environment in 2022. The full effects of a higher price level on expenditure may not have been fully reflected in 2022, resulting in faster growth in 2023. As a result, both the improvement in the underlying balance in 2022 and the deterioration in 2023 may be overstated. In attempting to look through these potential timing effects, the underlying surplus in 2023 is €2 billion larger than in 2021.

Box C: Adjusting the general government balance for excess corporation tax receipts

In recent years corporation tax receipts have grown substantially. This year, corporation tax will become the second largest source of government revenue, surpassing VAT.

The Council has repeatedly pointed out that the recent growth in corporation tax has been well in excess of what might be explained by the performance of the domestic economy. Furthermore, these tax receipts have become even more concentrated among a handful of firms. Hence, corporation tax receipts could be subject to sharp reversals, due to company-specific factors, sectoral shocks or changes in the international tax environment.

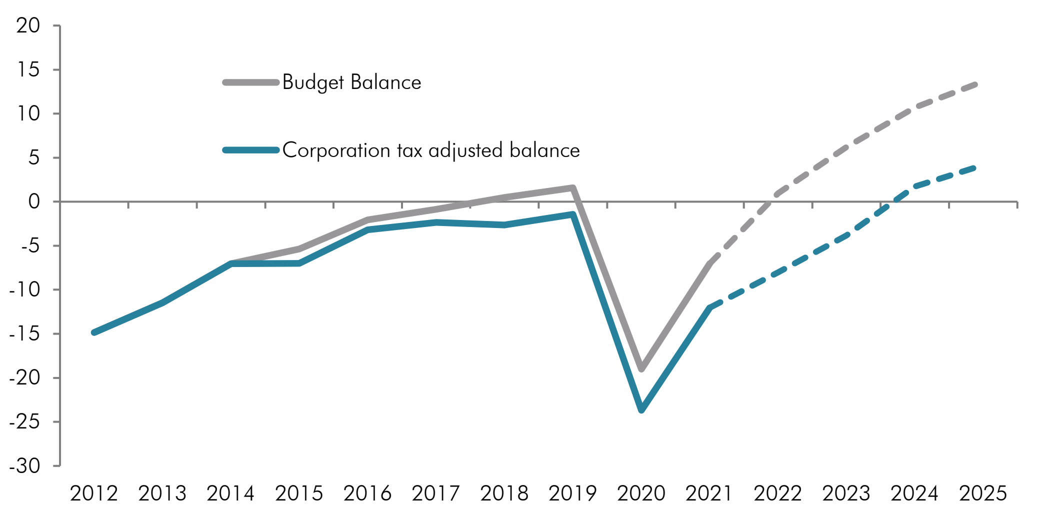
The Council has therefore advised that the Government reduce its reliance on corporation tax receipts for day-to-day expenditure.

One of the measures suggested by the Council (2022a) was for the Government to “clearly show the impact of excess corporation tax receipts on the budget balance”.

In *Budget 2023* documentation, a general government balance excluding excess corporation tax receipts was shown. The Council welcomes this development, which is similar to an exercise in the *May 2022 Fiscal Assessment Report* (Fiscal Council, 2022a). This measure gives a better picture of how the public finances would look if the excess corporation tax were to significantly fall or disappear altogether.

Figure C1: Corporation tax-adjusted government balance is projected to remain in deficit until 2024

€ billions, General Government Balance



Sources: Department of Finance, and Fiscal Council calculations. Get the data.
Notes: Estimates of excess corporation tax for 2015–2020 are those calculated by the Council. Estimates of excess corporation tax for 2021–2025 are taken from *Budget 2023*.

The corporation tax-adjusted balance is calculated as the headline general government balance minus the amount of corporation tax receipts that are estimated as excess. This excess is based on the difference in the growth of corporation tax receipts compared to domestic activity since 2014.[39] *Budget 2023* estimates "excess" corporation tax at around €9 billion and €10 billion over 2022 to 2025.

Were corporation tax receipts to increase substantially (without a corresponding increase in domestic activity), this measure of excess receipts would automatically increase, leaving the corporation tax adjusted balance unchanged. This measure therefore provides a more robust and stable measure of the underlying position of the public finances.

Figure C1 shows the headline general government balance and the corporation tax adjusted general government balance. The gap between these two measures has been widening significantly in recent years. When looking at the underlying balance, this is forecast to remain in deficit until 2024.

2.3 Government spending plans and stand-still costs

As *Budget 2023* forecasts run only to 2025, uncertainty continues around the medium-term orientation of government expenditure and policy priorities. The forecast costs of maintaining the existing level of service are outlined only for 2023 and are based on technical assumptions for 2024 and 2025.

***Budget 2023* only forecasts to three years ahead**

Large policy commitments continue to be unrecognised in projections for government expenditure, and departmental expenditure ceilings for the medium-term were once again not published as part of the budgetary documentation (see Section 4 for further discussion on expenditure ceilings).

Despite this, the expenditure amounts implied by the Government's Spending Rule continue to provide some signal for the trajectory of policy.[40] The deviation from the Spending Rule in 2023 is expected to be temporary and not repeated in 2024 and 2025. Growth rates in core current spending will moderate from over 6% in 2023 to an average of 4.6% in 2024 and 2025, broadly in line with the Government's estimates of sustainable growth. This contributes to the forecast surpluses shown in Table 2.2.

These growth rates are in line with what was outlined originally when the Spending Rule was announced as part of *Summer Economic Statement 2021*. Nevertheless, this means that expenditure will be higher in cash terms in 2025 than originally planned, by around €2 billion, due to the larger increases in 2022 and 2023.

In evaluating the credibility of these projections, the Council's stand-still exercise takes the most up-to-date departmental allocations for spending and forecasts how these will evolve based on expectations for price and demographic pressures. These stand-still estimates assume that spending on social welfare, health and education will grow in line with demographic growth and that key

[39] The Fiscal Council "suite of models" approach uses both domestic GVA and GNI* as measures of domestic activity.
[40] Supporting Information Section S4 shows *Budget 2023* fiscal projections in more detail.