An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

Tithe an Oireachtais
Houses of the Oireachtas

Fiscal Monitor for October 2020 – Revenue Analysis

PBO Publication 63 of 2020

Introduction

This is the first set of tax returns since Budget 2021. This is also the first set of returns since the escalation to Level 5 of the Government's *Plan for Living With COVID-19*. Given the lag associated with tax receipts, this escalation has yet to have a material impact on revenues. However, this will be monitored more closely over the next two months (particularly as November is the largest month for tax revenue).

One important caveat to October's tax returns, is that they are reported net of a €550 million sum that was withheld by the Revenue Commissioners to facilitate payments under the *COVID-19 Restrictions Support Scheme* (or CRSS, as announced in Budget 2021). Specifically, €275 million was retained from both the Income Tax and Corporation Tax returns, to provide for CRSS payments.

The most significant result for the month relates to Corporation Tax, which has underperformed relative to expectations (by 58% when the amount withheld under the CRSS is included). This is a marked departure from the performance of the tax in the year to-date. Notwithstanding this, Corporation Tax is still 27% ahead of profile in cumulative terms (and up 15.4% on last year – including the CRSS deduction). These excess receipts have, so far, played a key role in buffering the Exchequer against the fiscal impact of COVID-19-related restrictions on commercial activity.

The Department has indicated that the shortfall in Corporation Tax for October was anticipated, and was incorporated into the updated forecasts for 2020, published alongside the Budget (on 13 October). While the Department did not specify the nature of this underperformance, it serves as a reminder that Corporation Tax is a volatile and unpredictable source of revenue for the Exchequer.

Elsewhere, the situation for October is broadly on par with preceding months. Income Tax receipts remain resilient (when the CRSS deduction is included receipts for the month are actually level with October 2019). VAT performed reasonably well in October, although this is not a VAT-due month. Stamp Duty receipts for the month were buoyed by the allocation of €578 million in previously unallocated receipts.

Overall, tax receipts for October of €3.6 billion indicate a reduction of €600 million compared to October 2019. This 14.3% reduction is mainly attributable to the shortfall in Corporation Tax. Cumulatively, tax receipts are €1.8 billion less than in the same period in 2019, representing a 4% drop.

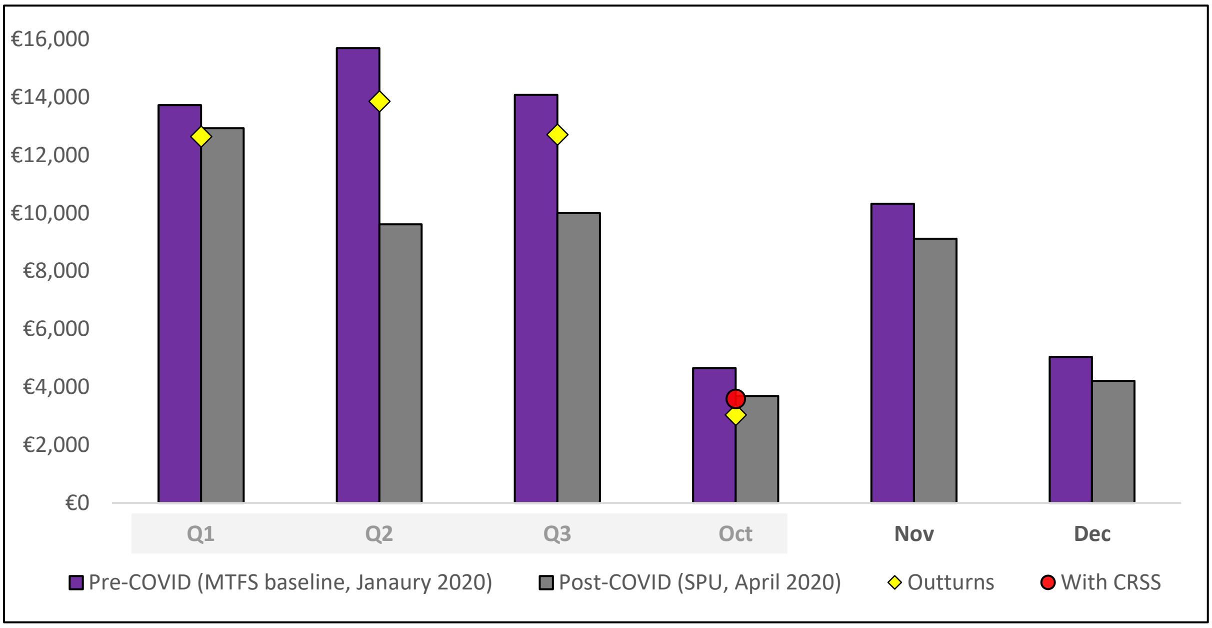
The Exchequer Balance as of end-October is flattered by the payment from NAMA of €2 billion earlier in the year, as well as a transfer from the Rainy-Day Fund of €1.5 billion (as announced in advance of Budget 2021).[1] These sources have contributed to a year-on-year increase of €2.8 billion (or 65%) in combined non-tax revenue and capital receipts (totalling €7.1 billion). Notwithstanding this, a deficit of €11.7 billion was recorded at end-October (a €9.9 billion deterioration relative to the same time last year).

