An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

Tithe an Oireachtais
Houses of the Oireachtas

Fiscal Monitor for May 2020 – Revenue Analysis

PBO Publication 34 of 2020

Introduction

May is generally the second largest tax collection month.[1] The Department of Finance's tax figures for May (published June 3rd) show that, except for Corporation Tax, all other taxes have suffered sizeable declines relative to May 2019, reflecting the ongoing impact of the pandemic. Notwithstanding this, taxes have performed better than expected. Even excluding Corporation Tax (which has historically out-performed forecasts), receipts were 48% greater than the monthly profile (published in April).

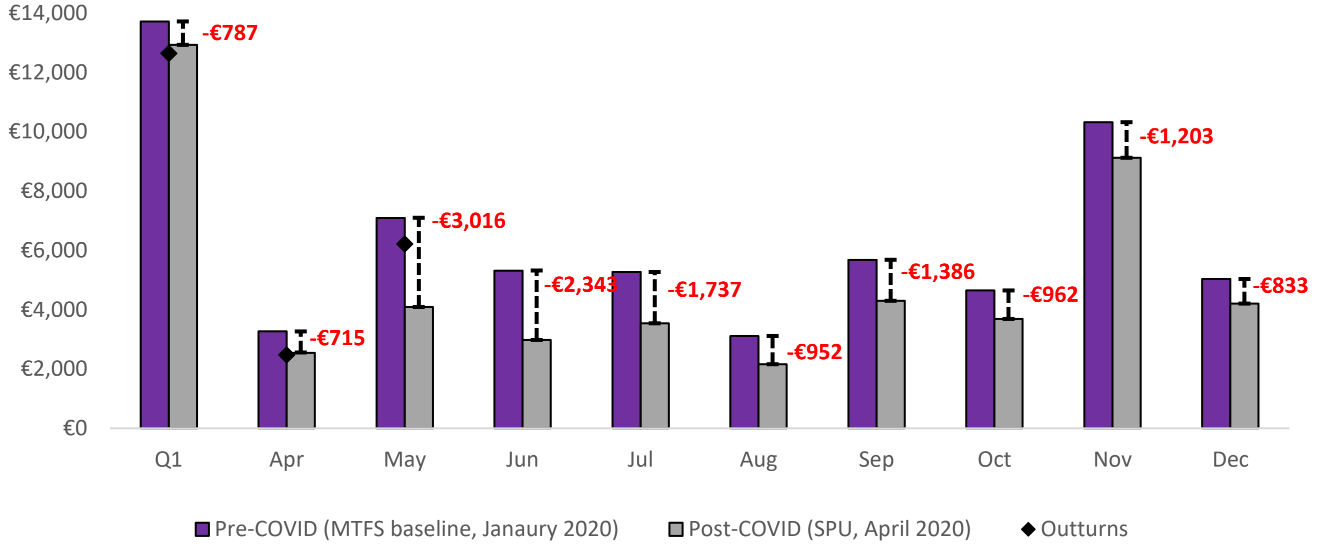
This suggests that the impact of the pandemic on business activity to-date, has been less than Departmental forecasts. It should be noted that the Department's tax revenue forecasts are largely determined by forecasts of certain "macro-drivers" (i.e. key macroeconomic variables that are used to predict the level of receipts for a tax). However, this high-level approach may fail to take account of the impact of the COVID-19 crisis across different sectors.

Figure 1 shows that the total outturn for May is closer to the Department's **pre-COVID-19 profile** (estimated as part of the *Medium-Term Fiscal Strategy* in January) than the updated profile published with the *Stability Programme Update* (in April). The profiles in the *Fiscal Monitor* are based on the Department's central scenario as described in the *Stability Programme Update*. However, there are significant uncertainties surrounding the development of the pandemic, and the easing of restrictions. To show this uncertainty, Figure 2 captures the performance of the three largest taxes to-date (Income Tax, VAT and Corporation Tax) against their profile under the Government's central, mild and severe COVID-19 scenarios.

