An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

Tithe an Oireachtais
Houses of the Oireachtas

Fiscal Monitor for December 2020 – Revenue Analysis

Introduction

A recurring feature of the monthly reporting of tax data by the Department of Finance over the past year, has been the relative resilience of tax revenues in the face of a severe economic shock; despite substantial restrictions on commercial activity to contain the spread of COVID-19, certain tax receipts continuously outperformed expectations.

Projecting the fiscal impact of the pandemic through 2020 proved challenging, and forecasts of tax revenue were revised multiple times. The macroeconomic variables used to predict revenue from each tax (e.g. personal consumption in the case of VAT) are difficult to forecast in such volatile conditions. In addition, the historic relationship between these macroeconomic variables and the taxes of interest (captured by the elasticity) may not hold during times of crisis. As an example, if the employment impact of a crisis disproportionately affects those on the lower-end of the earnings distribution (who contribute relatively less in Income Tax revenue), then predicting changes to aggregate Income Tax revenue from changes in aggregate employment or wages, may not yield reliable estimates (as was the case for Income Tax in 2020).

The pre-COVID-19 estimate of tax revenue for 2020 was €63.5 billion.[1] The first set of forecasts to account for the potential impact of the pandemic, were set out in the Stability Programme Update (April),[2] with receipts for 2020 then expected to be €49.6 billion. This figure was revised upwards in Budget 2021 (October),[3] to €56.7 billion. Cumulatively, end-year tax receipts for 2020 were €57.2 billion; this is €7.6 billion (or 15.3%) above April's profile and €470 million or 0.8% above the updated Budget 2021 forecast for the year. When compared to 2019, receipts were down €2.1 billion (or 3.6%).

For 2021, the latest set of forecasts from October's budget, indicate that tax revenue will be €60.3 billion. However, this forecast does not account for the escalation to Level 5 restrictions beginning end-December and was based on a more disorderly Brexit outcome. For example, in Budget 2021,

[1] Medium-Term Fiscal Strategy, Department of Finance, 9 January 2020.
[2] Stability Programme Update, Department of Finance, 21 April 2020.
[3] Budget 2021 – Economic and Fiscal Outlook, Department of Finance, 13 October 2020.

customs duties were forecast to increase to almost €1 billion from €265 million (with three-quarters of the revenue going to the EU) in the no UK-EU trade agreement scenario. With the Brexit agreement in place, the bulk of the projected increase will not happen.

The PBO would welcome the publication by the Department of updated fiscal forecasts that could feed into the preparation of monthly profiles for 2021. This would facilitate greater budgetary oversight and scrutiny. These updated forecasts could be prepared under a broader scenario analysis and/or presented as a range of potential estimates, to reflect the inherent uncertainty at present. More generally, updated forecasts could be provided on a quarterly basis for the duration of the current crisis and might optimally follow the publication of quarterly national accounts data by the CSO.

