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Parliamentary Budget Office



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## Fiscal Monitor for November 2020 – Revenue Analysis

PBO Publication 68 of 2020

### Introduction and key issues

November is generally the largest tax collection month of the year. However, the figures reported in this month's *Fiscal Monitor* are skewed by multiple factors. The lack of detail in the information provided by the Department in outlining these factors further complicates the interpretation of the tax figures. These issues are detailed below.

**1) Income Tax figures have been impacted by the decision to further extend the deadline for payment of self-assessed Income Tax, from 12 November to 10 December.**

As a result, the due date for the payment of preliminary tax for 2020, and any tax balance due for 2019, was extended by four weeks. This is a forbearance measure, intended to assist those who have been impacted by the COVID-19 pandemic. As this is a timing issue, these returns will instead be received in December. A similar extension applies to Capital Acquisitions Tax (CAT) in 2020.

However, it is worth noting that this extension was announced by Revenue in September,<sup>1</sup> and so, it could have been reflected in an updated profile for November and December. Furthermore, a breakdown of Income Tax receipts between the PAYE and self-assessed Income Tax components would provide a clearer view of how the tax is performing, and the extent to which this factor has impacted on receipts for November. At present, Income Tax receipts are reported by the Department on an aggregate basis.

**2) Last month, the tax figures were reported net of a deduction that was made to facilitate payments under the COVID Restrictions Support Scheme (CRSS). This month, an unspent portion of this deduction has been added-back, flattering the performance of Income Tax and Corporation Tax in November.**

A total of €550 million was deducted from October's tax returns to facilitate payments under the CRSS. Of this, €430 million has been added-back and included in November's tax returns.

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<sup>1</sup> [Revenue announces further extension to the Pay and File deadline](#), Revenue Commissioners, Press Release, 17 September 2020.

This complicates the assessment of the monthly performance against profile and on an annual basis.

As an alternative, the reporting of all tax receipts for the month in which they are received would provide a clearer view of the real time performance of each tax. To that end, the CRSS deduction of €550 million could instead have been included with October's tax data, as it pertains to that month, rather than adding any unspent portion to November's receipts. In general, consideration should be given to the development of a best practice approach to reporting tax data where deductions of this nature are required.

**3) The *Fiscal Monitor* notes that the escalation to Level 5 of the Government's *Plan for Living with COVID-19* on 22 October, limits the effective comparison of receipts against profile and on a year-on-year basis.**

It is worth noting that the impact of these restrictions is only partially reflected in November's tax returns, as restrictions were imposed towards the end of October. Further impacts will be seen in the figures for December and January.

In addition, the *Fiscal Monitor* continues to reference outdated profiles that were published in April as part of the *Stability Programme Update*.<sup>2</sup> While the tax revenue forecasts underpinning these profiles were revised in Budget 2021 (in October), the profiles included in the *Fiscal Monitor* have not been updated to reflect this (on either a monthly or an annual basis). For example, in November's *Fiscal Monitor*, total tax revenue is assessed against an annual profile for 2020 of €49.6 billion (the SPU forecast) rather than €56.7 billion (the Budget 2021 forecast).<sup>3</sup>

More generally, and as outlined in the PBO's post-Budget 2021 commentary,<sup>4</sup> the PBO would welcome the publication by the Department of updated fiscal forecasts that could feed into the preparation of revised profiles. This would give a clearer view of the impact of the recent escalation to Level 3 and Level 5 restrictions on tax receipts and would facilitate greater budgetary oversight and scrutiny in general.

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<sup>2</sup> [Stability Programme Update 2020](#), Department of Finance, 21 April 2020.

<sup>3</sup> [Budget 2021 – Economic and Fiscal Outlook](#), Department of Finance, 13 October 2020.

<sup>4</sup> [Post-Budget 2021 Commentary](#), Parliamentary Budget Office, Publication 61 of 2020, 4 November 2020.