Budget 2021 set out revised forecasts of tax revenue for 2020 and 2021 (this is the third time that revenue forecasts have been revised in 12 months). Receipts for this year are expected to reach €56.7 billion (up from the €49.6 billion anticipated at the time of the *Stability Programme Update* (SPU) in April). While these forecasts do take account of the shortfall in Corporation Tax receipts for October (outlined previously), they do not account for the escalation to Level 5 restrictions. In addition, while the annual figure for the year has been revised, monthly profiles have not been adjusted (the *Fiscal Monitor* for October assesses outturns against the profiles published alongside the SPU).

In previous months, tax receipts performed closer to initial (pre-COVID-19) profiles set out in January's *Medium-Term Fiscal Strategy* (MTFS). However, for October, receipts align more closely with the post-COVID-19 profiles set out in the SPU (see Figure 1). Figure 2 shows the cumulative performance of the three largest tax heads against profile, taking into account the updated annual forecasts set out in Budget 2021, as well as the portion of Income Tax and Corporation Tax revenue withheld in October under the CRSS.

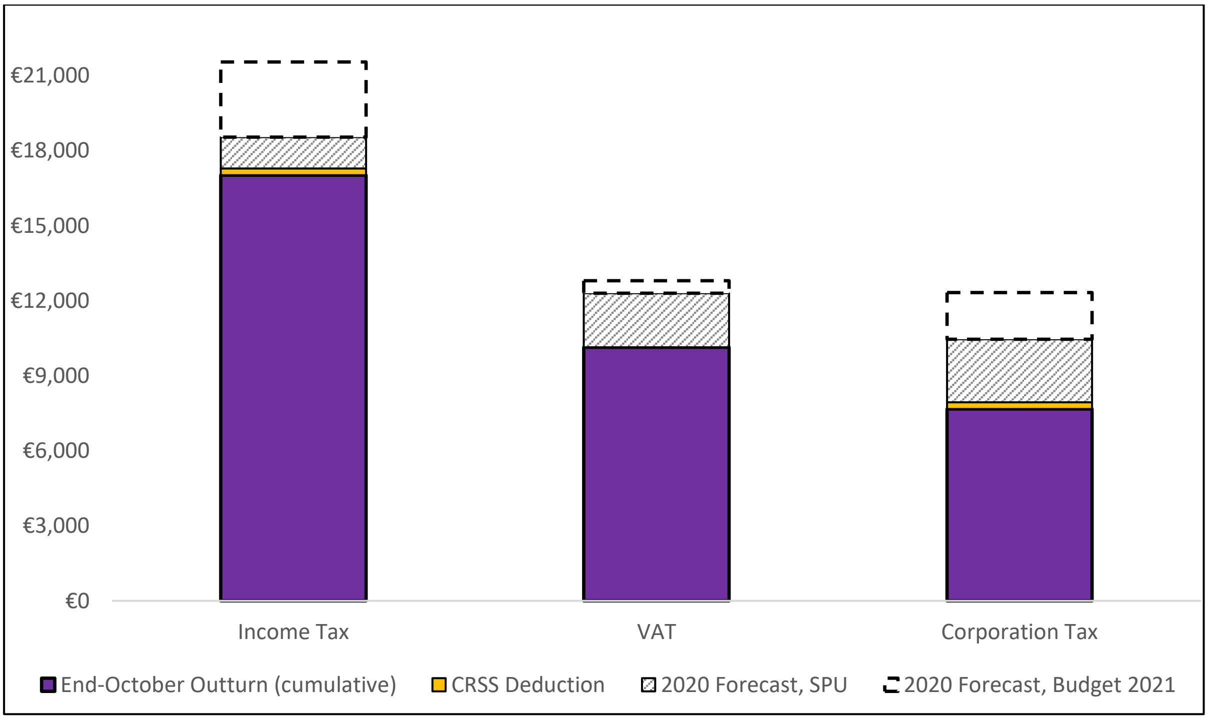
[1] Minister Donohoe received Cabinet approval for drawdown of Rainy-Day Fund for Budget 2021, Department of Finance, Press Release, 6 October 2020.