The Department of Finance states that the strong performance of Corporation Tax was largely related to increased corporate profitability for 2019. As previously highlighted by the PBO, the relative stability of Income Tax likely reflects the sectoral distribution of receipts and the concentration of payments around higher earners (i.e. those least likely to be impacted by COVID-19 related restrictions). Generally, those contributing relatively more in Income Tax are less likely to have been impacted by COVID-19 related closures (i.e. temporary job losses). VAT receipts have reduced on an annual basis as a result of the fall in consumer spending. However, VAT revenue is above profile for the month, and several real-time indicators point to the early signs of a recovery in consumption levels.

[1] This note looks specifically at May tax data. Previous months were considered in PBO Publication 13 of 2020 and PBO Publication 22 of 2020. These notes looked at the early revenue impact of the COVID-19 pandemic, and set out the wider economic and fiscal context of the crisis.

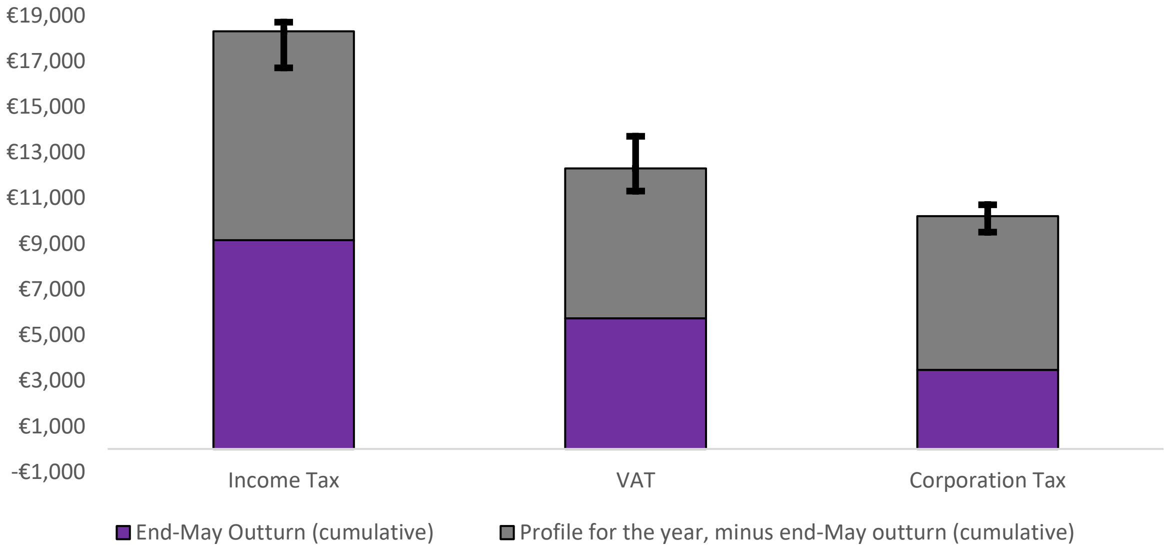
Figure 1. Pre-COVID profiles (MTFS); Post-COVID profiles (SPU); and revenue outturns to-date (€m)



Source: Medium-Term Fiscal Strategy (MTFS, January 2020); Stability Programme Update (SPU, April 2020); and correspondence with Department of Finance.

Note: This chart shows the performance of total tax revenue against both the pre-COVID (January) and post-COVID (April) tax profiles, as estimated by the Department of Finance. The post-COVID profiles are those that relate to the Department's central scenario, as outlined in the SPU. The figures in red show the difference between the pre- and post-COVID profiles. Rounding may affect totals.

Figure 2. Income Tax, VAT and Corporation Tax revenue for 2020 under the Department's central, mild and severe scenarios (€m)



Source: Irish Fiscal Advisory Council (Fiscal Assessment Report, May 2020) and Stability Programme Update 2020. **Note**: The error bars show the range of potential tax revenue related to the Department of Finance's mild and severe COVID-19 scenarios. "*2020 Profile*" refers to the Department's central scenario. Rounding may affect totals.

