

# Taming an Impala:

## Corporate Income Tax Analysis in Ireland

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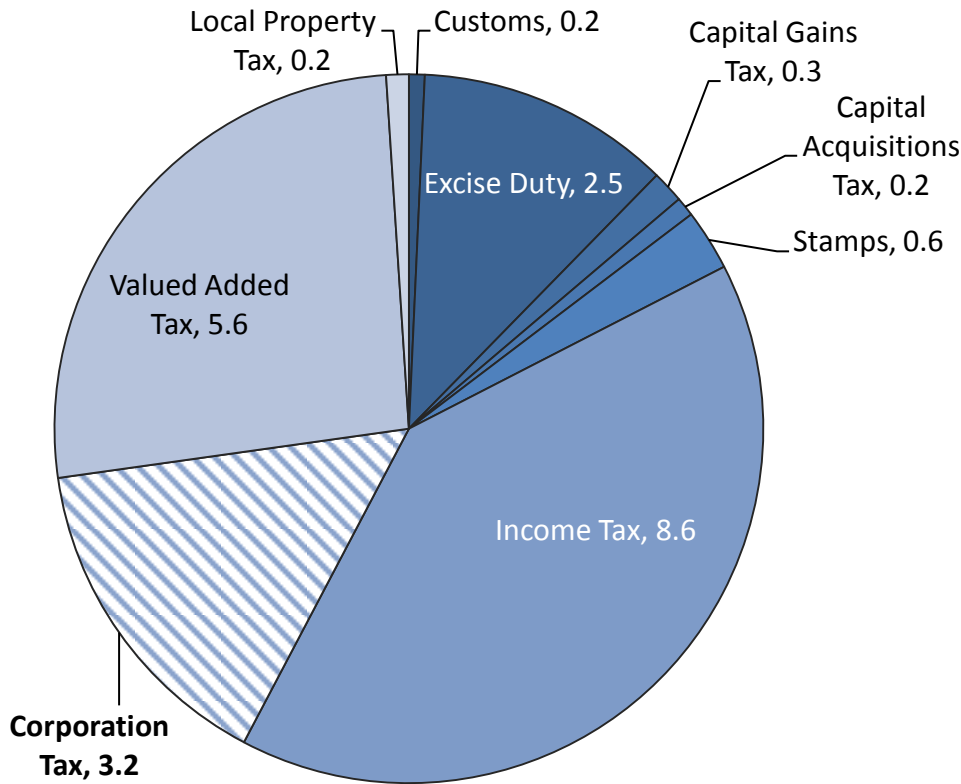
# Corporate Income Tax Analysis in Ireland

- High Concentration
  - Volatility
  - Firm-, product-specific developments important (anonymity)
  - Risks to tax base, fiscal stance
- Analysis partial, infrequent, and irregular
- Challenges obtaining data

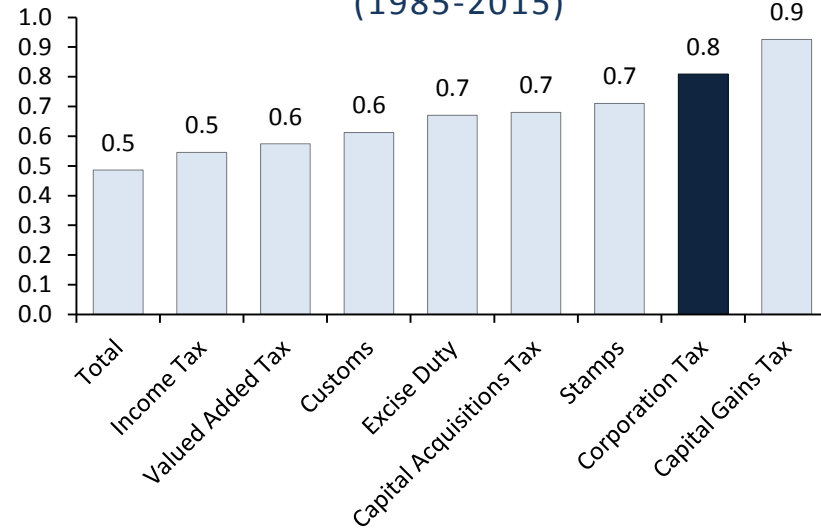
# In Context (2015)...

