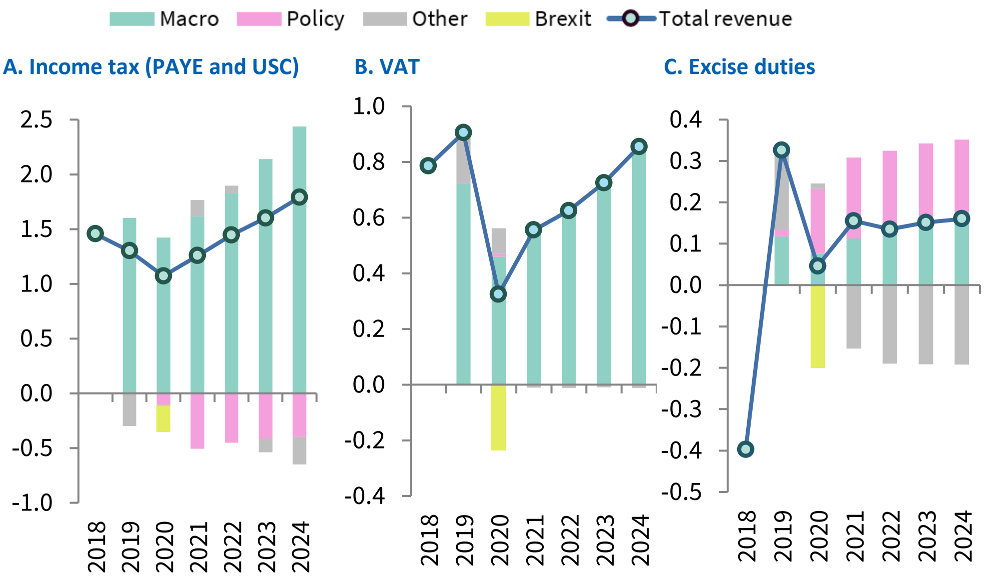
assume a continuation of this trend, particularly in the context of an assumed no-deal Brexit, where a fall-off in share-trading activity with the UK is expected to negatively impact stamp duty revenue in 2020.[58]

Figure 3.10: Slowdowns in tax growth in 2020 caused by lower macro drivers and further Brexit judgement

€ billion change year-on-year



Sources: Department of Finance; and internal Fiscal Council calculations.
Note: "Other" reflects other factors/judgement applied by the Department of Finance and carryover impacts from previous policy measures. See Appendix E for more detail.

Box J: Assessing the discretionary revenue measures introduced in *Budget 2020*

This box examines the three largest revenue-raising measures contained in *Budget 2020*. The box updates some of the analysis undertaken in Box F of the *November 2017 Fiscal Assessment Report* (Fiscal Council, 2017e).

(1) Stamp duties on non-residential construction

The largest revenue-raising measure contained in the Budget relates to a further increase in stamp duties on non-residential construction from 6 per cent to 7.5 per cent. This measure is expected by the Department to yield €141 million in 2020.

In *Budget 2018,* the rate of stamp duty on non-residential property increased from 2 to 6 per cent. This was estimated to yield an extra €374 million in 2018, which proved overly optimistic: the actual yield might be close to €289 million. The assumptions underpinning the projected yield were based solely on activity levels evident in 2016 and early-2017. This shortfall from forecasts suggests that the elasticity of changes in stamp duty to commercial activity might have been overestimated in *Budget 2018.* In *Budget 2020,* the Revenue Commissioners state that the expected yield for 2020 is calculated on the basis of the full-year receipts in 2018, as well as the expected yield in 2019. But Table J.1 shows that, in essence, the assumptions

[58] For 2022, the negative growth in stamp duties projected by the Department is the result of the cessation of the bank levy, which accounts for approximately for €150 million in annual revenue.

underpinning this yield for 2020 are the same as at the time of *Budget 2018.* In particular, *Budget 2018* implied that each additional percentage point increase in stamps would bring in an extra €93.5 million for 2018. *Budget 2020* implies the exact same assumption.

In addition, as shown in Figure J.1, the reference period considered for the Revenue Commissioners' forecasts might correspond to an exceptional period of activity. In recent years, commercial property turnover has been substantially higher than at the pre-crisis peak. This poses concerns in terms of the sustainability of the revenue arising from this measure.