Key revenue developments, May 2020

Excluding Corporation Tax, revenues were significantly lower than in May 2019 (by 24%). However, the impact of the COVID-19 crisis on receipts to-date is substantially below expectations. All major taxes have out-performed their monthly profile.

- Overall, €6.2 billion was collected in May. This was 1.3% (or €78 million) higher than last year, driven by the strong performance of Corporation Tax. Excluding Corporation Tax, revenue for May was actually 24% (or €1.1 billion) less than last year. Total tax revenue was 52.1% (or €2.1 billion) greater than the monthly profile;
- In cumulative terms, tax revenue is just €8 million less than last year. This is due to a strong performance in Q1, as well as the significant out-performance of Corporation Tax in May;
- The Exchequer deficit was €6.1 billion at end-May (an improvement of €1.4 billion relative to April, but a deterioration of about €6 billion relative to the same time last year (driven by the additional COVID-19 related spending pressures).

Income Tax has exceeded expectations for May and has proven relatively robust to-date. As highlighted by the PBO, the relative stability of Income Tax likely reflects the sectoral distribution of receipts, and the concentration of payments, as well as the targeted nature of COVID-19 related administrative restrictions. Generally, those contributing relatively more in Income Tax are less likely to have been impacted by COVID-19 related closures.

- Income Tax receipts were 7.8% (or €137 million) lower than last year, with €1.6 billion collected in the month. However, this was 54.3% (or €571 million) greater than profile;
- Most Income Tax revenue is paid by those earning over €75,000 (roughly 63% as of 2017),[2] while the average earnings of those employed in the most impacted sectors (such as hospitality, retail and recreation) are generally below the national average;[3]
- Those employed by firms that are likely to be the least impacted by closures (e.g. manufacturing, financial and insurance activities, and information and communications) contribute roughly 43% of Income Tax receipts. Whereas, those working in the most impacted sectors (e.g. wholesale and retail trade, and accommodation and food services) contribute roughly 19%;[4]
- Unemployment was 5.6% for May (versus 5.4% for April). This rises to 26.1% once PUP recipients are included (versus 28.2% for April).[5] In the week to June 2nd, the number of PUP recipients fell by 36,200 (or 6.2%). The current number is 9.2% below the peak of 598,000.

Corporation Tax has also exceeded expectations, driven largely by corporate profitability in 2019. However, similarly to Income Tax, Corporation Tax revenue could prove relatively robust moving forward, given the sectoral distribution of receipts.

- May is generally a significant month for Corporation Tax and receipts were 91.4% (or €1.2 billion) higher than last year, totalling €2.6 billion (driven largely by increased corporate profitability in 2019). This was 58.4% (or €945 million) greater than profile;
- Corporation Tax revenue is generally driven by three key sectors – manufacturing, financial and insurance activities, and information and communications. These sectors account for

---

[2] Income Tax Statistics, CSO.
[3] PBO Publication 9 of 2020 – Employment in Sectors Most Exposed to the COVID-19 Pandemic, 30 March.
[4] Revenue Commissioners, May 2019.
[5] Monthly Unemployment, CSO, 3rd June 2020.

approximately 71% of receipts (as of 2018) and are less likely to have been impacted by COVID-19 related closures;
- Receipts for manufacturing alone (at €3.2 billion) were 2.3 times the amount collected by the sectors that are most impacted by closures (wholesale and retail trade, and accommodation and food services, contributed €911 million or 11% of total receipts).[6]

VAT receipts were substantially lower than last year, in the first VAT-due month to fully capture COVID-19 related restrictions. However, as with Income Tax and Corporation Tax, VAT has exceeded expectations for May, and real time indicators are showing the early signs of recovery in consumption.

