An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office
Tithe an Oireachtais
Houses of the Oireachtas

Fiscal Monitor for July 2020 – Revenue Analysis

PBO Publication 49 of 2020

Introduction

July's tax figures (published August 5th) mirror the trend that emerged in Q2. Tax revenue through 2020 is performing **significantly better than expected,** by 19.4%. Even excluding Corporation Tax, which is historically volatile and difficult to predict, receipts for 2020 are 15.2% greater than predicted; but tax revenue to date **remains below 2019 levels,** by 2.5% (or 8.2% excluding Corporation Tax).

The profiles included in the *Fiscal Monitor* were first published in the *Stability Programme Update* (SPU) in April. These profiles are an update to those underpinning the *Medium-Term Fiscal Strategy* (MTFS) in January. They attempt to take account of the impact of the COVID-19 pandemic on tax receipts (under the Department of Finance's 'central' COVID-19 scenario). However, taxes have been performing somewhere in between the pre- and post-COVID-19 profiles (set out in the MTFS and SPU respectively). This is shown in Figure 1 overleaf, while Figure 2 shows the performance of the three largest tax headings to-date (Income Tax, VAT and Corporation Tax) against their profile under the Government's alternative 'mild' and 'severe' scenarios.

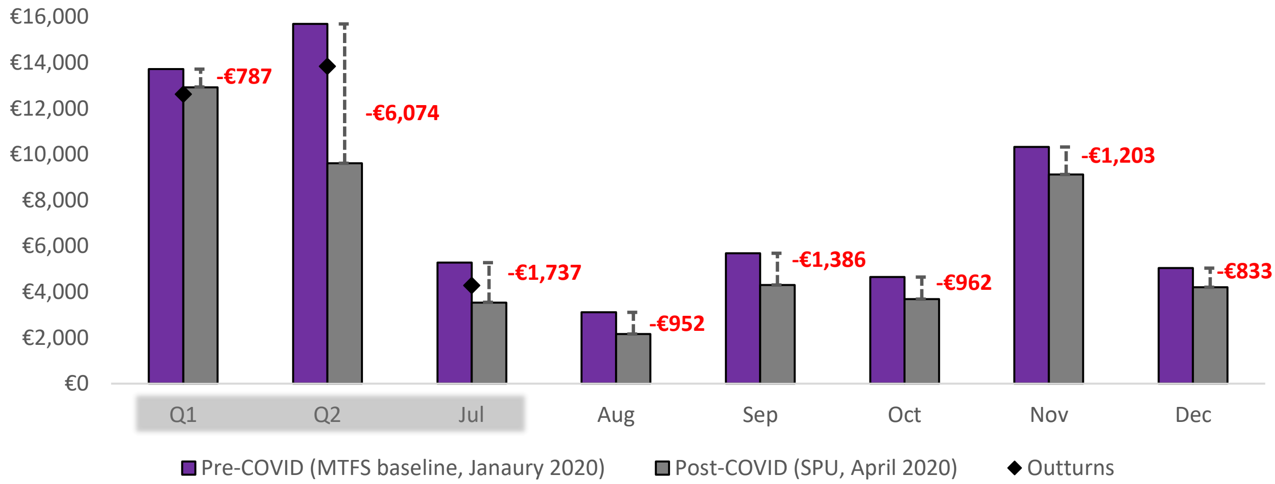
In cumulative terms, all taxes (excluding Customs) have exceeded profile so far in 2020, while Corporation Tax, Stamp Duty and Capital Gains Tax have all performed better than last year. Income Tax has also shown resilience, coming in just 0.7% below the level at end-July 2019.

Most taxes (except for Customs and Corporation Tax) have exceeded profile in the month of July. Of note, Income Tax continues to outperform,[1] with receipts for the month coming in 52.3% greater than profile. Excise and Stamps have outperformed on a similar scale (by 57.6% and 57.9% respectively). VAT is broadly on profile, coming in just 1.7% ahead of expectations. Excise and Capital Gains Tax are the only taxes to exceed the level of receipts from July 2019.