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



Source: Budget 2021 (October 2020); Medium-Term Fiscal Strategy (MTFS, January 2020); Stability Programme Update (SPU, April 2020); Fiscal Monitor (November 2020); and correspondence with Department of Finance. **Note:** Although the annual forecast for 2020 was revised in Budget 2021, updated monthly profiles in respect of this forecast have not been published.

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



Source: Budget 2021 (October 2020); Irish Fiscal Advisory Council (Fiscal Assessment Report, May 2020), Stability Programme Update 2020, Fiscal Monitor (October 2020). **Note:** "*2020 Forecast, SPU*" refers to the Department's central SPU scenario. Rounding may affect totals.

Key revenue developments[2], October 2020

On 22 October, Ireland moved to Level 5 of the *Plan for Living with COVID-19* for a period of 6 weeks. However, this development will have a lagged impact on receipts. Except for Corporation Tax, which has uncharacteristically underperformed in the month, October saw a continuation of trends observed in preceding months. The Exchequer Balance continues to deteriorate.

- €3.6 billion was collected in October (including the CRSS deduction). This was just €96 million (or 2.6%) below profile, and €601 million (or 14%) below 2019;
- Cumulative tax receipts to end-October totalled €43.2 billion, which was €1.8 billion (or 4%) less than in the same period in 2019. However, this was €6.9 billion (or 19%) greater than profile;
- The Exchequer deficit worsened by €2.3 billion in October and stood at €11.7 billion by the end of the month. This figure is being flattered by the payment from NAMA of €2 billion earlier this year, as well as a €1.5 billion transfer from the Rainy-Day Fund.

Income Tax receipts performed particularly strongly in October. When the CRSS deductions are included, receipts for the month exceeded 2019 levels. The escalation to Level 5 could impact on receipts later this year. However, the distribution of Income Tax payments around certain taxpayers and the sectoral impact of the restrictions to-date,[3] suggests that these receipts should continue to prove resilient.[4]

- At €1.9 billion, monthly receipts were €568 million (or 44%) greater than profile, and €22 million (or 1.2%) above October 2019. In cumulative terms, at €17.3 billion, receipts to end-October were €3 billion (or 21.4%) above profile, and broadly level with 2019 (down by just 1.7%);
- The move to Level 5 appears to have impacted on the number of Pandemic Unemployment Payment (PUP) recipients, as expected. As of November 3, almost 330,000 persons were in receipt of the payment. This was an increase of 34,131 relative to the end of October. The sector with the highest number of people in receipt of the payment is *Accommodation and Food Service Activities* (at 98,233), followed by *Wholesale and Retail Trade* (at 51,921);[5]
- Related to this, the unemployment rate (COVID-19 adjusted) for October was 20.2%, compared to 15.9% for September (a 4.3 percentage point deterioration in the month).[6] This follows successive improvements in the unemployment rate over June

[2] Note that the figures reported here are inclusive of the CRSS deduction of €550 million.
[3] See: Pre-Budget 2021 PBO Commentary, Parliamentary Budget Office, 30 September 2020.
[4] It is worth noting that November is generally the largest month for Income Tax.
[5] Update on Payments Awarded for COVID-19 Pandemic Unemployment Payment and Enhanced Illness Benefit, Press Release, Department of Social Protection, 3 November 2020.
[6] Monthly Unemployment, CSO, October 2020.

to September, and reflects the early impact of the additional restrictions under Level 5, as well as prior decisions to adopt Level 3 restrictions towards end-September and early October (on a regional and national basis).

