Budgetary Assessment

Public finances impacted by cost-of-living supports

2. BUDGETARY ASSESSMENT

Public finances impacted by cost-of-living supports

Budget 2023 forecasts an underlying general government deficit of 3% of GNI* in 2022, when windfall corporation tax receipts are excluded.[15] This would represent an improvement of 2 percentage points of GNI* from 2021. The headline general government balance is forecast to return to surplus in 2022, largely as a result of substantial increases in corporation tax receipts. It is likely that the surplus for 2022 will end up even larger than forecast in *Budget 2023*, given the recent buoyancy of tax revenue. Corporation tax, income tax, and VAT are likely to be higher than forecast.[16]

In *Budget 2023*, the Government introduced a large package of €11 billion of temporary and permanent spending and taxation measures, mostly aimed at tackling cost-of-living issues. This large package was facilitated by a temporary deviation from the Government's 5% Spending Rule.

Looking further ahead, core spending — spending excluding one-off and temporary measures — is forecast to grow in line with the Government's 5% Spending Rule from 2024. Excluding excess corporation tax receipts, the government balance is forecast to move from a deficit of €3.8 billion (1.4% of GNI*) in 2023 to a surplus of €4.2 billion (1.4% of GNI*) in 2025. The net debt ratio is now forecast to fall rapidly, from 72.9% of GNI* in 2022 to 57.8% by 2025.

Forecasts contained in the Budget run only to 2025 (see Section 1.4); producing three-years-ahead forecasts runs contrary to prior commitments and does not allow for a comprehensive analysis of the Government's spending and tax plans over the medium term. It also demonstrates a lack of progress on medium-term budgeting more generally and underscores the importance of strengthening the budgetary framework.

Major medium and long-term challenges should be factored into fiscal plans. These include reducing the reliance on windfall corporation tax receipts, spending pressures from an ageing population, Sláintecare, and transitioning to a lower-carbon economy.

[15] As estimated by the Department of Finance.

[16] Revenue has been strong in the two sets of monthly returns since *Budget 2023* forecasts were published. As the Budget took place earlier than normal, *Budget 2023* forecasts were made with eight months of revenue and spending data, rather than the usual nine months.

2.1 Revenue and expenditure forecasts for 2022

2022 sees further improvements to the public finances

Revenue has recovered strongly since the pandemic (Figure 2.1). General government revenue is forecast to rise above €100 billion for the first time in 2022, reaching €112.5 billion or 43.1% of GNI*. All the main areas of general government revenue are expected grow in 2022, but the increase is mainly driven by higher income tax and corporation tax, with taxes on income and wealth increasing by €9.4 billion. PRSI and VAT receipts are also expected to have grown strongly in 2022.

General government expenditure is also forecast to have grown strongly in 2022, increasing by €5.7 billion or 5.4%. Temporary spending measures are expected to have remained high in 2022, at €11.8 billion, falling by only €0.7 billion from 2021. A larger fall in temporary measures for 2022 was expected in April 2022's *Stability Programme Update* as the pandemic receded, but additional measures have since been introduced. These temporary measures include spending on Covid-19 related measures, supports for Ukrainian refugees, cost-of-living measures and approximately €2.7 billion in capital transfers relating to the cost of the defective concrete blocks redress scheme.[17]

Revenue looks set to be higher than forecast in *Budget 2023*

Taken together, *Budget 2023* forecasts a headline budget surplus of €1 billion or 0.4% of GNI* for 2022. However, there are upsides to these forecasts, particularly on the back of recent strong Exchequer revenue data. Income tax, VAT and corporation tax are all likely to overperform budget forecasts.

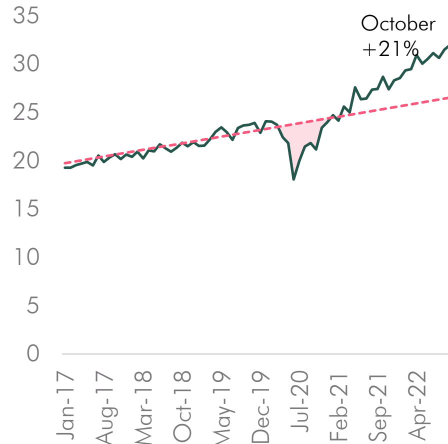
The 12-month rolling sum of corporation tax was €21.9 billion by the end of October, €0.9 billion more than the forecast total for 2022 in *Budget 2023* (Figure 2.1E). Given trends to date this year, corporation tax receipts in the final two months of this year are likely to be substantially higher than receipts last year, indicating considerable upside.

Income tax receipts for 2022 were revised up in the Budget by €765 million relative to SPU forecasts (Figure 2.1F). The cumulative overperformance of income tax, relative to SPU forecasts, by the end of October was €695 million.[18] The budget forecast is likely to be exceeded due to strong income tax receipts expected in the remainder of the year, in part due to payments under the new public sector pay deal.

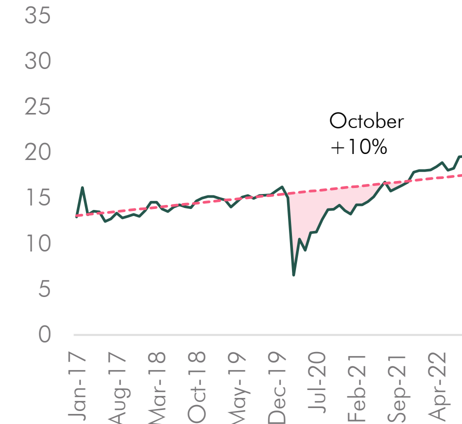
[17] Section 2.2 shows how one-off spending is forecast to halve in 2023.
[18] Figure 2.1 (panels A, B C and D) show revenue performing strongly relative to pre-pandemic trends. The higher inflation environment has boosted receipts this year (see Box E, Fiscal Council 2022A).

Figure 2.1: Revenue has recovered strongly from the pandemic

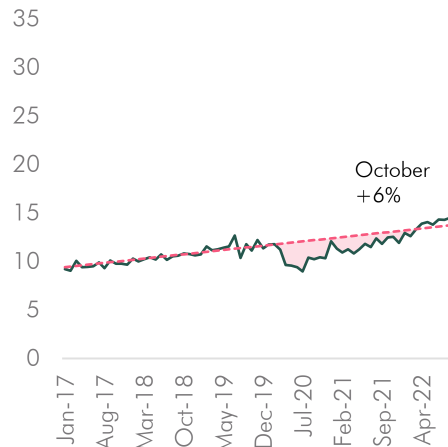
A. Income tax
€ billion, seasonally adjusted and annualised



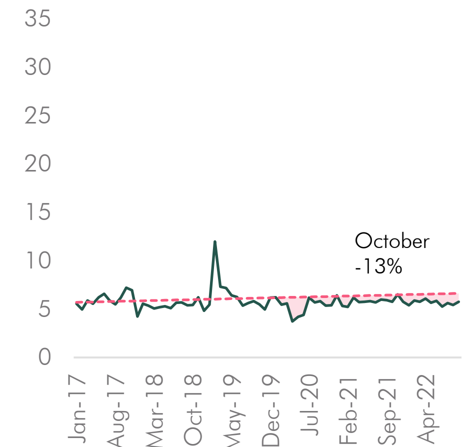
B. VAT
€ billion, seasonally adjusted and annualised



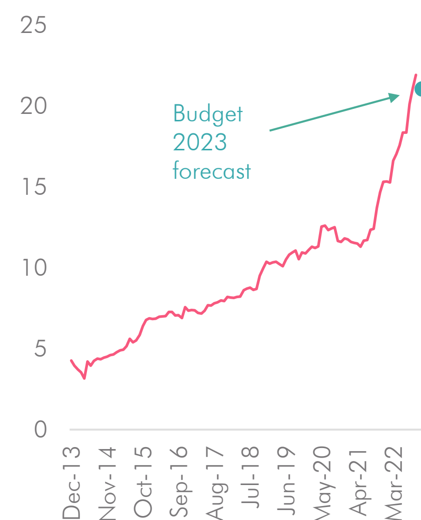
C. PRSI
€ billion, seasonally adjusted and annualised



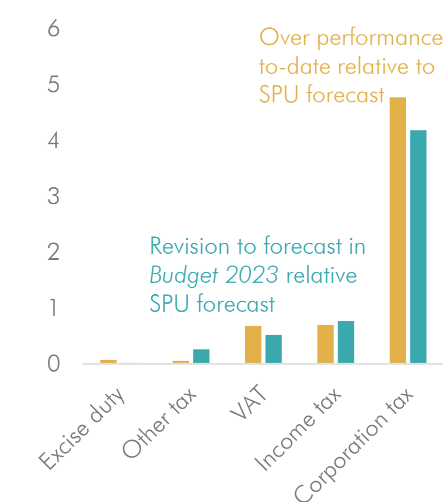
D. Excise
€ billion, seasonally adjusted and annualised



E. Corporation tax
€ billion, 12-month rolling sum



F. Revenue overperforming *Budget* forecast
€ billion, difference relative to SPU 2022



Sources: CSO; Department of Finance, and Fiscal Council workings.
Notes: Monthly tax data are seasonally adjusted and annualised (× 12). The pre-pandemic trend is calculated as a linear trend from Jan 2015 to Dec 2019; % differences refer to the gap between the current seasonally adjusted level annualised and its pre-pandemic trend. Corporation tax is shown as a 12-month rolling sum due to difficulties in seasonal adjustment. Get the data.

VAT has also been performing strongly in 2022, with the higher inflationary environment ensuring buoyant receipts. VAT receipts to date are up €677 million relative to SPU forecasts, whereas receipts for all of 2022 in *Budget 2023* were expected to be up by only €520 million relative to SPU forecasts.

Gross voted current expenditure was €61.1 billion at the end of October — €2 billion over the *Budget 2022* profile.[19] However, this spending profile did not include approximately €3.9 billion of contingencies that were factored into *Budget 2022* that are now being used to meet temporary costs, such as cost-of-living measures, Covid-19 related spending and costs associated with accommodating Ukrainian refugees. *Budget 2023* set out further increases in core spending of €0.7 billion related to public sector pay.