- VAT receipts were down 35.4% (or €820 million) relative to last year. May is a VAT-due month (the first such month to fully capture COVID-19 related restrictions on commercial activity), with €1.5 billion collected. However, receipts were 52.8% (or €517 million) greater than profile;
- Daily debit card statistics point to a modest recovery in consumption for May.[7] The total volume of (offline) transactions increased by 14% in the 3 weeks to May 25th, relative to the same period in April, while the average daily spend was €16.8 million higher over the same period;
- There was also an improvement across consumer sentiment indices. KBC's main Irish Consumer Sentiment Index[8] improved by 9.7 points in May (although it remains 37.6 points below May 2019);
- Finally, the deposits of Irish households for April were 9% higher than last year (up 2.6% on March or €3 billion). This may reflect a degree of precautionary savings by households, but likely captures the impact of pandemic-related restrictions that are limiting consumer activity. This highlights the extent to which household income has been preserved throughout the crisis and suggests that future consumption might benefit from pent-up demand once restrictions have been relaxed.[9]

Finally, of the smaller taxes:

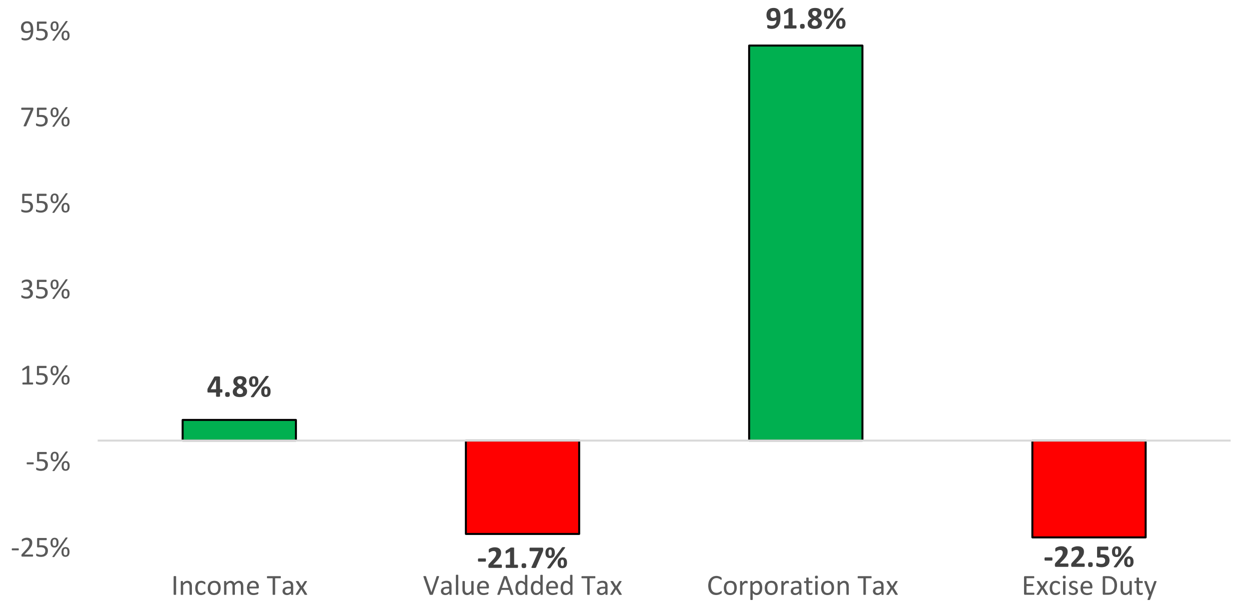
- Excise was 36.2% (or €174 million) lower than last year, with €306 million collected in the month. This was 5.7% (or €16 million) greater than profile;
- Stamp Duty, Capital Gains Tax, Capital Acquisitions Tax, Customs and Motor Tax, are all lower than last year. However, with the exception of Customs, all of these taxes have exceeded their monthly profile. Total revenue for these taxes in May was €217 million.

---

[6] Revenue Commissioners, May 2019.
[7] Credit and Debit Card Statistics, Central Bank of Ireland, May 2020.
[8] Irish Consumer Sentiment, KBC, 20th May 2020.
[9] Money and Banking Statistics, Central Bank of Ireland, 29th May 2020.

