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An Oifig Buiséid Pharlaiminteach
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Preliminary Review of Budget 2023

Introduction

The Preliminary Review of Budget 2023 examines some of the main aspects of Budget 2023 under the following headings:

- The PBO's Key Messages;
- Macroeconomic and Fiscal Overview;
- General Government Balance, EU Fiscal Rules and Debt; and,
- Tax and Spending.

This document captures the PBO's **initial analysis** of Budget 2023 and was published for Members on Budget night. The PBO will follow this preliminary assessment with the Post-Budget 2023 Commentary. The Commentary will be published in the next few weeks and will examine Budget 2023 in greater detail.

The PBO's Key Messages

Macroeconomic and Fiscal Overview

- The economy and government finances performed better than expected in 2022 and forecasts for the key indicators were revised upwards. However, inflation is also expected to be higher than anticipated and will remain at elevated levels until 2025. This will hurt economic activity as growth in the domestic economy is expected to slow from 7.7% this year to 1.2% next year.
- A headline general government surplus of €0.97 billion is expected for this year, rising to €6.2 billion in 2023. For the first time, Budget 2023 forecasts the "underlying" General Government Balance; that is, the General Government Balance excluding an estimate of windfall corporation tax.
- Taxes performed strongly in the year to end-August, outperforming profile by 8%, and 26% greater than last year. For 2022, tax revenue is now expected to be €5.8 billion higher than predicted at the time of the SPU, with €4.2 billion of this arising from unexpected corporation tax receipts. Annual growth for 2022 is expected to be 19.2%. Over 2023-2025, average annual growth of 6% is predicted. However, since last year's budget, forecasts of tax revenue over 2022 – 2025 have been consistently revised up.
- Long-standing fiscal vulnerabilities must be addressed to safeguard the public finances and to promote revenue sustainability. The concentration of corporate and personal income tax receipts is indicative of the relatively narrow base of direct taxes. The reliance of the Exchequer on relatively few taxpayers remains a key risk.

Tax and Spending

- In terms of the scale and scope of new measures, Budget 2023 surpasses what would reasonably be expected from a budget designed to respond to a cost-of-living crisis.
- Budget 2023 contains a "core" tax package of approximately €1.1 billion (net) taking effect from 2023, with an additional €0.5 billion in "one-off" measures due to take effect this year.
    - Despite a significant widening of the standard rate tax bands, exceptionally high inflation in 2022 and forecast inflation in 2023 indicate that real take home pay will fall substantially in 2023 compared with 2021 for those on average earnings.
    - PRSI parameters are to remain unchanged, which has the effect of slightly increasing the PRSI burden on full-time minimum wage earners as the reduced rate threshold for those earning below €424 is not changing.
- A number of the measures included in the Budget are broad-based in the support that they provide, and benefit households at every point of the income distribution. This includes households that do not require state support. It is worth noting that each euro spent on supports for high-income households could otherwise have been spent providing greater support to those who need it the most.
    - The €12 increase to the weekly rate of Contributory State Pension to €265.30 per week, does not index fully for high inflation in 2022 and forecast inflation in 2023. There will still be a real fall of 8.1% in the pension rate between 2021 and 2023.

- The €12 increase in core working age welfare payments will equate to an 8.4% nominal increase between 2021 and 2023. However, in real terms the core rate will fall by 6.7% between 2021 and 2023.
- The one-off lump sum welfare payments are largely targeted rather than universal, with the exception of the double child benefit payment. This approach is welcomed as targeted measures are more progressive in general and represent a better use of limited budgetary resources.

- In addition to the large one-off package of welfare measures costing €1.173 billion, the Government have opted for larger permanent increases in core rates (€12 rather than €10), rather than a combination of a smaller core rate increase combined with subsidiary payment increases.
- Growth in core spending exceeds levels set out in the *Stability Programme Update* is €5.1 billion.
    - Growth in core spending is primarily to provide new measures i.e. to expand public service delivery. This additional spending for new measures is €1.8 billion.
    - Expansion of public services involves commitment to recurring spending. Increased levels of government spending should, where possible, be targeted towards measures which address structural problems in the State.
- Budget 2023 utilises several categorisations of spending which serves to complicate the reading of the associated documents. The terminology in question classifies spending as core, non-core/temporary/once-off, allocated, and unallocated. There is considerable assumed knowledge on the part of readers to interpret the vast data presented in the Expenditure Report.
- Public spending policy must weigh up the need to provide immediate or short-term support, and resourcing of public services to meet immediate demands while also mitigating against future risk. It is essential to strike a balance between once-off non-core spending to meet immediate pressures and public investment to reduce future risk.
- Several policy areas present significant ongoing challenges and strain on public spending. The PBO suggests that spending decisions can have significant long-run consequences and that prioritization of resource allocation should be informed by medium and long-term analysis and forecasts.
- Policy interventions, and specifically spending decisions, must be informed by long-term needs. Challenges facing Ireland over the medium-to-longer term may be addressed more effectively (and ultimately at less cost) through timely interventions. Reductions in public spending previously impacted on capital delivery of social housing, and have contributed to some extent, on the need for Government to provide support to renters through the Housing Assistance Payment (HAP) at significant annual cost (which does not provide permanent solutions to the underlying problem of insufficient housing stock) and now the new rent tax credit.[1]

[1] For more detailed discussion see PBO, *Housing Ireland: Trends in Spending and Outputs of Social and State Supported Housing 2001-2020* (2022).

EU Fiscal Rules, and Debt

- Although temporarily suspended, forecasts included in Budget 2023 indicate that Ireland is on target to meet the core EU Fiscal Rules from this year.
- Moves toward monetary policy normalisation, in response to significant inflationary pressures, will increase the cost of borrowing for Government. As more of the national debt matures and is refinanced, the monetary policy context could be significantly less favourable than in recent years, with substantially greater debt servicing costs.

General Points

- The backdrop to Budget 2023 remains uncertain. This uncertainty has defined the macroeconomic and fiscal landscape over the last number of years. If this heightened uncertainty is the new normal, then budgetary policy should adapt to reflect this.
  - Uncertainty underscores the need for sound and prudent multi-annual fiscal planning, including the use of fiscal buffers.
  - The publication of multi-annual costings, as well as the analysis underpinning these costings, would enhance budgetary oversight and scrutiny. The PBO would also welcome commentary from the Department on the uncertainty attached to budgetary costings.
- Government should leverage the available evidence to inform and shape budgetary policy in a way that fosters fiscal sustainability and underpins the structural reforms that are planned in the areas of pensions, decarbonisation, and healthcare.
  - Recent work by the Department to estimate the windfall component of annual corporation tax should be used to determine the level of annual payments made to the National Reserve (or Rainy-day) Fund. Government should consider amendments to the Fund to more closely link payments to this estimated windfall.
  - The PBO welcomes the announcement that income tax will be subject to review in light of the report by the Commission on Taxation and Welfare (CoTW). Reports by the CoTW and the Pensions Commission propose significant reforms relating to the sustainability of the tax and pensions systems, respectively. Government must consider and respond to these recommendations.

Macroeconomic and Fiscal Overview

Real GDP growth of 10% is expected for 2022, driven largely by the multinational sector, while Modified Domestic Demand is expected to grow by 7.7%. Significant inflationary pressures are expected to persist into 2023.

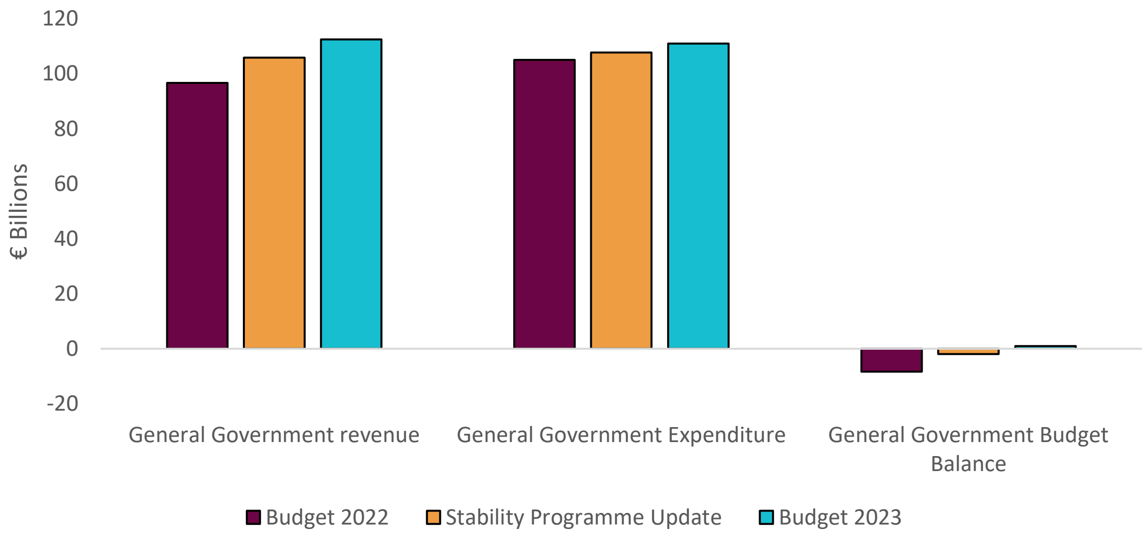
The Department of Finance is forecasting real GDP growth of 10% for 2022.[2] This growth can largely be attributed to strong exports by multinationals, an increase in domestic demand and high employment growth following the rebound from the pandemic. As a result, the government finances have performed better than expected (see Figure 1).

In October last year, general government revenue was forecast to be €96.7 billion[3] in 2022; this was revised upwards to €105.8 billion in the Stability Programme Update (SPU 2022)[4] in April and to €112.5 billion today.

In last year's Budget, general government expenditure was expected to reach €105 billion this year; this was revised up to €107.7 billion in the SPU 2022 and then up to €111 billion today. Last year, the government expected to run a budget deficit of €8.3bn in 2022. This projection was revised down to a deficit of €1.9 bn in the SPU 2022. Today it was announced that there is expected to be a budget surplus of just under €1bn in 2022[5].

In Budget 2023, the Department also released a new measure of the underlying general government balance which excludes the estimated windfall component of corporation tax receipts. By this metric, the government would run a deficit of €8 billion in 2022.

Figure 1. Forecasts for Key Fiscal Variables, 2022



Source: PBO based on Budget 2022, SPU 2022 and Budget 2023

Figure 2 shows the revisions for some of the key economic variables, that is, for Modified Domestic Demand (MDD), inflation, and unemployment, compared to previous government publications.

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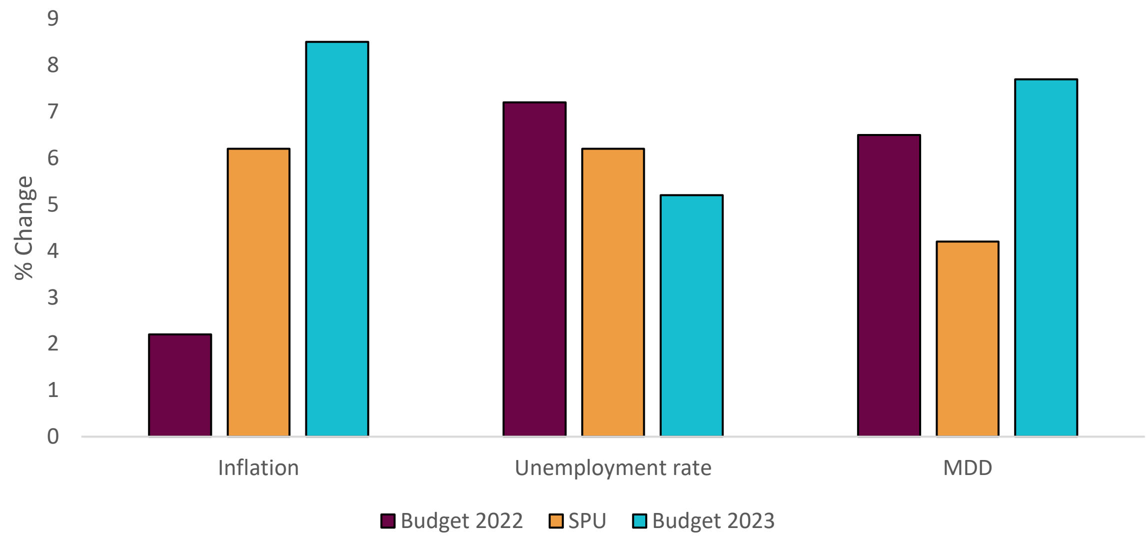
[2] Department of Finance (2022) Budget 2023
[3] Department of Finance (2021) Budget 2022
[4] Department of Finance (2022) Stability Programme Update
[5] Department of Finance (2022) Budget 2023

Budget 2022 forecast MDD growth (a proxy for the domestic economy) of 6.5% for this year; this was revised down to 4.2% in the SPU 2022 and is expected now to rise to 7.7% in 2022. However, growth in MDD is expected to slow down considerably in 2023 to 1.2%. This decline can partly be attributed to inflation as consumer spending growth (adjusting for inflation) is expected to slow from 5.5% this year to 1.8% next year.