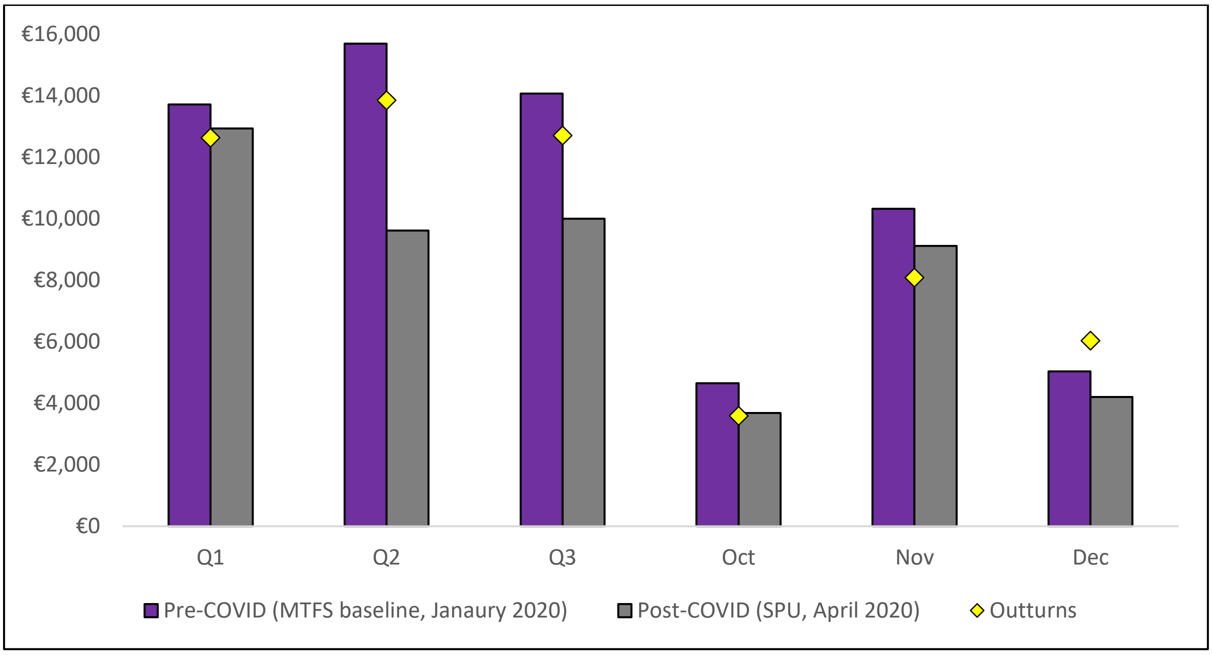
Throughout 2020, the *Fiscal Monitor* continued to reference outdated profiles that were first published in April as part of the Stability Programme Update. For example, in November's Fiscal Monitor, total tax revenue was assessed against an annual profile for 2020 of €49.6 billion (the SPU forecast) rather than €56.7 billion (the Budget 2021 forecast). Updated forecasts should also be reflected in updated monthly profiles for the year.

The monthly revenue figure for December, at €6 billion, indicates an increase of €1.6 billion (or 36.4%) relative to 2019. This is likely a result of deferred Income Tax and Capital Acquisitions Tax payments from November (when it is ordinarily due) to December. However, it is worth noting that this extension was announced by Revenue in September, and so, it could have been reflected in updated profiles for November and December.[4]

The Exchequer deficit at year-end was €12.3 billion. This was a deterioration of almost €13 billion relative to 2019, and a deterioration of roughly €3.3 billion relative to November. However, the general government deficit for the year, at €19 billion, is €2.6 billion lower than what was projected in Budget 2021. This is a result of both the outperformance of tax revenue versus expectations as well as lower than expected public spending (by approximately €2 billion).