## Overview of performance in November

When assessing the tax data for October last month, our analysis<sup>5</sup> included the full deduction of €550 million that was made in respect of October's receipts. In our assessment of the *monthly* tax data for November, **we do not include the €430 million of this deduction** that the Department added-back to November's figures. This allows for better comparability of the tax data for these two months and provides a clearer view of the performance of tax revenue.

In total, €8.1 billion was collected in November. This was 11.3% below profile, and 18.4% below 2019. This was the first-time that tax revenue underperformed profile since April (see Figure 1, while Figure 2 shows the cumulative performance of the three largest taxes against the revised annual forecasts published in Budget 2021).

Much of this underperformance was driven by Income Tax (which has proven resilient to-date), and likely a result of the extension of the deadline for receipt of self-assessed Income Tax until December. After a significant monthly underperformance in October, Corporation Tax was broadly on profile in November (the largest month for the tax). However, it underperformed relative to November 2019. While November is a VAT-due month, these receipts also significantly underperformed. This was likely a result of both the early impact of the escalation to Level 5 restrictions on commercial activity in limiting personal consumption, as well as the reduction in the standard rate of VAT.

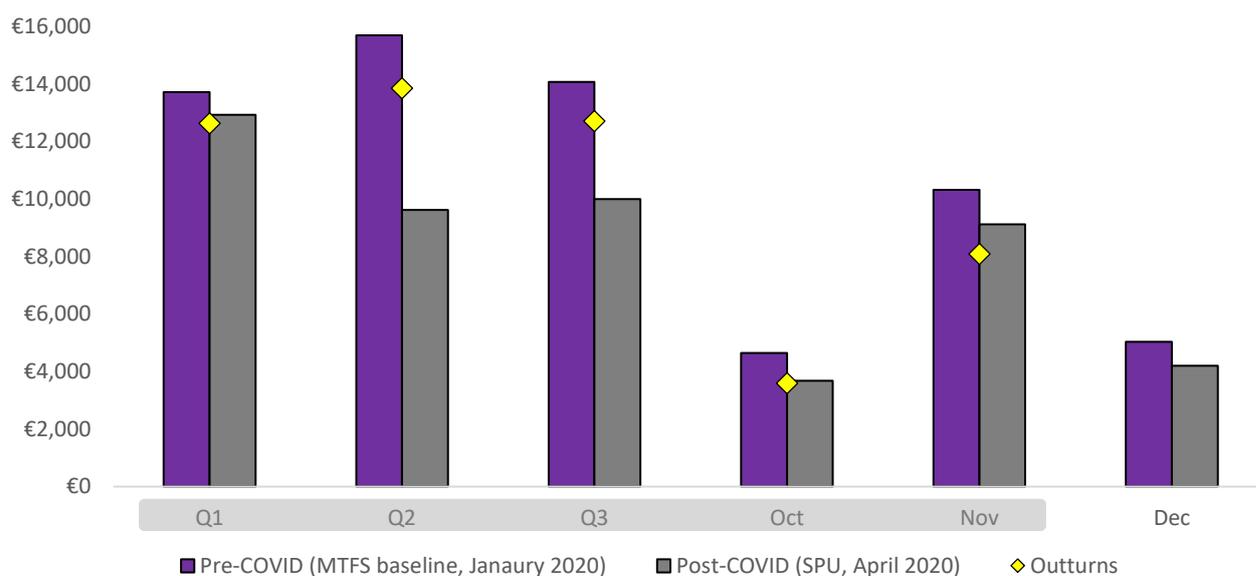
When Budget 2021 was announced, total tax revenue for 2020 was expected to be €56.7 billion. To achieve this level, €5.6 billion in tax revenue will need to be collected in December. This is significantly more than the €4.4 billion collected in December 2019.

The Exchequer deficit was approximately €9 billion at end-November, improving by €2.7 billion relative to October. However, this is a deterioration of €12.3 billion year-on-year.

