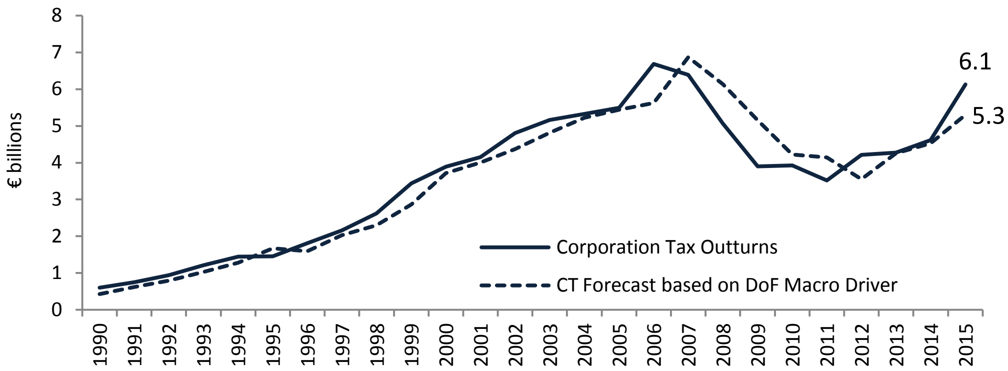
Box D: Corporation Tax in 2015

The latest Exchequer returns show that by the end of October 2015 receipts from corporation tax were just over €2 billion higher than expected by the Department of Finance in *Budget 2015*. The better than expected performance of this single tax heading accounts for three-quarters of the overall tax overperformance in 2015. This box examines the nature of the large forecast error for corporation tax in 2015.

One of the inputs used by the Department of Finance to forecast corporation tax receipts is Gross Operating Surplus (GOS) (or profits) from the National Income and Expenditure Accounts. The Department assume that annual changes in corporation tax receipts move in line with changes in GOS, before accounting for various one-offs and judgement factors that could impact the tax take. Figure D.1 shows the actual outturn for corporation tax receipts compared to the predicted outturn based on the Department of Finance's assumed relationship between trends in GOS and tax receipts before any judgmental/one-off issues are accounted for. The chart shows that although tax receipts predicted by GOS broadly track actual receipts, divergences between the two series are also evident over time. For 2015, the predicted outturn for corporation tax based purely on GOS is significantly lower than the expected actual outturn in *Budget 2016.* In *Budget 2016,* the Department revised up its estimate of the increase in GOS in 2015 to 15 per cent; however, this still leads to a predicted corporation tax outturn for 2015 around €0.8 billion lower than forecast in *Budget 2016.*

Figure D1: Corporation Tax Outturns and Basic Forecasts



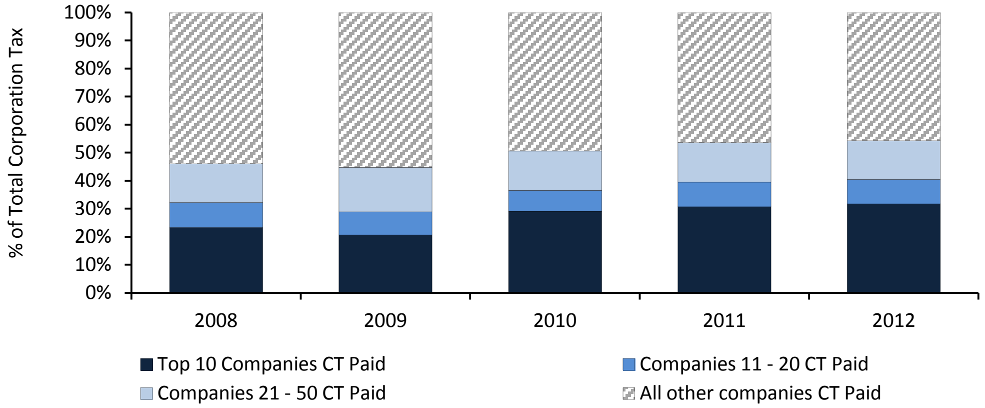
Source: Department of Finance; internal IFAC calculations.
Note: Outturn for 2015 is taken from *Budget 2016.*

Figure D.2 shows that around half of corporation tax is dependent on the profits of a relatively small number of companies. In 2012 – the latest year for which such data are available – 54 per cent of corporation tax was paid by the top 50 companies and this proportion has increased over time. It appears that a large proportion of the corporation tax overperformance in 2015 is due to Multinational Corporations (MNCs).[1] As a result of this concentration of tax receipts among a small number of companies, it is possible for growth in corporation tax to diverge from the broader National Accounts measure of profits (GOS) used by the Department of Finance to forecast corporation tax, as appears to have occurred in 2015. The Department believe that the return to pre-crisis levels for corporation tax in 2015 primarily reflects improved trading conditions and that the higher level of corporation tax receipts in 2015 will be carried forward into the tax base for 2016 and later years.

[1] https://www.kildarestreet.com/wrans/?id=2015-11-10a.316

The highly concentrated nature of corporation tax receipts on its own raises risks to the Exchequer as company specific factors can impact the overall corporation tax yield. While the Revenue Commissioners have stated that the majority of the increase in corporation tax in 2015 is not due to one-off or windfall factors, further analysis of what is driving the apparent increase in the taxable profits of Irish resident companies for 2015 is necessary to determine the sustainability of the increase in corporation tax revenues this year.

FIGURE D.2: CORPORATION TAX: TOP 10, 20 & 50 CORPORATE GROUPS (% OF TOTAL PAYMENTS)



Source: Pigott and Walsh (2014); authors' analysis of Revenue data.