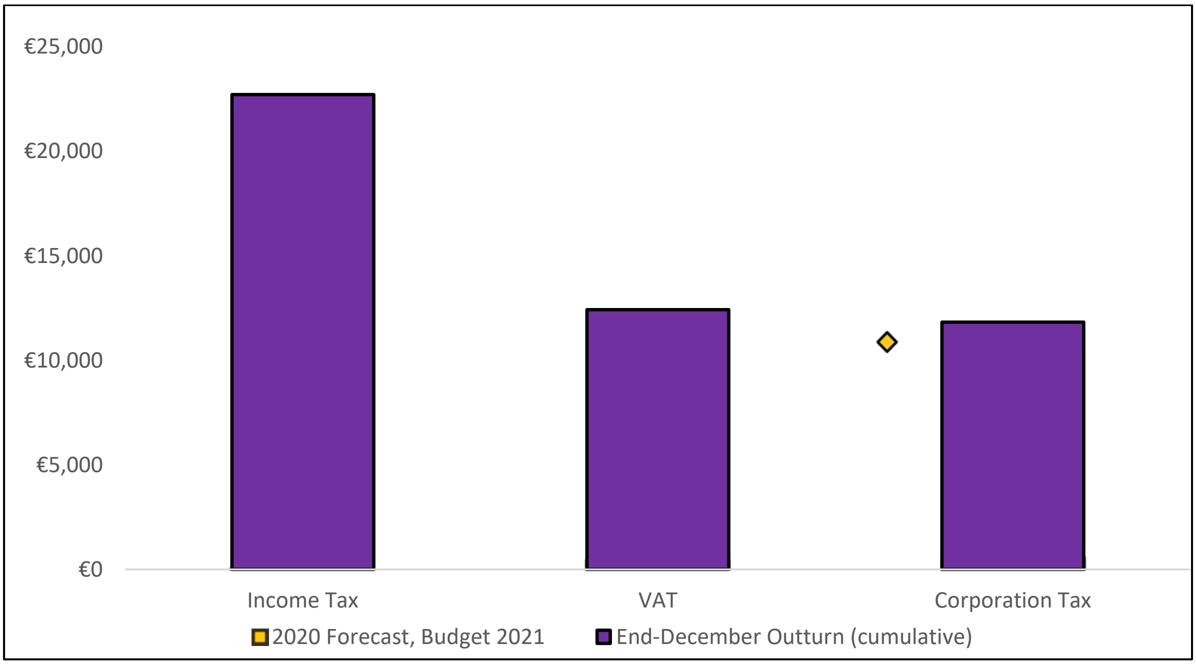
[4] Revenue announces further extension to the Pay and File deadline, Revenue Commissioners, Press Release, 17 September 2020.

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 (December 2020).

Figure 2. Income Tax, VAT and Corporation Tax revenue for 2020 under the Department's forecast and actual outturn (€m)



Source: Budget 2021 – Economic and Fiscal Outlook (October 2020); Fiscal Monitor (December 2020).

Key revenue developments, December 2020

Tax revenue figures for December appear relatively positive, however, annual comparisons and comparisons against profile are complicated by the inclusion of certain deferred receipts from Income Tax and Capital Acquisitions Tax from November (when they are usually collected). Noting this:

- Tax revenue for December was approximately €6 billion, an increase of €1.6 billion (or 36.4%) on December 2019, and €1.8 billion (or 43.5%) above profile. Cumulative receipts for 2020 of €57.1 billion, were €2.1 billion lower than 2019 (or 3.6%), and €7.6 billion (or 15.3%) above profile. Generally, the impact of the pandemic on tax revenue was much less severe than originally expected given the unprecedented impact of the COVID-19 pandemic on economic activity throughout the year;
- Overall Exchequer revenue for the year (including capital resources and non-tax revenues but excluding Appropriations-in-Aid) amounted to €65 billion, a decrease of just €598 million or 0.9% on 2019. This figure was flattered by the inclusion of NAMA receipts (€2 billion) and transfers from the Rainy-day Fund (€1.5 billion) and the Social Insurance Fund (€1.8 billion);
- The Exchequer deficit at year-end was €12.3 billion. This was a deterioration of almost €13 billion relative to 2019, and a deterioration of roughly €3.3 billion relative to November;

Corporation Tax continuously outperformed expectations in 2020 (except for October where receipts were below profile). This strong performance has done much to enhance aggregate receipts, compensating for the decline in other revenues. As noted in previous PBO publications, this overreliance on Corporation Tax presents risks. In 2020, Corporation Tax accounted for over one-fifth of tax revenue, almost level with VAT, the second largest category of tax. The underperformance of Corporation Tax in October served to highlight the potential for this tax to surprise on the downside, and the adverse effect that this underperformance can have on the headline fiscal position.

- Corporation Tax receipts for December amounted to €1.1 billion, an increase of €237 million (or 26.9%) on 2019. This was €48 million (or 4.5%) above profile for the month;
- The annual figure for 2020 was €11.8 billion, an increase of €945 million (or 8.7%) on 2019, and €1.6 billion (or 16.2%) above profile.