Much of the €2 billion overspend to date, relative to the *Budget 2022* profile, on current expenditure is due to new cost-of-living measures introduced. Social protection spending is €0.5 billion over profile; the double social welfare payment in October is estimated to account for €0.3 billion of this. Current expenditure by the Department of Environment, Climate and Communications is €0.8 billion ahead of profile, primarily due to the cost of the electricity credits paid to date.[20, 21]

Current health spending is €0.6 billion over the *Budget 2022* profile. While this is in part due to additional expenditure relating to the Covid-19 pandemic, some relates to overruns on core spending. In June, it was estimated that core current health spending would be €0.35 billion higher than projected for the year.[22] This is despite it being likely that staffing levels in health will be lower than targeted (see Box B).

Gross voted capital spending was €5.5 billion at the end of October, €1.3 billion below profile.[23] Underspends on capital occur across all Departments, with the exception of education, which is currently €0.2 billion ahead of profile. The

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[19] The comparisons made in this section, for gross voted current expenditure vs profile, are relative to the original *Budget 2022* profiles for gross voted current expenditure. These profiles were amended in the October Fiscal Monitor, to account for the reclassification of the electricity credit from capital expenditure to current expenditure. The original gross voted current profile did not include any of the €3.9 billion of contingencies. As a result, comparisons relative to the original profile provide a useful indication of how much of the contingencies have been used to date — including to cover overruns. The updated profile in the October Fiscal Monitor shows gross voted current expenditure €1.3 billion ahead of profile.

[20] As highlighted in the May 2022 *Fiscal Assessment Report*, the electricity credit had previously been classified as capital expenditure (Fiscal Council, 2022a). It has now been reclassified as current expenditure.

[21] Relative to the original current expenditure profile for the Department of Environment, Climate and Communications. The profile has since been updated reflecting the reallocation of the electricity credit to current expenditure.

[22] See letter from Minister Donnelly to Minister McGrath dated 30 June, as reported in the Business Post: https://www.businesspost.ie/news-focus/dear-stephen-mcgrath-told-donnelly-health-overspend-was-of-great-concern/.

[23] Refers to the updated profile in the October Fiscal monitor.

underspends in capital are, once again, likely to lead to a large issuance out of the Exchequer in December, due to a large capital carryover into next year.[24] Section 2.6 discusses the shortfalls in capital spending relative to official plans in recent years.

[24] Departments are allowed to carry over up to 10% of their capital allocation into the following year if it remains unspent in the current year. This amount is issued out of the Exchequer in December of the current year, even though it will not be spent by the Departments until the following year.

Box B: Recent trends in public health sector staffing

Healthcare is very labour-intensive. As a result, a large driver of the increase in health spending annually is staffing costs. The pay bill accounted for, on average, 47% of the health vote costs from 2015 to 2021, but reached 52% in 2021. The number of workers in the health sector is also one of the main drivers of public sector pay more generally, as health workers make up 37% of all public sector workers.[25] For this reason, staffing levels in the health sector are an important indicator for the public finances. This box looks at the recent trends in public health sector staffing.

Health staff levels and demographics

Staffing levels in the health system are likely to reflect demand, including the impact of changing needs over the course of a person's life cycle; for example, in 2018, spending in public hospitals on people aged 65 and over, who account for only 14% of the population, accounted for 43% of the total spending. Therefore, changes in the number of people in these cohorts are a key driver in in explaining the demand for health services.

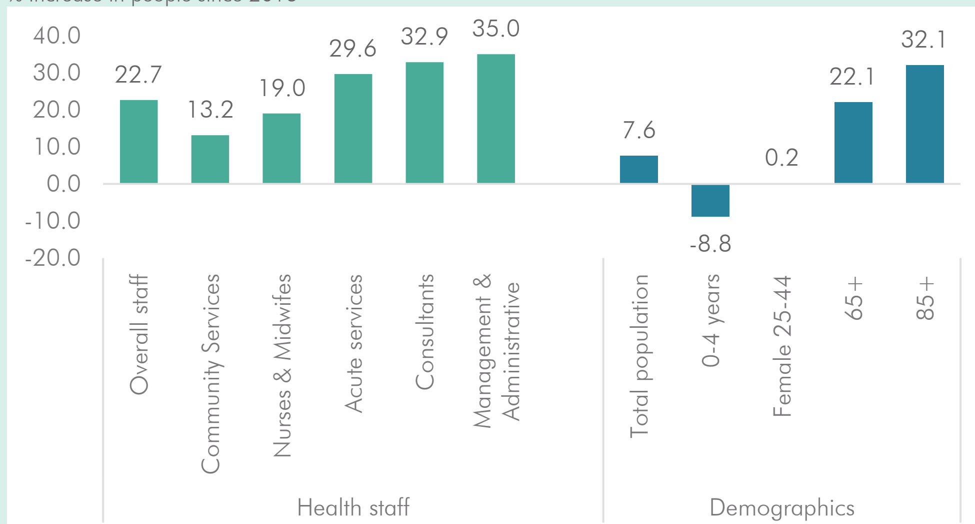
Comparing any increase in staff levels to the increase in these cohorts can be a useful indicator of a real expansion in the level of services in the health sector.

Figure B1 compares the changes in some key areas of staff levels in the health service since 2016 to the changes in some key demographic groups. Overall, the increase in the staffing levels in key health services broadly kept pace with the increasing number of older people. Since December 2016, the number of staff in the public health sector has increased by 25,000, or 22.7%, while the population over the age of 65 has grown by 22.1%.

The changes in the staff levels by area also provide an indication of recent policy priorities. There has been a large increase in the number of staff in Acute Services (29%), and Consultants (32.9%) in recent years. However, front-line services have not seen the largest growth in staff levels. Management and Administration staff have risen to more than 22,600, increasing by 35% since December 2016, more than other areas of the health service.[26]

Figure B1: Increases in key health staff have broadly matched demographic changes, but have been uneven across areas

% Increase in people since 2016



Sources: CSO; Health service personnel censuses; Health service employment reports, and Fiscal Council workings.
Notes: Demographic figures are taken from the Annual Population Estimates and compare April 2022 population to April 2016 population. Health staff figures compare December 2016 Whole Time Equivalents (WTE) figures to September 2022 WTE figures. Get the data.

[25] Data as of Q2 2022, taken from the Department of Public Expenditure and Reform Databank.

[26] This relatively large increase in Management and Administration staff levels is not just due to the Covid-19 pandemic. Staff levels in Management and Administration had grown relatively quickly (by 12.7%) even prior to the pandemic, with only Consultants growing faster (14%) between December 2016 and February 2022.

Recent staffing levels and targets

Figure B2 shows the trend in overall staff levels in the public health sector since December 2016. The HSE National Service Plan for 2022 outlined a minimum target of 137,410, with an upper limit of 141,690 staff by the end of 2022. While the National Service Plan provides a minimum target, funding had been provided and plans developed on the basis of the upper limit: "The NSP works to the maximum target as the HSE is fully committed to deliver to the greatest extent the maximum of the range, acknowledging the significant and unpredictable challenges to workforce supply in 2022" (HSE, 2022).

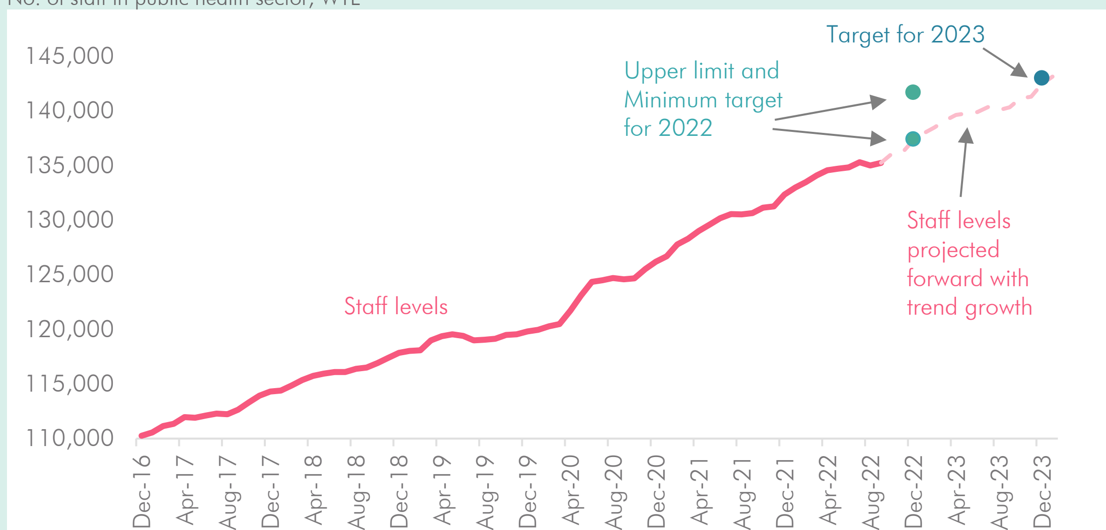
By September 2022 around 135,240 Whole Time Equivalents (WTE) were employed in the public health sector. This implies that the total number of staff in the health sector was 2,170 people shy of the minimum end-2022 target. However, some areas of the health service were already above the minimum target. The number of staff in Acute Services, such as hospitals and ambulances, was above the minimum target for 2022 by 860 people.

Community Services were almost 3,000 below the minimum end-2022 target, and almost 5,900 below the upper limit the National Service Plan worked towards.[27] This shortfall is mainly driven by Primary Care, which is 1,950 staff below the minimum target, but Mental Health (390), Disabilities (590), and Older People (660) were also all below the minimum target by the end of September.[28]

Figure B2 projects forward the level of staff based on recent trend growth in staff. Using this projection, the level of staff numbers by the end of 2022 would fall just shy of the minimum target by 130 staff and more than 4,400 below the upper limit that the HSE's National Service Plan worked towards.[29] Looking further ahead, the *Expenditure Report 2023* sets a target of an increase to 143,000 staff by the end of 2023. Based on the trend growth rate, staffing levels might just meet this target.

Figure B2: Staffing levels likely to just meet minimum target this year

No. of staff in public health sector, WTE



Sources: Health service personnel censuses; Health service Employment Reports; Expenditure Report 2023; HSE National Service Plan 2022 and Fiscal Council workings.