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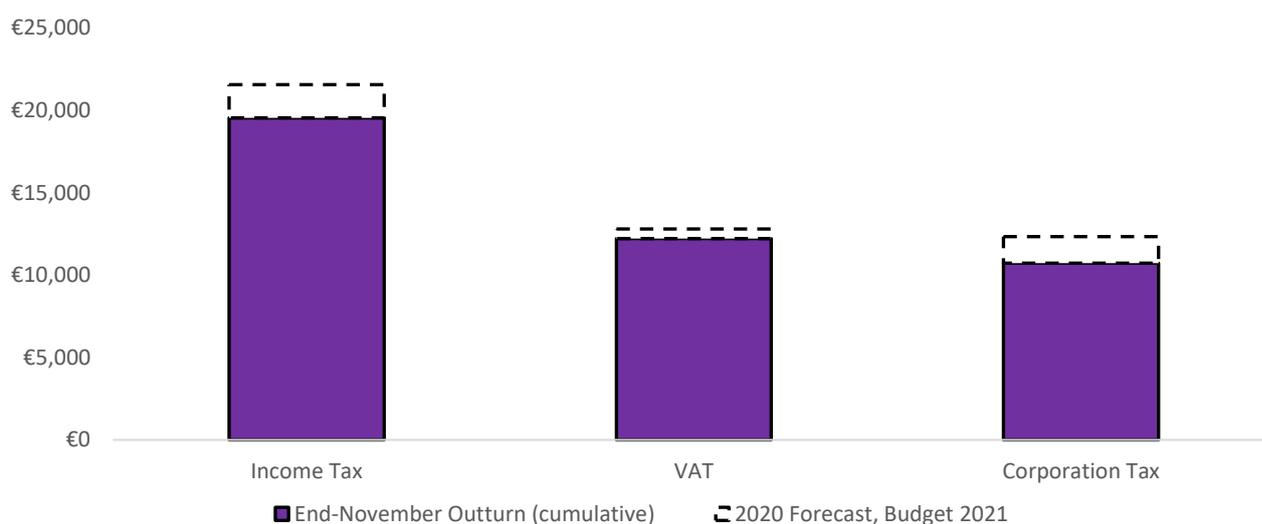
<sup>5</sup> [Fiscal Monitor for October 2020 – Revenue Analysis](#), Parliamentary Budget Office, 10 November 2020.

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 (November 2020). **Note:** The “Post-COVID” profiles are those that were published in the Stability Programme Update as part of the Department’s “Central” scenario. Although annual revenue forecasts for 2020 were revised in Budget 2021, updated monthly profiles in respect of these forecasts have not been published. The revenue figure for October includes the €550m deduction that was made under the CRSS. For this reason, the figure for November does not include the unspent €430m from this deduction that the Department added-back to November’s figures in the Fiscal Monitor publication. This allows for a more intuitive interpretation of the figures and for better comparability of the tax data for these two months.

Figure 2. Cumulative revenue from Income Tax, VAT and Corporation Tax for 2020, against Budget 2021 forecasts (€m)



**Source:** Budget 2021 (October 2020); Fiscal Monitor (November 2020). **Note:** The cumulative figures above are as reported in the Fiscal Monitor for November.

## Key revenue developments, November 2020

The escalation to Level 5 restrictions on October 22 has only partially impacted on November's tax returns – this impact will manifest more fully in December and January. Notwithstanding this, the largest two taxes underperformed in November (generally the largest tax month of the year), while Corporation Tax was almost exactly on profile. The Exchequer Balance at end-November represents a deterioration of over €12 billion in annual terms, emphasising the significant fiscal impact of the pandemic to-date.

- €8.1 billion was collected in November (to reiterate, our analysis excludes the €430 million from October's receipts that was added-back for November). This was €1 billion (or 11.3%) below profile, and €1.8 billion (or 18.4%) below 2019;
- Cumulative tax receipts to end-November totalled €51.1 billion, which was €3.8 billion (or 6.9%) less than in the same period in 2019. However, this was €5.8 billion (or 12.7%) greater than profile;
- The Exchequer deficit was approximately €9 billion at end-November, improving by €2.6 billion relative to October. However, this is a deterioration of €12.3 billion year-on-year.