October is not a VAT-due month, and just €275 million was collected. This was broadly in line with profile. Changes in the standard rate of VAT (from 23% to 21%) and the reduction in the 13.5% rate to 9% for tourism and hospitality (announced as part of Budget 2021) should impact on the level of receipts moving forward. The recent escalations in administrative restrictions on commercial activity will also be a factor, particularly entering a traditionally busy period for retail sales and hospitality in Q4. Real-time indicators point to a deterioration in consumer confidence and in consumption for the month of October, likely reflecting the early impact of the escalation in administrative restrictions at the start of the month.

- At €275 million, VAT receipts are broadly on profile, and just €35 million (or 14.5%) greater than 2019. In cumulative terms, receipts to-date are €781 million (or 8.3%) above profile, but about €2.4 billion (or 19.2%) below 2019;
- The KBC consumer sentiment index[7] fell to its lowest point since May in the month to 23 October (with an 8.1 point monthly drop to 52.6), reversing the rise in consumer sentiment seen in September;
- Data on debit card transactions provided by the Central Bank, indicates that, in the three weeks to 25 October, the volume of transactions decreased by €69 million (or 2%) relative to the same period in September.[8] Similarly, the average daily spend fell by €2.8 million (or 1.9%) over the same period.

Corporation Tax suffered a significant shortfall in October. This follows successive months of overperformance for the tax (against both profile and 2019 levels), with these excess receipts playing a key role in buffering the Exchequer from the decline in other revenues since the onset of the pandemic. It is unclear what the source of the decline is, or if it will be repeated in subsequent months, however, this is a volatile and difficult to predict revenue stream. November is the largest month for Corporation Tax and should provide a better insight into this decline (i.e. if it is a once-off event).

- At €473 million, receipts for October were €655 million (or 58%) below profile, and €574 million (or 55%) below 2019. In cumulative terms, due to a very strong performance throughout the rest of the year to-date, receipts are €1.7 billion (or 27.4%) above profile, and €1 billion (or 15.4%) above 2019.

[7] Irish Consumer Sentiment, KBC Bank, October 2020.
[8] Credit and Debit Card Statistics, Central Bank of Ireland, updated on November 2020.

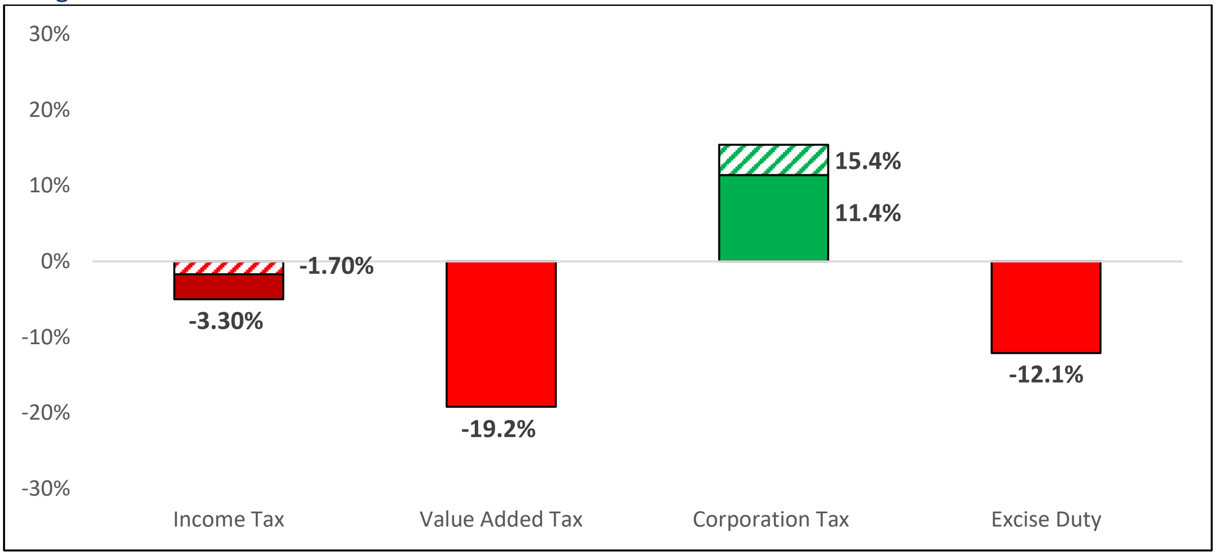
Among the smaller taxes:

- Excise Duty was €81 million (or 13.7%) below profile, and €23 million (or 4.3%) below 2019, with €507 million collected in the month;
- Due to the allocation of previously unallocated receipts[9] (approximately €578 million), Stamp Duty was significantly above profile (by 311.3%), and well above 2019 (by 187.4%). Excluding these unallocated receipts, €257 million was collected in the month;
- Capital Gains Tax exceeded profile for the month by €19 million (or 69.1%), and exceeded 2019 by €14 million (or 41%). Capital Acquisitions Tax was marginally below profile, by €3 million (or 4.3%), and was €32 million (or 33.5%) below 2019;
- Finally, receipts from Motor Tax were below profile by €8 million (or 9.3%), and broadly level with 2019 (just €4 million or 5.1% above last year).

[9] See: Fiscal Monitor for August 2020 – Revenue Analysis, Parliamentary Budget Office, September 2020.

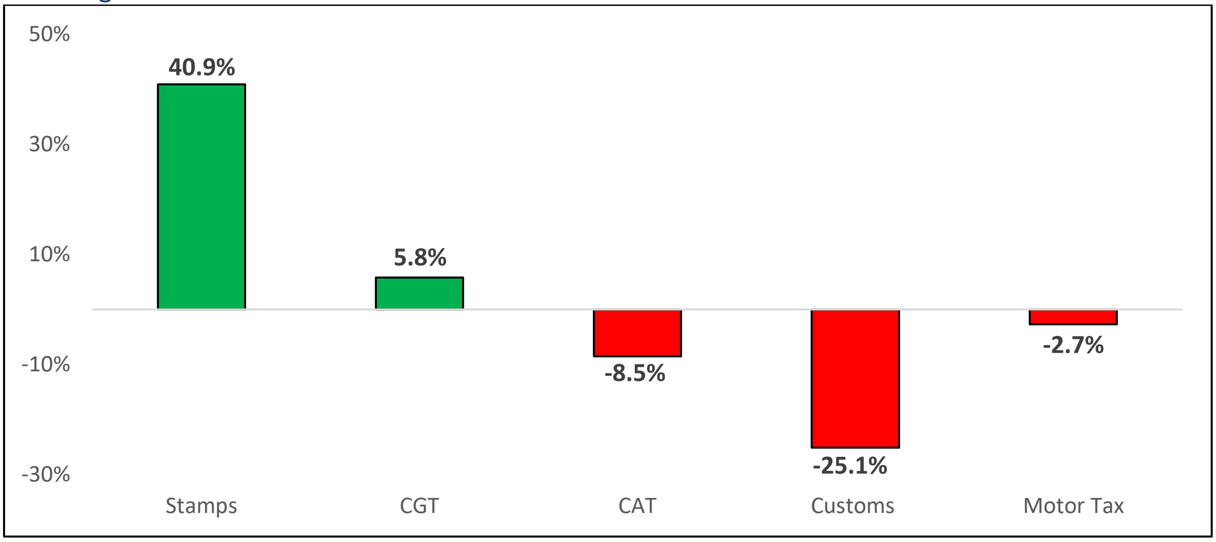
Chart Pack 1: Year-on-year performance

Figure 3a. Cumulative performance: January – October 2020 vs. January – October 2019, largest tax categories