Non-tax revenue and capital receipts of €5.4 billion were paid in July (up €1.3 billion relative to last year - the Department has indicated that this is due to a €2 billion payment from NAMA). Capital receipts are down €202 million on 2019, resulting from a non-recurring payment by the Irish Banking Resolution Corporation (IBRC) in 2019. Overall, the **Exchequer balance has deteriorated by €2.1 billion** since June. The deficit was €7.4 billion at end-July 2020, compared to a surplus of €896 million at end-July 2019 (a deterioration of €8.3 billion year-on-year).

[1] The PBO has previously emphasised that the distribution of Income Tax and Corporation Tax receipts (and the concentration of payments around key taxpayers) might explain the relative stability of these taxes as the COVID-19 crisis progresses. See Fiscal Monitor for May 2020 – Revenue Analysis, PBO, 4th June 2020.

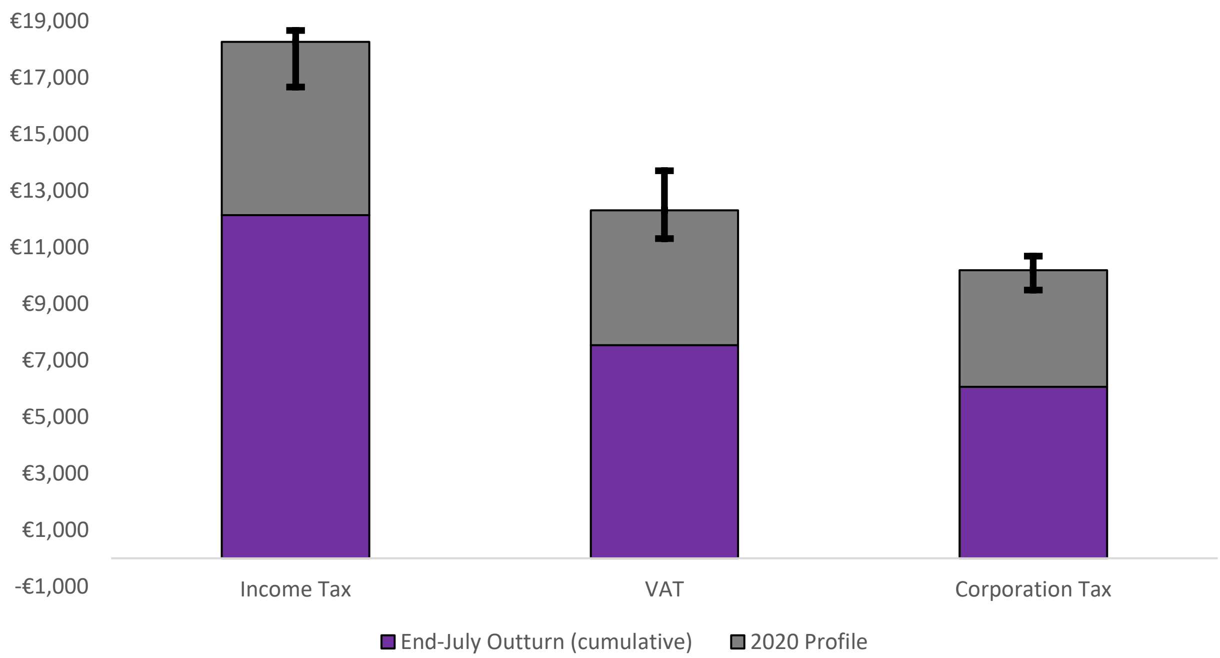
Figure 1. Pre-COVID profiles (MTFS); Post-COVID profiles (SPU); and tax revenue outturns (€m)



Source: Medium-Term Fiscal Strategy (MTFS, January 2020); Stability Programme Update (SPU, April 2020); Fiscal Monitor (August 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 for 2020, from the Department of Finance's mild to severe COVID-19 scenarios. "*2020 Profile*" refers to the Department's central scenario. Rounding may affect totals.