November is usually the largest month for Income Tax, as it includes receipts from the self-employed (these are generally due at end-October or mid-November if paid online). However, this deadline was extended to early December. This, in part, explains the striking underperformance of Income Tax in November. This is a timing issue and these receipts will be counted in December's returns. There were 25,000 more recipients of the Pandemic Unemployment Payment (PUP) at end-November versus end-October, and November saw a modest increase in the COVID-adjusted unemployment rate, reflecting the impact of nationwide Level 5 restrictions.

- At €2.2 billion, monthly receipts were €356 million (or 13.7%) below profile, and €1.3 billion (or 36.3%) below November 2019. In cumulative terms, at €19.5 billion, receipts to end-November were €2.7 billion (or 15.9%) above profile, and €1.6 billion (or 7.5%) below 2019;
- As of 1 December, 351,400 people were in receipt of the PUP. This was an increase of 25,000 relative to November 3, and a minor decrease of 654 relative to the previous week (November 24). *Accommodation and Food Service Activities* remains the sector with the highest number of people in receipt of the payment (with 102,321), followed by *Wholesale and Retail Trade* (with 56,893).<sup>6</sup> The numbers in receipt of the PUP in these two sectors should decline in line with the easing of restrictions from December 1 and 4;

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<sup>6</sup> [Update on Payments Awarded for COVID-19 Pandemic Unemployment Payment and Enhanced Illness Benefit](#), Press Release, Department of Social Protection, 3 November 2020.

- The unemployment rate (COVID-19 adjusted) was 21% for November, compared to 20.2% for October (a modest 0.8 percentage point deterioration in the month).<sup>7</sup> This follows successive improvements in the unemployment rate over June to September, before a sizeable deterioration in October (of 4.3 percentage points). The deterioration for October reflects the initial impact of nationwide Level 5 restrictions, as well as prior decisions to adopt Level 3 restrictions towards end-September and early October (on a regional and national basis).

November is a VAT-due month. In November 2020 VAT substantially underperformed profile and was considerably below November 2019. This is likely the result of several factors, including the partial impact of Level 5 restrictions (which were in place for roughly one-fifth of this VAT-period), and reductions in the standard rate of VAT.<sup>8</sup> Real-time indicators for November suggest that, despite the escalation in administrative restrictions adversely impacting on consumer spending, consumer confidence for the month was strong.

- €2 billion in VAT receipts were collected in November. This was €553 million (or 21.1%) below profile, and €215 million (or 9.4%) below 2019. In cumulative terms, receipts to-date are still €228 million (or 1.9%) above profile, but €2.6 billion (or 17.7%) below 2019;
- The KBC Consumer Sentiment Index<sup>9</sup> rose to 65.5 for November, the strongest performance of the index since the pandemic began in March. This is an increase of 12.9 points relative to October, which saw a monthly dip of 8.1 points after a recovery throughout the summer, reflecting the tightening of restrictions in the month. The index is down 11.6 points on last year;
- Data on debit card transactions provided by the Central Bank, indicates that, in the three weeks to 23 November the volume of transactions decreased by €234 million (or 6.9%) relative to the same period in October.<sup>10</sup> Similarly, the average daily spend fell by €10 million (or 6.9%) over the same period, reflecting the impact of the escalation in administrative restrictions on consumer spending;
- Compared to September, the Retail Sales Index (tracking the volume of sales) decreased by 0.7% in October but was up 8.1% on last year. October's figure was also ahead of February 2020 (pre-pandemic), by 10.6%. However, while some sectors have seen a sizeable recovery, *Bars* remain significantly affected by administrative restrictions, down relative to October 2019 by 75.2%;<sup>11</sup>

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<sup>7</sup> [Monthly Unemployment](#), CSO, November 2020.

<sup>8</sup> The 13.5% VAT rate was reduced to 9% for certain activities from 1<sup>st</sup> November. However, as VAT is paid in arrears this will not affect VAT revenue until next month at the earliest.

<sup>9</sup> [Irish Consumer Sentiment](#), KBC Bank, October 2020.

<sup>10</sup> [Credit and Debit Card Statistics](#), Central Bank of Ireland, updated on November 2020.