Notes: All figures are on a WTE basis. Upper and minimum target limits for health staff are taken from the HSE National Service Plan 2022. The target for 2023 is taken from the Expenditure Report 2023. Trend year-on-year growth is based on the data from December 2016 to September 2022. The average year-on-year growth in staff levels since December 2016 was 3.75%.
Get the data.

[27] There were 56,790 staff in Community Services at the end of September 2022.

[28] For context, at the end of September 2022, Primary Care had 12,150 staff, Mental Health had 10,400 staff, Disabilities had 19,670 staff, Older People had 13,780 staff. At the end of September, Primary Care was 3,130 staff below the upper limit that the National Service Plan worked towards; Mental Health was 670 staff below the upper limit; Disabilities was 1,160 staff below the upper limit; and Older People was 1,550 below the upper limit.

[29] This also follows on from a shortfall of 3,300 staff in 2021 from the end-December target in the HSE National Service Plan 2021.

Implications of a shortfall in staffing

As funding had been made available for the increase in staffing levels, the struggle to meet even *minimum* targets suggests supply constraints in the healthcare labour force. One example of such constraints was highlighted in a recent *Spending Review* paper showing that recruitment in nursing has become heavily reliant on recruiting nurses who have been educated abroad (Caulfield *et al.,* 2022). In 2021, 69% of newly registered nurses had been educated outside Ireland, up from 26% in 2014. The paper also highlighted that domestic supply gaps were likely to persist and that recruitment from abroad would continue to be required. This is despite Ireland committing to the ending of active recruitment of health personnel from developing countries (Caulfield *et al.,* 2022). The paper recommended the expansion of student nursing places.

Given the commitment to end the practice of recruiting from developing countries, the reliance on recruitment from abroad to cover domestic supply gaps and the difficulties in retention of staff in the health sector pose challenges to expanding the number of staff in the health sector.

All else equal, a shortfall in staff would see a lower level of services being provided than originally planned. This is particularly the case in Community Services, which requires an additional 1,000 staff per month for the remainder of the year to meet the minimum target (almost 2,000 per month to meet the upper limit). This target is therefore unlikely to be met. This has implications for the implementation of Sláintecare reforms as many of the reforms centred on shifting towards a community-centred approach and rely on expanding staff levels in Community Services: "The Committee's preferred design is a model where the vast majority of healthcare is provided in the community".[30] As Figure B1 shows, staff in Community Services have grown by only 13.2% since 2016 — a much lower increase than those in other areas. The shortfalls in staffing levels in this area will delay the implementation of the Sláintecare reforms.

In terms of the public finances, a lower level of staffing than planned should see underspends in Health. The savings from the lower level of staff were estimated by the Department of Health to be between €350 and €510 million this year.[31] However, it seems likely that this underspend will be used to cover overspends in other areas, with areas such as Covid-19 measures, waiting lists, the winter flu programme, and pay restoration flagged as areas to which this money might be diverted.[32]

The use of funds to cover spending in areas not originally intended is an indication of poor planning. The inability to expand the supply of the healthcare workforce to meet policy aims also highlights the lack of planning in the healthcare system. Planning could be better facilitated if the HSE finalised its annual *Pay and Numbers Strategy* in a more timely way.[33] A comprehensive, strategic medium-term workforce plan — in line with key policy goals — would better facilitate managing staff levels, particularly if the planned expansion in staff over the medium term is large. This medium-term strategic plan is necessary as there needs to be a corresponding expansion in domestic university places in healthcare ahead of any planned increases in health staffing, as well as policies to ensure the retention of staff.

[30] See Committee on the Future of Healthcare (2017).

[31] See reporting by the *Business Post*: https://www.businesspost.ie/news-focus/dear-stephen-mcgrath-told-donnelly-health-overspend-was-of-great-concern/.

[32] See reporting by the *Business Post*: https://www.businesspost.ie/news/e350m-hse-surplus-from-under-recruitment-will-fund-covid-costs-and-pay-restoration/.

[33] Connors (2018) outlines how the HSE only submitted the revised 2016 *Pay & Numbers Strategy* to the Department of Public Expenditure and Reform in December 2016, the final month of the year in question. The 2017 *Pay & Numbers Strategy* was only submitted to the Department of Public Expenditure and Reform in November 2017. Connors (2018) argues that "[t]hese timelines result in the Strategy having no impact on the planning and monitoring process".

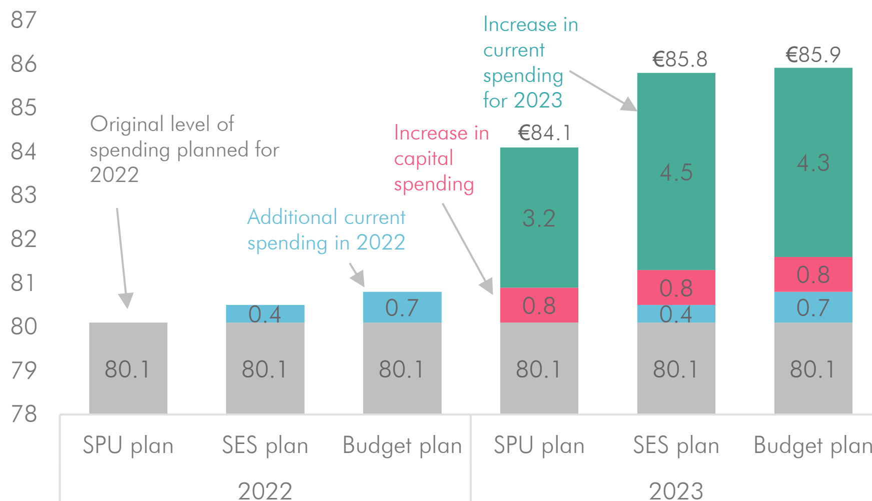
2.2 Budget package

Budget 2023 set out a large package of around €11 billion of permanent and temporary measures.

This included a package of permanent expenditure and tax reducing measures of €6.9 billion, consisting of €5.8 billion in spending measures (Figure 2.2) and €1.1 billion in tax measures (Figure 2.3). This package is €2.6 billion more than was planned in *SPU 2022* for 2023 (€1.8 billion in core spending, €0.6 billion in additional tax-reducing measures).

Figure 2.2: Evolution of the "core" spending plan

€ billion, gross voted "core"



Sources: Department of Finance; and Fiscal Council workings. Get the data.

Both the spending and tax packages announced in *Budget 2023* were larger than previously planned

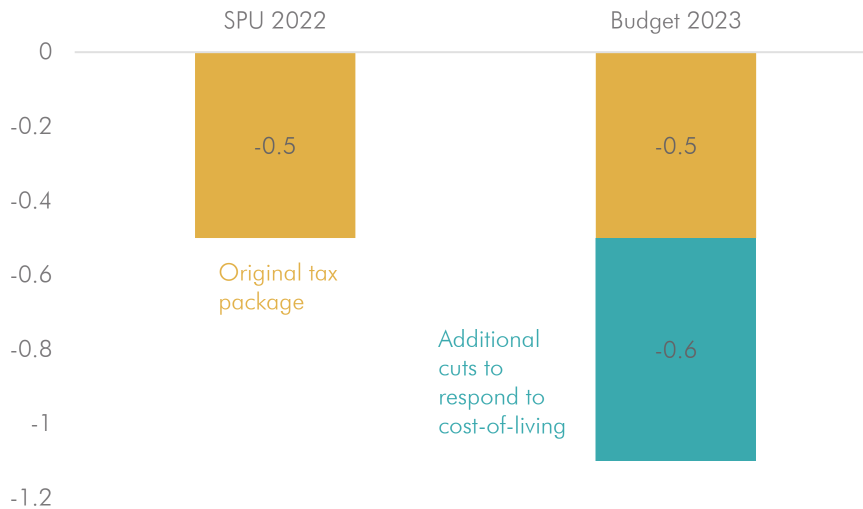
Figure 2.2 shows how core spending plans have been revised up for both 2022 and 2023 with revisions to both years in the July *Summer Economic Statement* and *Budget 2023*. The new public sector pay agreement raises core current spending in 2022 by €0.7 billion and raises the starting level for 2023. In addition, "core" spending is now set to increase by €5.1 billion in 2023 relative to this level, up from €4 billion in the SPU due to the temporary deviation from the Spending Rule, and entirely accounted for by current spending (see Section 3 for a discussion on the appropriateness of this deviation).

The size of the tax package also increased in *Budget 2023*. The total package of tax-reducing measures announced was €1.1 billion, €0.6 billion more than originally planned (Figure 2.3). These measures would more than offset the increase in the tax revenue that would have occurred in 2023 with no adjustment of income tax thresholds.[34]

[34] See Section 2.5 and Figure 2.8 for details on income tax.

Figure 2.3: The size of permanent tax-reducing measures has increased

€ billion, net tax measures



Sources: CSO; Department of Finance and Fiscal Council workings.
Notes: Figures have been updated to incorporate the reduced yield from the concrete blocks levy, which is now expected to yield €32 million in a full year. On a full-year basis, the tax cuts announced cost €1.4 billion. Get the data.

The Budget also introduced a large package of temporary supports to help households and businesses to cope with higher prices. This package amounts to €3.9 billion, of which €3.6 billion is for additional spending measures and €0.3 billion is for extending temporary tax cuts into next year (Table 2.1).[35]

The temporary spending measures for households, announced in *Budget 2023,* were largely untargeted

A total of €2.2 billion of the temporary spending measures is directed at households, while €1.4 billion is for supports for businesses. The Council estimates that approximately 33% of the temporary spending for households announced in *Budget 2023* is targeted.[36] However, the degree of targeting of temporary measures needs to be viewed alongside the permanent spending measures introduced. Increases in core social welfare rates are more heavily targeted at those most in need.

[35] The rent tax credit is treated as a permanent measure accruing in 2022, as it applies to rent paid in 2022.

[36] In its "flash release" immediately after the Budget, the Council assessed that approximately half of the temporary measures were targeted. This was based on the Business Energy Support Scheme being considered as targeted. As more information has become available about this scheme, the Council now assesses this scheme to be an untargeted measure.