Table J.1: The forecast yield of the increased stamp duty is made on the same basis as in *Budget 2018*, which proved over-optimistic

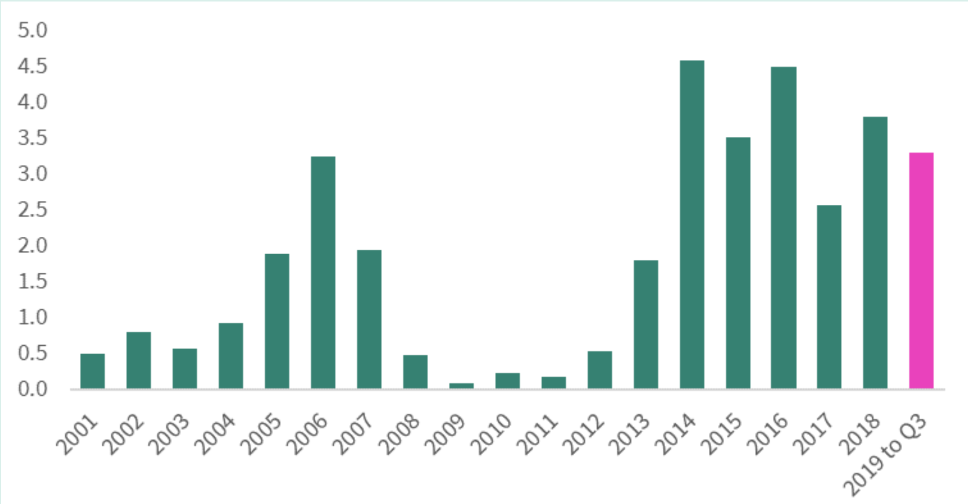
€ millions unless stated

	$\Delta Rate$ (pp)	Forecast yield	For a 1pp increase, the implied forecast yield is …
Budget 2018 (2% to 6%)	4.0	+374	+93.5
Budget 2020 (6% to 7.5%)	1.5	+141	+93.5

Sources: Department of Finance; and Fiscal Council calculations.
Note: The last column is calculated as column 2 divided by column 1.

Figure J.1: Irish commercial property investment turnover

€ billion



Sources: CBRE Research.

(2) Excise duties on tobacco products

The tax on tobacco products has been increased by €0.50 (including VAT) on every pack of 20 cigarettes, with pro-rata increases on other tobacco products. The Department of Finance forecasts this measure to bring in a yield of €57.1 million for 2020. This is equivalent to the yield estimated at the time of *Budget 2019* for the same measure.

Prior to the *Budget 2020* publication, the Revenue Commissioners (2019b) published the Ready Reckoner report, which included the expected yield arising from an increase in the tobacco products tax. For an increase of €0.50 per pack of 20, the Revenue Commissioners estimated a yield that ranges from –€42million to +€57 million. The analysis notes that the upper limit of these estimates is likely to be most accurate.

Previous analysis made by the Revenue Commissioners (2011) in "Modelling the Market for Cigarettes in Ireland" finds that an increase in the price of cigarettes triggers a reduction in cigarette consumption. It shows that a Laffer-type of curve is likely to exist in Ireland, which suggests that beyond a certain level of taxation, tax revenue will start to fall. Although the proposed Laffer curve does not prove significant, it could serve as a guideline for illustrative purposes. The peak of the curve is found at a tax rate of below 79 per cent. With the current tax rate being nearly 80 per cent, this analysis would imply that the revenue collected from this measure might be negative.

For *Budget 2020,* the limited amount of data makes it difficult to understand the drivers of this yield proposed by the Revenue Commissioners. For example, it would be helpful to know whether the methodology takes on board behavioural changes that can have important implications for the revenue collected from this measure. For example, as a result of the increased tax, people might choose to reduce their tobacco consumption; or they might switch to alternative modes of tobacco products that are less heavily taxed (e.g., vaping); or they might resort to other markets where the tobacco products are either taxed at a lower rate (including duty-free purchases) or not declared (i.e., the black market). The 2011 report by the Revenue Commissioners echoed the importance of such behavioural changes. It noted that the reduced consumption of tobacco arising from an increase in prices was largely explained by smokers switching to substitute cigarettes, such as cigarettes not taxed in Ireland.

(3) Compliance measures

Budget 2020 includes a compliance measure that is projected to yield a revenue of €80 million in 2020. This refers to an increase in the Dividend Withholding Tax (from 20 per cent to 25 per cent), which applies to dividend payments and other profit distributions made by Irish resident companies.[59] As this measure relates to an increase of a tax rate, there are doubts as to whether this should be categorised as a “compliance” measure. The Department of Finance has stated that the estimated yield is based on assumptions from payments in 2018 and 2019 to date on the basis of “prudency”. Again, it would be helpful to have details about the specific methodology underpinning the yield, which is currently unclear.

[59] When the Dividend Withholding Tax was introduced in 1999, the USC did not exist and this tax had not been updated to take account of the introduction of the USC. The new rate at 25 per cent is close to the combination of the standard 20 per cent rate of income tax and the most common rate of USC of 4.5 per cent.