Income Tax receipts have been remarkably resilient throughout 2020, performing significantly better than expected.[5] **While this has strengthened the headline fiscal position, it does highlight that the Income Tax base is relatively narrow and emphasises the extent to which the Exchequer is reliant on the tax contributions of higher earners.** In other words, workers in the least impacted sectors tend to contribute more in Income Tax receipts than those in the most impacted sectors.[6]

- €3.2 billion was collected in Income Tax in December, this was €1.8 billion (or 124.4%) above profile, and €1.4 billion (or 75.5%) above 2019. This result was largely due to the inclusion of self-employed Income Tax receipts in December's returns (these receipts are typically due in November, but their payment was deferred as a COVID-19 forbearance measure);
- The annual figure was €22.7 billion – a shortfall of just €224 million (or 1%) relative to 2019, and €4.4 billion (or 24.3%) greater than profile;
- Reflecting the escalation to Level 5 restrictions at end-December, 398,000 individuals were in receipt of the Pandemic Unemployment Payment on 11 January (this is 200,000 short of the previous peak, reached on 5 May);[7]
- The monthly unemployment figures for December 2020 (COVID-19 adjusted) stood at 20.4%, down from the November figure of 21%.[8] The movement in the unemployment figures for the previous 6 months has reflected controls on economic activity. The unemployment rate marginally improved in those months where lockdown restrictions were eased, deteriorating in those months where stricter measures were applied (in October for example).

VAT receipts were broadly on profile for the year. However, given the significant restrictions on commercial activity in place throughout the year, receipts for this transaction-based tax were well below 2019 levels. High frequency indicators gave some insight into the adverse impact of the pandemic on consumer behaviour in "real time" throughout 2020 (e.g. KBC Bank's monthly Consumer Sentiment Index and the Central Bank's daily debit card statistics). In addition, Quarterly National Accounts[9] data shows that personal consumption (a key driver of VAT receipts) for Q3 and Q2 fell by 13.7% relative to the same period in 2019. However, the sizeable level of household savings built throughout 2020, suggests that there is scope for a significant rebound in consumption in 2021 (boosting VAT receipts), depending on the path of the pandemic.

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[5] It is worth noting that deductions were made to Income Tax and Corporation Tax returns prior to being transferred to the Exchequer account to facilitate payments under the CRSS. This complicates annual comparisons and comparisons against profile for these two taxes.
[6] PBO Publication 13 of 2020, 3 April 2020.
[7] Department of Social Protection, 13 January 2021.
[8] Monthly Unemployment – December 2020, CSO, 6 January 2021.
[9] Quarterly National Accounts Quarter 3 2020, CSO, 4 December 2020.

- VAT receipts for the month of December were €208 million, €109 million (or 34.3%) less than expected. Overall compared with 2019, receipts were down €2.7 billion (or 17.8%). Although December is not a VAT due month, this deterioration is likely a result of the impact on consumption of the escalation in restrictions at end-October and the early effect of the 2-percentage point reduction in the standard VAT rate which took effect on 1 November;
- The Consumer Sentiment Index in the middle of December indicated that prior to the increase in restrictions imposed later in the month, consumer confidence improved for the second month in a row. At 74.6, this figure was the highest recorded since March 2020 and perhaps a reflection of a more optimistic outlook prevailing following positive vaccine developments and the anticipation of a future relaxation in restrictions;[10]
- Daily debit card activity for the four weeks to December 30 (as recorded by the Central Bank)[11] indicates an upward trend in average spend from October (€141,820) to November (€147,522) and December (€171,747) pointing to increased levels of consumer activity.