Table 2.1: *Budget 2023* temporary measures

€ million

Total temporary measures	3,938	Targeted?
Spending measures	3,612	
For Households	2,212	
Electricity credit	1,200	No
Double welfare payment	316	Yes
Fuel allowance	149	Yes
Carers, disability allowance, blind allowance etc.	175	Yes
Living alone allowance	46	Yes
Working family payment	23	Yes
Child benefit	170	No
Student fees reduction	106	No
Student (SUSI) maintenance and PhD payment	19	Yes
Student assistance fund	8	Yes
For Businesses	1,400	
Ukraine emergency response scheme	200	No
Business energy support scheme	1,200	No
Tax measures	326	
Excise cut on petrol, diesel, market gas oil	281	No
VAT cut on gas and electricity	45	No

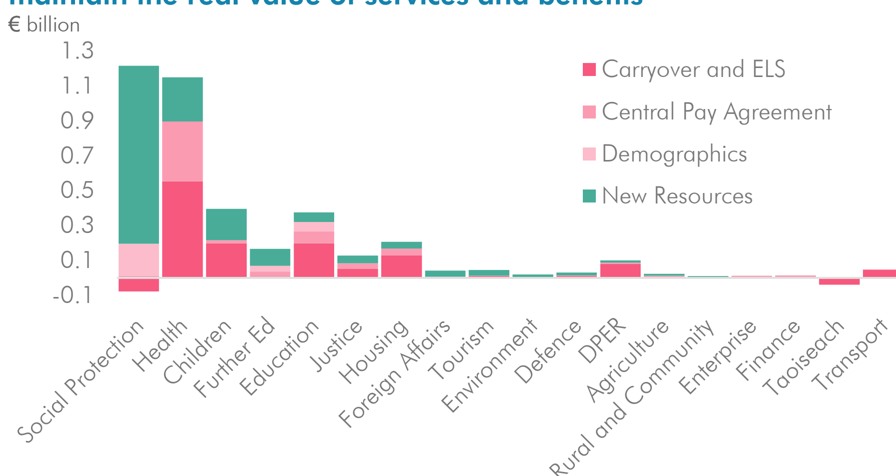
Sources: Department of Finance; and Fiscal Council workings.
Notes: As outlined above, the rent tax credit is not included as a one-off measure as it is intended to be permanent. The Council treat the rent tax credit as applying on a permanent basis from 2022, as it is accrued on rent paid in 2022. Both of the business supports listed above are classified as untargeted. This is because both schemes appear to be applicable to almost all firms. Get the data.

Figure 2.4 outlines the permanent core current spending allocations by Department in *Budget 2023*. The total size of this package, which excludes non-core amounts for Covid-19 related spending, is around €5.8 billion and has largely been focussed on addressing cost-of-living pressures, particularly for social welfare recipients. The additional spending is largely focussed on social welfare and on health, where higher pay will raise costs. The overall package of €5.8 billion is nevertheless approximately €0.9 billion below the Council's estimate of stand-still costs of wage and price inflation for 2023 and catch-up costs for unexpected inflation in 2022.[37] However, once combined with the temporary measures, the *Budget 2023* package insulates all income deciles from forecast inflation in 2023 (see Figure 3.11 and Doolan *et al.*, 2022).

This breakdown also helps illustrate the exceptionally large pressures from higher inflation in the current period; new cash resources that might usually contribute to real increases in services have instead been required to offset inflation in 2023. Discretionary policy has followed a path that has attempted to increase spending to protect the level of services and supports while not fully following inflation, which is significantly above trend.

[37] In the Council's most recent stand-still update prior to the release of the Budget, the estimated cost of fully indexing current spending in 2023 to account for the "catch-up" from unexpectedly high inflation in 2022, and forecast inflation in 2023, was around €6.7 billion (Fiscal Council, 2022b).

Figure 2.4: The majority of *Budget 2023* "new resources" are used to maintain the real value of services and benefits



Source: Department of Finance. Get the data.
Notes: This chart outlines the allocations included in the Expenditure Report 2023. It excludes the unallocated amounts of €1.4bn contained in the overall budgetary package for 2023 to cover costs arising from the potential approval and implementation the extension of the Building Momentum pay agreement. The figure for Health "carryover and ELS" also includes demographics as the *Expenditure Report 2023* did not provide these figures separately.

Taken together, general government expenditure is set to rise by just €1.8 billion in 2023, despite the large permanent increases (€7.7 billion). This is because temporary measures are set to fall by €5.9 billion in 2023 as Covid-19-related spending falls and other one-off factors, like the defective concrete blocks redress scheme, are not repeated.

Looking at expenditure excluding one-offs, compensation of employees is forecast to grow by 4.1% in 2023, reflecting the recently agreed public sector pay deal. This entails a 2% increase in March 2023 and a further 1.5% increase in October 2023. Similarly, social payments are forecast to grow by 2.2% in 2023, less than the pace of increase in core benefits because of the winding-down of temporary measures introduced for 2022. The percentage increase in welfare rates varies by scheme, but most of the largest schemes are increasing by around 5%.

This increase in underlying general government expenditure is larger than the core spending increases discussed in Section 3. General government expenditure is a broader measure, whereas core spending is on an Exchequer basis. Several expenditure items which are outside the Exchequer but are inside general government are forecast to grow in 2023, including mostly likely spending on housing outside the central government. There is limited available information on spending in these non-Exchequer areas. [38]

[38] Non-Exchequer capital spending is forecast to grow by €0.4 billion. Spending by local authorities and non-commercial semi state bodies is also likely to increase substantially in 2023.

General government revenue (excluding one-offs and excess corporation tax) is forecast to rise by €5.4 billion in 2023, reflecting moderate growth and relatively high inflation (Table 2.2).

Corporation tax is forecast to grow by €1.7 billion in 2023. Most of this increase (€1 billion) is deemed to be "excess" by the Department. Section 2.5 details some of the key judgements and assumptions underlying *Budget 2023* forecasts of corporation tax. Most notably, €850 million of negative judgement is applied in 2023, with a further €2 billion of negative judgement in 2024. Income tax and PRSI are also forecast to increase strongly (€2.8 billion), reflecting strong nominal wage growth. A range of other headings contribute to revenue growth in 2023.

Table 2.2: *Budget 2023* summary fiscal forecasts

€ billions

	2021	2022	2023	2024	2025
General government					
Revenue	98.7	112.5	119.5	124.0	130.9
Expenditure	105.8	111.5	113.3	113.3	117.2
Balance	**-7.1**	**1.0**	**6.2**	**10.7**	**13.7**
Revenue one-offs	-0.1	-1.0	-0.5	0.0	0.0
Expenditure one-offs	12.5	11.8	5.9	0.7	0.4
Windfall corporation tax	5.0	9.0	10.0	9.0	9.5
Expenditure excl. one-offs	93.3	99.7	107.4	112.6	116.8
Revenue excl. one-offs and windfall corporation tax	93.8	104.5	109.9	115.0	121.4
Balance excl. one-offs and windfall corporation tax	0.5	4.8	2.5	2.4	4.6
Exchequer and Social insurance fund					
Gross voted "core" expenditure	74.1	80.8	85.9	90.2	94.7
Gross voted "core" current expenditure	74.1	69.9	74.3	77.6	81.3
Gross voted "core" capital expenditure	9.4	10.9	11.7	12.6	13.4
Tax and PRSI revenue	80.2	95.6	102.1	107.3	114.1
Tax revenue	68.4	81.6	87.0	91.2	97.0
PRSI	11.8	14.1	15.1	16.1	17.1

Sources: CSO; *Budget 2023* and Fiscal Council workings. Get the data.
Notes: General Government Expenditure shown above for 2023 includes the cost of the Temporary Business Energy Support Scheme (TBESS). While *Budget 2023* does incorporate the expected negative impact this scheme will have on the general government balance, it does not list this as part of its general government revenue or expenditure forecasts. This is because there is uncertainty over how this scheme will be classified. Estimates of windfall corporation tax receipts are the Department of Finance's estimates published in *Budget 2023*.

On a headline basis, revenues would rise faster than spending so the headline surplus would improve by €5.2 billion in 2023. However, after excluding one-offs and windfall corporation tax, the underlying balance is expected to deteriorate by €2.5 billion. Box C looks at adjusting the government balance for windfall corporation tax receipts.

However, timing effects may be playing a role in the public finances in 2022 and 2023. A significant improvement in the underlying balance is forecast for 2022 (€4.3 billion). Underlying revenue is forecast to benefit from the higher inflation

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.

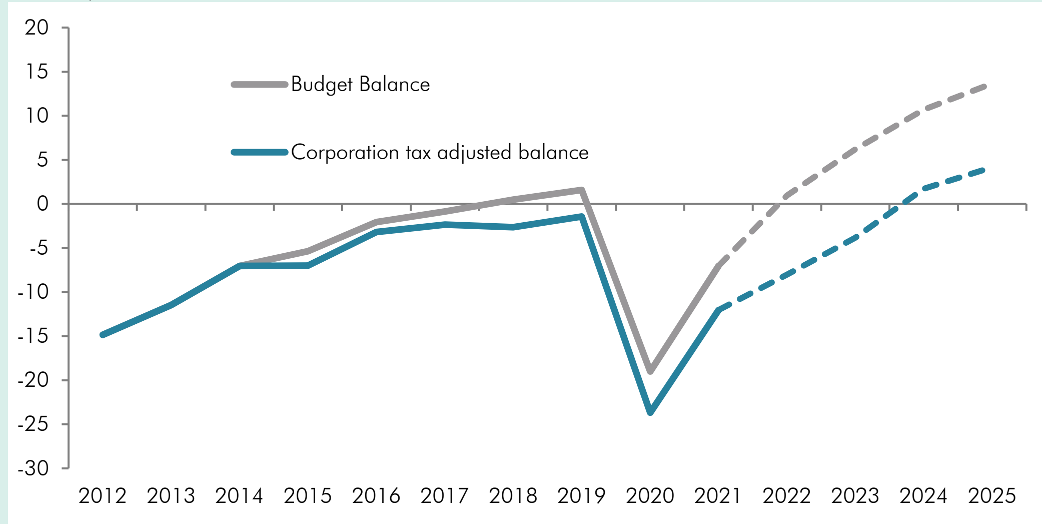
The Council has therefore advised that the Government reduce its reliance on corporation tax receipts for day-to-day expenditure.

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.

welfare rates and public sector pay rates will grow in line with forecasts of private sector wage rates in 2024 and 2025, while other spending increases in line with inflation.