Today it was announced that inflation is forecast to be 8.5% this year, a 6.3 percentage point-increase on last year's forecast. There are multiple factors that cause inflation, much of which is attributed to global supply chain issues, the war in Ukraine and the release of pent-up consumer demand. The forecasts suggest that inflation is expected to remain higher for significantly longer than originally anticipated. Core HICP inflation (which excludes energy products) is expected to be 4.6% in 2023, 3% in 2024 and will still be above the 2% inflation target in 2025 at 2.6%.

Despite this, the labour market has performed better than expected as the forecast for the unemployment rate has been revised from 7.2% last year to 6.2% in the SPU to 5.2% today.

Figure 2. Forecast for key economic variables, 2022



Source: PBO based on Budget 2022, SPU 2022 and Budget 2023

The forecasts included in today's Budget documentation only extend to 2025. In previous years, the Budget forecasts covered a longer time horizon of five years. A return to five-year forecasts would be welcomed as it would be conducive to more a strategic planning of the public finances.

Separately, Box 1, overleaf, contains a note on geopolitical tensions and their relevance to budgetary policy.

Box 1. A Note on Geopolitical Risks and the Future Development of Global Politics

The PBO highlighted in its pre-budget report that the War in Ukraine has served as a reminder that major geopolitical incidents, though rare, can have a significant impact on economies beyond the locations of these incidents.

As of Budget 2023, there remains large uncertainty over the trajectory of the war and its implications for the global and Irish economies. While main economic forecasts are often based on a "most-likely" or non-extreme scenario, it is also crucial to project, and be prepared for, the extreme scenarios that are unlikely but have the potential to have large adverse effects. Otherwise, a "surprise" event could cause a chaotic reaction. The Department of Finance, jointly with the ESRI, has estimated a "downside" scenario assuming "a complete cut-off of Russian gas supplies as well as seaborne oil flows to the euro area" and "an unusually cold winter in Europe that would trigger higher demand for energy, and a running-down of storage reserves much faster than expected."[6] It would be worth conducting a sensitivity analysis for other geopolitical incidents as well.

Even putting aside extreme geopolitical events such as war, the current global political environment suggests that future macroeconomic trends may not follow that of the past two decades or so. This is because the current global political environment seems no longer the same as the one of those past decades, during which global trade, on average, kept increasing and assisted economic growth.[7] Global politics seems to be moving towards a direction that is less favourable to the smooth operation of international trade. The geopolitical tension over Ukraine has disrupted many trade ties, such as the one between the EU and Russia. The strategic rivalry between the US and China has also negatively affected economic and business relations between these two economies[8]; similar trends have been observed between European countries and China.[9]

There is too much uncertainty to conclude anything definite with respect to the future development of global politics. Government should be prepared for unexpected extreme events ("unexpected" in the sense that they are outliers in forecasts) with contingency plans. In this sense, it is a welcome move that Government will transfer €2 billion this year and €4 billion next year into the National Reserve Fund.[10]

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[6] Department of Finance, *Budget 2023 Economic and Fiscal Outlook*, accessed on 27 September 2022, pp.23, 42-43.
[7] Esteban Ortiz-Ospina and Diana Beltekian, "Trade and Globalization," *Our World in Data*, October 2018.
[8] E.g., Demetri Sevastopulo, "US Lawmakers Escalate Pressure on Chinese Chipmaker YMTC," *The Financial Times*, 21 September 2022.
[9] E.g., "Germany Drawing Up New China Trade Policy, Vows 'No More Naivety'," *Reuters*, 13 September 2022; Leo Kelion, "Huawei 5G kit must be removed from UK by 2027," *BBC News*, 14 July 2020; Jessica Parker, "Lithuania-China row: EU escalates trade dispute with Beijing," *BBC News*, 27 January 2022.
[10] Department of Finance, *Budget 2023 Economic and Fiscal Outlook*, accessed on 27 September 2022, p.2.

General Government Balance, EU Fiscal Rules, and Debt

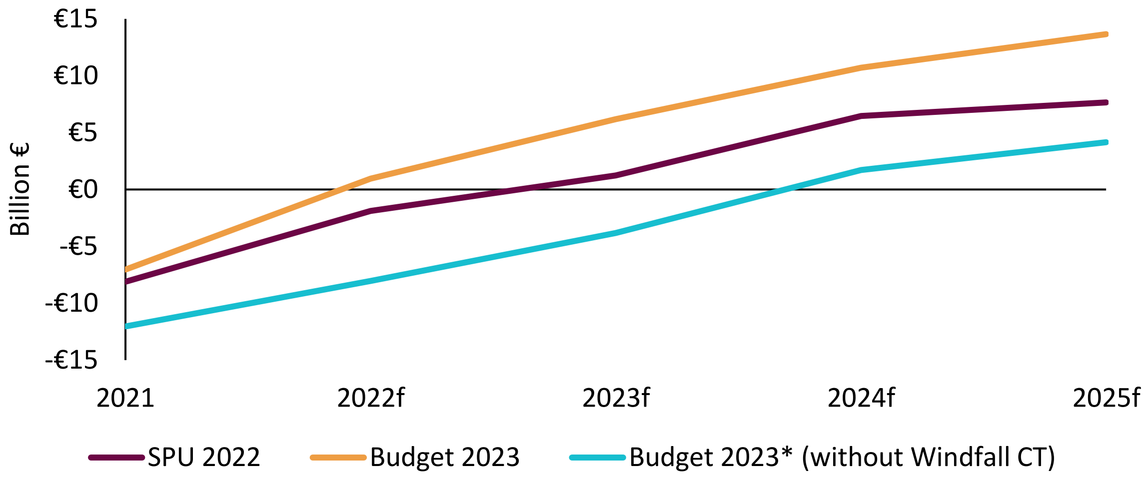
A headline general government surplus of €0.97 billion is expected for this year, rising to €6.2 billion in 2023. For the first time, Budget 2023 forecasts the "underlying" General Government Balance; that is, the General Government Balance excluding an estimate of windfall corporation tax.

Last year, the Government expected to run a deficit of €8.3 billion in 2022. This deficit was revised down to €2 billion in the SPU (in April). Now, as of Budget 2023, a surplus of €0.97 billion is anticipated for this year.

For the first time, Budget 2023 contains estimates of windfall corporation tax receipts out to 2025 (i.e. receipts that cannot be explained by broader macroeconomic developments – estimated to be €9 billion in 2022 alone), and an alternative forecast of the GGB excluding these receipts (the "underlying" GGB).

Figure 3 outlines the revisions to the headline GGB since the SPU and charts the forecast of the underlying GGB. This new measure highlights the reliance of the public finances on this revenue stream, with a deficit estimated for this year and next, and a more modest surplus occurring in 2024 and 2025, once these receipts are removed.

Figure 3. General Government Balance, 2021 – 2025f



Source: PBO based on data included in Budget 2023. **Notes**: Estimates of the windfall component of corporation tax revenue for 2022 – 2025 are €9 billion, €10 billion, €9 billion, and €9.5 billion respectively.

These amendments represent a dramatic improvement in expectations of the GGB and are the result of much stronger tax revenue projections than originally expected. The forecast of general government revenue was revised up by 6.3% relative to the SPU, while the forecast of general government expenditure was revised up by 2.9%.

The Government's short- and medium-term forecasts are similarly positive, with the GGB expected to be in surplus for each year over 2023 – 2025 (significant surpluses of €10.7 billion and €13.7 billion are projected for 2024 and 2025 respectively). At the time of last year's budget, a surplus was not expected to be achieved until 2025.

The early return to a general government surplus is a positive development. However, it is worth noting that this significant turnaround is being driven, by and large, by stronger than expected CT receipts. These receipts are considered to be transient, and therefore, could surprise on the downside. If concerns regarding the sustainability of CT receipts are fully realised, the public finances will be in a more precarious position.

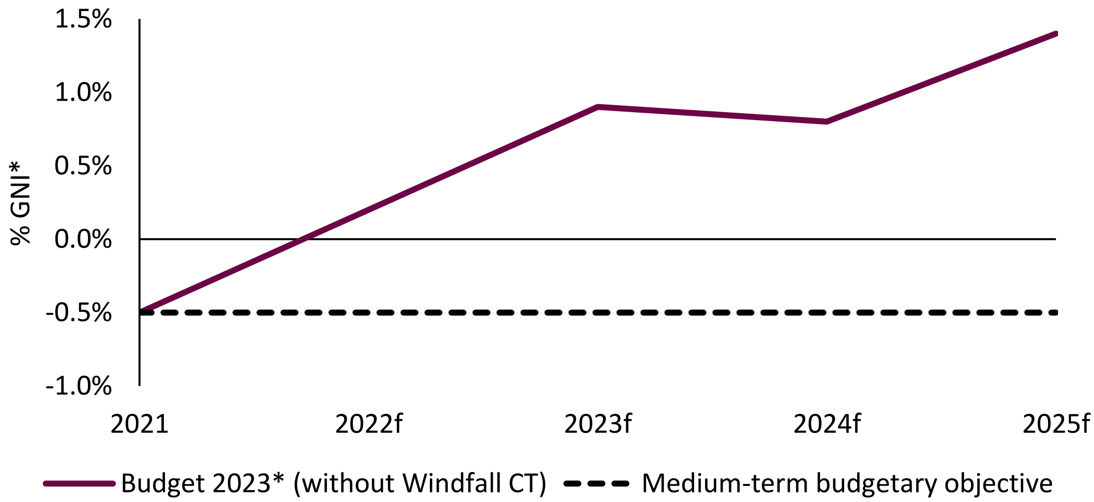
The PBO welcomes that, from this year, a portion of these windfall receipts will be allocated to the National Reserve Fund (€2 billion in 2022 and a further €4 billion in 2023). Government should leverage recent work[11] that estimates the windfall component of annual corporation tax revenue to inform these payments and consider amendments to the design of the Fund to more closely link payments to this estimated windfall. At present, no allocation is planned for 2024 and 2025.

Although temporarily suspended, forecasts included in Budget 2023 indicate that Ireland is on target to meet the core EU Fiscal Rules from this year.

Based on current fiscal projections, Ireland should be on target to meet the core EU Fiscal Rules from 2022 onwards (i.e. a 60% debt-to-GDP ratio and a 3% deficit-to-GDP ratio). This is the case even when the estimated windfall component of corporation tax is excluded. At present, the EU Fiscal Rules are suspended until the end of 2023.[12]

The EU Fiscal Rules indicate that Ireland should strive for a structural budget deficit not greater than 0.5% of GDP. The forecasts of the structural budget balance (see Figure 4) included in Budget 2023 are reported without the estimated windfall corporation tax receipts, and are expressed in terms of GNI*. This makes comparisons to previous forecasts difficult.

Figure 4. Structural Budget Balance, 2021 – 2025f

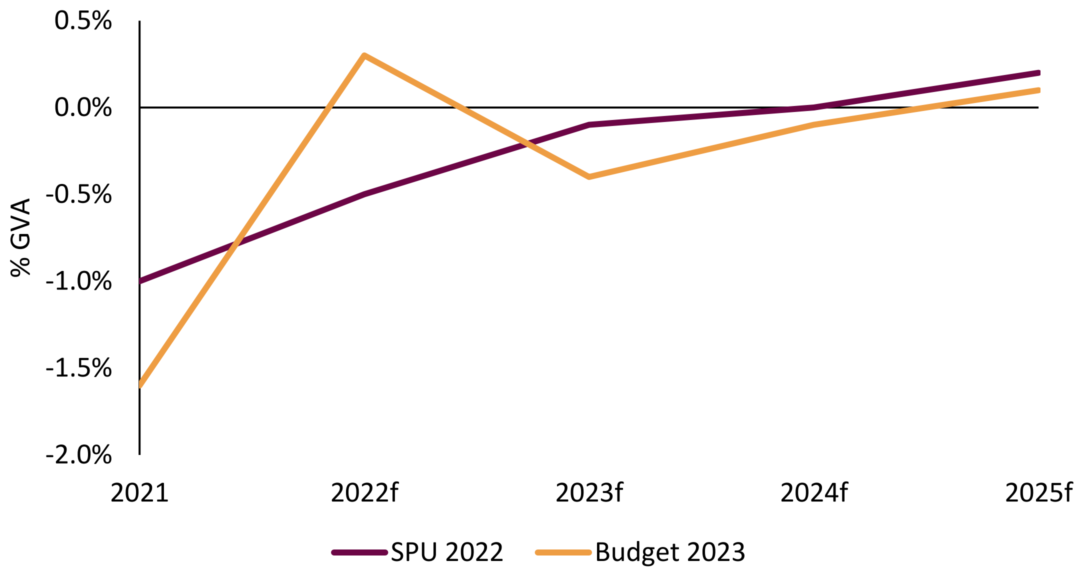


Source: PBO based on data included in Budget 2023. **Notes:** Structural budget balance estimates included in Budget 2023 exclude the estimated windfall component of corporation tax revenue. The medium-term budgetary objective is expressed in terms of GDP rather than GNI*, as shown in Budget 2023.