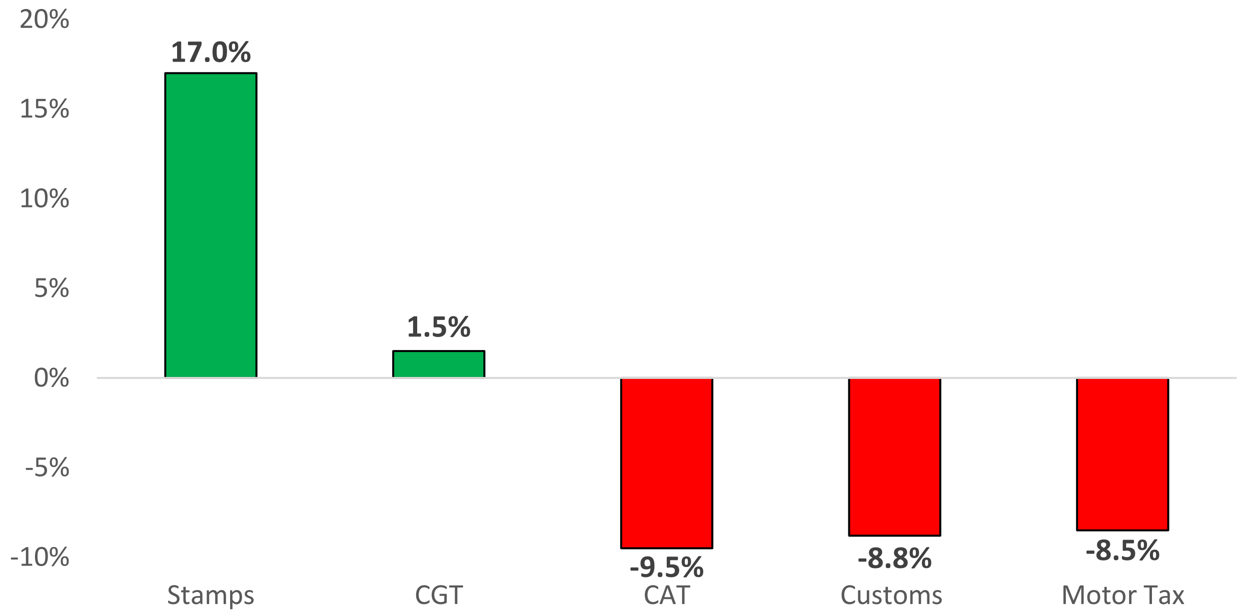
Chart Pack 1: year-on-year performance

Figure 3a. Cumulative performance: Jan. - May 2020 versus Jan. – May 2019, largest tax categories



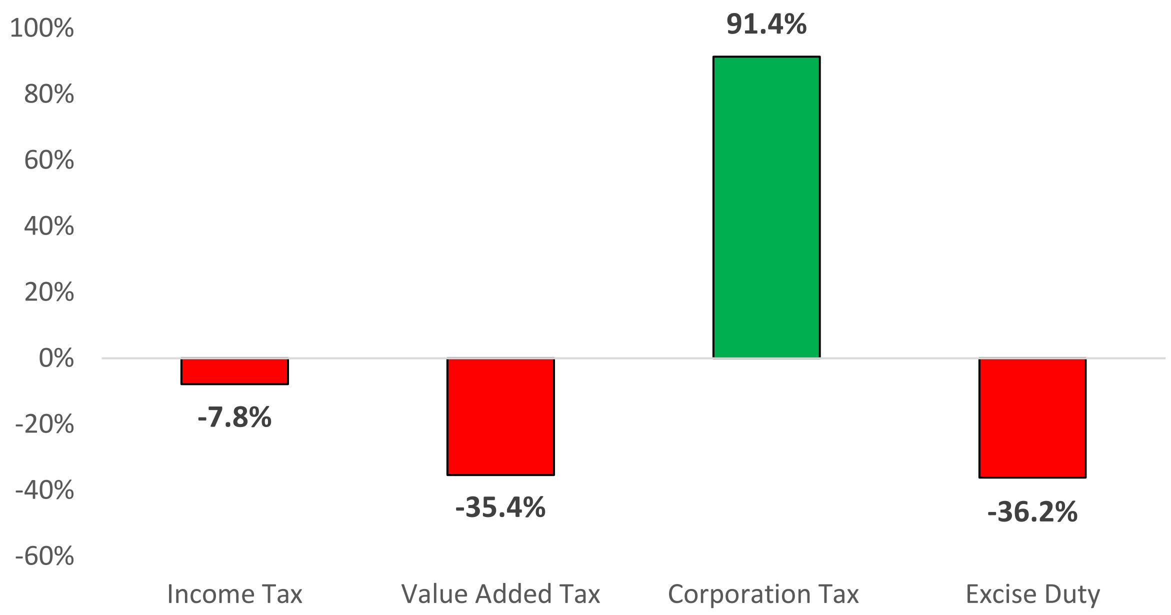
Source: Fiscal Monitor, Department of Finance, June 2020. Rounding may affect totals.