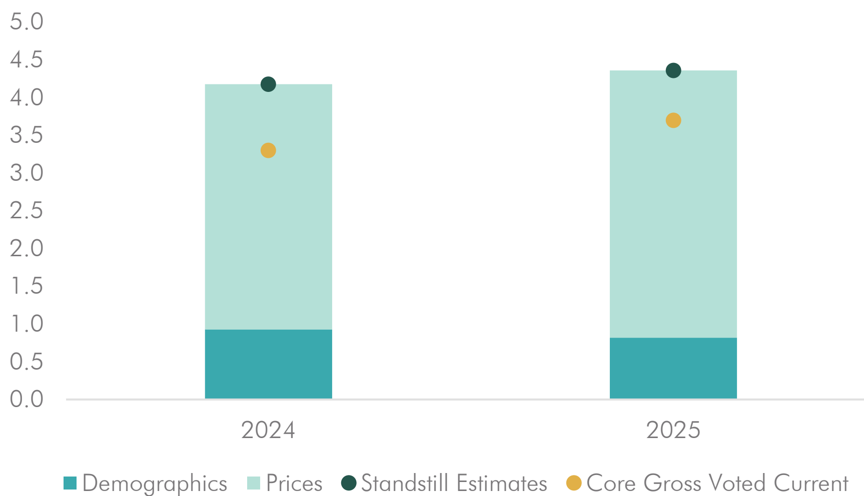
In the years 2024 and 2025, the estimated cost of "standing still' exceeds *Budget 2023* forecasts of spending by around €0.8 billion on average (Figure 2.5). This would imply that spending would need to be adjusted in real terms or relative to wages to meet the Government's Spending Rule and there would be no space for additional spending measures without finding offsetting resources elsewhere. This reflects, in part, the growing impact of ageing costs.

Spending pressures ahead, as costs of standing still leave little room for new measures

At the same time, there are major spending pressures that are not factored in these plans but that will need to be addressed. The Government will have to address climate change and implement Sláintecare reforms; it is also unclear how recent reforms to the pension system, including auto-enrolment and the changes to the retirement age, are factored in.

Figure 2.5: Stand-still costs diverge from *Budget 2023* projections in 2024 and 2025

€ billion, annual change



Source: Department of Finance; and Fiscal Council workings. Get the data.
Notes: Stand-still estimates assume spending on social welfare, health and education will grow in line with key demographic growth and that key welfare rates and public sector pay rates will grow in line with forecasts of private sector wage rates in 2024 and 2025, while other spending will increase in line with inflation.

The Government's spending projections outline a detailed costs of maintaining the "existing levels of services" for only the Budget year (2023). They use technical assumptions for the "existing levels of services" in 2024 and 2025, with an estimate of 3% of core gross voted current spending required to maintain service levels. Details are not given on the expected costs of demographics and price increases (including pay).

This approach continues to reflect a short-term attitude to budgeting, particularly in the areas of uprating welfare payments and public sector pay. The amount of

spending required to stand-still is consistently higher than the allocations ostensibly made for this purpose. The Council's stand-still estimates are higher than the amounts derived from the technical assumption of 3% of core current spending being required to maintain service levels.

The amount of discretionary spending is large each year, but, as shown by the stand-still, a full indexation of pay, pensions and other supports to 2025 would allow for little to no real improvement in these areas. Given the recent decision on not increasing the pension age and the increasing numbers of claimants in the coming years, greater transparency in this regard could contribute to more accurate medium-term budgeting. More accurate projections of the costs of standing-still that incorporate Government priorities would allow for greater clarity on progress towards major policy reforms.

2.4 How the public finances are forecast to evolve

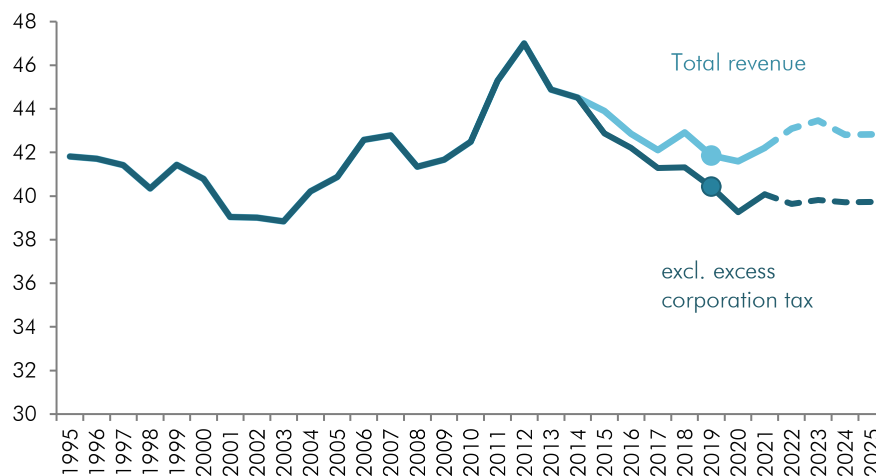
To give a perspective on the underlying dynamics of the public finances over the coming years, Table 2.3 compares the *Budget 2023* forecast of the level of several fiscal variables in 2025 to the last outturns before the pandemic (2019) as a way of "looking through" the impact of the pandemic.

The public finances (excluding excess corporation tax) are forecast to improve out to 2025

One of the main features over this period is the growth of corporation tax. In headline terms, corporation tax receipts are forecast to more than double from 2019 to 2025 (a €12.8 billion increase). More than half of this increase could be deemed to be in "excess" of what is generated by domestic activity.[41]

Figure 2.6: Revenue excluding excess corporation tax to remain around its 2019 share of GNI*

% GNI*, general government revenue



Sources: CSO; Department of Finance; and Fiscal Council workings. Get the data.
Notes: Dots show the 2019 levels. For 2015 – 2020, Fiscal Council estimates of excess corporation tax are used. For 2021 – 2025, estimates published in *Budget 2023* are used.

[41] Section 2.5 details some of key judgements and assumptions made by the Department for *Budget 2023* forecasts.

On the revenue side, when excess corporation tax receipts are excluded, general government revenue is forecast to grow broadly in line with national income, with the ratio remaining roughly flat (Figure 2.6). Income tax sees the biggest increase in nominal terms (€13.3 billion). As explained in Section 2.5, the effective income tax rate rose in 2021, and is expected to remain elevated for the forecast horizon. Non-tax, non-PRSI revenue is forecast to fall slightly over the period, and hence is falling as a share of national income.

On the spending side, the main feature over this period (2019 to 2025) is the 72% growth in public investment spending (rising 9.5% annually, on average). The nominal increase in public investment, €5.8 billion, takes the share of public investment in national income to almost 5%.[42] Despite this increase in public investment, overall general government spending falls as a share of national income. Interest spending is forecast to fall in nominal terms (and hence even more so as a share of national income).[43] Current primary spending is forecast to grow at an average annual rate of 5.0% over the period, which leads to a fall as a percentage of national income. This comes despite the spending pressures which are likely to arise due to an ageing population (Fiscal Council, 2020b).

Table 2.3: Comparing 2019 and 2025

Difference 2025 – 2019

	p.p change in GNI*	€ billion change	% Change	Annualised growth rate
GG revenue	1.0	42.8	48.6	6.8
GG revenue (excluding excess corporation tax)	-0.6	36.3	42.7	6.1
Tax revenue	3.6	37.7	63.6	8.5
PRSI	0.2	5.7	49.7	7.0
Non tax, non-PRSI revenue	-2.7	-0.6	-3.3	-0.6
Income tax	1.0	13.3	58.0	7.9
Corporation tax	2.6	12.8	117.8	13.9
:of which “excess”	1.7	6.5	214.8	21.1
VAT	0.2	7.4	48.7	6.8
Other tax revenue	-0.2	4.2	40.4	5.8
GG spending	-2.7	30.7	35.5	5.2
Gross Fixed Capital Formation	1.0	5.8	72.0	9.5
Interest	-1.1	-1.3	-28.6	-5.5
Current primary spending	-2.6	25.4	34.3	5.0
GG balance	3.7	12.1		
GG balance (excluding excess corporation tax)	2.0	5.6		
Level of GNI*		94.8	45.0	6.4

Sources: CSO, and *Budget 2023*. Get the data.
Notes: Changes are in the format 2025 level minus 2019 level. As a result, positive values indicate a variable increasing over the period or taking up a larger share of GNI* than was the case in 2019. The annualised growth rate shows the rate of growth for every year from 2019 that would yield the 2025 level forecast in *Budget 2023*. GG = general government.

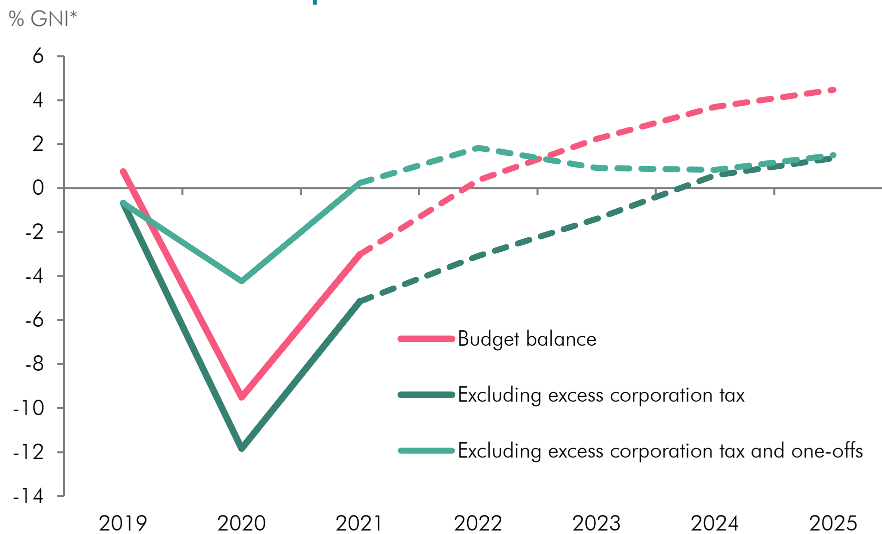
[42] While this increase is large, as noted earlier in the section it is a more modest increase than was forecast in *Budget 2022*.