[11] De-risking the Public Finances – Assessing Corporation Tax receipts, Department of Finance, 8th September 2022.
[12] European Commission, Commission presents fiscal policy guidance for 2023, (March 2022).

The output gap, capturing the difference between the actual output of an economy and its potential output, was revised up for 2022 to 0.3% (from -0.5% in the SPU). This highlights the speed of the recovery from COVID-19. The output gap is expected to close rapidly over the forecasting horizon (see Figure 5).

Figure 5. Output Gap**,** 2021 – 2025f



Source: PBO based on data included in SPU 2022 and Budget 2023. **Notes:** The output gap is calculated using GVA, not GNI* or GDP, in both SPU 2022 and Budget 2023.

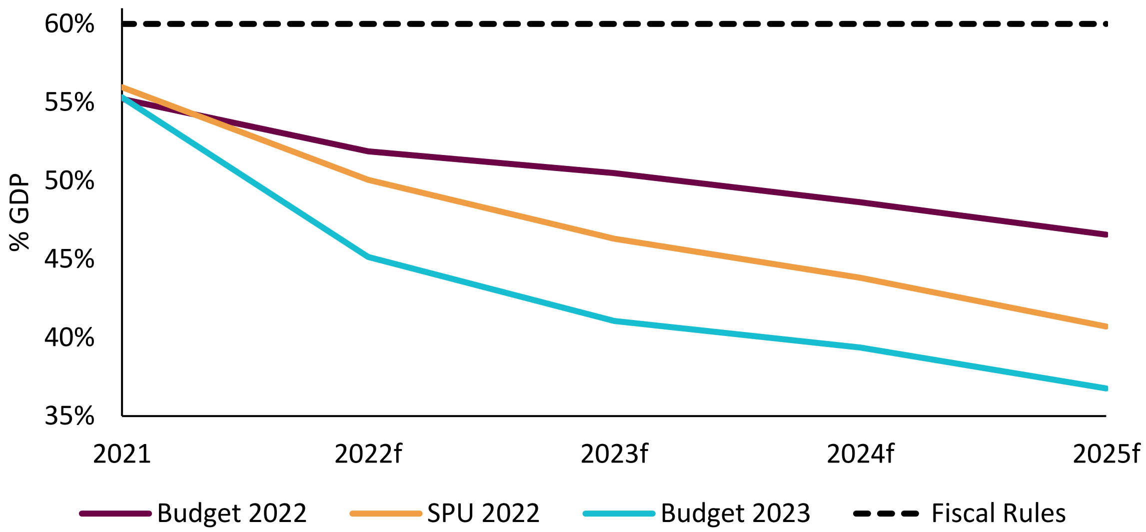
Moves toward monetary policy normalisation, in response to significant inflationary pressures, will increase the cost of borrowing for Government. As more of the national debt matures and is refinanced, the monetary policy context could be significantly less favourable than in recent years, with substantially greater debt servicing costs.

Budget 2023 indicates that, while the national debt on a per capita basis is significant by international standards, the debt-to-GDP ratio is expected to reduce over the forecast horizon (see Figure 6). Recent moves toward monetary policy normalisation in response to the significant inflationary pressures at present, will mean that borrowing is a more expensive option for Government, as debt servicing costs rise.

Budget 2023 indicates that Ireland's ten-year sovereign borrowing costs have increased from near 0% in Q1 2021 to over 2% in Q2 2022. It is important to note that, as more of Ireland's debt matures in the medium-term, the monetary policy context could mean that this debt is refinanced at significantly higher rates.

While EU Fiscal Rules are based on GDP, Ireland, primarily due to the activity of MNCs, has an inflated GDP figure in comparison to other EU countries. GNI* (Modified Gross National Income) is an indicator designed to exclude the distortionary effects of globalisation. There is a significant difference between the debt-to-GDP ratio of 45.1% and the debt-to-GNI* of 86.3% for 2022, which indicates a more significant debt burden. The PBO welcomes the focus by the Department in Budget 2023 on measures of debt sustainability using GNI*.

Figure 6. General Government Debt**,** 2021 – 2025f



Source: PBO based on data included in Budget 2022, SPU 2022, and Budget 2023. **Notes:** Budget 2023 includes the estimated windfall component of corporation tax receipts.

Tax

Budget 2023 contains a "core" tax package of approximately €1.1 billion (net) taking effect from 2023, with an additional €0.5 billion in "one-off" measures due to take effect this year.

An overview of the tax policy changes included in Budget 2023 is provided in Table 1.

Table 1. Overview of Tax Policy Measures

Measure	**First Year Cost/Yield €m**	**Full Year Cost/Yield €m**
Income Tax and USC Measures		
Income Tax Changes	-1,064	-1,226
USC Changes	-67	-77
Sea-going Naval Personnel Tax Credit	-0.5	n/a[13]
Housing Measures		
Help to Buy Extension	-83	-83
Pre-letting Expenses	-1	-2
Living City Initiative	Nil	-0.5
Rent tax credit	-200	-200
Vacant Homes Tax	+3	+3
Defective Concrete products Levy	+80	+80
Environmental Measures		
Carbon Tax and NORA offset[14]	Revenue Neutral	Revenue Neutral
Excise Duty Measures		
Cigarette and Tobacco Changes	+54	+54
Small Cider Producers Excise Relief Scheme	-1	-1
Special Exemption Order excise fee reduction	-2	-2
Value Added Tax (VAT) Changes		
0% VAT for Newspapers	-32.5	-39
0% VAT for Defibrillators and Period Products	-0.4	-0.5
0% VAT for Hormone Replacement Therapy	-0.8	-1
0% VAT for Nicotine Replacement Therapy	-0.8	-1
Flat-rate compensation % for Farmers reduced from 5.5% to 5.0%	+38	+46
Support for Enterprise/SMEs/Agri-sector		
Slurry Storage Facilities	n/a	-9
Knowledge Development Box	n/a	+8
Young Trained Farmer Relief	-15	-15
Stock reliefs	-3	-3
Small Benefit Exemption	-2	-2
Other Measures		
Bank Levy Extension	+87	n/a
Compliance Measures	+80	+80
Temporary Measures		
Extension of Excise Reduction to end February 2023	-117	n/a
Extension of 9% VAT rate for gas and electricity	-45	n/a

Source: PBO based on data included in Budget 2023.

[13] The Sea-going Naval Personnel Tax Credit is being extended to 31 December 2023.
[14] As noted in 'Budget 2023 Tax Policy Changes' the Carbon Tax will increase from the current rate of €41 to €48.50 per tonne of CO_2. This will apply to auto fuels with effect from 12th October 2022 and all other fuels from 1st May 2023. This budget measure will raise €114 million in the First Year and €151 million in a full year. There will however be a reduction in the National Oil Reserves Agency (NORA) levy from approximately 2 cent per litre (VAT inclusive) to zero.

It is noticeable that the tax policy changes in the Budget documents do not all include an estimate of the cost of these changes. In some cases, data is not provided because: *"the cost of this item is already incorporated in the base, and as such its further extension incurs no additional cost in terms of budgetary planning*."

This approach is not consistent. Certain extensions to schemes include a cost while other measures are stated as having no cost despite changes being made to the operation of the scheme (i.e. R&D Tax Credit, SARP, KEEP). The extension of Help-to-Buy has a cost of €175 million *per annum*, with €92 million "in the base" and €83 million in the table of estimated costs. The Department should consistently provide information on the cost of tax changes, and should not be assuming that certain measures are "in the [tax] base" and continuing indefinitely.

The lack of data given on extensions of tax expenditures mean that the Department is underestimating the cost of the tax package announced today by over €200 million (based on the undercounting of the film tax relief, SARP, and Help to Buy alone).

Separately, Box 2 examines the changes to income tax and USC introduced in Budget 2023 and their impact on nominal and real take home pay.

Box 2. Changes to income tax & USC and their impact on nominal and real take home pay

The main personal income tax and USC changes in Budget 2023 are widening of the standard rate bands by €3,200, increases to the personal and employee tax credits of €75 and an increase in the 2% USC band ceiling to €22,920 (to allow for the increase in the National Minimum wage to €11.30 per hour). PRSI parameters are to remain unchanged. This will have the effect of slightly increasing the PRSI burden on full-time minimum wage earners as the reduced rate threshold for those earning below €424 is not changing. This may be deliberate to begin the process of increasing PRSI receipts in the context of future pressure on the Social Insurance Fund. There was no reference to employer PRSI rates in the Budget 2023 speech.

Table 2. Summary of Nominal and Real Take Home Pay, after Income Tax and USC Changes

Type	2021 Net Nominal	2022 Net Nominal	2023 Net Nominal	2022-2023 Nominal % Change	2021-2023 Nominal % Change	2022-2023 Real % Change	2021-2023 Real % Change
NMW Single	€19,014.87	€19,463.58	€20,688.32	6.3%	8.8%	-0.8%	-6.4%
NMW Couple, 1 earner	€19,851.99	€20,322.38	€21,721.60	6.9%	9.4%	-0.2%	-5.8%
NMW Single, child carer	€19,851.99	€20,322.38	€21,721.60	6.9%	9.4%	-0.2%	-5.8%
AWE Single	€33,902.77	€35,071.87	€37,460.05	6.8%	10.5%	-0.3%	-4.9%
AWE Couple, 1 earner	€37,352.77	€38,571.87	€41,004.71	6.3%	9.8%	-0.7%	-5.5%
AWE Single, child carer	€36,352.77	€37,521.87	€39,910.05	6.4%	9.8%	-0.7%	-5.5%
Fixed (€49,000) Single	€36,292.36	€36,707.56	€37,538.18	2.3%	3.4%	-4.5%	-11.0%
Fixed (€49,000) Couple, 1 earner	€39,742.36	€40,207.56	€41,113.18	2.3%	3.4%	-4.5%	-11.0%
Fixed (€49,000) Single, child carer	€38,742.36	€39,157.56	€39,988.18	2.1%	3.2%	-4.6%	-11.2%

These tax parameter changes result in nominal increases in the take home pay of taxpayers at the National Minimum Wage (NMW) level, Average Weekly Earnings (AWE) level and at a fixed example income level of €49,000.[15] However, all groups in these case examples experience a fall in real net take home pay after accounting for inflation, even after the beneficial tax changes are considered.

[15] Average weekly earnings are taken from the CSO's EHECS data. Wage growth rates for 2022 and 2023 are taken from the Central Bank's Quarterly Bulletin 3 of 2022.

Therefore, despite a quite considerable widening of the standard rate income tax bands[16], changes are only partially offsetting the exceptional high rates of inflation in 2022 and forecast for 2023.

For example, even allowing for wage growth over the period in the case of the AWE examples, a couple 1 earner will have experienced a 5.5% fall in real take home pay between 2021 and 2023, as a result of exceptionally high inflation in 2022 and forecast in 2023.

Taxes performed strongly in the year to end-August, outperforming profile by 8%, and 26% greater than last year.