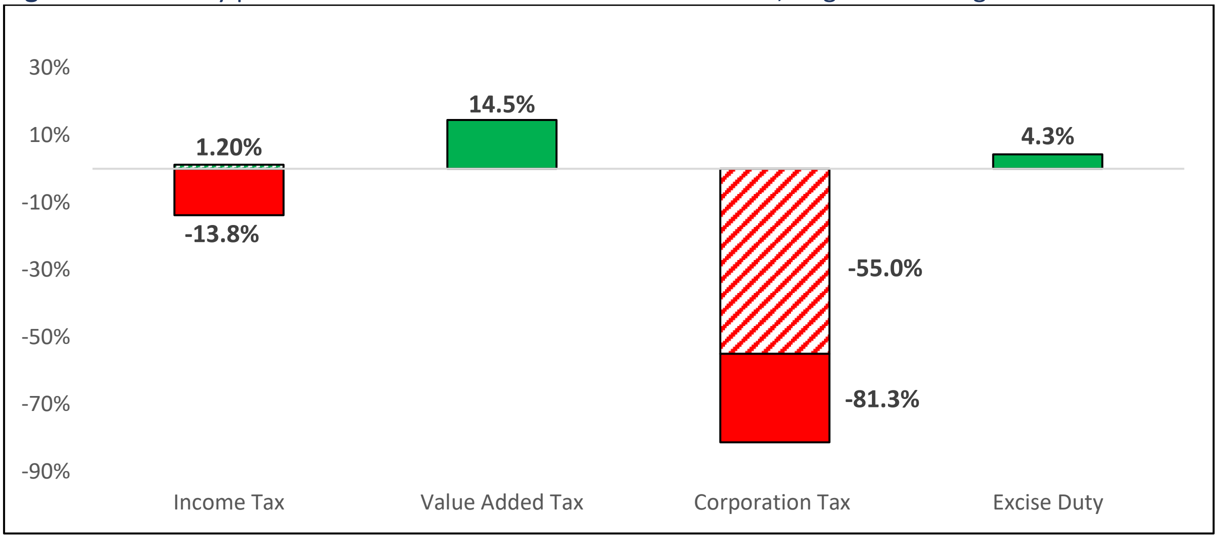
Source: Fiscal Monitor, Department of Finance, October 2020. Rounding may affect totals. **Notes:** The striped portion of each bar shows the performance of the tax once the amount deducted for the CRSS is included. Although the annual forecast for 2020 was revised in Budget 2021, updated monthly profiles in respect of this forecast have not been published.

Figure 3b. Cumulative performance: January – October 2020 vs. January – October 2019, remaining tax categories



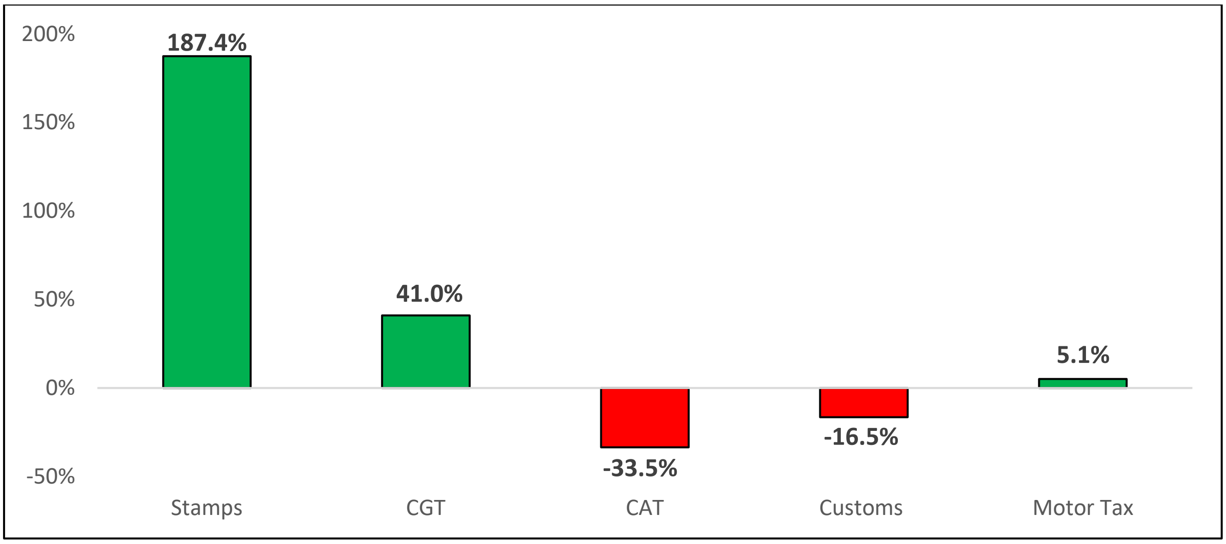
Source: Fiscal Monitor, Department of Finance, October 2020. Rounding may affect totals. **Notes:** Although the annual forecast for 2020 was revised in Budget 2021, updated monthly profiles in respect of this forecast have not been published.

Figure 3c. Monthly performance: October 2020 vs. October 2019, largest tax categories



Source: Fiscal Monitor, Department of Finance, October 2020. Rounding may affect totals. **Notes:** The striped portion of each bar shows the performance of the tax once the amount deducted for the CRSS is included. Although the annual forecast for 2020 was revised in Budget 2021, updated monthly profiles in respect of this forecast have not been published.