Key revenue developments, July 2020

The Exchequer deficit deteriorated significantly in July, as Ireland navigated Phase Three of the Government's roadmap to easing pandemic-related administrative restrictions on commercial activity. Notwithstanding this, tax revenue continues to out-perform expectations, coming in one-fifth higher than forecast. Receipts to date are between the pre- and post-COVID-19 profiles set out under the MTFS (January) and SPU (April) respectively.

- €4.29 billion was collected in July. This was 18.6% (or €983 million) lower than last year, but 21.2% (or €749 million) greater than monthly profile;
- In cumulative terms, tax revenue is €791 million lower than last year (or 2.5%) but €5.06 billion greater than expectations (or 19.4%);
- Excluding Corporation Tax, which is historically volatile and difficult to predict, receipts for 2020 are 8.2% lower than last year but 15.2% greater than predicted;
- The Exchequer deficit deteriorated to €7.4 billion by end-July 2020, worsening by €2.1 billion in the month. This is a significant deterioration compared to the surplus of €896 million generated by end-July 2019 (a deterioration of €8.3 billion year-on-year).

The relative resilience of Income Tax receipts has persisted through July and has been one of the more striking features of the Exchequer impact of the pandemic to date. As emphasised by the PBO in previous publications, this likely reflects the distribution of Income Tax payments, and the sectoral impact of administrative restrictions. The number of Pandemic Unemployment Payment (PUP) recipients continues to decline as restrictions are eased, particularly in the most impacted sectors.

- Income Tax receipts were 8% (or €138 million) lower than last year, with €1.59 billion collected in the month. However, this was 52.3% (or €546 million) greater than profile;
- Unemployment was at 5.5% for July, rising to 16.7% once PUP recipients are included (versus 23.1% for June).[2] In the week to August 4th, the number of PUP recipients fell by 12,300 (or 4.3%). The current number is 54% below the peak of 598,000 (on 5th May),[3] and 37% lower than at end-June;
- In terms of the number of PUP recipients, *Accommodation and Food Services* remains the most impacted sector, with approximately 34.7% of those employed in the sector still in receipt of the payment (followed by *Administrative and Support Services* at 24.3%, and *Construction* at 15.6%).[4]

[2] Monthly Unemployment, CSO, 5th August 2020.
[3] Update on Payments Awarded for COVID-19 Pandemic Unemployment Payment and Enhanced Illness Benefit, Department of Employment Affairs and Social Protection, 4th August 2020.
[4] Based on employment numbers published under the Labour Force Survey, CSO, Q1 2020.

Corporation Tax underperformed in July, both relative to expectations and when assessed in annual terms. However, Corporation Tax receipts in July are typically lower than in an average month. In cumulative terms, Corporation Tax is well above profile, and significantly higher than last year, off-setting the relatively poor performance of other taxes. The PBO has emphasised in previous publications that most Corporation Tax is paid by firms in sectors that are relatively less impacted by COVID-19 related restrictions.[5]

- July is not a big month for Corporation Tax. Nevertheless, receipts were 62.1% (or €271 million) lower than last year, totalling €165 million. This was 48.8% (or €158 million) below profile;
- This under-performance is a reversal of the trend seen over the last several months and points to the inherent volatility of Corporation Tax, and the difficulty in accurately predicting developments in this tax head.