<sup>11</sup> [Retail Sales Index](#), 27 November 2020.

- There was a significant increase in personal consumption in Q3 2020, rising by 21.3% relative to Q2, in line with the easing of administrative restrictions over the summer months. However, consumption for Q3 2020 was still down 5.7% relative to Q3 2019.<sup>12</sup>

November is generally the largest month for Corporation Tax. Following a sizeable shortfall last month, receipts were almost exactly on profile for November. Corporation Tax has generally outperformed expectations throughout 2020, and this has played a key role in buffering the Exchequer from the decline in other revenues since the onset of the pandemic.

- €2.9 billion was collected in November. This was almost exactly on profile (below by just €1 million), and €242 million (or 7.7%) below 2019. In cumulative terms, due to the persistent outperformance of the tax throughout the rest of the year, receipts are still €1.6 billion (or 17.5%) above profile, and €708 million (or 7.1%) above 2019.

Among the smaller taxes:

- Excise Duty was €23 million (or 4.3%) below profile, but €50 million (or 11%) above 2019, with €506 million collected in the month. The Department has indicated that the monthly outperformance of Excise compared to 2019, could reflect increases in domestic spending on products subject to the tax (e.g. tobacco products), given the dramatic fall in international travel;
- Stamp Duty was €24 million (or 21.4%) above profile and €11 million (or 8.5%) above 2019. Capital Gains Tax was above profile for the month by €13 million (or 20%), but was below 2019 by €10 million (or 10.9%);
- Capital Acquisitions Tax (CAT) was significantly below profile, by €97 million (or 53.2%), and was €151 million (or 63.9%) below 2019. This CAT shortfall is likely due to the extension of the deadline for people who pay and file online, to 10 December 2020, from the normal deadline of mid-November;<sup>13</sup>
- Finally, receipts from Motor Tax were below profile by €25 million (or 29%), but broadly level with 2019 (up by just €1 million or 1.7%).

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<sup>12</sup> [Quarterly National Accounts](#), Q3 2020, CSO.

<sup>13</sup> [Revenue announces further extension to the Pay and File deadline](#), Press Release, Revenue, 17 September 2020.

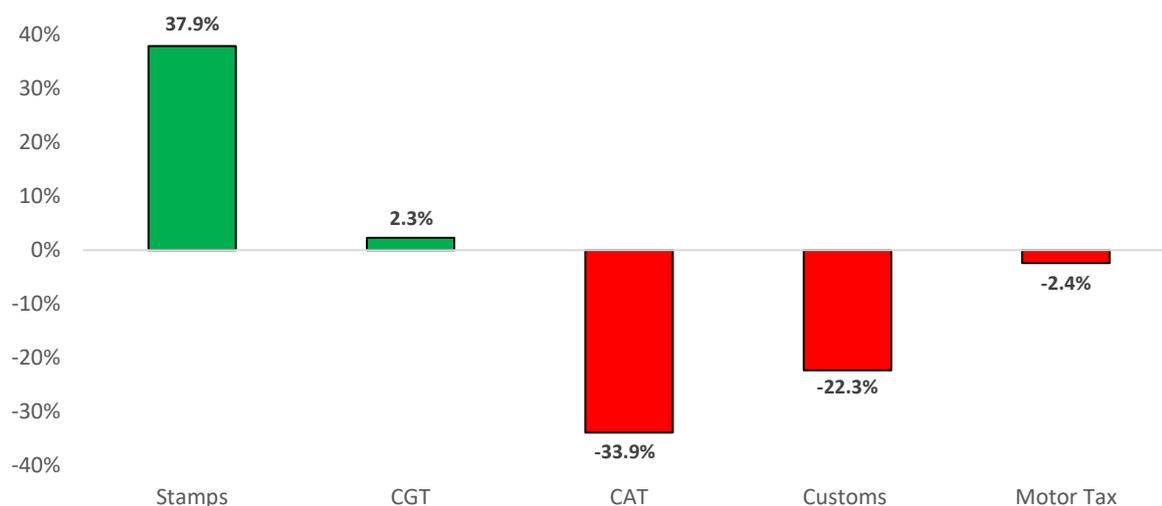
### Chart Pack 1: Year-on-year performance

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



**Source:** Fiscal Monitor, Department of Finance, November 2020. Rounding may affect totals. **Notes:** The cumulative figures above are as reported in the Fiscal Monitor for November. Although annual forecasts for 2020 were revised in Budget 2021, updated monthly profiles in respect of these forecasts have not been published.

