for 2018. Revenue net receipts in 2018 (to end September) for Corporation Tax are €5.16 billion, compared to €4.66 billion in the same period in 2017 and against a target of €4.82 billion.

Of the €350 million surplus at end September, this mostly arose from the "IFRS 15" International Financial Reporting Standard change that increased receipts in May 2018.

IFRS 15 replaces the existing International Financial Reporting Standards on revenue from contracts with customers and impacts on how and when companies recognise such revenue in their reporting. While it will have limited impact on straightforward retail transactions, it is more significant in certain sectors (e.g., telecommunications and software) where long-term contracts and complex arrangements are prevalent.

IFRS 15 must be applied in respect of all financial reporting periods beginning on or after 1 January 2018. Section 22 of Finance Act 2017 introduced "spreading" provisions to allow companies to spread the revenue effect over five years from 2018 onwards. Companies could elect to early adopt in 2017 (the Finance Act 2017 also allows companies to elect to spread the effect if they early-adopted IFRS 15).

As companies faced choices in respect of early adoption and spreading, the impact of IFRS 15 on Corporation Tax receipts could not ascertained by Revenue until the companies themselves agreed their reporting position. Revenue engaged with companies to understand their intended approach to IFRS 15, its impact and timing. As part of this engagement, Revenue became aware in the second quarter of 2018 for the potential for IFRS 15 to significantly increase receipts in 2018, well after the forecasts for 2018 had been set (October 2017). Revenue advised the Department of Finance in advance of the payments being received in May.

Payments received in May 2018 relate to early adopters who did not opt to spread their adjustments. For this reason, it is expected that the bulk of the €350 million surplus related to IFRS 15 is once-off in nature and will not reoccur.

Since May, Revenue has continued with regular monthly reporting to the Department of Finance in relation to Corporation Tax receipts. In September, as is usual for pre-Budget preparations, Revenue conducted the annual voluntary survey of the largest companies regarding their expectations of payments in 2019. As part of this process, information was also gathered in relation to likely payments in the remainder of 2018.

Revenue's current expectation is that Corporation Tax receipts in 2018 will be approximately €9.6 billion or a surplus of €1.1 billon compared to target. Revenue wrote to the Department of Finance in early October to inform them of this view.

The expectation of an additional surplus of around €750 million (on top of the end September surplus €350 million) is driven by improved trading conditions and increased product sales among large multinational companies based in Ireland. Revenue's assessment is that of the €1.1 billion expected surplus this year, between €700 and €800 million of the increase may be due to once-off issues in 2018. Of this, €350 million is from the IFRS 15 change. The remainder relates largely to higher sales levels for some companies that are not expected to be repeated in 2019.

For 2019 receipts, while elimination of 2018 once-offs will negatively influence the outcome, with economic growth and additional positive once-offs (for 2019), it is expected that receipts will be broadly stable around the level of €9.5 billion.

This outlook for 2018 and 2019 is based on the information available to Revenue as at October 2018.

As requested in your letter, my officials have liaised with the Department of Finance and the Department is satisfied that this note also reflects its view of the position on Corporation Tax receipts.

Yours sincerely,

Niall Cody
Chairman.

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Corporation Tax Net Receipts

	Net Receipts €m	Receipts Growth €m	Receipts Growth %	Forecast €m	Surplus €m	Surplus %	Total Net Receipts €m	Share of Total Receipts %
2013	4,270	55	1.3%	4,135	135	3.3%	37,875	11.3%
2014	4,617	347	8.1%	4,380	237	5.4%	41,383	11.2%
2015	6,873	2,256	48.9%	4,575	2,298	50.2%	45,786	15.0%
2016	7,352	479	7.0%	6,615	737	11.1%	47,954	15.3%
2017	8,201	849	11.6%	7,715	486	6.3%	50,758	16.2%
2018*	9,604	1,403	17.1%	8,504	1,100	12.9%	54,644	17.6%

All figures on a net receipts basis, may differ from Exchequer receipts. *2018 figures are estimated.

Corporation Tax Net Receipts during 2018

€m	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Receipts	24	188	340	84	1,464	1,949	154	183	788			
Forecast	24	201	251	70	1,244	1,888	118	298	731	831	2,220	629
Surplus	0	-12	89	14	220	61	36	-115	57			
YoY*	-40	-14	86	18	385	98	64	-134	48			
YoY %	-62%	-7%	34%	27%	36%	5%	72%	-42%	7%			

*YoY represents Year on Year growth compared to the same month in 2017.

Concentration of Corporation Tax Net Receipts

	Net CT Receipts €m	Top 10 Companies €m	Top 10 Groups €m	Top 10 Companies %	Top 10 Groups %
2013	4,270	1,551	1,696	36%	40%
2014	4,617	1,728	1,963	37%	43%
2015	6,873	2,798	3,152	41%	46%
2016	7,352	2,755	2,999	37%	41%
2017	8,201	3,230	3,373	39%	41%

Corporation Tax Net Receipts by Sector (based on NACE classification system)

€m	2013	2014	2015	2016	2017
A Agriculture Forestry and Fishing	18	28	41	39	44
B/D/E Mining & Utilities	76	108	102	40	45
C Manufacturing	1,462	1,149	1,818	1,874	2,090
F Construction	78	95	113	153	171
G Wholesale & Retail Trade,	513	850	1,139	993	1,108
H Transportation & Storage	87	88	175	243	271
I Accommodation & food service activities	31	42	58	84	93
J Information & Communication	751	909	1,345	1,226	1,368
K Financial & Insurance Activities	1,026	1,041	1,601	2,064	2,303
L Real Estate Activities	44	65	92	90	101
M Professional Scientific & Technical Activities	81	126	230	322	359
N Administrative & Support Service Activities	102	86	122	177	197
O/P/QR/S/T/U All Other Activities and Sectors	1	28	39	54	60
All Sectors Total	**4,270**	**4,617**	**6,873**	**7,352**	**8,201**