July is a VAT-due month. Receipts were significantly lower than last year, but broadly on profile. Real-time indicators suggest that, while July saw the continued recovery in consumption as Ireland navigated the easing of restrictions on commercial activity under Phase Three, this recovery slowed somewhat relative to June.[6]

- VAT receipts in July (which reflect activity in May and June) were down 30% (or €692 million) relative to last year, with €1.6 billion collected in the month. Receipts were slightly above profile, by 1.7% (or €27 million);
- Daily debit card statistics for July show a continuation of the recovery in consumption observed in preceding months, albeit at a slower rate.[7] The total volume of (offline) transactions increased by 4.9% in the 3 weeks to July 27th relative to the same period in June (versus a 20.5% increase in June relative to May). The average daily spend was €6.6 million higher in July relative to June (the average daily spend was €22.5 million higher in June relative to May);
- There was also a considerably more modest improvement in KBC Bank's main consumer sentiment index[8] for July, versus June. The index improved by just 1 point in July (versus an improvement of 9.3 points for June relative to May). This is still 22.9 points below July 2019;
- The Retail Sales Index for June shows an increase (in volume) of 38.4% relative to May, and an increase (in volume) of 3.5% relative to June 2019.[9] This reflects pent-up consumer demand, as restrictions on commercial activity were unwound in the month;
- Finally, the deposits of Irish households continued to expand in June, but at a slower pace than in May, with a net inflow for the month of €845 million. In annual terms, this represents growth of 9.8% for June. Through Q2 2020, deposits grew by €5.3 billion, versus €2 billion in Q2 2019.[10]

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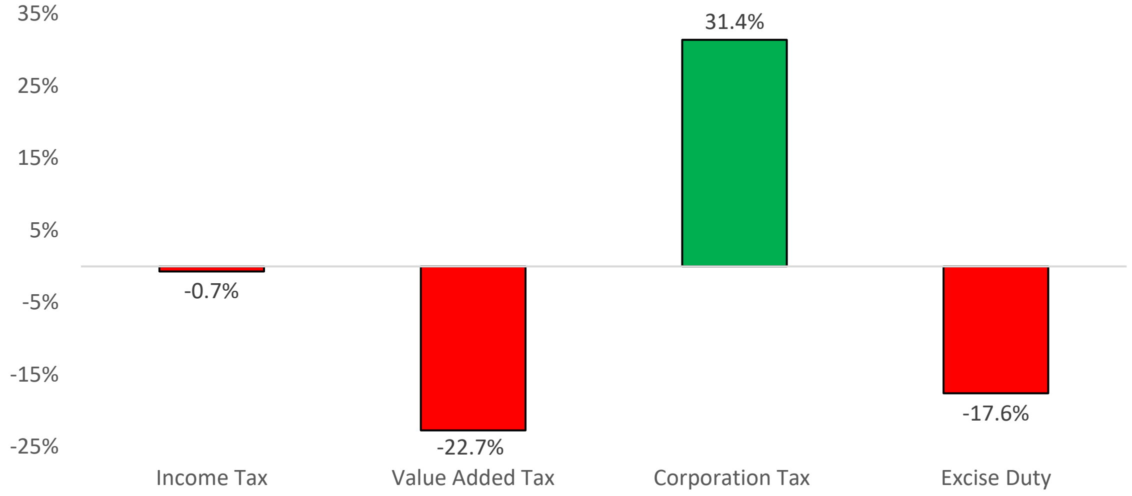
[5] Recent changes in the *Financial Provisions (Covid-19) (No. 2) Act 2020* provide for a temporary acceleration of Corporation Tax loss relief for tax compliant companies. This may impact Corporation Tax receipts during the rest of 2020 and has not been included in the profile.
[6] The standard rate of VAT will temporarily decrease from 23 per cent to 21 per cent on 1st September. The impact of this on VAT receipts will become apparent in October and subsequently.
[7] Credit and Debit Card Statistics, Central Bank of Ireland, June 2020.
[8] Irish Consumer Sentiment, KBC, 20th July 2020.
[9] Retail Sales Index, CSO, 29th June 2020.
[10] Money and Banking Statistics, Central Bank of Ireland, 30th June 2020.