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



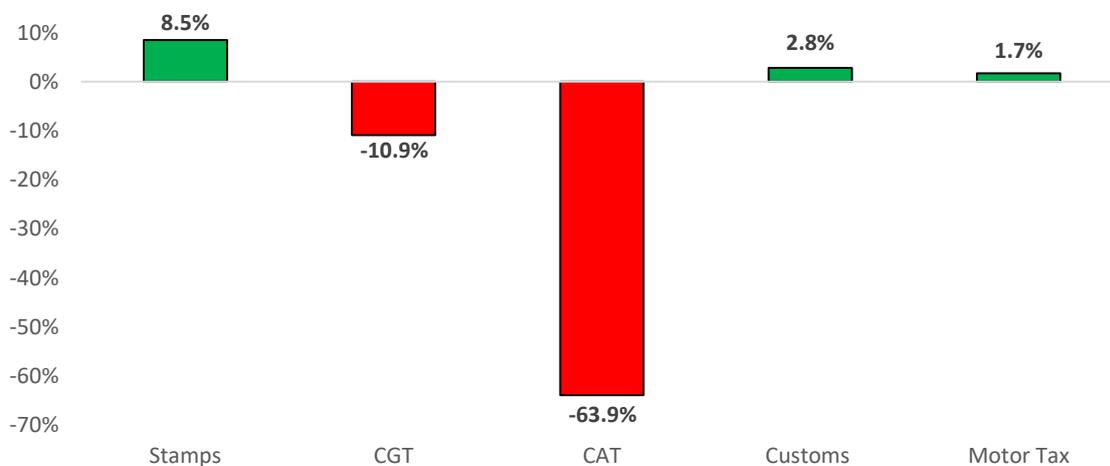
**Source:** Fiscal Monitor, Department of Finance, November 2020. **Notes:** The cumulative figures above are as reported in the Fiscal Monitor for November. Although annual forecasts for 2020 were revised in Budget 2021, updated monthly profiles in respect of these forecasts have not been published. Rounding may affect totals.

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



**Source:** Fiscal Monitor, Department of Finance, November 2020. **Notes:** The revenue figure for November does not include €430m that the Department added-back to November’s figures (€262m to Income Tax and €169m to Corporation Tax), that was originally deducted from October’s tax returns. This allows for a more intuitive interpretation of the figures and for better comparability of the tax data for these two months. Although annual forecasts for 2020 were revised in Budget 2021, updated monthly profiles in respect of these forecasts have not been published. Rounding may affect totals.

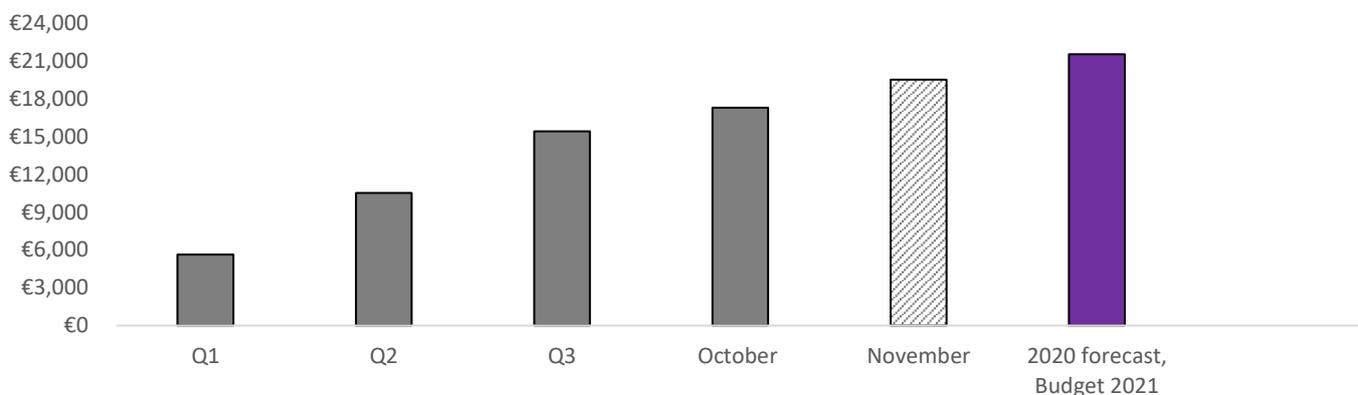
**Figure 3d.** Monthly performance: November 2020 versus November 2019, remaining tax categories