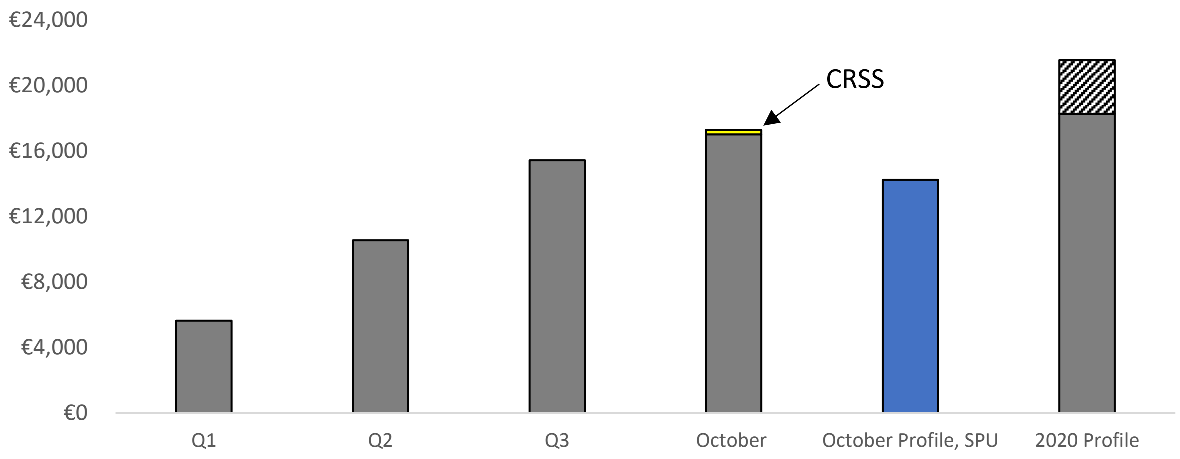
Figure 3d. Monthly performance: October 2020 versus October 2019, remaining tax categories



Source: Fiscal Monitor, Department of Finance, October 2020. Rounding may affect totals. Notes: Although the annual forecast for 2020 was revised in Budget 2021, updated monthly profiles in respect of this forecast have not been published. The strong performance for Stamp Duty is due to the allocation of previously unallocated receipts to this tax head in October.

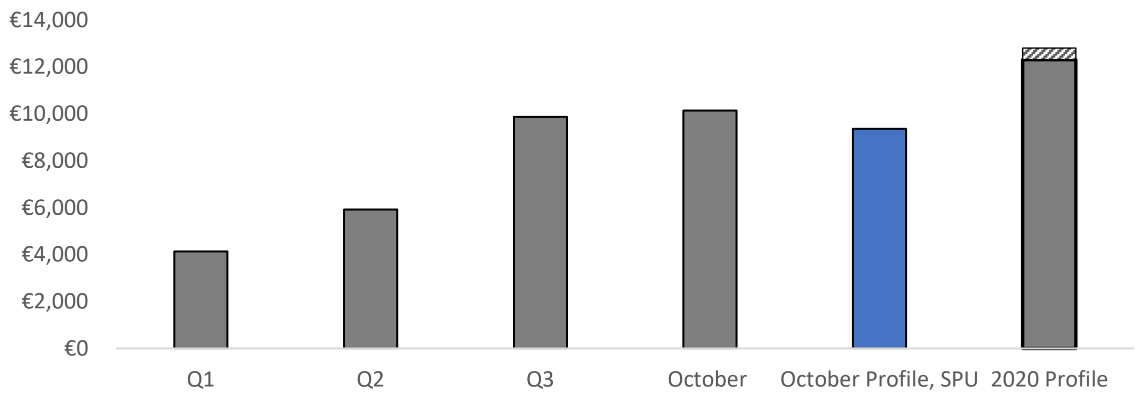
Chart Pack 2: Cumulative performance against profile, largest taxes (€m)