Among the lower revenue generating taxes:

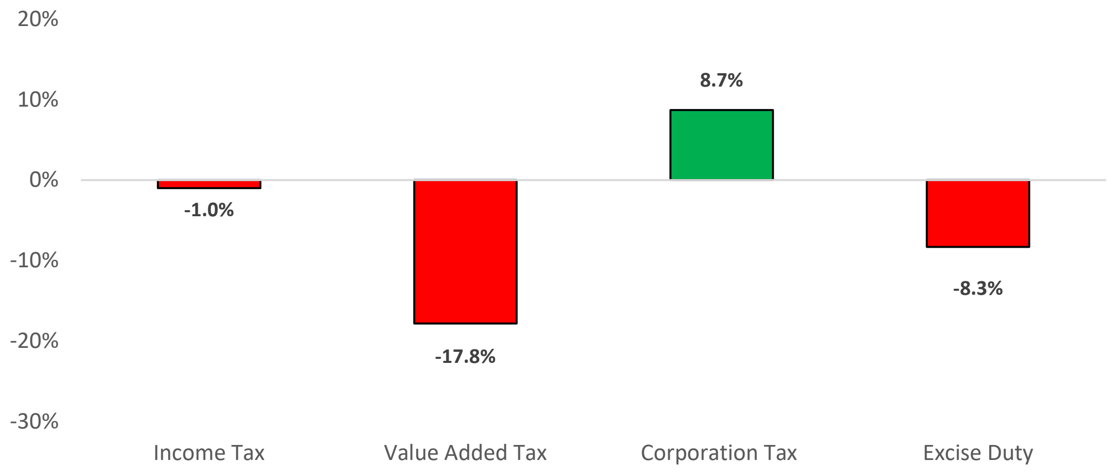
- Domestic sales of excisable goods may have benefitted from the sharp drop in overseas travel by Irish residents. For 2020, Excise receipts of €5.4 billion were €353 million (or 6.9%) above profile, but €493 million (or 8.3%) below 2019. This is likely due to lower receipts from Vehicle Registration Tax, given the sizeable fall in new vehicles registered through 2020;[12]
- Stamp Duty receipts for the year were €2 billion, €575 million (or 38%) more than in 2019. This increase is attributed to a once-off payment of approximately €580 million in October classified as the result of a "complex tax issue". Receipts for 2020 were €885 million (or 73.4%) above profile;
- Capital Gains Tax receipts were €951 million, €86 million (or 10%) more than expected. However, this is down €124 million (or 11.5%) on 2019. Capital Acquisitions Tax was also lower in 2020, at €494 million. This represents a €39 million (or 7.3%) decrease on 2019;
- Motor Tax receipts were down €23 million (or 2.4%) on 2019 and came in at €939 million for the year. However, this was less than the projected fall of €37 million. They have likely been impacted by consumers desire to hold off on medium-to-long term spending commitments i.e. fewer than expected older vehicles, which have higher average tax rates, are being replaced with new vehicles, which have much lower average Motor Tax rates.

[10] Irish Consumer Sentiment, KBC Bank, 16 December 2021.
[11] Daily debit card statistics, Central Bank of Ireland, January 2021.
[12] Vehicles Licensed for the First Time, CSO, November 2020.

Non-tax revenue amounted to €4.7 billion at end-December, enhanced by a payment from NAMA to the Exchequer, an increase of €1.3 billion compared to 2019. Capital receipts in 2020 were €3.2 billion, an increase of €1.4 billion on 2019, and driven by the allocation of €1.5 billion from the Rainy-day Fund. While these latter transactions reduce the Exchequer deficit they do not affect the overall General Government deficit as they are considered intra-Government transactions.