Figure 3b. Cumulative performance: Jan. - May 2020 versus Jan. – May 2019, remaining tax categories



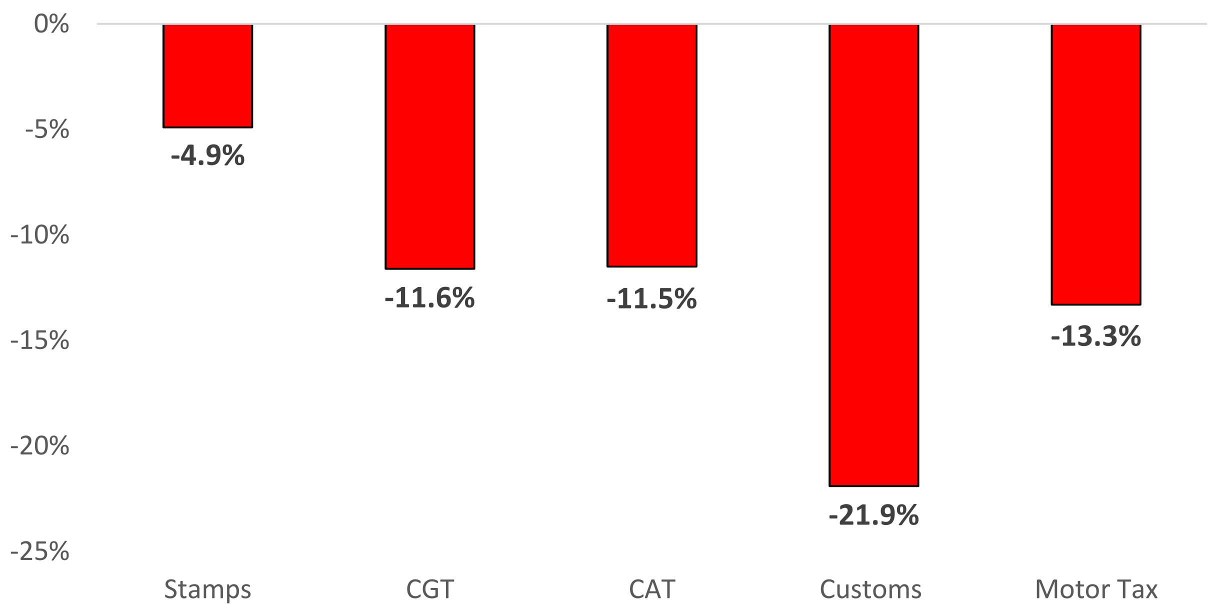
Source: Fiscal Monitor, Department of Finance, June 2020. Rounding may affect totals.

Figure 3c. Monthly performance: May 2020 versus May 2019, largest tax categories



Source: Fiscal Monitor, Department of Finance, June 2020. Rounding may affect totals.

Figure 3d. Monthly performance: May 2020 versus May 2019, remaining tax categories



Source: Fiscal Monitor, Department of Finance, June 2020. Rounding may affect totals.