Figure 4a. Income Tax



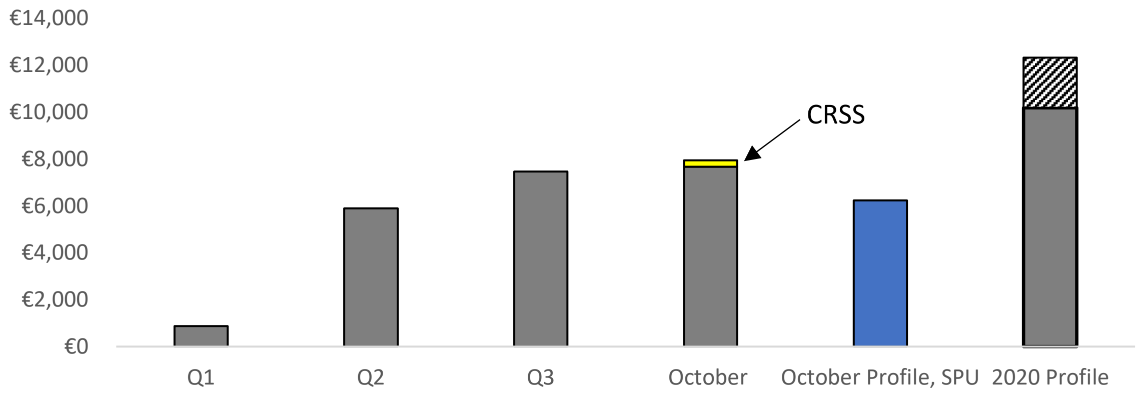
Source: Economic and Fiscal Outlook - Budget 2021, Department of Finance; Fiscal Monitor, Department of Finance, October 2020. Rounding may affect totals. **Notes:** The yellow portion of the "October" bar, shows the portion of tax revenue deducted to facilitate payments under the CRSS. The striped portion of the "2020 Profile" bar, shows the additional receipts expected for the year relative to the original SPU forecasts, in line with projections published alongside Budget 2021. Although the annual forecast for 2020 was revised in Budget 2021, updated monthly profiles in respect of this forecast have not been published.

Figure 4b. VAT



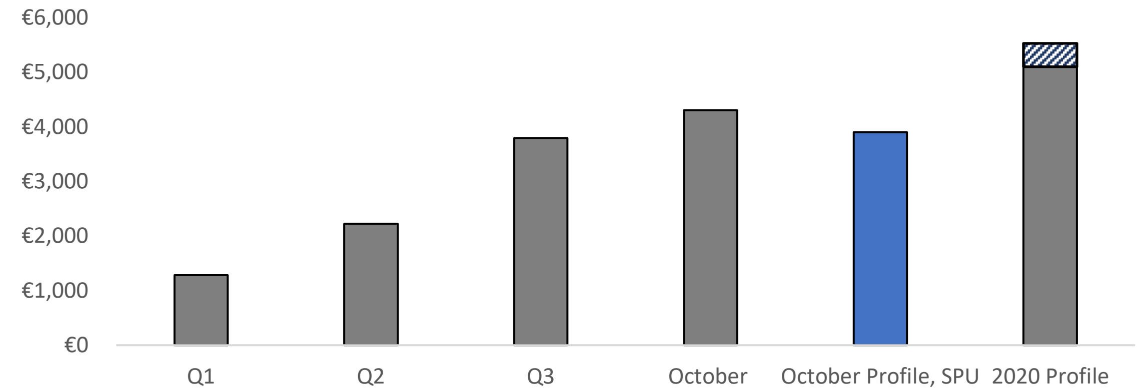
Source: Fiscal Monitor, Department of Finance, October 2020. Rounding may affect totals. **Notes:** The striped portion of the "2020 Profile" bar, shows the additional receipts expected for the year relative to the original SPU forecasts, in line with projections published alongside Budget 2021. Although the annual forecast for 2020 was revised in Budget 2021, updated monthly profiles in respect of this forecast have not been published.

Figure 4c. Corporation Tax



Source: Fiscal Monitor, Department of Finance, October 2020. Rounding may affect totals. **Notes:** The yellow portion of the "October" bar, shows the portion of tax revenue deducted to facilitate payments under the CRSS. The striped portion of the "2020 Profile" bar, shows the additional receipts expected for the year relative to the original SPU forecasts, in line with projections published alongside Budget 2021. Although the annual forecast for 2020 was revised in Budget 2021, updated monthly profiles in respect of this forecast have not been published.

Figure 4d. Excise Duty



Source: Fiscal Monitor, Department of Finance, October 2020. Rounding may affect totals. **Notes:** The striped portion of the "2020 Profile" bar, shows the additional receipts expected for the year relative to the original SPU forecasts, in line with projections published alongside Budget 2021. Although the annual forecast for 2020 was revised in Budget 2021, updated monthly profiles in respect of this forecast have not been published.