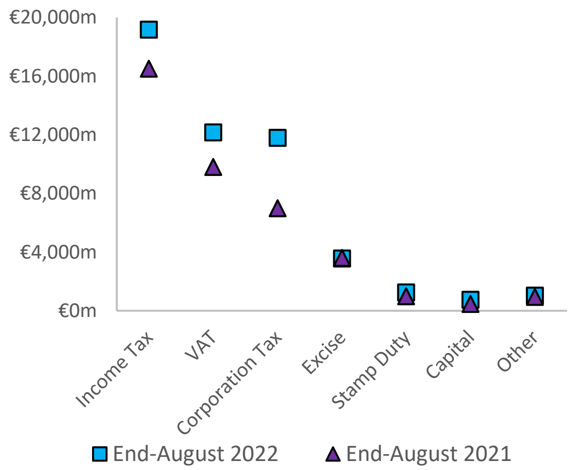
For 2022, Table 3 shows the cumulative performance of each tax relative to profile (or expectation) on a cumulative basis, for each month since profiles were first published. Overall, tax revenue has been outperforming expectations throughout the year (by 8% at end-August), particularly revenue from corporation tax (by 28% at end-August). As of end-August, all taxes are performing above profile. Total tax revenue as of end-August was €49.7 billion.

Relative to last year, receipts for this year to-date are up by 26%, or approximately €10.4 billion. Of this annual growth, €4.8 billion relates to corporation tax (which is up 68%), while €4.9 billion relates to Income tax and VAT (which are up 16% and 24%, respectively). This can be seen in Figure 7. It is worth noting that annual comparisons will be distorted to some degree by COVID-related measures introduced last year (e.g. tax warehousing; restrictions on activity). Overall, the performance to end-August is indicative of the scale of the rebound from pandemic related restrictions, particularly trends in personal consumption and employment.

Table 3. Heat map, cumulative revenue vs. profile

Tax	May	June	July	August
Income Tax				
VAT				
Corporation				
Excise				
Stamp Duty				
Capital Taxes				
Other				
All Taxes				
Scale	*95%*			*130%*

Figure 7. Taxes at end-August, 2022 vs. 2021



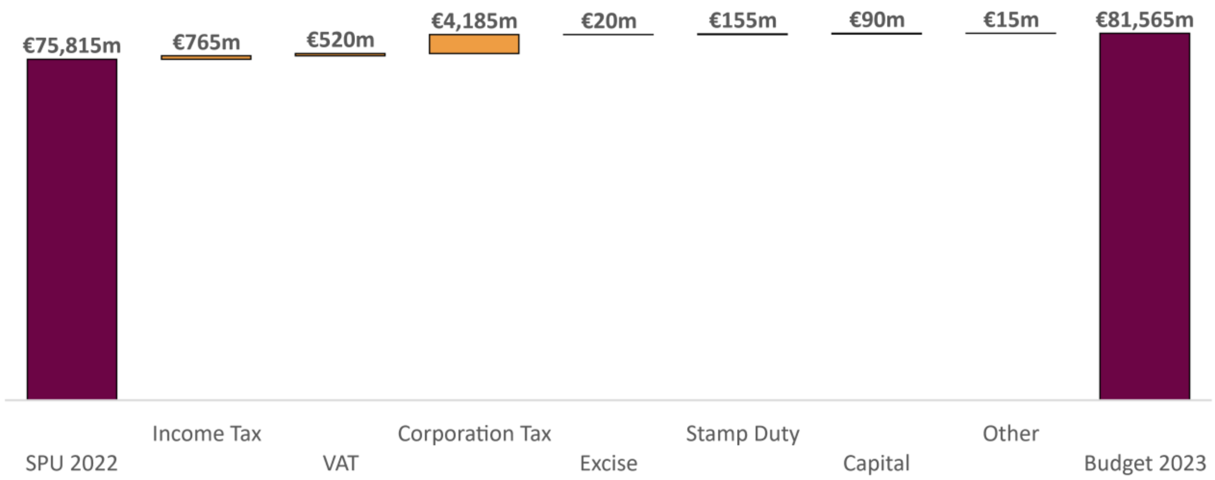
Source: PBO based on outturn and profile data taken from the Department of Finance's monthly Fiscal Monitor publication. **Notes:** Cells shaded red indicate an underperformance relative to profile, while cells shaded green indicated an overperformance relative to profile. Monthly profiles of tax revenue for 2022 were first published by the Department of Finance in May as part of April's Fiscal Monitor publication. "Capital Taxes" refer to Capital Gains Tax and Capital Acquisitions Tax, "Other" includes Motor Tax and Customs. A relatively small portion of tax receipts remain unallocated and may impact on the performance of individual taxes relative to profile (in the Fiscal Monitor unallocated receipts to end-April were retrospectively distributed between Income Tax and VAT).

[16] Widening of the standard rate bands have no impact on minimum wage earners. Note: the single, child carer examples do not account for one-parent family payments, which are taxable and would change the overall outcomes for these household types.

Tax revenue for 2022 is now expected to be €5.8 billion higher than in April, with €4.2 billion of this arising from unexpected corporation tax receipts.

For this year, comparisons with forecasts of tax revenue set-out in the SPU show that receipts are now expected to be approximately €5.8 billion higher (or 7.6%). Of this €5.8 billion revision, €4.2 billion relates to corporation tax alone, with a further €1.3 billion coming from income tax and VAT. This can be seen in Figure 8.

Figure 8. Tax revenue forecasts for 2022, SPU 2022 (April) vs. Budget 2023 (October)



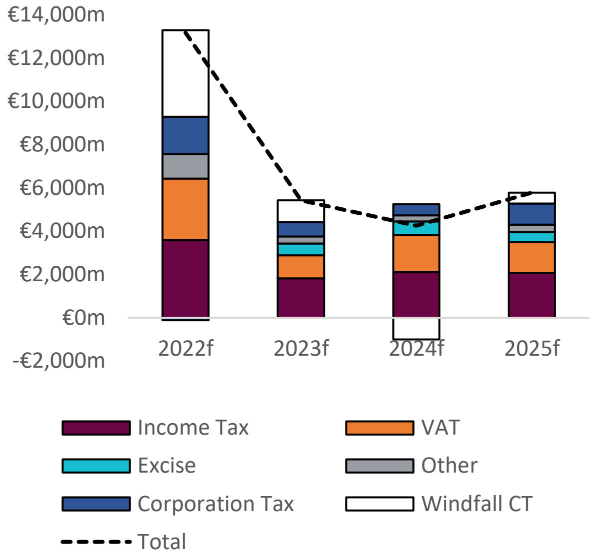
Source: PBO based on data included in Budget 2023.

Growth in tax revenue for 2022 is expected to be 19.2%. Over 2023-2025, average annual growth of 6% is predicted.

Given the low base arising from pandemic-related restrictions in 2021 and the sharp rebound in activity during 2022, tax revenue is expected to grow by 19.2% this year. Over the medium-term, annual average growth of 6% is anticipated. As shown in Figure 9a and Figure 9b, this growth is relatively broad-based, with income tax, VAT and corporation tax all significant contributors. Figure 9a and Figure 9b present the Department's estimates of windfall corporation tax separately. Excluding this component, tax revenue is estimated to grow by 14% in 2022, and to still average 6% on an annual basis over 2023-2025 (reflecting an expected moderation in corporation tax growth over the forecast horizon).

Figure 9a. Tax revenue forecasts, 2022-25

Figure 9b. Changes in tax revenue, 2022-25



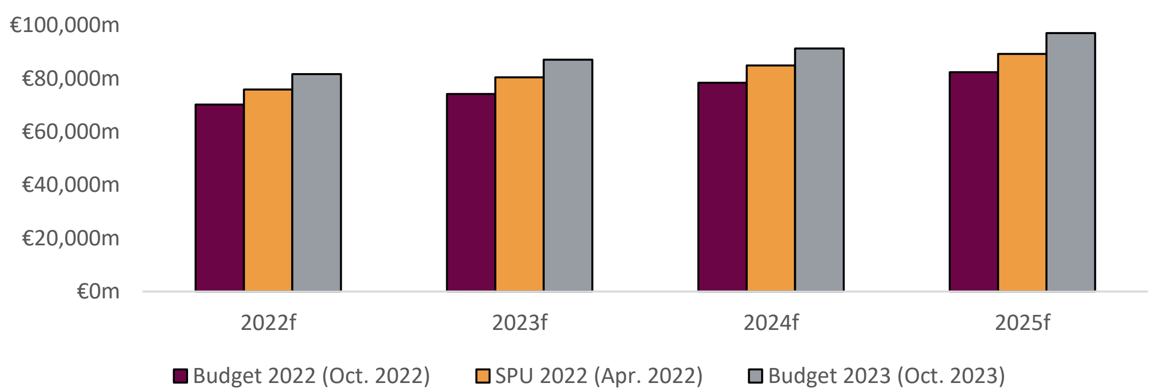
Source. PBO based on data included in Budget 2023.

Since last year's budget, forecasts of tax revenue over 2022 – 2025 have been consistently revised up. Recommendations included in the report by the Tax Forecasting Methodological Review Group should be considered by the Department when preparing the Spring and Autumn updates.

Figure 10 compares forecasts of tax revenue over 2022-2025 included Budget 2022 (October 2022), SPU 2022 (April 2022) and Budget 2023 (October 2023). As shown, forecasts have consistently been revised upwards, by approximately 8% for each year and at each interval.

The Report of the Tax Forecasting Methodological Review Group contains recommendations regarding improvements to the Department's approach to forecasting tax revenues. These should be considered in the preparation of forecasts included in the Department Spring (SPU) and Autumn (Budget) updates.

Figure 10. Revisions to tax revenue forecasts, 2022 - 2025



Source: PBO based on data included in Budget 2022, SPU 2022 and Budget 2023.

Long-standing fiscal vulnerabilities must be addressed to safeguard the public finances and to promote revenue sustainability. The concentration of corporate and personal income tax receipts is indicative of the relatively narrow base of direct taxes. The reliance of the Exchequer on relatively few taxpayers remains a key risk.

The public finances are over-exposed to the performance of a relatively small number of multi-national corporations (MNCs).[17] To illustrate, the sectors with the largest corporation tax (CT) liability in 2020 were Manufacturing and Information/Communication. Within these sectors, foreign-owned MNCs represented just 10% of corporation tax returns, yet accounted for 97% of the corporation tax liability.[18] This overreliance makes the corporation tax system particularly vulnerable to firm- and sector-specific shocks and to adverse global economic trends.

MNCs also tend to employ highly paid workers who contribute a substantial portion of income tax receipts – the employees of foreign-owned MNCs contribute one-third of income tax receipts annually.

For income tax more broadly, the top 25% of earners contribute 80% of annual revenue, while one-quarter of all taxpayers contribute little or no income tax revenue.[19] The PBO has previously highlighted that, while the income tax system is relatively progressive, Ireland is a low tax country in terms of the effective income tax rate. The highest quintile (20%) of earners has an effective rate of 28.6%, while the lowest and second-lowest quintiles have effective rates of just 0.8% and 4% respectively.[20]

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[17] Ireland's Dual Economy, Parliamentary Budget Office, 15th September 2021.

[18] The figures across all sectors are 9% and 83% respectively. See: Corporation Tax – 2021 Payments and 2020 Returns.

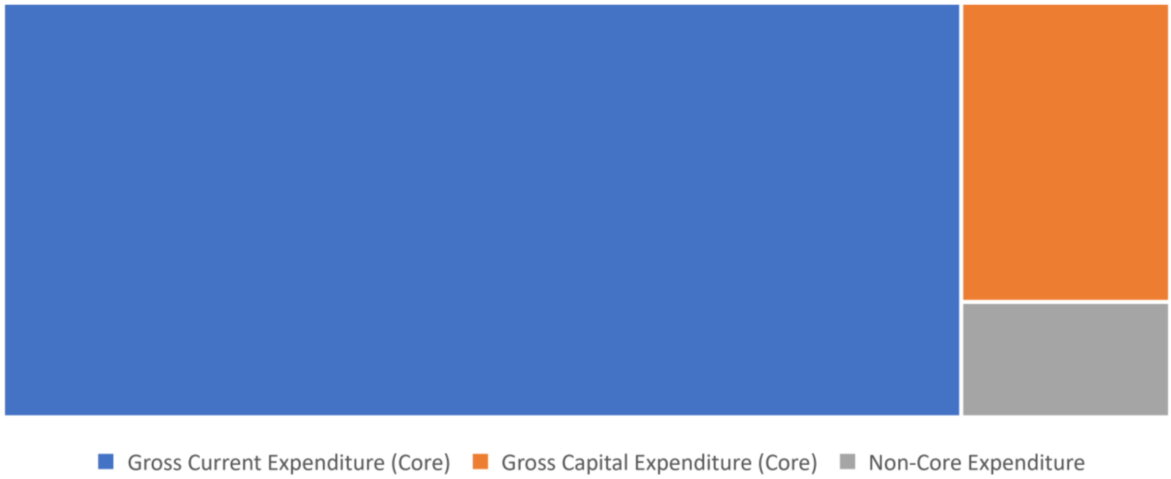
[19] Annual Taxation Report 2022, Department of Finance, September 2022.