**GG REVENUES = 32.3% GDP**  
**TAX REVENUES = 21.2% GDP**

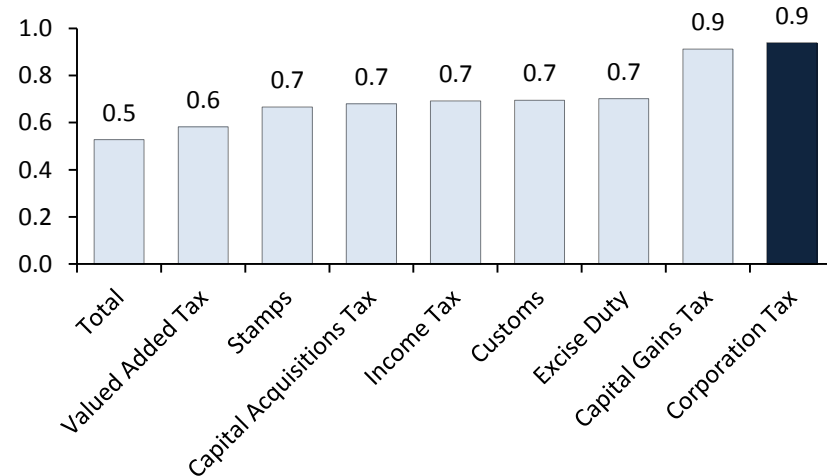
**MAJOR TAX HEADS (% GDP)**



**Coefficient of Variation (1985-2015)**



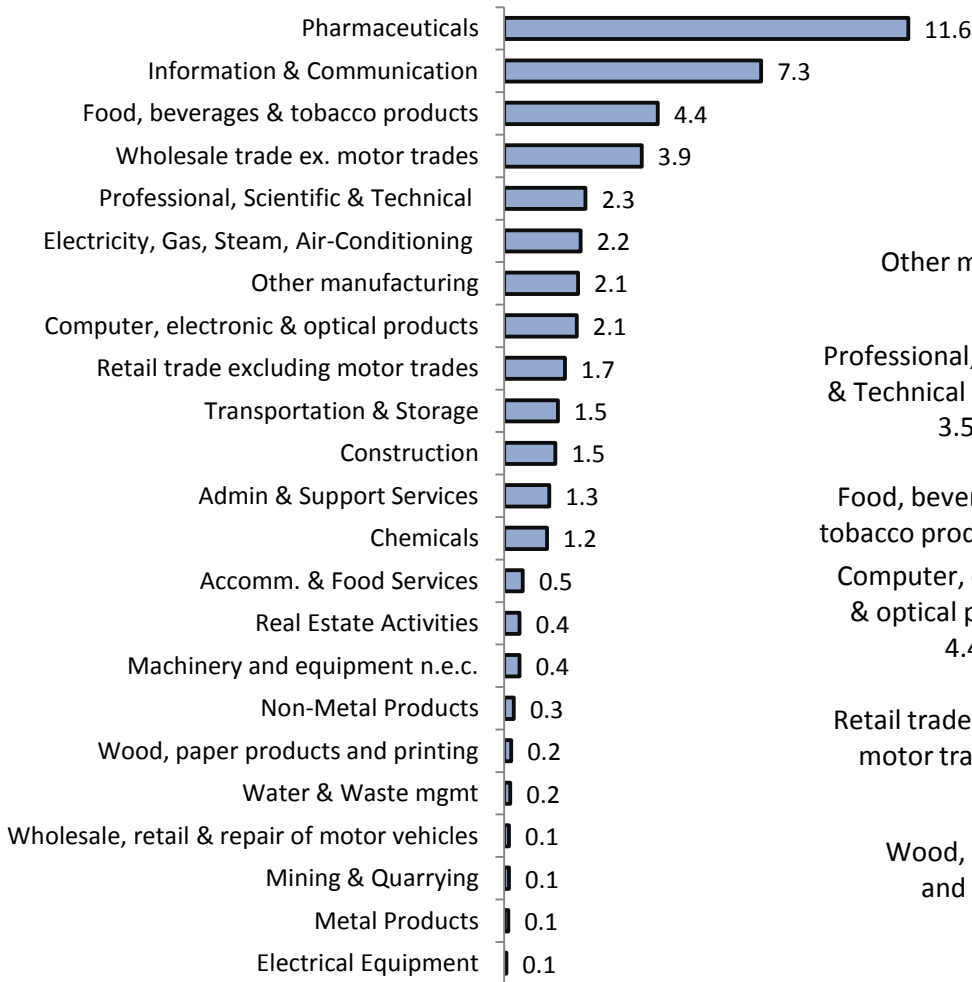
**(2000-2015)**



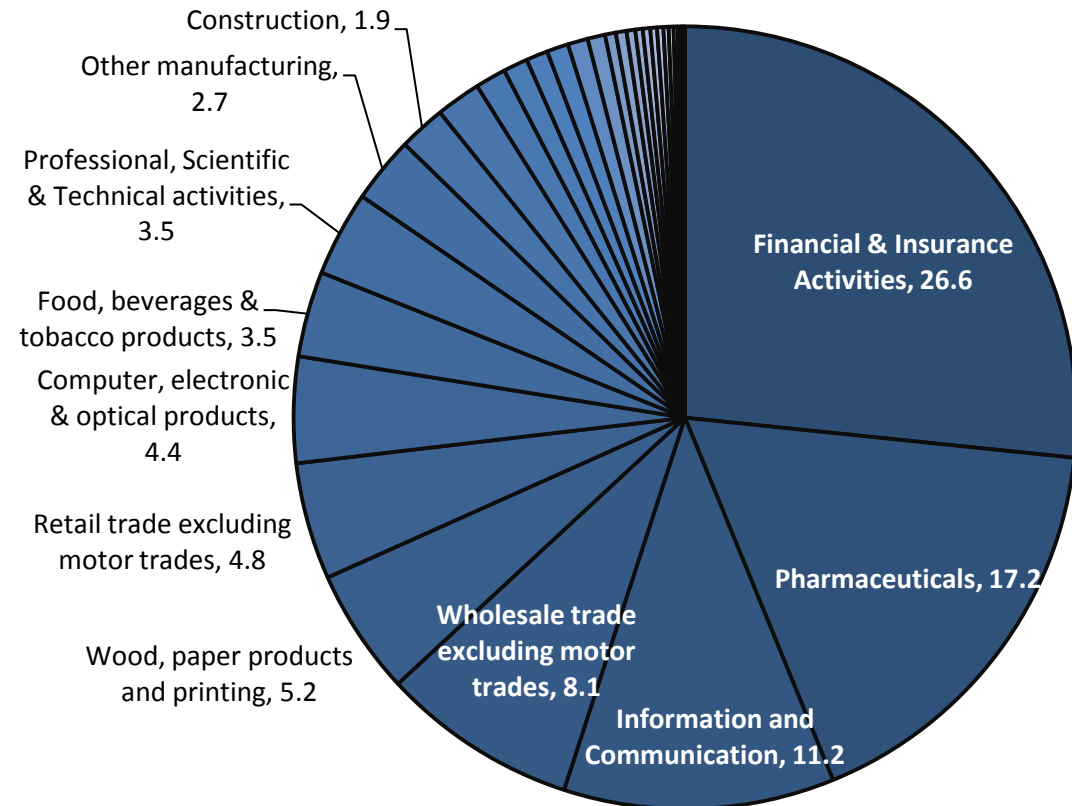
Sources: Department of Finance and own workings.

# Sectoral Concentration

SECTORAL GOS, 2008-2012 (AVERAGE €BN)



SECTORAL CT PAYMENTS, 2008-2012 (% OF TOTAL)



Source: Piggott and Walsh (2014); GOS from Eurostat [fats\_g1a\_08]