Chart Pack 2: cumulative performance against profile, largest taxes (€m)

Figure 4a. Income Tax

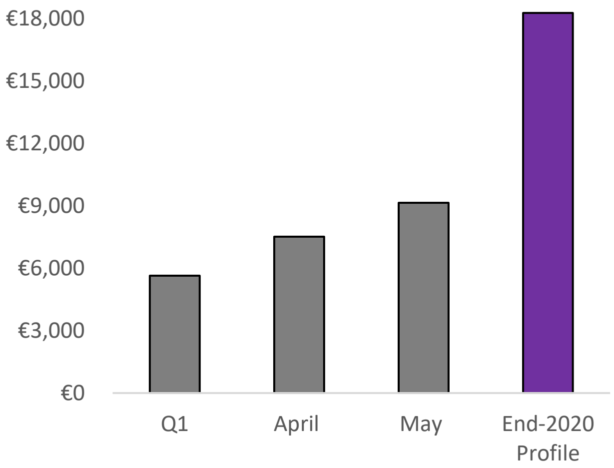


Figure 4b. VAT

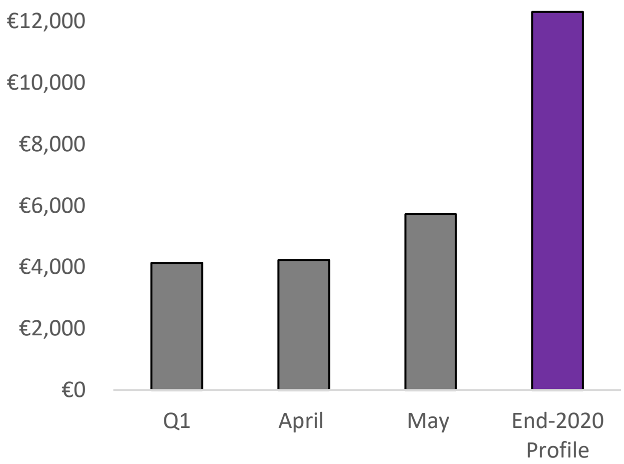


Figure 4c. Corporation Tax

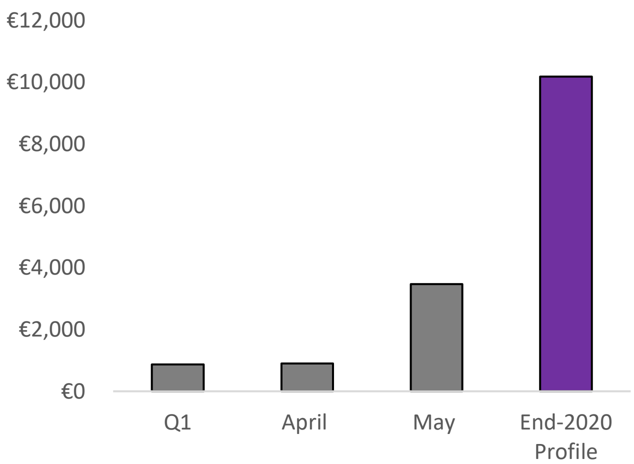
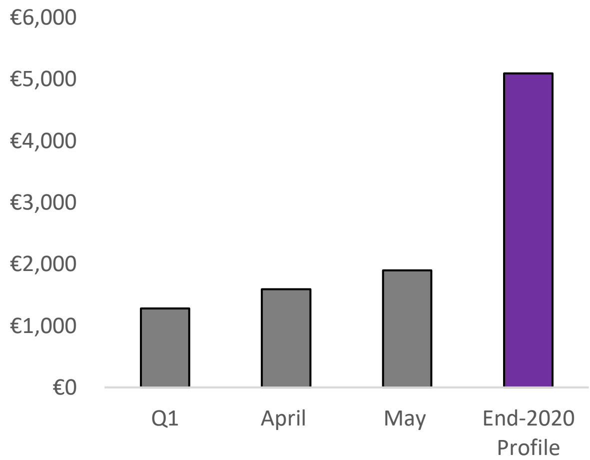


Figure 4d. Excise Duty



Source: Fiscal Monitor, Department of Finance, June 2020. Rounding may affect totals.