[20] A Comparison of Income Tax Rates, Bands and Burden Across Europe, Parliamentary Budget Office, 17th August 2022.

Spending

On Budget day the Expenditure Report is published. Part III of this document is the Estimates for Public Services which sets out gross and net estimates of spending for the coming year across all Votes at programme level. This provides a high-level summary of projected spending but lacks the detail present in the Revised Estimates for Public Services which are published each December. In the *Budget 2023: Expenditure Report 2023* (27 September 2022) projected Voted spending in 2023 is €90.4 billion.[21] The overall composition of the Expenditure Ceiling for 2023 is set out in Figure 11.

Figure 11. Composition of Expenditure Ceiling (2023)



Source: PBO based on Department of Public Expenditure and Reform, *Expenditure Report 2023* (27 September 2022) p.51.

The overall budget package for 2023 (spending measures only) comprises:

- €85.9 billion of core current and capital spending; and
- €4.5 billion of 'Non-Core' spending measures, consisting of:
  - € 1.7 billion of 'COVID (including NRRP)';
  - €2 billion for the 'Ukrainian refugees'; and
  - €800 million of 'Other' (including Brexit Adjustment Reserve (BAR)).

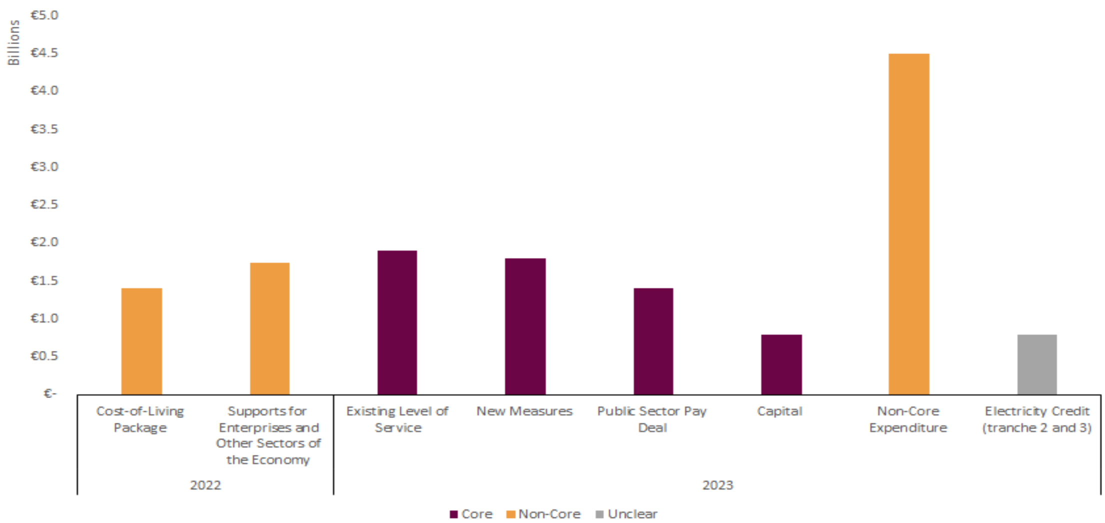
Budget 2023 is unusual in how many spending measures contained in it take effect in 2022. Very significant levels of spending are described which will take effect in 2022, subject to Dáil approval.

[21] Voted spending in this context refers to Government spending. This technically includes the Social Insurance Fund and the National Training Fund which are not Voted.

Budget Package 2023

Figure 12 illustrates the composition of the Budget Package for 2023. This reflects a considerable level of change when compared to the Budget package outlined in July.[22]

Figure 12. Increases in Spending in the Budget Package (Budget 2023)



Source: PBO based on Department of Public Expenditure and Reform, Budget 2023 *Expenditure Report* (27 September 2022) pp.6-32.

Compared to the *Mid-Year Expenditure Report* (MYER) in July 2022, Budget 2023 provides for:

- Early implementation of New Measures in 2022 now reflects:
  - A range of Cost-of-Living Measures (€1,412 million in 2022 and a further €800 million in 2023 as part of the Electricity Credit);
  - Supports to Enterprise and Other Sectors (€1,740 million);
  - representing an overall €3,952 million, an increase of €3,552 million over the €400 million set out in MYER 2022.
- Existing Level of Service of €1.9 billion (a decrease of €300 million compared to MYER 2022).
- New Measures of €3.2 billion including provision for a new public sector pay deal (an increase of €900 million compared to MYER 2022).
- Capital increases of €800 million (no change from MYER 2022).
- Non-Core funding of €4.5 billion (no change from MYER 2022).

Public spending policy must weigh up the need to provide immediate or short-term support and resourcing of public services to mitigate against future demands and risk. It is essential to strike a balance between once-off non-core spending to meet immediate pressures and public investment to reduce future risk.

Once-Off Measures (Non-Core Spending) in Budget 2023

The Budget package outlined today provides €4.5 billion for non-core spending in 2023 but also provides for significant non-core spending in 2022 of approximately €3.95 billion, with non-core spending being:[23]

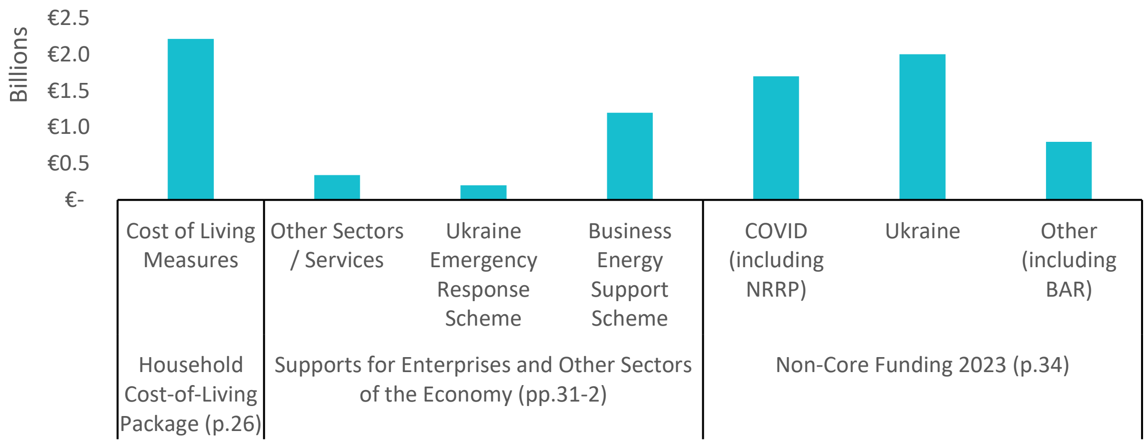
[22] Department of Public Expenditure and Reform, *Mid-Year Expenditure Report* (July 2022) p.26.
[23] Department of Public Expenditure and Reform, *Mid-Year Expenditure Report* (July 2022) p.12.

[…] funding outside of the expenditure base to respond to key challenges facing our economy and society. It provides funding for temporary or one-off supports which do not become part of the core expenditure base.

Once-off measures, or non-core spending, relate to measures being implemented by Government in Budget 2023 and with no further commitment to maintain or extend these measures in future.

This €3.95 billion of non-core spending (non-core spending is used interchangeably with temporary or one/once-off) has only crystallised in terms of quantum and function as of the Expenditure Report. The PBO's *Pre-Budget 2023 PBO Commentary* (19 September 2022) indicated that due to the uncertainty as to what this package of non-core measures would contain (and indeed its overall size), it would withhold its analysis until a later date. Here the PBO will provide an overview and initial commentary on the package of non-core (temporary/once-off) spending outlined in Budget 2023.

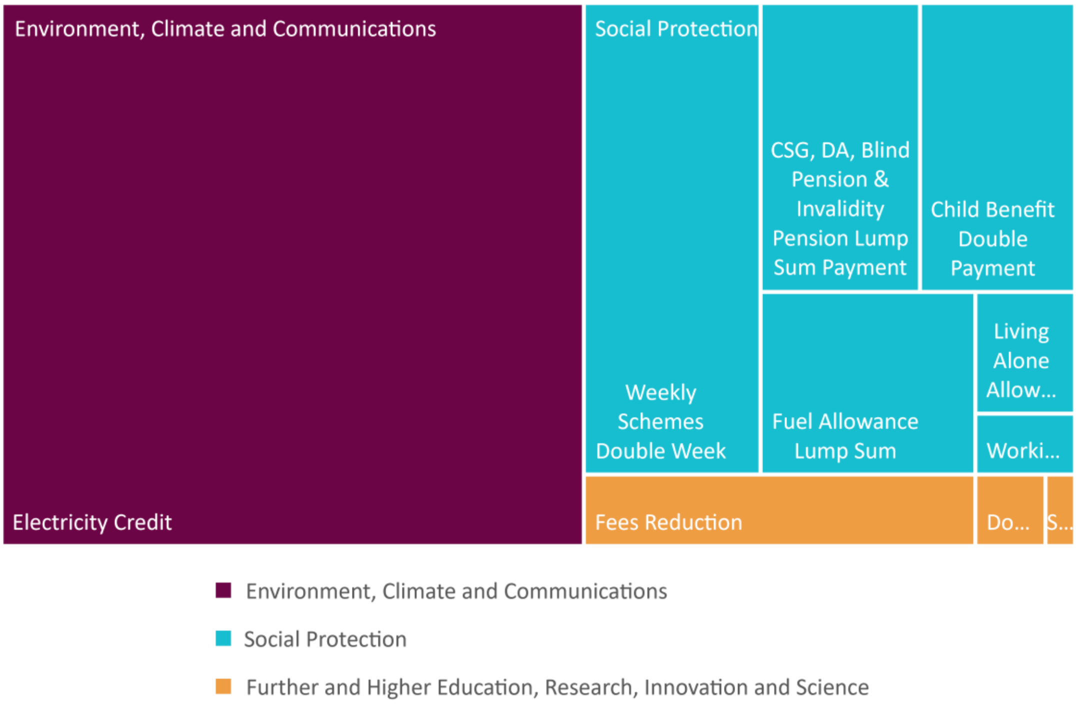
Figure 13. Non-Core Spending Outlined in Budget 2023



Source: PBO based on Department of Public Expenditure and Reform, *Expenditure Report 2023* (27 September 2022) pp.26-34.

€2,657 million of the €4,500 million of non-core funding is unallocated. This means that these funds are held in reserve pending a determination as to (i) whether they are required; and (ii) in which Vote(s) they are required. These unallocated funds are thematic and could potentially be allocated to one or more Votes, for example, unallocated Ukraine funds may be required by the Department of Education to provide for the educational needs of refugees, or alternatively could relate to providing any range of other public services to these refugees.

Figure 14. Household Cost of Living Package 2023



Source: PBO based on Department of Public Expenditure and Reform, *Expenditure Report 2023* (27 September 2022) p.26.

The total household cost of living package will cost €2,212 million, of which €1,412 million will accrue in 2022 with only two installments of the electricity credit due to be paid in 2023, costing a further €800 million. The non-core spending of €4.5 billion for 2023 does not reflect this additional non-core spending. It is currently unclear how this spending is provided for in 2023.

Once-off measures in Budget 2023 will help alleviate immediate cost-of-living pressures, felt most acutely by households in lower income deciles. These lower income households are particularly sensitive to inflation and often have little or no savings to help absorb sudden shocks.[24]

The greatest risk associated with once-off payments to deal with temporary challenges would be for these to become a recurring feature of future budgets. For example, the Fiscal Council has critiqued the fact that the Christmas bonus (an additional payment of social protection payments in December of a given year) has been paid each year since 2014 despite not forming part of initial budget plans[25] – in effect making payment of the Christmas bonus a recurring 'once-off' spending item. In 2021 the Christmas bonus cost over €313 million.[26]

Should once-off measures become more permanent annual features, generating ongoing expectations among the electorate and parliamentarians, it could be significantly detrimental to the future availability and allocation of resources to address longer-term issues. The suite of once-off measures have immediate or short-term impacts for beneficiaries but do little, or nothing, to address structural issues.

[24] Arrigoni *et al.*, 2019, Savings Across the Income Distribution, Quarterly Bulletin – Q3 2022, Central Bank of Ireland.
[25] Fiscal Council, *Fiscal Assessment Report* (December 2021) p.50.
[26] Department of Social Protection, 'Minister Humphreys announces payment of Christmas Bonus to 1.4 million people next week' (December 2021).