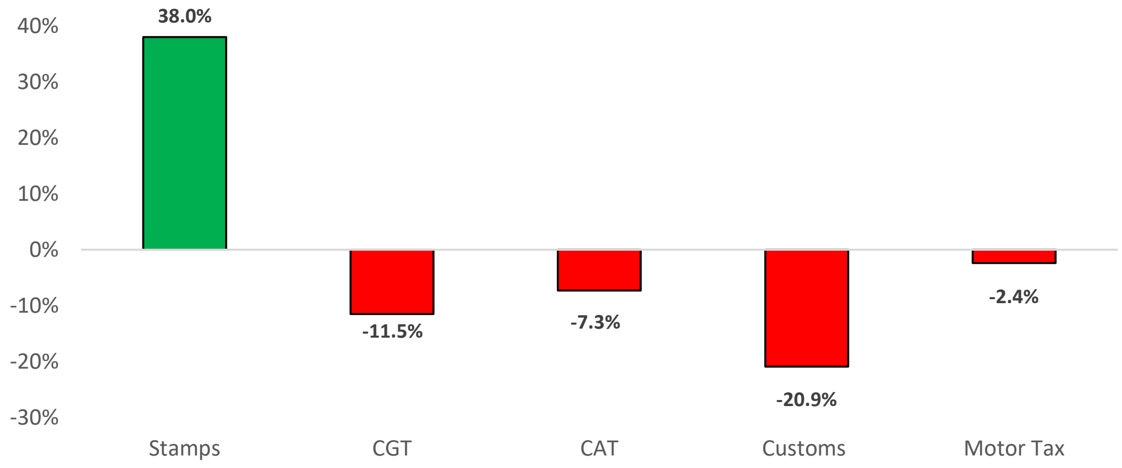
Chart Pack 1: year-on-year performance

Figure 3a. Cumulative performance: January – December 2020 versus January – December 2019, largest tax categories



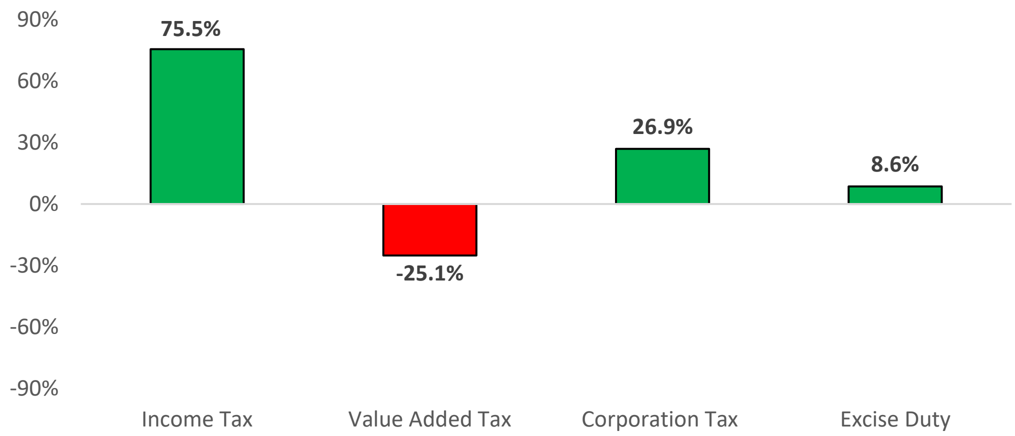
Source: Fiscal Monitor, Department of Finance, December 2020. **Note:** Rounding may affect totals.

Figure 3b. Cumulative performance: January – December 2020 versus January – December 2019, remaining tax categories



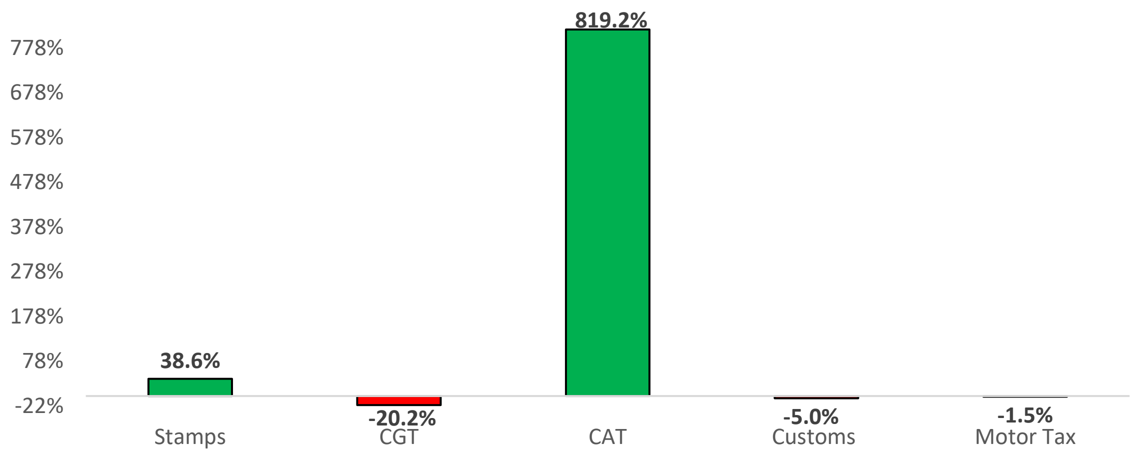
Source: Fiscal Monitor, Department of Finance, December 2020. **Note:** Rounding may affect totals.