Among the smaller taxes:

- Excise collected in July was 18.4% (or €93 million) higher than last year, with €598 million collected in the month. This was 57.6% (or €218 million) above profile. The Department states that this is due to increased domestic spending on tobacco and alcohol, given the decline in cross-border shopping resulting from the fall in international travel;
- Stamp Duty, Capital Acquisitions Tax, Customs and Motor Tax receipts collected in July are all lower than last year (by 20.4%, 15.5%, 44.4% and 1.9% respectively), while Capital Gains Tax is up 16.6% in annual terms;
- Except for Customs, all of these taxes have exceeded their monthly profile, with a total of €257 million collected in July.

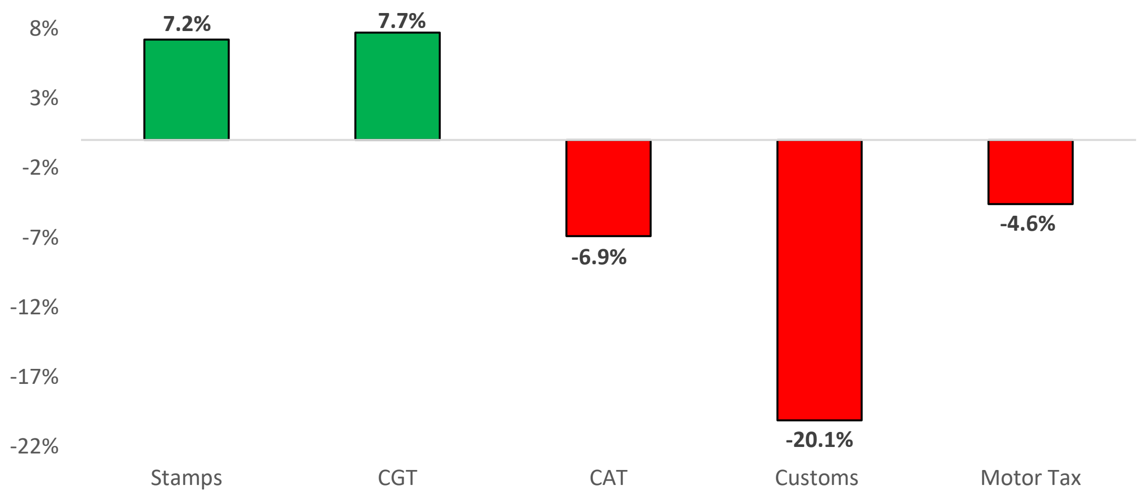
Chart Pack 1: Year-on-year performance

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



