Box D: Windfall corporation tax receipts flattering the public finances

The public finances are benefiting significantly from windfall corporation tax receipts, receipts in excess of what can be explained by domestic economic activity.

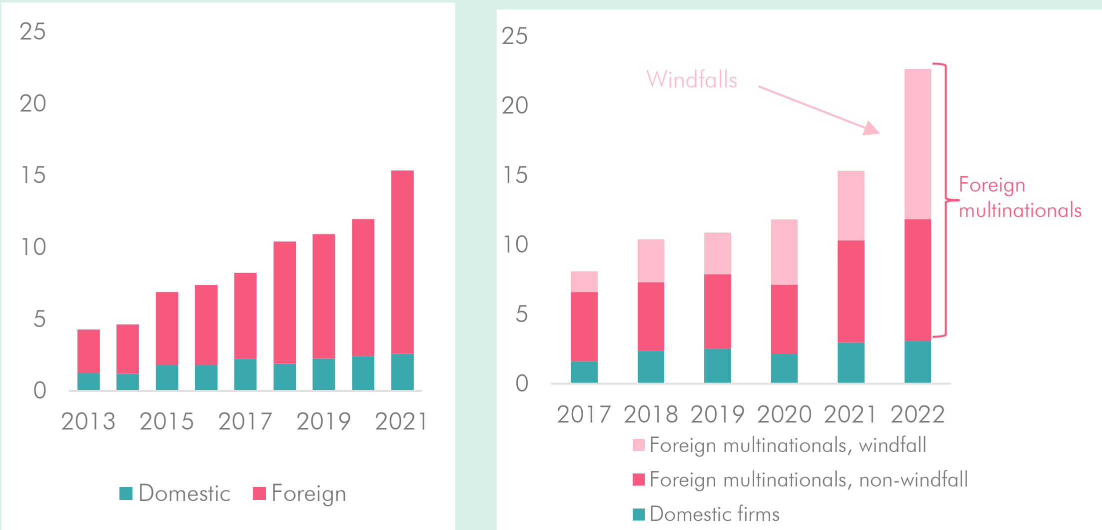
Much of Ireland's corporation tax receipts come from foreign-owned multinationals. Figure D1 shows data from two different sources on the proportion of corporation taxes paid by foreign-owned multinationals. Panel A shows data from the CSO's Institutional Sector Accounts, while panel B shows the data from the Revenue Commissioners.[28] Both data sources show a substantial rise in corporation tax payments in recent years, much of this being driven by foreign-owned multinationals.

Much of the growth in receipts of these foreign-owned multinationals is in excess of what can be explained by growth in the domestic economic activity (Figure D1.B). While these windfall receipts are substantial, the economy and the public finances has benefited greatly from non-windfall receipts from foreign multinationals. The non-windfall receipts from foreign multinationals amounted to €8.8 billion in 2022. This is more than double the total corporation tax take in 2013.

Figure D1: Foreign multinationals pay a disproportionate share of corporation tax

A. Corporation tax, CSO
€ billion, taxes on income and wealth

B. Corporation tax, Revenue Commissioners
€ billion, net payments



Sources: CSO; Revenue Commissioners and Fiscal Council workings. Get the data.
Notes: Panel A shows taxes on Income and wealth of foreign and domestic firms taken from the institutional sectoral accounts. Taxes on income and wealth includes capital gains taxes and corporation taxes paid by firms. However, most of taxes on income and wealth paid by firms is corporation tax. Panel B shows the share of net corporation taxes paid by foreign owned multinationals, taken from the Revenue Commissioners' data. Windfall corporation tax receipts are estimated by the Department of Finance for 2021 and 2022. For 2017-2020 the Council's estimates are used.

The growth in the windfall receipts has flattered the headline indicators of the public finances. These receipts are highly concentrated coming from just a handful of firms (Figure 2.5). As a result, these receipts could be subject to sharp reversals, which could occur from changes to the international tax environment.

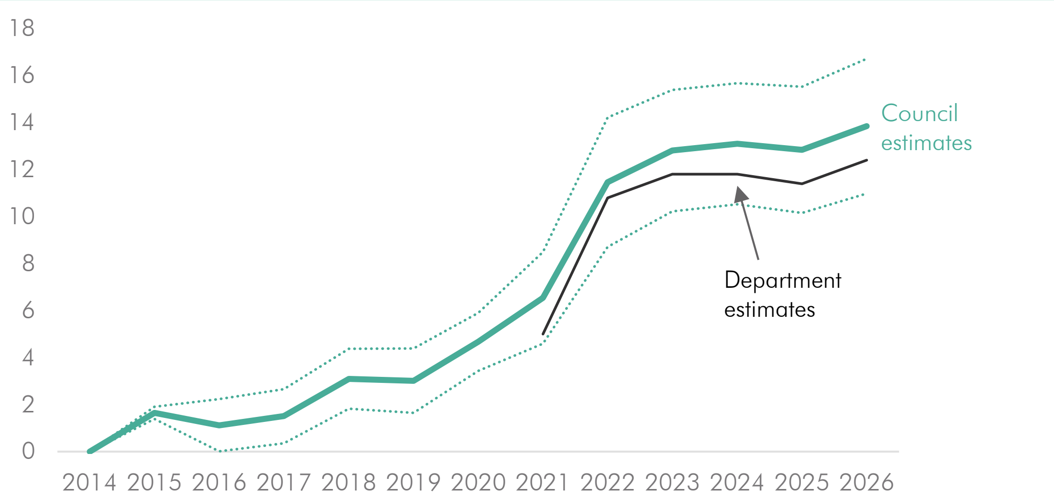
As a result, the Department has estimated the proportion of these receipts that may be deemed windfalls—those in excess of what can be explained by domestic economic activity. The Department uses a range of approaches to estimate these windfalls, as does the Council. The Council's models suggest that the windfalls could be potentially larger than the Department's estimates (Figure D2) and there are

[28] The CSO's institutional sectoral accounts data are derived using data from the Revenue Commissioners. However, the CSO's data is based on accrual accounting methods whereas the Revenue Commissioners' data are based on cash payments. There are also differences in the definitions for foreign and domestic owned firms. In addition, the CSO's data on taxes on income and wealth includes capital gains taxes and corporation taxes paid by firms. However, most of taxes on income and wealth paid by firms is corporation tax.

risks around these windfall estimates with the upper bound on windfall receipts substantially above the Department's estimate.[29]

Figure D.2: Windfall receipts could potentially be higher than the Department is estimating

€ billion



Sources: Department of Finance and Fiscal Council workings. Get the data.
Notes: See Fiscal Council (2020) for an overview of the models used to estimate windfall corporation tax receipts.

[29] Some of the approaches used by the Department to estimate the windfall receipts would tend to bias downwards the estimated windfall receipts. For instance, one approach the Department uses to estimate the windfall amount is to see how much higher the share of corporation tax revenue in total tax revenue is from its long-run average share, or "norm". However, the Department estimates this long-run share over a period in which we have been receiving these windfall receipts. It is widely accepted that these windfall receipts began around 2015. By including a post-2015 period in its estimation of the long-run share, the Department is including windfall receipts in its long-run "norm". This therefore biases up the long-run share and biases down the amount that could be considered windfall under this approach.