

Box C: The impact of warehousing on tax receipts

One of the measures introduced in response to the pandemic was the warehousing of some tax due in 2020 and 2021. Some income tax and VAT which were due to be paid in 2020 and 2021 were deferred, to be repaid over the period 2021–2023.

Overall, €2,253 million of receipts were warehoused (€1,900 million in 2020, €353 million in 2021). On an Exchequer basis, these receipts will not be included in the year they were originally due, but rather in the year they are eventually collected (cash basis). However, on a general government basis, these warehoused tax receipts are included in 2020 and 2021 (accrual basis) figures rather than over the period received (2021–2023).

Forecasts of income tax in SPU 2021 are compiled on an Exchequer basis. These then are used as an input into forecasts of general government revenue (which are on an accruals basis). In 2020 and 2021, €1,026 million of income tax receipts were warehoused.²⁹ SPU 2021 assumes a default rate of 25 per cent. This means that €770 million of income tax is expected to be recovered (over the period 2021–2023).

This default rate was arrived at by the Department after consultations with Revenue. Given the unusual nature of the scheme, there is significant uncertainty over the appropriate default rate to be assumed. Given this uncertainty, the Department used what it believed to be a relatively high default rate as a prudent assumption.³⁰

Table C1: Income tax forecasts from SPU 2021

€ millions unless otherwise stated

	2019	2020	2021	2022	2023	2024	2025
Exchequer income tax (cash basis)	22,934	22,711	24,305	26,130	28,470	30,385	32,305
Warehousing	0	649	121	0	0	0	0
Repayments	0	0	115	231	423	0	0
Net Warehousing impact	0	649	5	-231	-423	0	0
“Underlying” income tax (accruals basis)	22,934	23,360	24,310	25,899	28,047	30,385	32,305
Exchequer income tax growth (%)	8.0	-1.0	7.0	7.5	9.0	6.7	6.3
“Underlying” income tax growth (%)	8.0	1.9	4.1	6.5	8.3	8.3	6.3

Sources: SPU 2021.

Note: Of the €1,026 million of income tax receipts that were warehoused in 2020 (€865 million) and 2021 (€161 million), SPU 2021 forecasts assume that 75 per cent are repaid (€770 million). €649 million of this relates to income tax warehoused in 2020, with €121 million related to income tax warehoused in 2021. As a result, “underlying” income tax receipts for 2020 are €649 million higher than given by the Exchequer presentation. 2021 sees a mixture of some warehousing of receipts and some repayments of income tax warehoused in 2020. Conversely, “underlying” income tax receipts for 2022 and 2023 are lower than the Exchequer presentation.

The income tax forecasts in SPU 2021 reflect this assumed impact of warehousing and subsequent repayment. Table C1 shows what “underlying” income tax receipts would look like under the SPU 2021 forecasts. This adjustment attributes the recovered amounts of income tax to 2020 and 2021, rather than 2021–2023. After making this adjustment, “underlying” income tax receipts are forecast to grow by 4.1 per cent in 2021. This is much more modest than the headline 7 per cent growth rate, and closer to the growth of the non-agricultural pay bill.

As with income tax receipts, VAT receipts are also impacted by warehousing in 2020 and 2021, with payments due in subsequent years (Table C2). VAT receipts of €1,227 million were

²⁹ Almost all the warehoused income tax is PAYE, with self-employed income tax accounting for less than 5 per cent of warehoused income tax.

³⁰ In reporting the Government Finance Statistics, the CSO has accrued €874 million of income tax/VAT receipts into 2020. This implies a default rate of 54 per cent. This will be further reviewed as more data becomes available. See background notes, transactions of note 2020: <https://www.cso.ie/en/releasesandpublications/er/gfsa/governmentfinancestatisticsapril2021/>

warehoused over 2020-2021 and, as is the case with income tax, 75 per cent of the warehoused VAT is expected to be repaid over the period 2021–2023 (€920 million). On an underlying basis, VAT fell less severely in 2020 and is forecast to grow more modestly in 2021 (8.9 per cent).

Table C2: VAT forecasts from SPU 2021

€ millions unless otherwise stated

	2019	2020	2021	2022	2023	2024	2025
Exchequer VAT (cash basis)	15,118	12,425	14,370	15,885	17,280	18,105	19,015
Warehousing	0	776	144	0	0	0	0
Repayments	0	0	138	276	506	0	0
Net warehousing impact	0	776	6	-276	-506	0	0
“Underlying” VAT (accruals basis)	15,118	13,201	14,376	15,609	16,774	18,105	19,015
Exchequer VAT growth (%)	6.2	-17.8	15.7	10.5	8.8	4.8	5.0
“Underlying” VAT growth (%)	6.2	-12.7	8.9	8.6	7.5	7.9	5.0

Sources: SPU 2021.

Note: Of the €1,227 million of VAT receipts that were warehoused in 2020 and 2021, SPU 2021 forecasts assume that 75 per cent are repaid (€920 million, €776 million relating to 2020 warehousing, €144 million relating to 2021 warehousing). As a result, “underlying” VAT receipts for 2020 are €776 million higher than given by the Exchequer presentation. Conversely, “underlying” VAT receipts for 2022 and 2023 here are lower than the Exchequer presentation.

Forecasting income tax presents a number of challenges given the sharp changes in the composition of the forecast, which have changed the standard relationship between income and income tax receipts.

In addition to the complexities of warehousing, Section S.8 outlines some of the difficulties in forecasting income tax at a time of high volatility and with large differences in the situation of different taxpayers using the

Department’s methodology in this round. This has led to large amounts of judgement being applied to income tax forecasts in 2022 (see Figure S.8b).

Box D outlines some of the challenges in forecasting income tax receipts.

Box D: The resilience of income tax in 2020

Income tax was surprisingly resilient in 2020, falling by just 1 per cent. It would have grown by 1.9 per cent if deferred, or “warehoused”, tax receipts were included. This reflects how the total wage bill in Ireland was effectively flat in 2020, despite substantial lost earnings for some sectors. In each case, the performance in 2020 was far more benign than the Department of Finance projected in *SPU 2020* and in *Budget 2021*. This Box analyses the compositional issues affecting income tax as observed in 2020 due to the Covid-19 pandemic.

Figure D1 presents detailed data from recent Revenue analysis of PAYE receipts in 2020 (Collins and O'Rourke, 2021). This demonstrates that the sectors with the largest annual falls in income taxes paid in percentage terms tended to be those sectors that pay a small share of total PAYE receipts. In contrast, the top seven sectors — each with shares of at least 10 per cent of PAYE receipts — saw tax payments increase by 2.3 per cent (in weighted average terms) in 2020.

Overall decreases in PAYE receipts for sectors that declined amounted to approximately €650 million, whereas the increases for sectors that grew totalled €450 million. By far the largest decrease was in accommodation and food services (about €220 million), followed by other