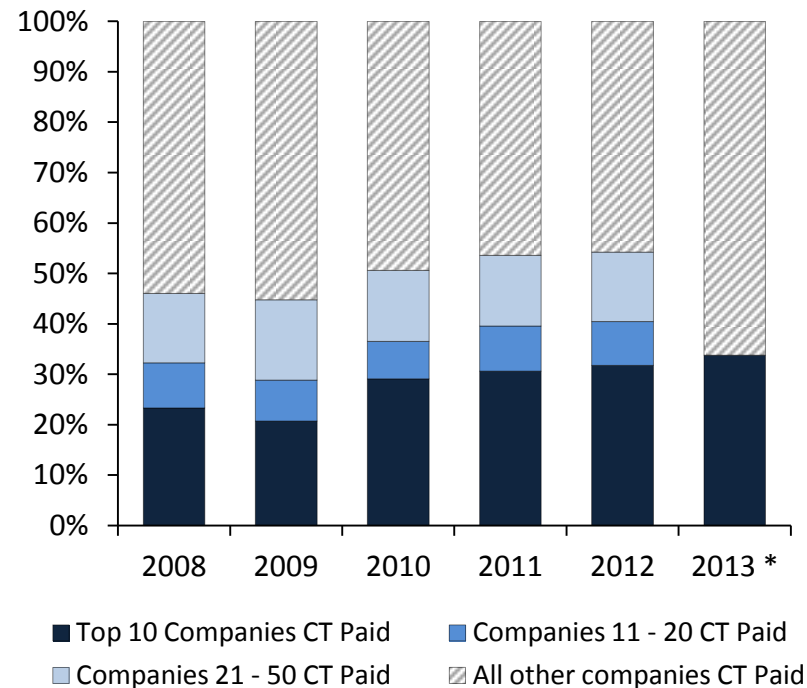
# Concentration by Companies

- Sectors dominated by Multinational Enterprises account for 24.3% GVA (2014)
- 80% of Corporation Tax is paid by foreign companies (c.60% by US companies)

CORPORATION TAX PAYMENTS (ANNUAL AVG. 2008-2012)

Top 10, 20 and 50 Companies	€bn	% of Total
Total Corporation Tax	4.1	
Top 10 Companies CT Paid	1.0	24%
Top 20 Companies CT Paid	1.3	32%
Top 50 Companies CT Paid	1.9	46%

TOP 10, 20 & 50 CORPORATE GROUPS (% OF TOTAL PAYMENTS)



**Sources:** Sources: Pigott and Walsh (2014); authors' analysis of Revenue data; Minister, Department of Finance parliamentary question response (17 July 2014); Letter from Revenue Chairman to Minister for Finance (20 November 2015); and own workings.

**Notes:** Breakdown for 2013-15 is incomplete, with data only available for top 10 companies and total.

\* Gross Amount paid by top 10 multinational companies for 2013 \*\* Data for 2014 and 2015 are for Jan-Oct only