[43] While the interest environment has become less favourable, Ireland has relatively low financing needs, and the gross debt level is forecast to be a much lower share of national income in 2025 (73.2% of GNI*) compared to 2019 (96.5% of GNI*).

As noted earlier, excess corporation tax receipts play a significant role in how the public finances are forecast to evolve from 2019 to 2025. Over half of the improvement in the headline general government balance (€12.1 billion) is driven by increases in excess corporation tax (€6.5 billion).

However, even the corporation tax-adjusted general government balance is projected to improve from 2019 to 2025 (Figure 2.7). A €5.6 billion improvement is forecast (2.0% of GNI*). Strong tax growth and falling interest payments more than offset increases in public investment and current spending. On this basis, there is a modest decline in 2023, due to the large package of measures introduced. Thereafter, the position is largely flat, with a surplus of 1-2% of GNI*.

Figure 2.7: The Government's corporation tax-adjusted budget balance is forecast to reach surplus in 2024



Sources: CSO; *Budget 2023* projections; and Fiscal Council workings. Get the data.
Note: Dashed line indicates *Budget 2023* forecasts. Fiscal Council estimates of excess corporation tax receipts are used for 2015 – 2020. Estimates of excess corporation tax for 2021 – 2025 are taken from *Budget 2023*. Revenue and expenditure one-offs are as assessed by the Council.

2.5 Tax forecasts and the effective tax rate

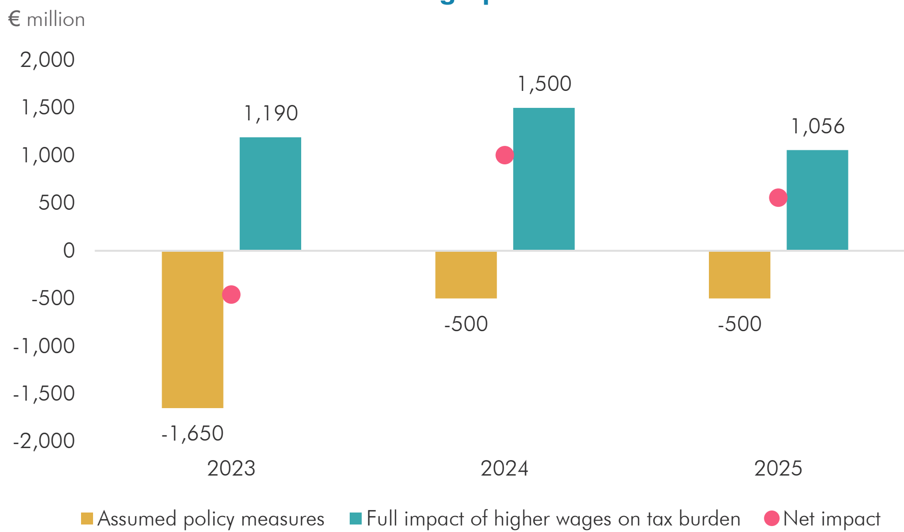
To assess revenue projections and understand the underlying dynamics, tax forecasts can be decomposed into several factors. Supporting information Section S5 shows a breakdown of the various factors contributing to *Budget 2023* forecasts of tax receipts. These factors include growth in macroeconomic drivers, policy changes, one-off effects, and judgement applied to the forecasts.

By looking at this breakdown, one can better assess if revenue projections are reasonable. For example, if strong revenue increases were based on judgement rather than policy changes or growth in the macroeconomic drivers, that might be a cause to question such a forecast. As has been documented previously,

forecasting government revenue in Ireland is difficult, with large absolute errors relative to other countries (Hannon et al, 2015; Tax Forecasting Methodology Review Group, 2019).

Substantial income tax policy measures for 2023 were announced as part of *Budget 2023*. These policy measures are around €500 million more than the assumed cost to fully index income tax bands and credits to wage growth (Figure 2.8), meaning that the effective aggregate tax burden is expected to decline relative to 2022. For 2024 and 2025, €500 million of income tax policy measures are assumed for each year. Given expected wage growth in these years, these policy measures are less than the amount needed to fully index income tax bands and credits.

Figure 2.8: Assumed income tax policy changes would mitigate the increase in the tax burden through partial indexation



Sources: *Budget 2023* projections, and Fiscal Council workings. Get the data.
Note: A net impact greater than zero indicates that assumed policy changes are less than the assumed yield from not indexing income tax bands and credits. As a result, income tax revenue would be higher than if full indexation of the income tax system were assumed. The cost of indexation for 2023–2024 is given by Department of Finance estimates. The 2025 estimate is derived by combining Revenue's post-*Budget 2023* "ready reckoner" with Department of Finance forecasts of hourly earnings growth.

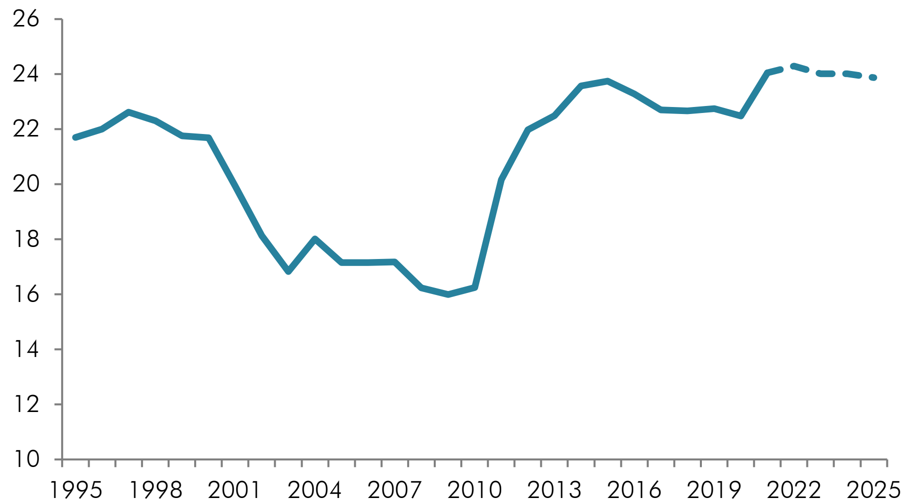
Ratio of income tax to the wage bill to remain elevated

Income tax receipts rose significantly in 2021 as a share of compensation of employees. This increase in the effective tax rate on income was largely driven by the strong performance of higher-wage sectors (Timoney, 2022a). Provided the high-wage sectors continue to perform well, this upward shift in the effective tax rate could be permanent (Figure 2.9).

High inflation may also result in the effective tax rate rising, as assumed policy measures are less than what would be required to fully index income tax bands and credits in 2024 and 2025. Offsetting this, some negative judgement is applied by the Department for *Budget 2023* forecasts of income tax. This is done to keep the effective tax rate relatively flat over the forecast horizon.

Figure 2.9: Ratio of income tax to wage bill to remain elevated

Exchequer income tax as a percentage of compensation of employees



Sources: CSO, and *Budget 2023* projections. Get the data.
Note: Dashed line indicates *Budget 2023* forecasts.

Excise receipts are forecast to grow strongly. This is aided by increases in the rate of carbon tax assumed throughout the forecast horizon. This contributes an additional €155 million in revenue each year on average over 2023–2025, amounting to close to €500 million in total.

For corporation tax, negative judgement of €850 million is applied in 2023, as some of the 2022 receipts are not expected to carry into the base for 2023. In addition, a further €2 billion of negative judgement is applied to corporation tax forecasts for 2024 reflecting the Department's assumed impact of the OECD's base erosion and profit shifting (BEPS) reforms.

This estimate of the impact of the BEPS reforms has remained unchanged since January 2020. In the meantime, corporation tax receipts have grown substantially. As a result, the €2 billion impact is a much smaller share of corporation tax receipts than was the case when it was originally estimated. €2 billion was 18.4% of 2019 receipts, but is 9.5% of the *Budget 2023* forecast of 2022 receipts.

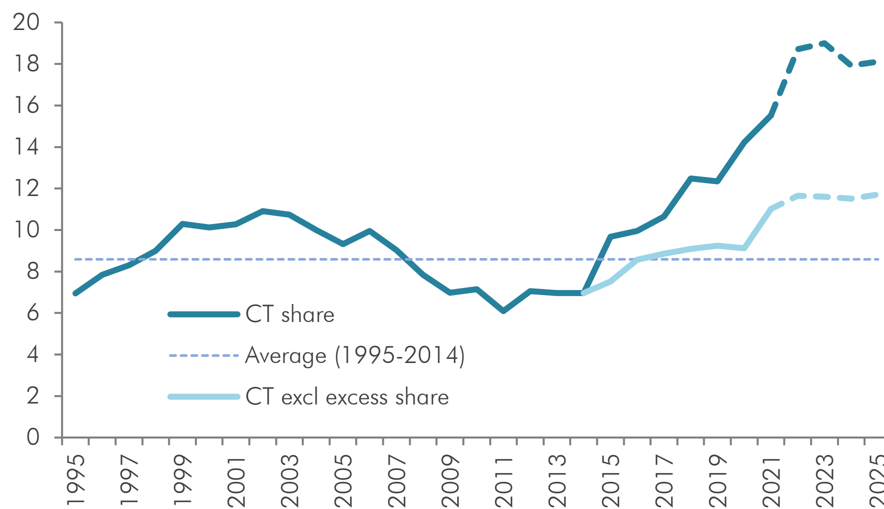
A potential upside to the current corporation tax forecasts is the increase in the corporation tax rate from 12.5% to 15% under the BEPS Pillar Two reforms.[44] The Department has not yet factored in any impact of this reform into its forecasts for corporation tax revenue. Overall, there is uncertainty about the impact of BEPS reforms on Irish tax revenues, depending in part on how firms choose to adapt their behaviour, and also on the exact path the reforms take.

[44] Based on figures from the Revenue Commissioners, 61 corporate groups in Ireland in 2018 had worldwide revenue greater than €750 million, which is the qualifying threshold to be liable for this 15% rate (Revenue, 2022).

Another potentially large upside to short-term corporation tax receipts arises from the exhaustion of large capital allowances by key multinational corporations. Some large multinationals are expected to exhaust their currently available capital allowances in the coming years, and, provided that their company structures and profits do not change significantly when the allowances are exhausted, this could lead to large corporation tax increases as early as next year. However, were corporate structures to change substantially and intellectual property relocated elsewhere, the risks could be in the opposite direction.[45] In addition, any reduced profitability of multinational corporations, particularly in the tech and pharmaceutical sectors, poses downside risks to corporation tax receipts.