**Source:** Fiscal Monitor, Department of Finance, November 2020. **Notes:** Although annual forecasts for 2020 were revised in Budget 2021, updated monthly profiles in respect of these forecasts have not been published. Rounding may affect totals.

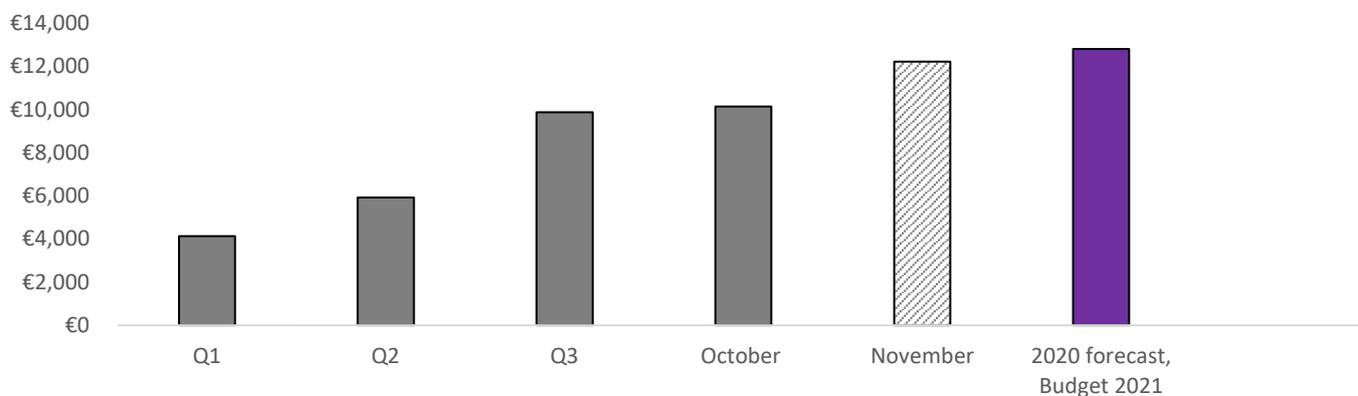
## Chart Pack 2: Cumulative performance against forecast, largest taxes (€m)