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



Source: Fiscal Monitor, Department of Finance, December 2020. **Note:** Rounding may affect totals. The performance of Income Tax in December relative to last year, is due to the inclusion of deferred payments that would ordinarily have been received in November.

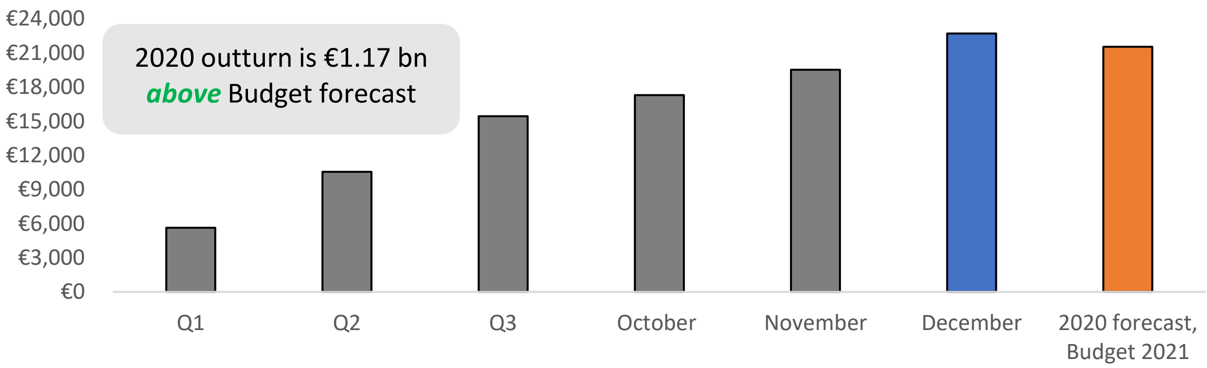
Figure 3d. Monthly performance: December 2020 versus December 2019, remaining tax categories



Source: Fiscal Monitor, Department of Finance, December 2020. **Note:** Rounding may affect totals. The striking performance of Capital Acquisitions Tax in December relative to last year, is due to the inclusion of deferred payments that would ordinarily have been received in November.

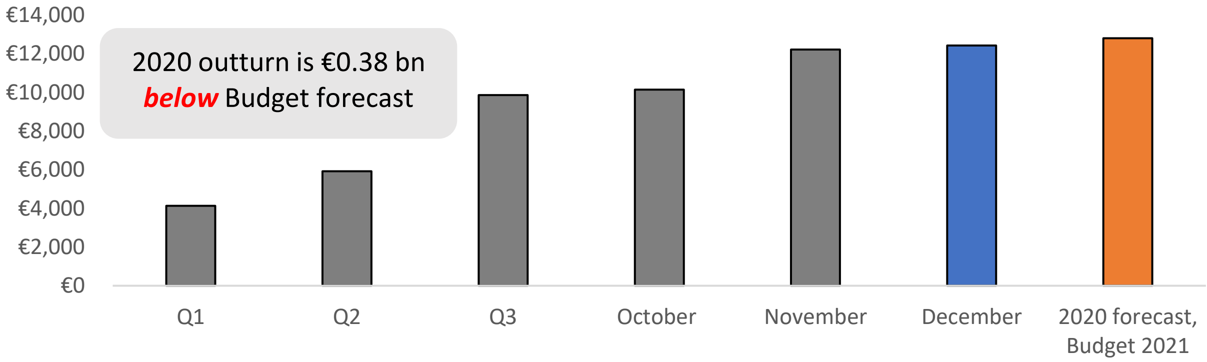
Chart Pack 2: Cumulative performance against forecast, largest taxes (€m)