Figure 2.10: Corporation tax to reach a record high share of revenue

Exchequer corporation tax as % of general government revenue



Sources: CSO; *Budget 2023* projections, and Fiscal Council workings. Get the data.
Note: Light blue line denotes the share of corporation tax excluding excess receipts in general government revenue (also excluding excess corporation tax receipts). Dashed line indicates *Budget 2023* forecasts. Fiscal Council calculations for estimates of excess corporation tax for 2015–2020. Department of Finance estimates published in *Budget 2023* are used for 2021–2025. CT = corporation tax.

Figure 2.10 shows that the State is forecast to remain heavily reliant on corporation tax receipts, which are forecast to peak as a share of general government revenue in 2023, before falling slightly thereafter. If excess corporation tax receipts are excluded, the share is modestly above its long-term average.

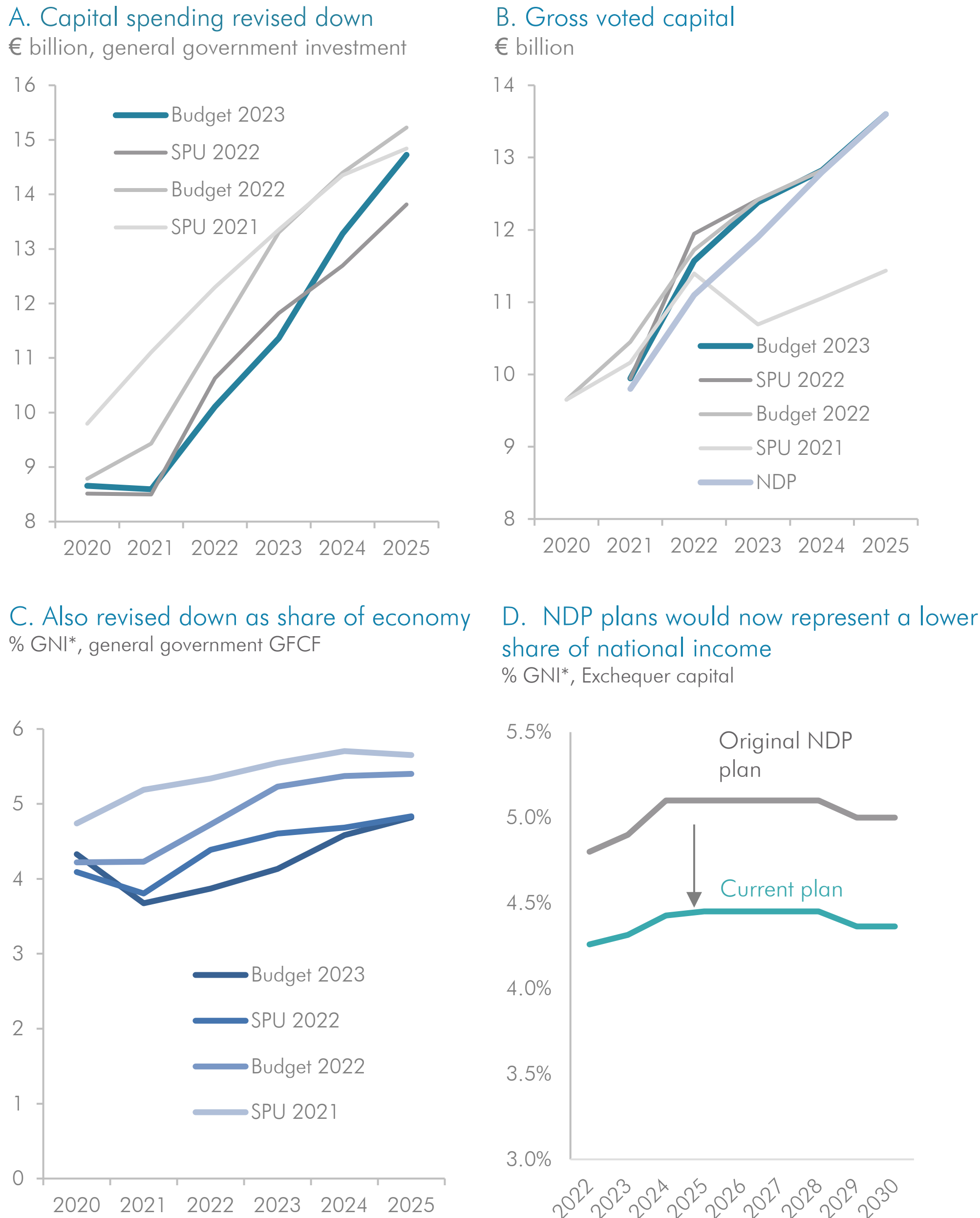
2.6 Capital spending has fallen short of plans in recent years

Conroy *et al.* (2021) highlighted that there may be challenges in ramping up public capital spending as quickly as is projected in the current National Development Plan (NDP), published in October 2021. While some pandemic restrictions may be responsible for spending shortfalls since 2020, more general

[45] While capital allowances are used to offset a firm's tax liability, the amount that can be claimed in each year is limited, meaning there may be a residual tax liability associated with the asset. It is this residual tax liability that could be at risk.

issues around capacity constraints, particularly in the construction sector, may be playing a key role.[46]

Figure 2.11: Capital spending to make up a smaller share of national income



Sources: CSO; Department of Finance, and Fiscal Council workings.
Notes: GFCF is gross fixed capital formation. Growth rates assumed for GNI* over 2026–2030 in panel D are the same as those assumed in the NDP. Get the data.

In nominal terms, *Budget 2022* set out the largest capital spending plans in the history of the State. *Budget 2023* sees a similar level of investment in gross voted

[46] However, Section 1.3 notes that recent estimates of inward migration are likely to be revised up when *Census 2022* is fully incorporated.

terms but is lower in general government terms (Figure 2.11).[47] Given that the price level is now expected to be much higher than was the case in previous plans, *Budget 2023* forecasts imply a lower level of real output.

This scaling-back of real capital spending can be seen when examining spending as a share of nominal income. *Budget 2023* forecasts imply a lower share of national income than was the case in previous forecast rounds (Figure 2.11C). In terms of Exchequer spending, an average of €2.1 billion extra capital spending per year would be required to return to the original share of capital spending in the economy consistent with what was outlined in the National Development Plan (NDP) (Figure 2.11D).[48]

While these downward revisions as a share of national income are significant, the plans still represent an ambitious level of capital spending. With capital spending projected to reach almost 5% of GNI* in 2025, this would put Ireland well above EU norms. As outlined in Conroy et al. (2021), in OECD countries, public investment has tended to range between 3% and 4% of national income.

More generally, we can see that, with various plans being published, there has been significant volatility in forecasts of capital spending. From Figure 2.11A, revisions have been focused in non-Exchequer areas that are included in general government.

2.7 Debt burden projected to fall significantly

The gross debt-to-GNI* ratio peaked at 108.9% of GNI* at the end of 2020 (Figure 2.12); for 2022, it is expected to fall by 14.5 percentage points due to high nominal growth, and a small headline general government surplus. By 2025, the gross debt ratio is expected to be below 75% of GNI*.

The net debt ratio has also been revised down over the course of recent forecasts (Figure 2.13). A year ago, *Budget 2022* forecast a net debt ratio of 79.2% by 2025. This was revised down to 68.5% in the *SPU 2022* forecast. This has now been further revised down to 57.8% in *Budget 2023*. As discussed in Section 3, much of this downward revision is due to strong real GNI* growth in 2021 and 2022 as well as higher inflation, but an improvement in the general government balance has also contributed (see Figure 3.4E).

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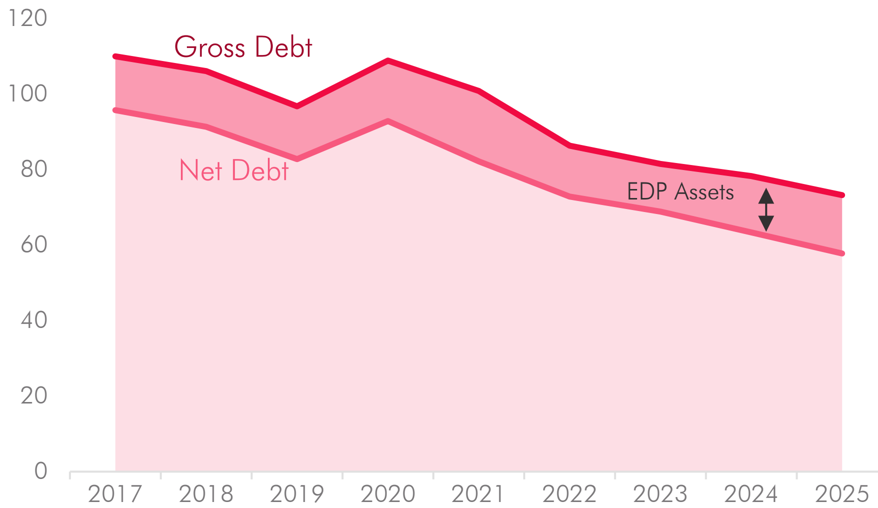
[47] Given the downward revisions in general government terms (Figure 2.11A) are not apparent in gross voted terms (Figure 2.11B), this suggests that investment in non-Exchequer areas has been revised down.

[48] The same level of output could be delivered as was outlined in the NDP, but that would require plans being extended beyond the timeframe of the NDP.