Social Welfare

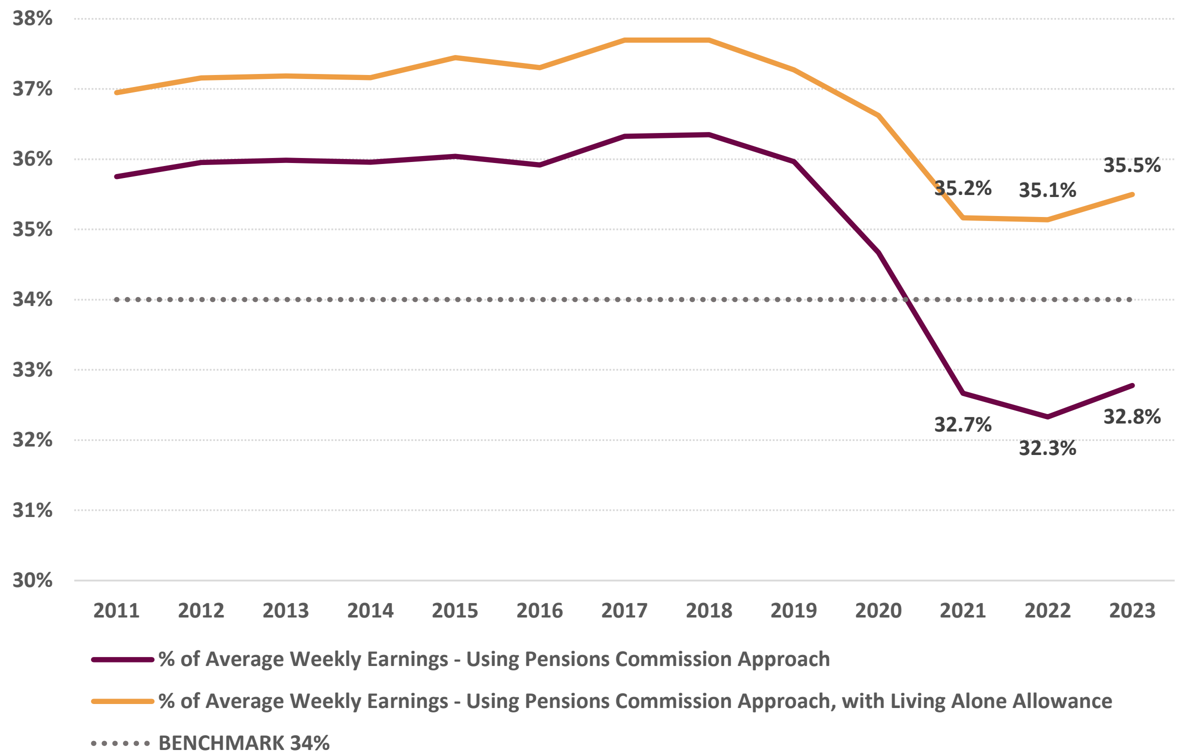
Contributory State Pension

The Contributory State Pension rate will increase by €12 per week, from €253.30 to €265.30 from 1 January 2023, with proportionate increases for qualified adults and those on reduced rates. This will cost approximately €325m to implement (the cost of increasing all pensions rates will cost €447m).[27]

This €12 represents a 4.7% nominal increase in 2023 and, combined with the €5 increase last year, the rate will have increased 6.8% since 2021. However, with inflation now forecast to be 8.5% in 2022 and 7.1% in 2023, the rate will fall 2.2% in real terms in 2023 and will have fallen 8.1% since 2021 in real terms. To keep pace with inflation over 2022 and 2023, the rate would need to be €288.53[28].

The Pensions Commission report on indexation suggests that 34% of average weekly earnings may be an appropriate benchmark for the Contributory State Pension rate.[29] However, the €12 increase in 2023 does not meet this benchmark, when the living alone allowance is not included. A rate of €275 would be required in 2023 to meet the 34% of average weekly earnings benchmark (Figure 15 below refers).

Figure 15. Contributory State Pension % of Average Weekly Earnings



[27] Pre-Budget 2023 Tax and Welfare Exchequer Budget Tool, PBO September 2022.
[28] Full indexation of all welfare payments, given the updated inflation forecasts and accounting for unexpected 2022 inflation, would cost approximately €2.8bn (including child benefit), an indication of the difficulty with indexation in times of exceptionally high inflation.
[29] Benchmarking and Indexation, The Pensions Commission, July 2021. Average weekly earnings in this instance refer to earnings excluding irregular earnings and overtime, and the average of the first quarter of the year in question and the three previous quarters in the preceding year is used.

Core Social Welfare Rates (e.g., Jobseekers Allowance/Benefit, One-Parent Family Payment, Farm Assist)

Working age social welfare rates will increase by €12 in January 2023, from €208 to €220 per week, with proportionate increases for a qualified adult dependant and those on reduced rates. The increase to Jobseeker's Allowance (max rate) alone will cost circa €108m in 2023, with the total cost of all social welfare payment increases reaching €436m.

This €12 increase represents a 5.8% increase in 2023, and combined with the €5 increase last year, will result in an 8.4% increase since 2021. However, accounting for inflation, in real terms the rate will fall 1.2% in 2023 and will have fallen 6.7% since 2021 in terms of their purchasing power. To keep pace with inflation over 2022 and 2023, the rate would need to be €235.89.

Working Family Payment

The income thresholds for Working Family Payment will increase by €40 from January 2023. This corresponds with a maximum increase of €24 per recipient household per week (since working family payment is calculated at 60% of the difference between the threshold and assessable income). This measure is set to cost €16.8m. However, the €40 increase falls far short of full indexation, which would see the thresholds increase in line with inflation. Increases of at least €88 would be required for a one-child household in a full-indexation scenario. However, WFP recipients will receive a one-off €500 lump sum in November 2022 (cost €23m) which will go some way towards compensating for the external inflation situation.

Subsidiary Payments: Fuel Allowance, Living Alone Allowance and Qualified Child Increases

Fuel Allowance and Living Alone Allowance rates will remain unchanged in 2023, at €33 and €22 per week respectively[30]. A €10 increase in the Fuel Allowance would have cost circa €105.6m in 2023, and a €10 increase in the Living Alone Allowance would have cost circa €122.8m. Instead, the means thresholds for fuel allowance were increased, at a cost of €63.3m, from January 2023. The Government appear to have opted for larger increases to core social welfare rates (€12, rather than €10) rather than combining an increase with subsidiary payment increases[31]. The unchanged rates for both subsidiary allowances mean that fuel allowance and LAA will fall 6.6% in real terms in 2023.

Qualified child increases will go up by only €2 in 2023, for children aged under and over 12 years of age, at a cost of €30.4m. This means that these rates will also not keep pace with inflation. This nominal increase represents less than a quarter of what was suggested by the Tax Strategy Group papers for qualified child rates for under and over 12s respectively, at a cost of €85m and €84m[32]. ESRI research indicates that qualified child increases are an effective method of tackling child poverty rates.[33] As such, the curtailed €2 increases will only have a limited impact on at-risk-of-poverty rates. PBO analysis, using SWITCH microsimulation modelling, shows that qualified child increases (and working family payment) are a much more progressive use of funds than the universal Child Benefit.[34]

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[30] Fuel allowance is not an all-year round payment, it is available for 28 weeks over the winter period.

[31] Fuel allowance and living alone allowance recipients will receive €400 and €200 lump sums respectively in November 2022 as part of the cost of living package. These measures combined will cost €194.5m.

[32] Tax Strategy Group Papers, August 2022.

[33] Headline Poverty Target Reduction in Ireland and the Role of Work and Social Welfare, ESRI, June 2022.

[34] Progressivity of Targeted v Universal Measures, PBO September 2022. Progressive in this context refers to lower income decile households experiencing higher percentage increases in disposable income than higher income decile households.

A double Child Benefit payment will be paid in November 2022 at a cost of €170.4m, as part of the one-off package of measures.

Table 4: Summary of Nominal and Real Welfare Changes

Welfare Payment	**2021 Rate**	**2022 Rate**	**2023 Rate**	**2022-2023 Nominal % Change**	**2021-2023 Nominal % Change**	**2022-2023 Real % Change**	**2021-2023 Real % Change**
State Pension (Contributory)	€248.30	€253.30	€265.30	4.7%	6.8%	-2.2%	-8.1%
Working Age Core Rates	€203.00	€208.00	€220.00	5.8%	8.4%	-1.2%	-6.7%
Fuel Allowance	€28.00	€33.00	€33.00	0.0%	17.9%	-6.6%	1.4%
Living Alone Allowance	€19.00	€22.00	€22.00	0.0%	15.8%	-6.6%	-0.4%
Qualified Child Increase (All Benefits) - Under 12	€38.00	€40.00	€42.00	5.0%	10.5%	-2.0%	-4.9%
Qualified Child Increase (All Benefits) - 12+	€45.00	€48.00	€50.00	4.2%	11.1%	-2.7%	-4.4%

Once-off vs recurring spending

Due to the 'non-recurring' nature of non-core spending, there is considerable discretion as to how these resources are allocated. One-off measures have the potential to be particularly targeted, especially if they are directed to those in receipt of various social welfare payments. These households are more likely to be in the lower income deciles, meaning that measures aimed at them will be progressive as they benefit them disproportionately compared to higher earning households. **In broad terms, the once-off measures provided for in Budget 2023 are progressive, albeit with a short-term impact. They are unlikely to have a lasting impact on their beneficiaries given their immediate payment.**[35]

Targeted Measures

PBO analysis, using SWITCH microsimulation modelling, has previously shown the progressivity of targeted measures compared to universal measures.[36] This was particularly evident when qualified child increases to social welfare payments or working family payment was compared to child benefit or when fuel allowance add-ons were compared to universal energy credits.[37] **For any given amount available to spend in a particular area, targeted measures are more efficient at impacting those in the lower income deciles and reducing the at-risk-of-poverty rate**.

ESRI research, looking at the impact of various social welfare measures on at-risk-of-poverty rates, indicates that the working family payment may be the single most effective measure at combating poverty.[38] Child benefit, as a universal payment, has a very limited impact on reducing total poverty risk in comparison.

Budget 2023 contains a mix of targeted and universal measures. Targeted measures were advisable in the current environment due to the cost-of-living pressures. By increasing the disposable income of higher income households as well as less-well off households, the additional resources may not be spent on household necessities as intended. In contrast, the pressure from rising energy and food prices as a share of total income is recognised to be more severe for lower-income households. In lower-income households, it is more likely that targeted relief would have been spent on household necessities. Universal lump-sum measures have the potential to add to inflationary pressures in the run-up to Christmas if there is increased demand pressure in unintended spending categories.

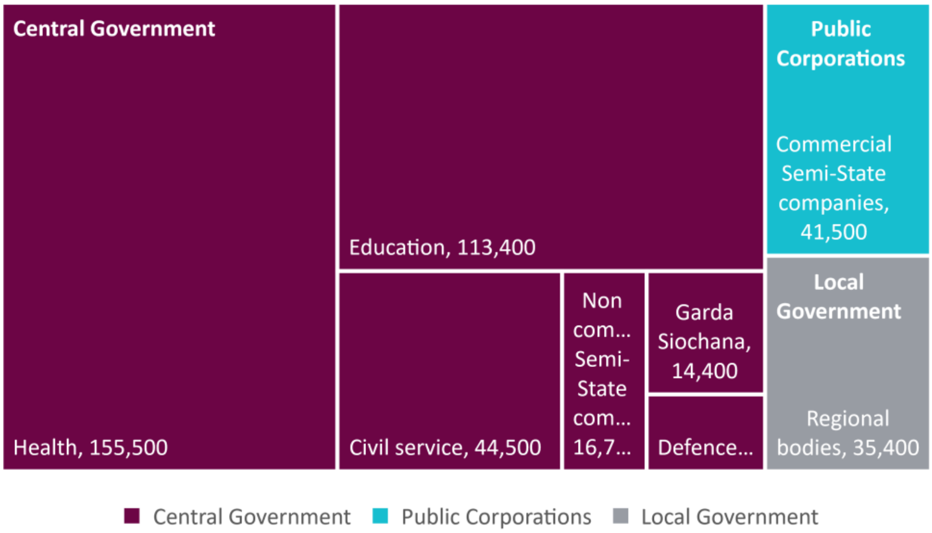
[35] See Department of Public Expenditure and Reform, *Expenditure Report 2023* (27 September 2022) p.30.
[36] PBO, 'Progressivity of Targeted v Universal Measures' (September 2022).
[37] Ibid.
[38] ESRI, *Headline Poverty Target Reduction in Ireland and the Role of Work and Social Welfare*https://www.esri.ie/system/files/publications/BKMNEXT424_0.pdf (June 2022).