# Problems Forecasting

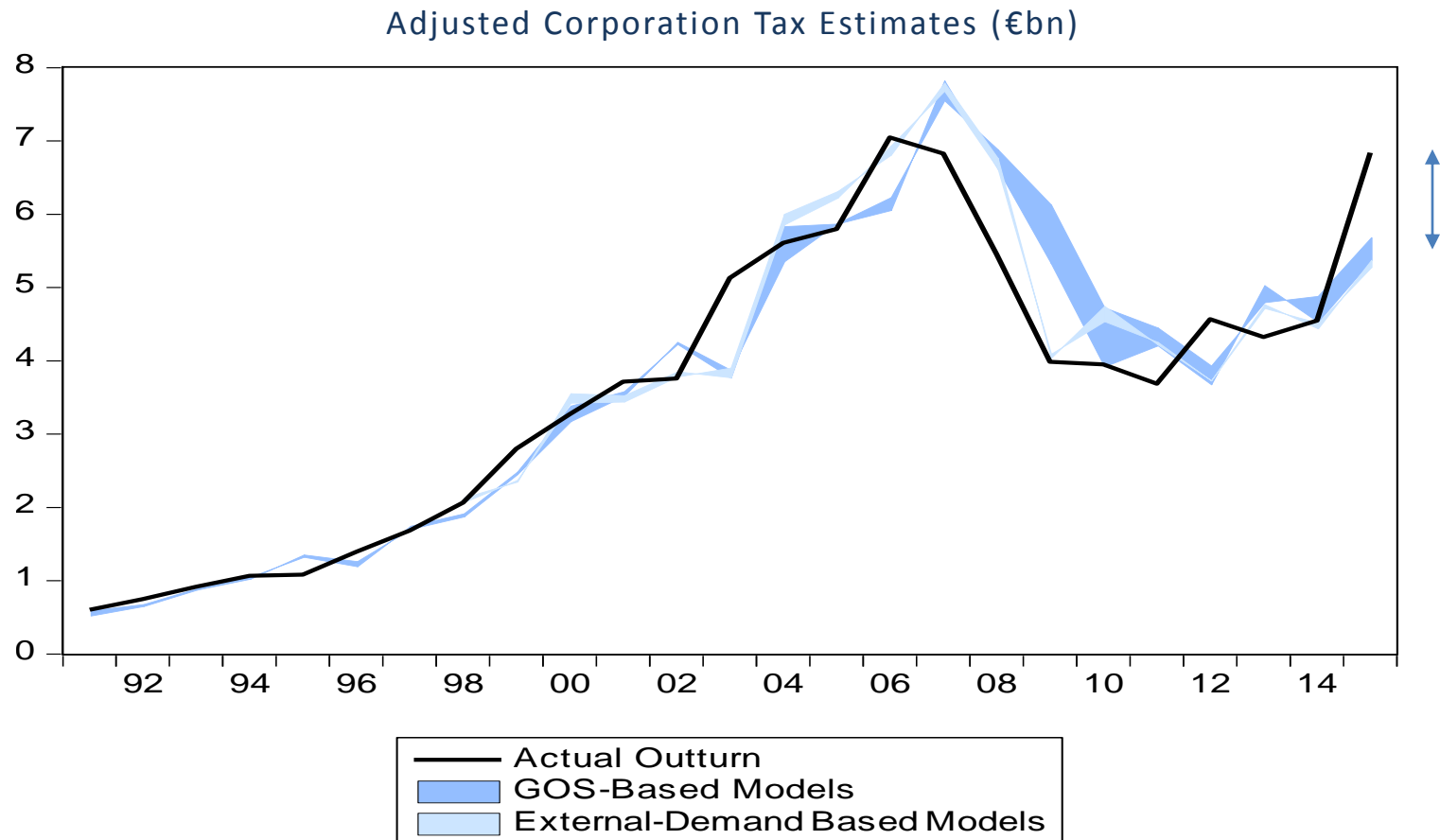
- Data on profits
- Currency fluctuations
- External demand uncertainty
- International tax policies
- Firm-, product-specific developments (e.g., “patent cliff” in pharma-chem sector, role of “contract manufacturing activities” in goods exports)

# Example: Forecasting Corporation Tax

$$(1) CT_t = \alpha + \beta_1(GOS_t) + \beta_k(z) + \epsilon_t$$

$$(2) CT_t = \alpha + \beta_1(MTP_t) + \beta_k(z) + \epsilon_t$$

$z = \{REER, USD: EUR, Dynamics\}$



Sources: CSO; Department of Finance; IFAC internal workings.

Notes: Corporation tax outturns are adjusted for estimated policy-measure impacts; estimations are in log-differences; Figure is in €bn.