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

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

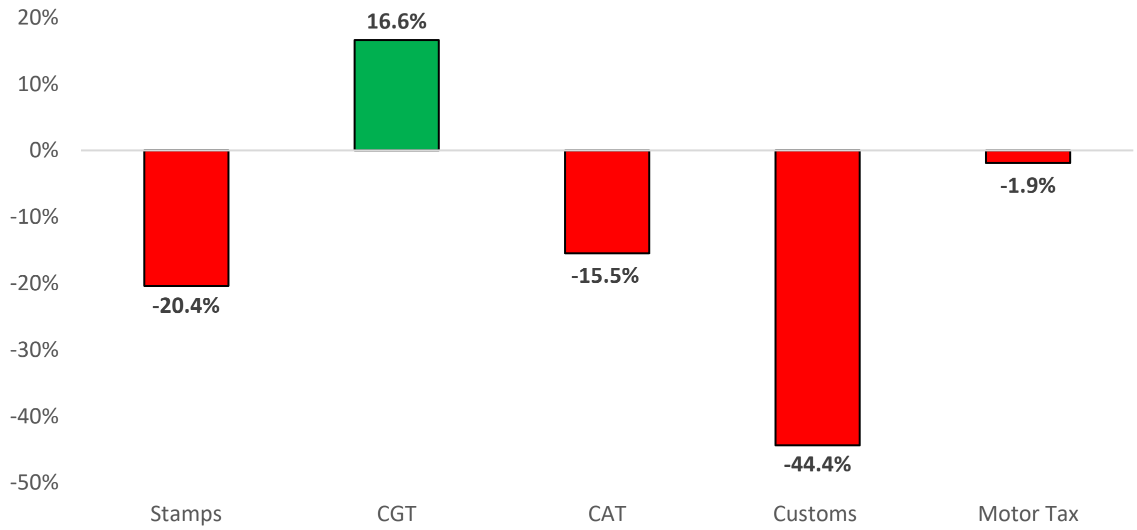


Source: Fiscal Monitor, Department of Finance, August 2020. Rounding may affect totals.

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

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

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



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

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

Figure 4a. Income Tax

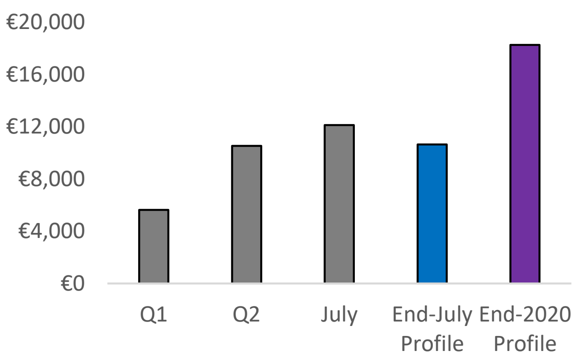


Figure 4b. VAT

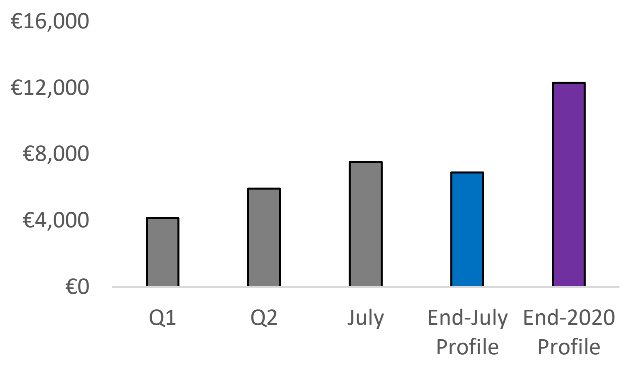


Figure 4c. Corporation Tax

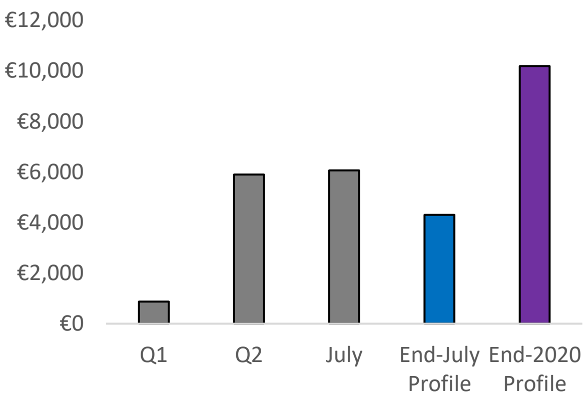
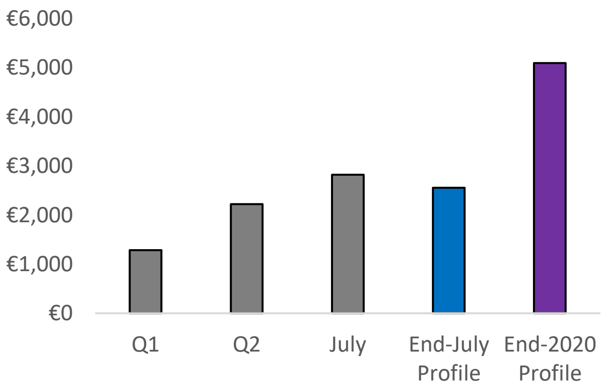


Figure 4d. Excise Duty



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