€2 billion was 18.4% of 2019 corporation tax receipts but is 8.5% of the forecast 2023 receipts.

In addition, there is likely to be some additional revenue from the new 15% minimum effective tax rate for large firms. This is likely to be fully implemented before the Pillar I reforms. Box F explores the potential impact of the new 15% minimum effective tax rate. *Budget 2024* does not incorporate any assumed yield from this policy change.

## Box F: What is happening to Ireland's corporation taxes?

Ireland's corporation tax receipts remain at historically high levels. In November, they increased by 27% year on year, reversing some of the weakness in previous months.

Corporation tax revenues had shown year-on-year declines in August, September, and October. There are a number of reasons why receipts might have fallen during these months. Part of this relates to timing issues and how corporate groups organise payments within their calendar year. There is also some evidence that profits in the pharmaceutical sector are moderating as vaccine demand declines. We will explore these issues in a forthcoming Analytical Note (Cronin, 2023b). Yet there are also several reasons why corporation tax receipts may rise further over the medium term.

Regardless of recent or forthcoming developments, Ireland's corporation tax receipts remain incredibly concentrated and inherently very risky. The Government is right to treat much of these receipts as windfall in nature. The National Spending Rule and the Future Ireland Fund can help guard against the risks of using risky receipts to fund permanent budgetary measures. Sticking to the National Spending Rule would help ensure that month-to-month developments in corporation tax receipts, which are largely outside of Ireland's control, do not jeopardise the sustainability of the public finances.

### Profits in some firms in key sectors remain elevated

Ireland's corporation tax revenues are dominated by highly profitable ICT and pharmaceutical firms. Global revenues and profits of the leading ICT firms remain far in excess of their 2019 levels, although the exceptional rates of growth they experienced during the pandemic have moderated. In addition, while some pharmaceutical companies have seen revenues take a significant hit from falling Covid-related demand, the growth outlook for non-Covid products remains strong. Moreover, the pharmaceutical sector could yet benefit from the technological advances made in response to the pandemic.

### The exhaustion of capital allowances could boost receipts in future

Another potential upside to short-term corporation tax receipts could come from the unwinding of large capital allowances by key multinational firms, provided that their company structures and profits do not change significantly. Of course, were these corporate structures to be altered, the risks could be in the opposite direction.

### The move to a 15% minimum effective corporation tax rate could raise receipts

Ireland's rate of corporation tax for large corporate groups is set to increase. The Government has introduced draft legislation which seeks to implement the OECD's Pillar II reforms as adopted in the EU's Minimum Tax Directive. The reforms will see a minimum effective corporation tax rate of 15% applied to those corporate groups whose annual global revenues have exceeded €750 million in at least two of the previous four years.

The new rules represent a major change to Ireland's corporation tax regime. In effect, large corporate groups will continue to pay corporation tax at the same tax rates as at present, before then making a top-up payment to bring them up to the 15% effective rate.[33] The reforms will come into force for accounting periods beginning on or after 31 December

[33] There are two rates of corporation tax in Ireland: 12.5% for trading income and 25% for non-trading income (such as rental income) and income from an excepted trade.

2023. The first top-up tax return must be filed no later than 18 months after the end of the first accounting period.[34] In other words, the first filing deadline will be 30 June 2026. Therefore, the public finances will only begin to benefit from the additional top-up tax revenues from 2026.

The Department of Finance has yet to publish estimates of the expected yield arising from the new 15% rate. We use publicly available data to estimate the additional yield that would have arisen in 2021 had the top-up tax come into effect that year (N°41).[35] Over 1,600 large corporate groups are likely to affected, mostly foreign-owned multinationals (Department of Finance, 2023b).

N°41

### The top-up tax could increase receipts by some €2 billion

€ billion

| | 2021 |
|---|---|
| Taxable income | 135.6 |
| less adjustment to taxable income | -19.1 |
| Net qualifying income | 116.4 |
| less carve-out for eligible payroll costs* | -4.0 |
| less carve-out for eligible tangible assets* | -17.6 |
| Excess profit | 94.9 |
| multiply by top-up tax rate (%) | × 2.4% |
| Top-up tax revenue | 2.2 |
| Actual corporation tax revenues in 2021 | 15.3 |
| Top-up tax revenue as a share of total corporation tax revenues (%) | 14.7 |

Sources: McCarthy (2023), CSO, Department of Finance, Fiscal Council workings. Get the data.
*Note: A substance-based income exclusion provides that a percentage of both the eligible payroll costs and the carrying value of eligible tangible assets are excluded from the top-up tax. The percentage of payroll costs to be excluded starts at 10%. The percentage of the carrying value of tangible assets to be excluded starts at 8%. These are the rates applied in the table above. However, both percentages gradually decline each year over a transition period of ten years, such that both rates are 5% in 2033.

Our central estimate is that the top-up tax would have yielded an additional €2.2 billion in corporation tax revenue in 2021 (N°41). This equates to a 14.7% increase in the corporation tax take that year. Based on several other scenarios, we consider this estimate might plausibly vary between a range of €1 billion and €3½ billion.

The estimates we produce here require a number of careful assessments to arrive at net qualifying income so as to determine the relevant tax base on which the new effective tax rate will apply. For 2021, the top-up tax rate we estimate is 3% based on the difference between the actual effective tax rate and the minimum 15% effective rate. We also estimate “substance-based income exclusions” that allow deductions for 10% of eligible payroll costs and 8% of the carrying value of eligible tangible assets based on CSO and Revenue data. The forthcoming Analytical Note provides full details on how these are derived (Cronin, 2023b)

## Corporation tax receipts are now even more concentrated

Ireland’s corporation tax revenues are very highly concentrated among a small number of large, foreign-owned multinationals. What’s more, it appears that this level of concentration is increasing. We estimate that just three corporate groups accounted for 43% of all corporation tax receipts in 2022 (N°42). These same

[34] After the first year, the top-up tax return must be filed no later than 15 months after the end of the relevant accounting period.

[35] 2021 is the most recent year for which data on taxable income and average effective tax rates is available.