**Figure 4a. Income Tax**



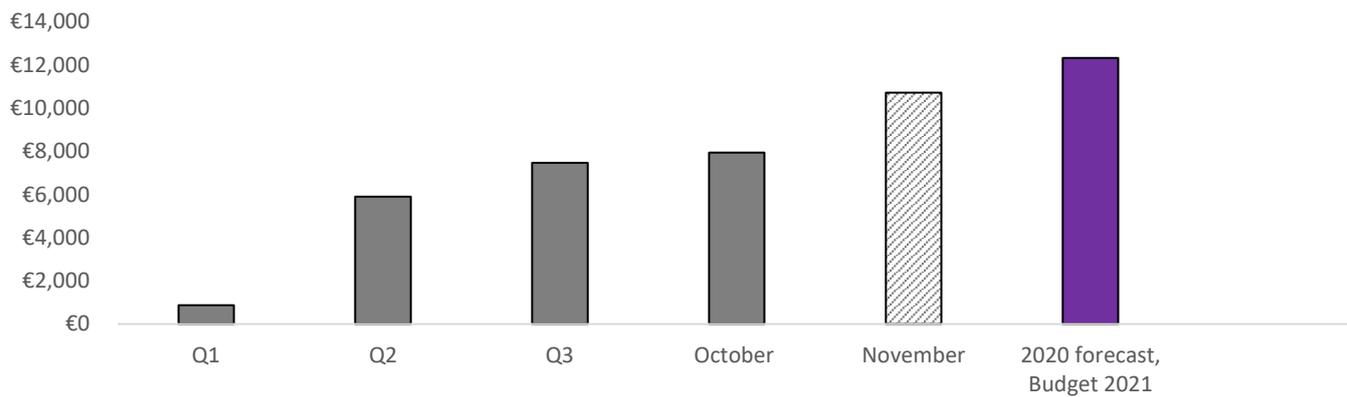
**Source:** Economic and Fiscal Outlook - Budget 2021, Department of Finance; Fiscal Monitor, Department of Finance, November 2020. **Notes:** The cumulative figures above are as reported in the Fiscal Monitor for November. Although annual forecasts for 2020 were revised in Budget 2021, updated monthly profiles in respect of these forecasts have not been published. Rounding may affect totals.

**Figure 4b. VAT**



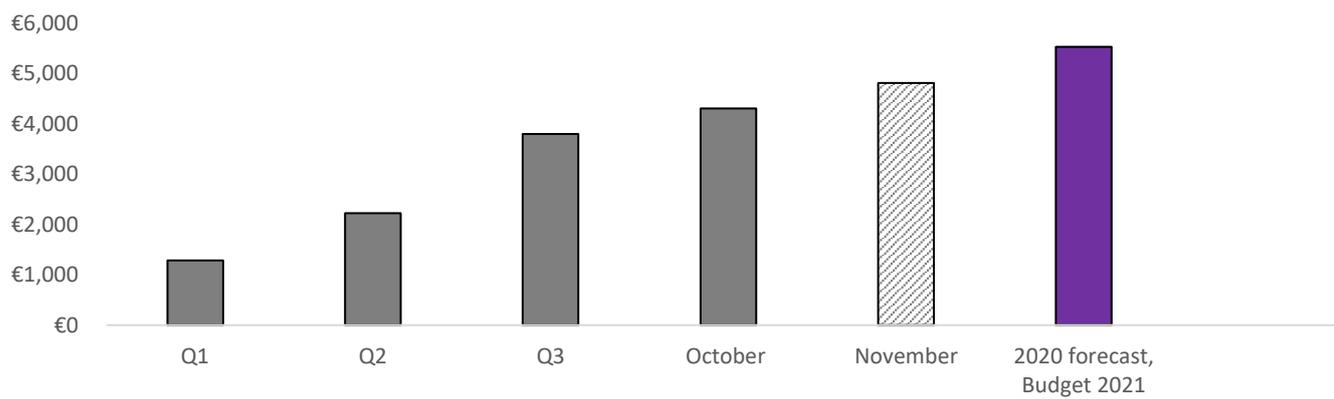
**Source:** Fiscal Monitor, Department of Finance, November 2020. **Notes:** The cumulative figures above are as reported in the Fiscal Monitor for November. Although annual forecasts for 2020 were revised in Budget 2021, updated monthly profiles in respect of these forecasts have not been published. Rounding may affect totals.

**Figure 4c.** Corporation Tax



**Source:** Fiscal Monitor, Department of Finance, November 2020. **Notes:** The cumulative figures above are as reported in the Fiscal Monitor for November. Although annual forecasts for 2020 were revised in Budget 2021, updated monthly profiles in respect of these forecasts have not been published. Rounding may affect totals.

**Figure 4d.** Excise Duty



**Source:** Fiscal Monitor, Department of Finance, November 2020. **Notes:** The cumulative figures above are as reported in the Fiscal Monitor for November. Although annual forecasts for 2020 were revised in Budget 2021, updated monthly profiles in respect of these forecasts have not been published. Rounding may affect totals.