# Risk of being locked into fixed assumptions

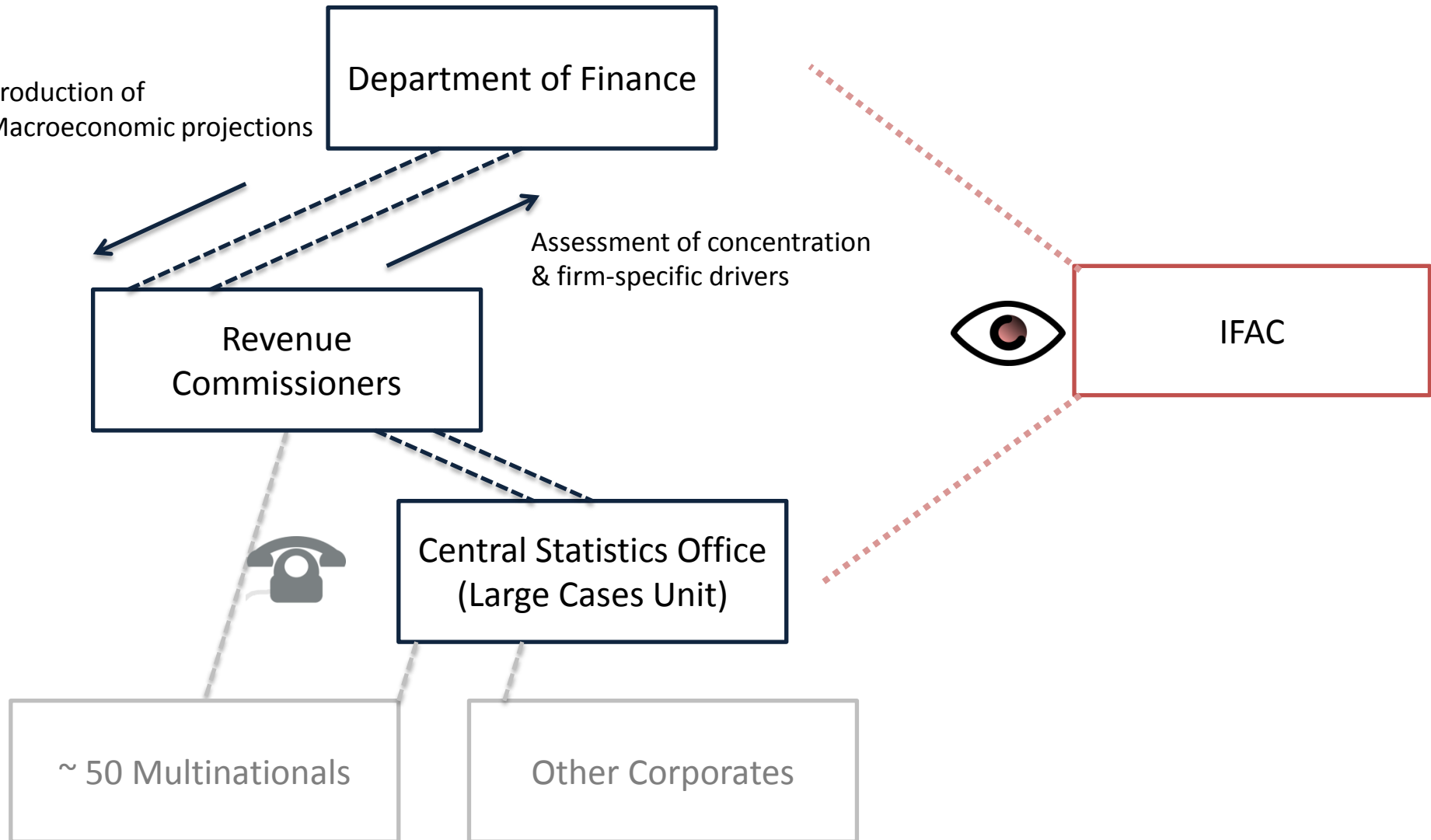
- **“I rely on Revenue to tell me about taxes and to predict tax flows.** Revenue is predicting that these tax flows are not windfall and that they will continue into next year and subsequent years in **similar trading conditions.”**
  - *Minister of Finance*
- The forecasting methodology...is **based on an agreed approach with your Department...**On the **assumption that there are no further currency fluctuations or decline in the profitability of the larger corporate groups...**we expect that much of this surplus will reoccur next year.
  - *Chairman of Revenue Commissioners*



# Risks to fiscal stance: Sustainability

- Risk that unexpected revenues are treated as permanent, used to fund permanent increases in expenditure
- Tax environment (e.g., CCCTB)
- Other operational decisions
- Exposure to firm, sector-specific risks

# Information flow



# Strategies to obtain data

## *No statutory right to detailed fiscal data*

- Information already made public (Ministry, NSO, Annual Reports)
- Direct, ad hoc requests for data
- Analysis in reports, media interactions may prompt further information provision
- Formalised information-sharing agreements (MoUs)

# Conclusions

- Concentration poses large problems for fiscal forecasting and for fiscal stance
- Some formal arrangements for receipt of non-public data, other ad hoc data requests met on goodwill basis
- MoU for fiscal data could be beneficial
- Apart from finance department, data sharing with other arms of government increasingly important
  - State has significant contingent liabilities
  - SPVs set up to wind-down bank's property portfolios (NAMA), invest in capital projects, manage the water network
- Potentially less obligation on these agencies to share information than is case with Dept. Finance.