Figure 4a. Income Tax



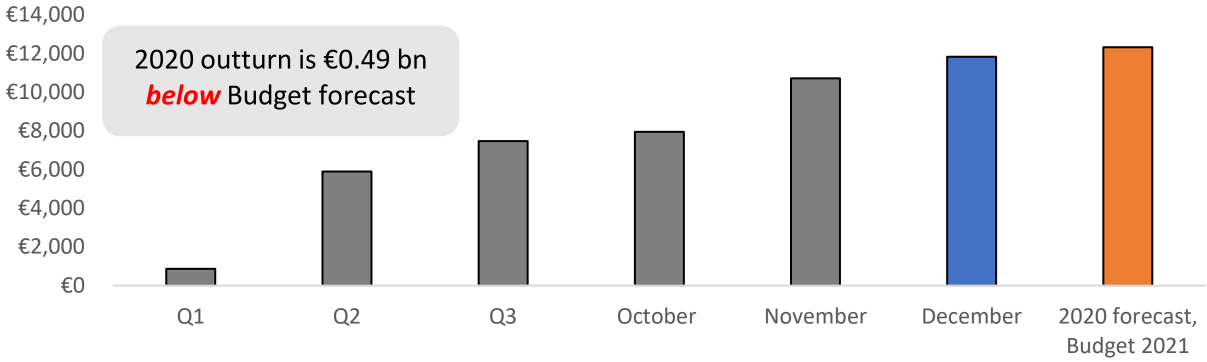
Source: Fiscal Monitor, Department of Finance, December 2020. **Note:** Rounding may affect totals.

Figure 4b. VAT



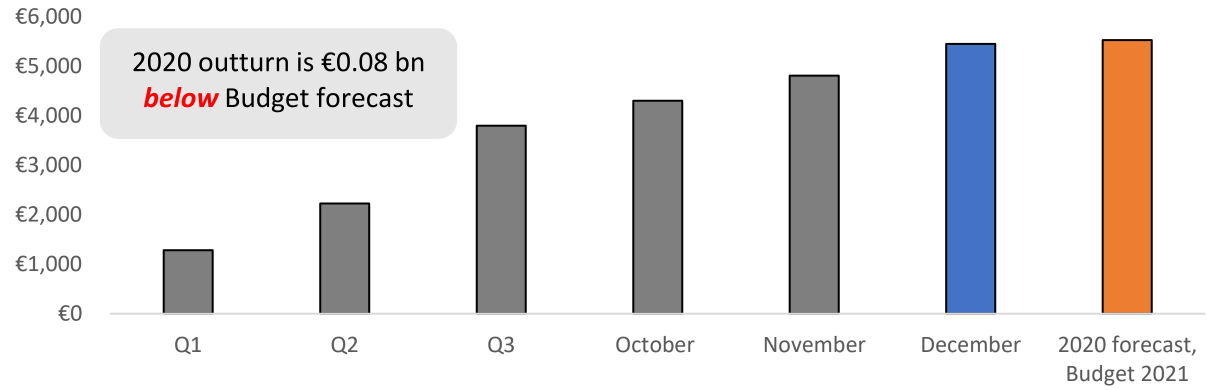
Source: Fiscal Monitor, Department of Finance, December 2020. **Note:** Rounding may affect totals.

Figure 4c. Corporation Tax



Source: Fiscal Monitor, Department of Finance, December 2020. **Note:** Rounding may affect totals.

Figure 4d. Excise Duty



Source: Fiscal Monitor, Department of Finance, December 2020. **Note:** Rounding may affect totals.