Box G: Sources of Revenue Surprises Over Recent Years

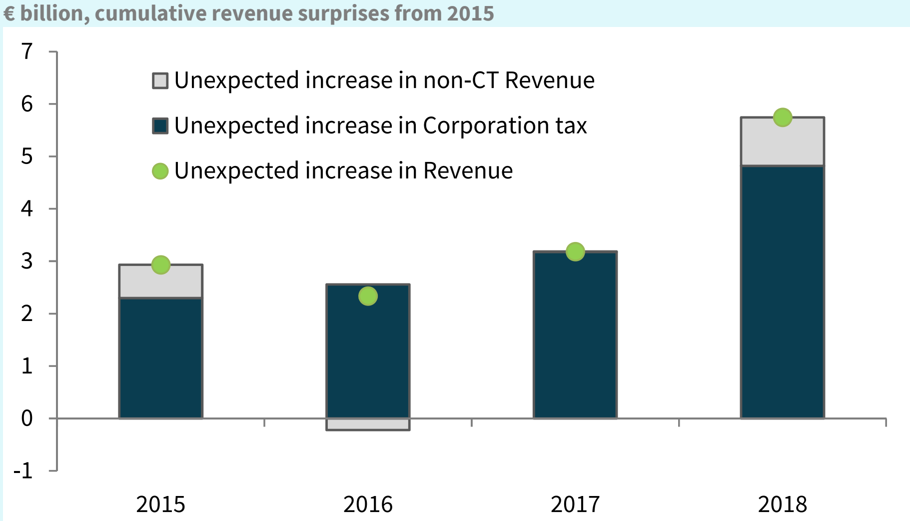
This Box examines the recent performance of general government revenue relative to previous forecasts. Over the past four years, general government revenue has been much stronger than was predicted. As an illustrative exercise, we use the *Budget 2015* forecasts of general government revenue for the years 2015–2018 and compare them to the outturns.[40] As some of the difference between the levels of outturns and levels of forecasts may be due to revisions or reclassifications, this Box focuses on the year-to-year growth in general government receipts. This means that such reclassifications are less likely to impact on the analysis presented here.[41]

One important aspect is the role of corporation tax receipts, which more than doubled from 2014 to 2018. *Budget 2015* did not include explicit medium-term corporation tax forecasts. However, medium-term corporation tax forecasts by the Department of Finance typically project from the current level using nominal GNP growth.[42] This approach is applied to the 2015 forecast using GNP forecasts at the time.[43] We take the nominal GNP growth rate forecast in *Budget 2015* and apply that to the 2015 forecast to get forecasts for 2016–2018.

Figure G.1 shows that almost all of the over performance of revenue in this four-year period can be attributed to the stronger-than-anticipated growth in corporation tax. The largest forecast errors came in 2015 and 2018, mainly due to unexpected increases in corporation tax receipts. With this in mind, it appears that the Department has been relatively accurate in forecasting general government revenue excluding corporation tax.

Figure G.1: Revenue Surprises Driven by Corporation Tax Receipts

€ billion, cumulative revenue surprises from 2015



Sources: *Budget 2015*; CSO; and internal IFAC calculations.

[40] For the outturns, we adjust them for policy changes and one-offs, as these would be unlikely to have been incorporated into *Budget 2015* forecasts.

[41] This is because reclassifications are generally applied to the whole time series and hence are less likely to impact on individual year-to-year changes.

[42] While gross operating surplus is used by the Department to forecast corporation tax, GNP growth is used in this exercise as forecasts for GNP were published in *Budget 2015*.

[43] The 2015 forecasts for corporation tax were given in the Exchequer returns, consistent with *Budget 2015* projections.