Figure 2.12: Plans imply a steady downward trajectory for the debt ratio

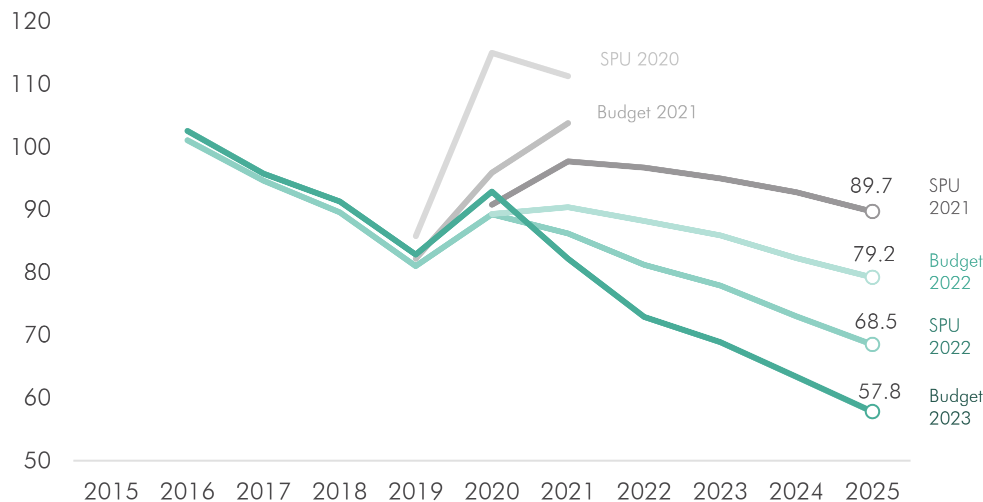
% GNI*, general government



Sources: CSO; Department of Finance, and Fiscal Council workings.
Notes: EDP (excessive deficit procedure) assets refers to EDP debt instrument assets, held in Currency and Deposits (F2), Debt securities (F3) and Loans (F4). Get the data.

Figure 2.13: Net debt has been revised down

% GNI*, general government



Sources: CSO; Department of Finance. Get the data.

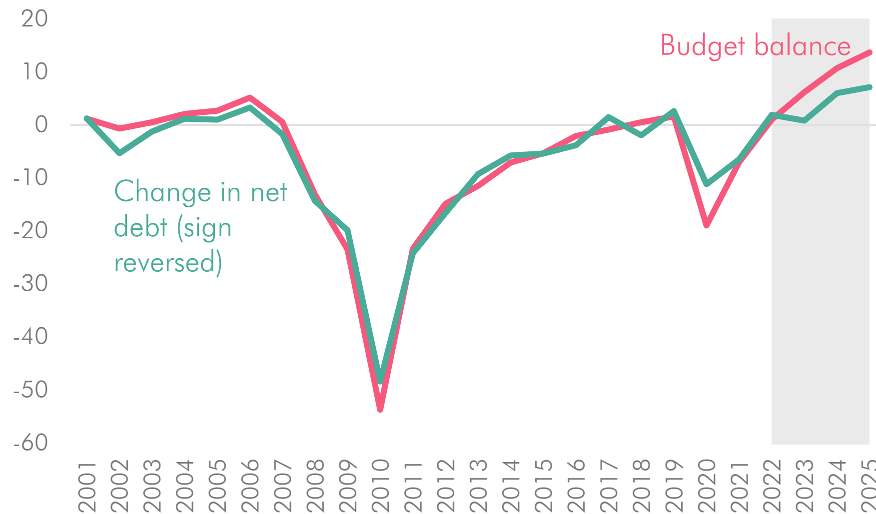
A good approximation for the change in net debt is the size of the government surplus/deficit (Figure 2.14). In the past, the change in net debt tracked the budget balance closely with the difference made up of equity and other investments, statistical discrepancies, and adjustments and revaluations. The net debt forecasts produced by the Department are based on a "mechanical extrapolation of financial assets".

However, the *Budget 2023* forecast for the net debt would suggest a sustained divergence between the budget balance and the change in net debt (Figure 2.14). While this is possible due to changes in the other components mentioned above, it is likely that the change in the net debt will track closer to the budget balance. Were the change in the net debt equal to the budget surplus out to

2025, the net debt ratio could be 52.6% in 2025, 5.2 percentage points lower than currently forecast by the Department.

Figure 2.14: Larger surplus suggests net debt may fall more rapidly

€ billions, general government



Sources: CSO; Department of Finance, and Fiscal Council workings.
Notes: Forecasts shown in the grey shaded region. Get the data.

Ireland's interest costs have been falling for years (Figure 2.15). In 2014, cash payments for interest were €7.5 billion. By 2021, interest payments were almost €4 billion lower at €3.6 billion. Over 2015–2021 the cumulative saving in interest payments, relative to an annual payment of €7.5 billion, is €13.5 billion.

The forecasts for interest payments for 2023–2025 have been revised up slightly since *SPU 2022*, but are expected to remain largely flat after 2022, despite rising interest rates (Figure 2.15). This is due to a combination of:

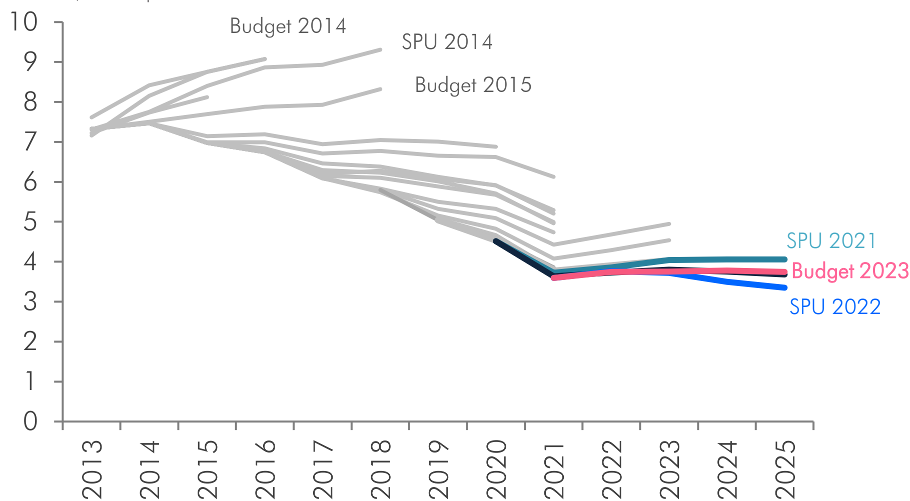
1) government surpluses and large cash balances (€26.7 billion at end of October) being used to pay for part of the maturing debt; and

2) the maturing debt having high coupon rates which can be replaced by debt with lower yields.

For instance, €26.5 billion of fixed-rate bonds are due to mature between 2023 and 2025. The lowest coupon rate on these bonds is 3.4%. Despite the rising interest rates, these bonds could still be replaced with debt yielding lower interest rates, if the benchmark 10-year yield on Irish government bonds is still below 3.4% (current bond yield at time of writing is 2.5%). This can result in lower interest costs despite the rising interest rates.

Figure 2.15: Interest payments projected flat after 2022

€ billion, Exchequer interest



Sources: Department of Finance. Get the data.

2.8 Fiscal risks

As outlined in Section 1, both a Covid-19 resurgence and the ongoing fallout from the war in Ukraine pose immediate risks to the macroeconomy and to the public finances. The potential for lower growth and higher prices could put significant pressure on the public finances. While higher prices may lead to more tax revenue, particularly VAT, higher prices could also put upward pressure on spending. A slowing of the economy could weaken revenues, particularly if associated with revenue-rich activities. A further large inflow of Ukrainian refugees this winter and constraints in the capacity to accommodate them could add to spending pressures.

There are obvious upside risks to the revenue forecasts. These include one-off revenue windfalls; for instance, from fines issued by the Data Protection Commission, or, less predictably, from the Apple tax case.[49]

As noted in Section 2.5, several factors could influence corporation tax receipts in the coming years. These include the implementation of the OECD BEPS initiatives, the exhaustion of large capital allowances by key multinational corporations and the level of profitability in a small number of firms.

On the expenditure side, 2022 saw one-off expenditure incurred in relation to a redress scheme for defective concrete blocks. Similar once-off expenditure may arise in the coming years; for instance, from the remedial costs of fixing defects in

[49] In 2016, the European Commission ruled that Ireland had illegally provided state aid of up to €13 billion plus interest to Apple. Its ruling was annulled by the General Court in July 2020. The European Commission has since appealed to the European Court of Justice. This process could be lengthy. In the meantime, the €13 billion plus interest will remain in an escrow fund. More recently the data Protection Commission issued a €405 million fine against Meta, which is subject to ongoing appeal.

apartments and duplexes built between 1991 and 2013, or from other redress schemes.

There are several medium-term risks to the public finances. The general price level is expected to remain permanently higher which may result in temporary cost-of-living measures, such as tax cuts on energy products or other expenditure supports becoming permanent.

Temporary spending on Covid-19 could become permanent, particularly in the area of health spending. Already, temporary Covid-19 spending in health has been used to tackle longer-term issues like waiting lists.[50] Several guarantee schemes and measures introduced during the pandemic could yet put pressure on the public finances. For example, write-offs for the tax warehousing scheme could be higher than assumed.

The cost of government contributions to the new auto-enrolment pension scheme has yet to be factored into fiscal forecasts, despite the scheme being due to come into operation in 2024. Although it has been paid to some extent in every year since 2014, payment of the Christmas bonus has not been budgeted for in 2023 and beyond.

Long-term risks to the public finances remain unaddressed. The population is ageing, which will result in increased spending pressures on health and pensions. The Government has signalled that the state pension age will remain at 66, but has not yet set out a clear plan on how higher public spending on pensions will be funded. This higher spending will have to be met by increased tax revenue or lower spending elsewhere.[51]

On climate spending, detail on the economic and budgetary impact remains lacking. Several of the recently introduced temporary measures could conflict with medium-term goals in transitioning from fossil fuels. These temporary measures could increase the long-term costs of transitioning to a lower-carbon economy.

While the infrastructure investments necessary to mitigate climate change appear to have been included in the NDP (particularly energy investments), other spending needs have not been addressed. These include current spending for incentives that encourage changes in consumer behaviour and home energy efficiency. There is also little detail on the extent to which behavioural changes from the public are required to meet emissions targets. Should this fall short of government expectations, further costs may be incurred. In addition,

[50] The *Expenditure Report 2023* indicates that some €225 million of Covid-19 spending in 2023 will be used to tackle waiting lists.

[51] See Casey (2022) for the potential revenue raising effect of measures proposed by the Commission on Tax and Welfare.

compensation may be needed for people and activities that are hit by the climate transition.

Regarding healthcare, the fiscal implications of Sláintecare remain unclear. Casey and Carroll (2021) outline several areas where information on health spending and planning is lacking. There is no more additional information on the remaining costs of implementing this reform.