Public Sector Pay & Staffing

Staffing

The Public Sector employs a large number of people, primarily in Central Government. Figure 16 illustrates public sector headcount as of Q2 2022.[39] Public sector staffing has been growing in recent years, with the Expenditure Report highlighting substantial recruitment in 2023.

Figure 16. Public Sector Headcount (Q22022)



Source: CSO, 'EHQ10' (Accessed 22 September 2022).

Recruitment in 2023, provided for in the Expenditure Report, includes:

- 6,000 staff in Health;
- 1,000 new Garda recruits;
- 430 additional Garda staff;
- 370 primary school teachers;
- 296 mainstream post-primary teachers;
- 1,194 Special Needs Assistants; and
- 686 Special Education Teachers.

While not comprehensive, this list comprises the most significant staffing increases. Cumulatively, if these recruitment targets are met, an additional 9,976 public sector employees will be added to the public sector workforce.

Pay

Public sector pay and pensions comprise a significant proportion of government spending. Gross spending on public sector pay in 2023 is projected to rise to more than €22.7 billion (an increase of over €800 million / 3.5%). As previously noted by the PBO, the August public sector pay proposal generates a significant additional cost to the Exchequer in 2023.[40] However, the gross cost of public sector pay does not reflect that a significant proportion of this bill is immediately 'clawed back' by the Exchequer, primarily through income tax. Therefore, the net cost of public sector pay, reflecting tax income levied on public sector workers is likely considerably lower than the headline (gross) cost.

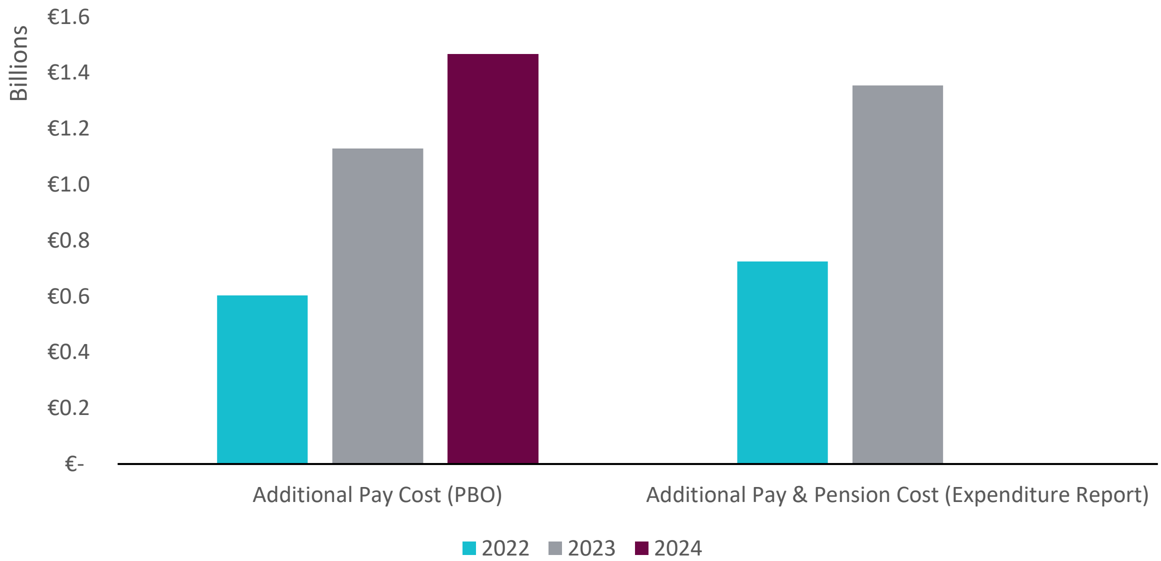
[39] Headcount refers to the number of persons employed regardless of hours worked. Whole time or full time equivalents (WTE / FTE) refers to employment in terms of proportion of full-time workers.

[40] See PBO, Pre-Budget Commentary (September 2022).

The PBO conservatively estimated the gross cost of the pay component of the August proposals as:

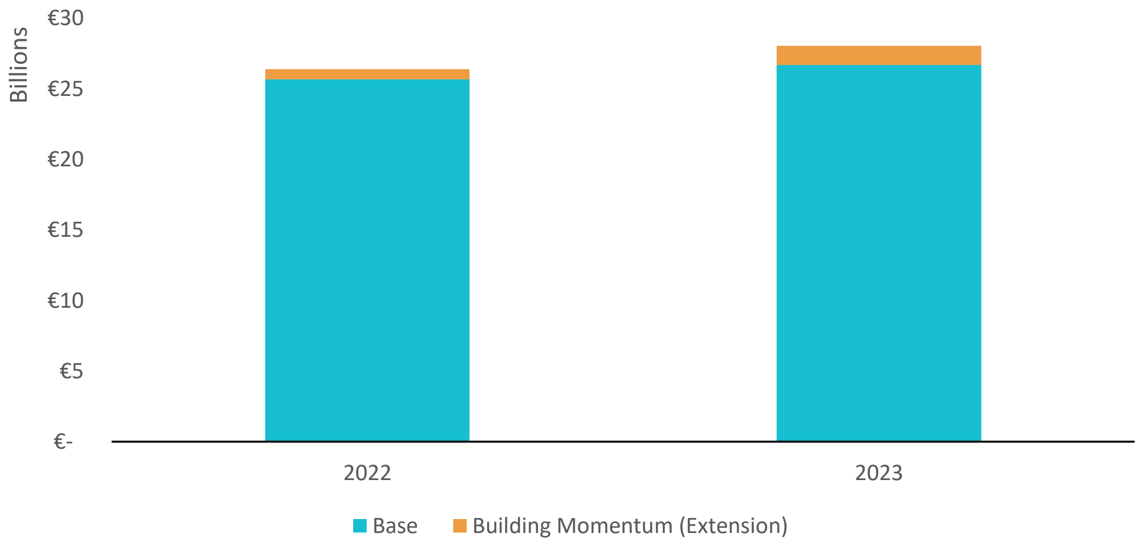
- Over €603 million in 2022;
- Almost €1,130 million in 2023; and
- Almost €1,467 million in 2024.

Figure 17. Additional Pay Costs Attributable to Public Sector Pay Proposal of August 2022



Source: PBO based on DPER, *Revised Estimates for Public Services 2022* (December 2021) and Department of Public Expenditure and Reform, *Expenditure Report 2023* (27 September 2022) p.60.

Figure 18. Impact of Building Momentum on Gross Pay and Pension Spending in 2022 and 2023



Source: PBO based on Department of Public Expenditure and Reform, *Expenditure Report 2023* (27 September 2022) p.60 & pp.186-7.

Figure 18 illustrates gross public sector pay and pensions as provided for in the *Estimates for Public Services 2023* (Part III of the Expenditure Report). The gross public sector pay and pensions bill is projected to increase by €1,020 million (4%) in the absence of the extension of the Building Momentum public sector pay agreement. However, the gross increase in spending on pay and pensions will be €1,650 million (6.3%).

Changes in Key Votes in 2023

This section focuses primarily on the changes to gross allocation of the six Votes who are projected to receive in excess of €2 billion (Gross) in 2023. Other, smaller Votes, are categorized as 'Other'.

Current

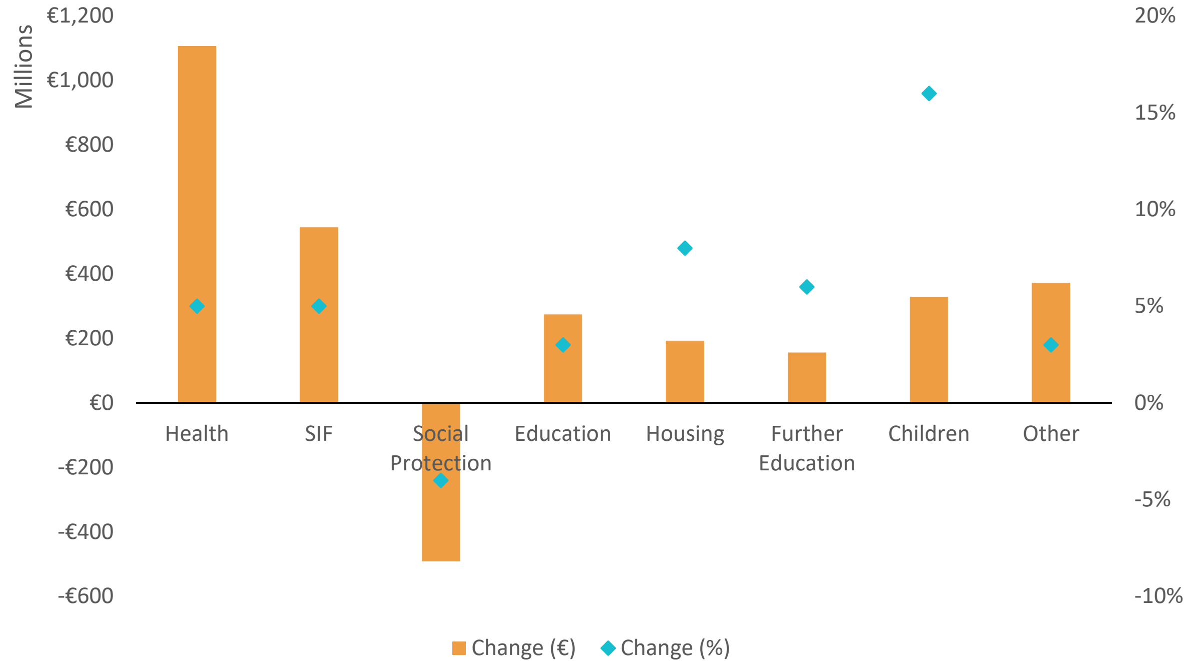
There are six votes (when treating Social Protection and the Social Insurance Fund cumulatively) with a gross current allocation above €2 billion in 2023:

- Social Protection (Vote 37): €11,665.7 million; and the Social Insurance Fund (Vote 37a): €11,721.4 million. Reaching a cumulative €23,387.1 million;
- Health (Vote 38): €22,240.1 million;
- Education (Vote 26): €8,764.8 million;
- Housing, Local Government and Heritage (Vote 34): €2,722.7 million;
- Further and Higher Education, Research, Innovation and Science (Vote 45): €2,616.7 million; and
- Children, Equality, Disability, Integration and Youth (Vote 40): €2,403 million.

Cumulatively, these Votes reflect over €62.1 billion of the gross current spending projected for 2022 – approximately 83.6% of the total.

- **Health** is projected to increase by 5.2%, from €21.1 billion in 2022 to €22.2 billion in 2023.
- **Social Insurance Fund** is also projected to increase by 4.9%, from €11.1 billion to €11.7 billion.
- **Social Protection** is the only vote of the "big six" projected to decrease, reflecting the end of the pandemic era payments. The vote will decrease by 4%, from €12.1 billion to €11.6 billion.
- **Education** is projected to increase by 3% from €8.4 billion to €8.7 billion. This largely reflects increased staffing which is driving increased Exchequer pay in this Vote of over €190 million.
- **Housing, Local Government and Heritage** is projected to increase by 7.6%, from €2.5 billion to €2.7 billion.
- **Further and Higher Education, Research, Innovation and Science** is projected to increase by 6.3%, from €2.4 billion to €2.6 billion.
- **Children, Equality, Disability, Integration and Youth** is projected to significantly increase by 16%, the most of the six votes, from €2 billion to €2.4 billion.
- All the other votes combined are projected to increase by 3%, from €11.8 billion to €12.1 billion.

Figure 19. Developments in Current Allocations in Key Votes (2023 vs 2022)



Source: PBO based on Department of Public Expenditure and Reform, *Expenditure Report 2023* (27 September 2022) p.60 & pp.184.

