

S5. Tax forecasts decomposed

This section examines official forecasts for the main tax heads. The projected yearly changes in tax receipts are decomposed to better understand how the forecasts are arrived at.⁴⁴ The annual changes are attributed to a number of components:

- 1) “**macro**” is the part of the forecast driven by growth in the relevant macro driver (such as wage growth, recognising the sensitivity of income tax growth to this driver)
- 2) “**one-offs**” — non-recurring items that effect expected receipts
- 3) “**policy**” changes, such as tax cuts or tax increases
- 4) “**warehousing**” the impact of lower taxes in 2020 and 2021 due to warehousing with higher receipts in later years.
- 5) “**carryover**” effects — policy impacts carried over from previous years
- 6) “**other**” — other potential elements affecting the forecasts, including judgment applied by the Department of Finance. It is calculated as the difference between the Fiscal Council’s internal forecasting exercise and the Department of Finance’s own forecasts.

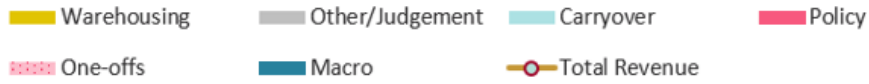
⁴⁴ The generic formula applied by the Department of Finance to forecast revenue is given by:

$$\text{Rev}_{t+1} = (\text{Rev}_t - T_t) * (1 + B_{t+1} * E) + T_{t+1} + M_{t+1} + M_t + J_{t+1},$$

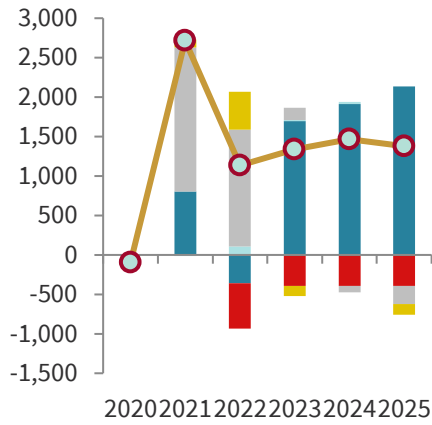
where revenue forecasts (Rev_{t+1}) depend on their lag stripped of one-off items (T_t); one-off items in the current period (T_{t+1}); the macro drivers (B_{t+1}) and their associated elasticity (E), current policy (M_{t+1}) and carryover policy impacts (M_t), and judgement (J_{t+1}). See Hannon (2014) for a discussion of this approach. Rewriting the formula in terms of annual changes yields: $\Delta\text{Rev}_{t+1} = \text{Rev}_t * B_{t+1} * E - T_t * B_{t+1} * E + \Delta T_{t+1} + M_{t+1} + M_t + J_{t+1}$. In this way, yearly revenue changes for each tax head are attributed to the addition of: (i) the macro driver, which covers the parts of the formula affected by B_{t+1} ; (ii) changes in one-off items, as shown in ΔT_{t+1} ; (iii) current and previous policy changes (M_{t+1} and M_t , respectively); and other adjustments, mainly judgement, as covered in the component J_{t+1} . For a detailed description of the Fiscal Council’s forecast replication model, see Hannon (2014).

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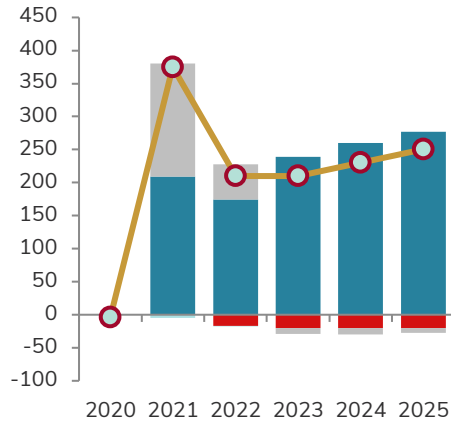
€ million, year-on-year change



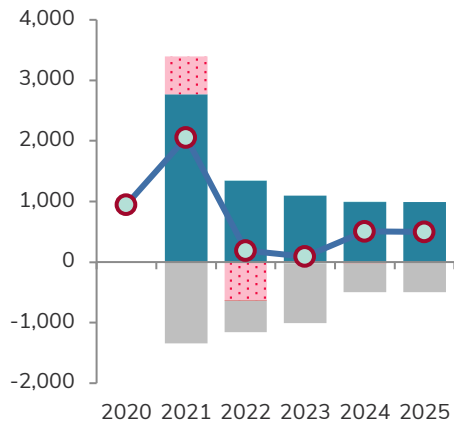
PAYE



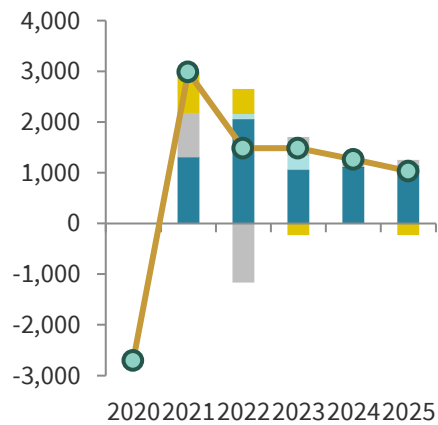
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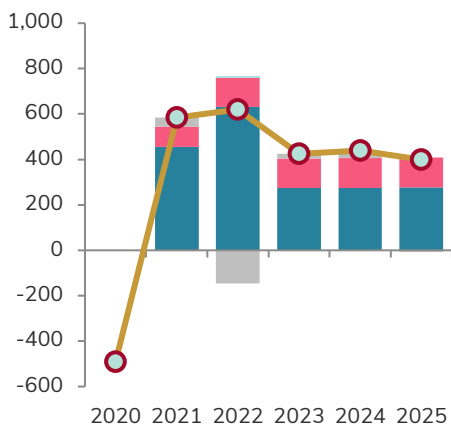
Corporation tax



VAT



Excise duties



Sources: Department of Finance; and Fiscal Council workings.