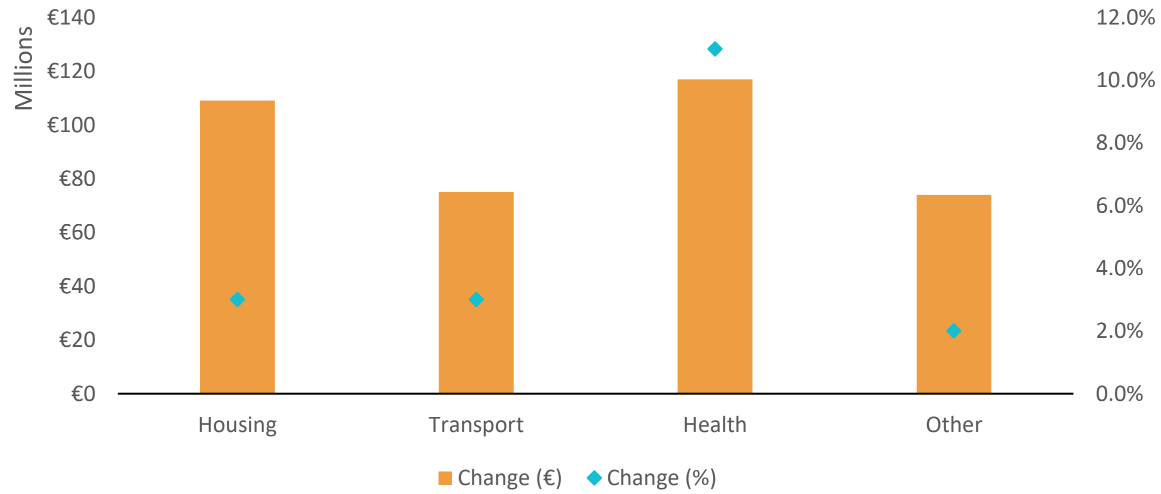
Capital

There are three votes with a gross capital allocation above €1 billion:

- Housing, Local Government and Heritage (Vote 34): €3,512.2 billion,
- Transport (Vote 31): €2,622 million, and
- Health (Vote 38): €1,177.3 million.

Cumulatively, these Votes reflect over €7.3 billion of the gross capital spending projected for 2022 – approximately 61.5% of the total.

Figure 20. Developments in Capital Allocations in Key Votes (2023 vs 2022)



Source: PBO based on Department of Public Expenditure and Reform, *Expenditure Report 2023* (27 September 2022).

- The largest capital vote, Housing, Local Government and Heritage, is projected to increase by 3% from €3.4 billion in 2022 to €3.5 billion in 2023.
- The Transport vote is also projected to increase by 3%, from €2.5 billion to €2.6 billion.
- The Health vote is projected to increase significantly by 11%, from €1 billion to €1.1 billion.
- The Other votes combined account for €4.5 billion and is projected to increase by 2% from 2022 to 2023.

Real vs Nominal Changes in Funding Allocations

€1.9bn has been allocated to maintain Existing Level of Service (ELS). With inflation forecasts for 2022 and 2023 revised upwards, this may be a substantial underestimate of the true amount required for ELS. However, the Government have largely adopted a cost-of-living approach to this Budget, including a large one-off package of measures to immediately partially offset inflation. In this context, although individual Votes may incur some real cuts to funding, current exceptional circumstances may necessitate this approach.

Spending Review 2022

The Spending Review was introduced after the financial crisis to improve the management of public spending.[41] The Spending Review is:[42]

> *… part of a wider evaluative framework which is intended to ensure that public services are delivered in a manner that is sustainable, effective and efficient. The specific aims of the Spending Review are to maximise the impact of expenditure by re-prioritising it to programmes that have better outcomes, and thereby create a clear link between individual reviews and the budgetary process.*

Table 6 sets out the Spending Review papers published this year.

Table 6. Spending Review Papers Published as of 27 September 2022

Theme	Paper Title
Housing and Property	An Assessment of the Balance of Current and Capital Expenditure - OPW Estate Management Portfolio
Tourism, Culture, Arts, Gaeltacht, Sport and Media	Focused Policy Assessment: The Distributive Efficiency of the Sports Capital and Equipment Programme
Health	Towards Population-Based Funding for Health – Evidence Review and Regional Profiles
	Review of the Long-Term Illness Scheme
	Healthcare Capital Investment in Ireland: An Analysis of Healthcare Infrastructure Capacity
	Healthcare Capital Investment in Ireland: An Analysis of Built Healthcare Infrastructure
	A Systems Dynamic Model of Nursing Workforce Supply
Social Protection	Forecasting Live Register Recipients and Expenditure

Source: Department of Public Expenditure and Reform, 'Spending Review 2022' (Accessed 27 September 2022) & "Budget 2023 Spending Review"

The Spending Review paper *A System Dynamics Model of Nursing Workforce Supply* examines international recruitment in the nursing workforce. This is an important issue as there will be increased demand for nursing in the future as well as ethical challenge of significant numbers of nurses moving from developing economics to advanced economies, including Ireland. In 2021 almost 43% of nurses registered in Ireland were educated abroad. This highlights Ireland's reliance on the recruitment of foreign educated nurses. The World Health Organization have developed Code of Practice on International Recruitment of Health Personnel (WHO-GCP) to tackle the issue of recruitment of health staff from developing countries. Based on current trends, the proportion of *domestically educated* nurses in the workforce will decrease and this will exacerbate the challenge of reaching national self-sufficiency.

The Spending Review paper *Forecasting Live Register Recipients and Expenditure* outlines the Forecasting Methodologies for estimated numbers of claimants on the Live Register in 2022 and 2023 and the estimated cost of the labour market supports. The Live Register provides information on the number of claimants seeking Jobseeker's Allowance, Jobseeker's Benefit and other benefits with the Department of Social Protection. The level of income supports is dependent on a number of factors such as means testing, dependents and income from part-time employment. The focus of this paper

[41] PBO, *The Irish Spending Review: Suggestions from International Experiences* (2019) p.2.
[42] PBO, *Analysis of Spending Review 2018* (2018) p.3.

is on the underlying Live Register and does not include people under Temporary Protection from Ukraine.

The forecasting methodologies in the Spending Review paper are:

- Conversion Rate, a "top down" method that estimates total jobseekers based on the Department of Finance's unemployment projections,
- Trend Drift model, a "bottom up" method that applies previously observed trends in the weekly Live Register from 2019 to 2023,
- Flat Carryover, a "bottom up" method that assumes a flat underlying Live Register through to 2023 but models the effect of seasonality on the Live Register, and
- ARIMA model, a time-series method that uses seasonally adjusted weekly Live Register data from 2015 to forecast the LR to 2023.

A number of estimates projections for the number of claimants on the Live Register and costs are estimated across the four methods. Averaging across these four projections, it is estimated that there will be 175,500 claimants on the Live Register in 2023, with a total annual expenditure of €1,953m. Based on pasts trends and forecasting methods, the labour market is expected to perform well in both 2022 and 2023 and that there will be no significant increase in the Live Register during this period.

Appendix 1 – Budget 2023 tax policy changes

Income Tax Changes

- *Income tax reduction measures* which include:
  - An increase of €3,200 to the standard rate band of tax from €36,800 to €40,000 for single individuals, with proportionate increases for married couples and civil partners with one earner from €45,800 to €49,000.
  - An increase of €75 to the main tax credits, namely the Personal Tax Credit, the Employee Tax Credit, and the Earned Income Credit from €1,700 to €1,775.
  - There was also an increase to the Home Carer Tax Credit by €100.
- *There were also changes to the Universal Social Charge (USC)* with an increase in the 2% or second USC band from €21,295 to €22,920. This change was made to ensure that full-time workers on the minimum wage who receive an increase in pay of €0.80 per hour will remain outside of the top rates of USC.
  - The reduced rate of USC concession for medical card holders is being extended for a further year.
- *Extension to the Sea-going Naval Personnel Tax Credit,* to 31st December 2023.

Housing, Residential and Construction Tax Changes

- *The Help-to-Buy (HTB) Scheme was extended in its current form, by two years, until the end of 2024.* The Help-to-Buy Scheme allows eligible first-time buyers claim up to a maximum of €30,000 to assist in the purchase of a newly built home in a private development.
- *Budget 2023 also saw the introduction of a new Rental Tax Credit.* This new rent tax credit was introduced at a rate of €500 per year, and can be claimed in respect of both 2023 and 2022. Approximately 400,000 people are expected to be eligible for this credit.
- *There was also an enhancement made to the pre-letting expenses for landlords* by doubling the amount that can be claimed per premises from €5,000 to €10,000, and by reducing the period for which a premises must be vacant from 12 to 6 months.
- *A Vacant Homes Tax was introduced in Budget 2023.* This new measure is intended to increase the supply of homes for rent or purchase. This tax will apply to residential properties which are occupied for less than 30 days in a twelve month period. This new Vacant Homes Tax will be charged at a rate equivalent to three times the property's existing basic Local Property Tax (LPT). This tax will operate on a self-assessed basis and will be administered by the Revenue Commissioners. In addition, there will be several exemptions so that owners are not charged where there is a genuine reason for leaving a property vacant.
- *There was an extension to the Residential Development Stamp Duty Refund Scheme to the end of 2025.* The scheme has been in place since 2017 whereby a portion of the Stamp Duty paid on the acquisition of non-residential land is refunded where that land is subsequently developed for residential purposes.
- *Budget 2023 also introduced a Defective Concrete Product Levy*. As a result of the redress scheme for homeowners affected by mica and other defective issues, a new levy on the construction industry is being introduced. This levy will apply to concrete blocks and pouring concrete. Budget 2023 documentation estimates that this will raise €80 million for the Exchequer and will be applied from the 3rd of April 2023 at a rate of 10 per cent.

Environmental Tax Changes

- *There will be an increase in the Carbon Tax.* The rate of Carbon Tax will increase from €41 to €48.50 per tonne of CO_2. This increase will apply to auto fuels such as petrol and diesel with effect from 12th October 2022 and all other fuels from 1st May 2023. As noted in the speech by the Minister for Finance, this increase would lead to an increase of approximately 2 cents (VAT inclusive) per little of petrol and diesel. The estimated yield to the Exchequer from this increase (prior to a reduction in the National Oil Reserves Agency levy) is €114 million in the first year and €151 million in a full-year.
- *The increase in the Carbon Tax will be offset by a reduction to zero of the National Oil Reserves Agency (NORA) levy.* No costings were provided for this offset in the Budget 2023 documentation, but it will effectively offset the additional revenue raised from the increase in the Carbon Tax. According to information from NORA the NORA levy raised €121 million in 2020, and €120 million in 2021 (based on provisional figures).

Tax Credits

- *There was an extension to the Knowledge Development Box*, which encourages companies to develop Intellectual Property in Ireland, for a further four years.
- *There was also an extension to the Special Assignee Relief Programme until 2025,* with an increase in qualifying income to €100,000.

Changes to Valued Added Tax (VAT)

- *A 0% VAT rate was introduced for newspapers and health products in Budget 2023*:
  - VAT on newspapers will be reduced from 9% to 0% effective 1st January 2023.
  - VAT will also be reduced from to 0% for various health products, including defibrillators, hormone replacement and nicotine replacement therapies, and period products.

Excise Changes

- *Increase in Excise Duty on cigarettes.* An increase of 50 cent on a packet of 20 cigarettes was announced with a pro-rata increase on other tobacco products. This measure is expected to raise €54 million in a full-year.
- *Excise relief for independent producers of cider.* Budget 2023 is introducing 50% excise relief for small, independent producers of cider and pear cider.
- *Budget 2023 also introduced a 'Special Excise Exemption' to support the night-time economy.* This will halve the cost of applying for a Special Order Exemption, which late night venues require to open, from €110 to €55.

Additional Tax Measures

- *The Bank Levy was extended again until the end of 2023.* As noted in the speech by the Minister for Finance, the current annual yield from this levy is approximately €87 million. The Bank Levy, which was introduced in 2013, has been extended in every Budget since being introduced. Following the publication of the *Retail Banking Review*, the Minister for Finance will consider the long-term future of the levy.

Appendix 2 – Tax Expenditure Reports

There were four tax expenditure reports published alongside the Budget – an evaluation of the Knowledge Development Box, an evaluation of the R&D tax credit, a cost-benefit analysis of the Film Relief and a review of Help-to-Buy by Mazars.

While the detailed changes for these measures will be published in the Finance Bill, it is noticeable that the Mazars report does not recommend the action taken in Budget 2023, namely, extending the scheme without changes for a further two years.

The Mazars report states that "*There are weaknesses in the Help to Buy scheme and it cannot be concluded that it is sufficiently efficient to represent good value for money. Consequently, we conclude that it should be withdrawn. However, now is not the time to do so. Furthermore, the problems that it sought to address remain and the specific market failure at which it was targeted are not likely to be addressed by proposed new initiatives under the HfA program. As a result, HtB needs to be replaced by an instrument that will address this issue."*

Mazars recommend only extending the scheme for two years while changes are made in order to move it away from a tax expenditure scheme towards a scheme under the direction of the Department of Housing, Planning and Local Government.

In the meantime, Mazars also recommend changes to the scheme during the two year extension, including removing self-builds from the scheme, and increasing the minimum mortgage LTV to 80% in order to reduce the level of deadweight.