Publication

Chapter 3: Exchequer Developments and Outlook

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3.1 Summary

The Exchequer is set to record a modest surplus this year of €0.3 billion. This compares with a deficit of €7.4 billion in 2021, and reflects strong growth in tax revenue alongside the phasing out of pandemic-related fiscal supports in the spring. The budgetary surplus takes into account one-off measures introduced to help alleviate the increase in energy prices, as well as the transfer of €2 billion to the National Reserve Fund this year. For next year, an Exchequer surplus of €1.7 billion is currently projected, with a transfer of €4 billion to the National Reserve Fund.

3.2 Exchequer developments in 2022

3.2.1 Tax revenue

Growth in tax receipts in 2022 has been robust across almost all tax headings, the one notable exception being excise duties. Income tax, VAT and corporate tax receipts performed strongly (figure 14A), although in the case of VAT, the growth rate has been affected by pandemic-related 'base effects'.

Tax receipts to end-August were €49.8 billion, €10.4 billion (26 per cent) ahead of the same period last year. The strength of the labour market is confirmed by income tax receipts, which were up by €2.6 billion (16 per cent). The post-pandemic rebound in consumer spending has boosted VAT receipts, which are up €2.3 billion (24 per cent) year-on-year in the first eight months. The strongest gain has again been recorded in corporate tax receipts, reflecting the strength of output and sales (exports) in the multinational sector; the tax-take from the corporate sector amounted to €11.8 billion in the first eight months of this year, €4.8 billion (69 per cent) higher than the same period last year. As previously documented, over half of corporate tax receipts are paid by a handful of firms.

Figure 14

Excise receipts are broadly unchanged relative to last year. This is mainly the result of government policy, with reductions in rates of excise duty on petrol and diesel, designed to alleviate the burden on households of rising wholesale energy prices.

As outlined earlier, economic activity is projected to ease over the remainder of this year and this will weigh on taxation receipts. Against this backdrop, the aggregate tax yield is projected at €81.6 billion this year; this would constitute an annual increase of €13.2 billion (19.2 per cent).

In terms of direct tax receipts, income tax receipts are projected at €30.3 billion, €3.6 billion (13.5 per cent) higher than last year. Corporate tax receipts are estimated at €21 billion, €5.7 billion (37.4 per cent) ahead of last year; this would mean that corporate tax receipts would account for just over one in every four euro of tax revenue collected.

In terms of indirect taxes, VAT receipts are estimated to reach €18.3 billion, €2.8 billion (18.4 per cent) ahead of last year. Budget 2023 provides for the extension of reductions in excise duties on petrol and diesel until end-February 2023. Taking this into account, excise receipts are projected to end the year at €5.7 billion, down €0.1 billion (2 per cent) on last year.

3.2.2 Other revenue

Non-tax revenue this year is projected at €2.5 billion. Capital resources – which include EU funding under the Brexit Adjustment Reserve and the European Regional Development Fund – are estimated at €4.8 billion.

3.2.3 Expenditure developments

Total voted expenditure is projected at €90.1 billion for this year. Current spending accounts for €78.5 billion of this, with capital spending accounting for the remaining €11.6 billion, and is the equivalent of 4½ per cent of GNI*.

The headline figure for total voted expenditure is composed of €80.8 billion of core (or permanent) spending (table 9) with the remaining €9.3 billion being temporary.

3.2.4 Summary

An Exchequer surplus of €5.6 billion (12-month, rolling sum) was recorded in August (figure 14B), although this must be seen in the context of significant deficits stretching back a decade-and-a-half. Taking into account likely developments in the final months of the year would imply an Exchequer surplus of €0.3 billion for this year. The projected surplus takes into account the transfer from the Exchequer of €2 billion to the National Reserve Fund and one-off measures to alleviate the increase in the cost of living.

3.3 Exchequer outlook for 2023

3.3.1 Tax forecasts

More modest economic growth next year is assumed to weigh on the overall tax yield. Overall tax revenue is projected at €87 billion, an annual increase of €5.4 billion (6.6 per cent); this projection incorporates the impact of the €1.1 billion in tax policy measures announced as part of Budget 2023.

Figure 15

The direct taxation yield is projected to increase at a more subdued rate next year. Income tax is expected to grow by €1.8 billion (6 per cent), broadly in line with the projected growth rate of the wage bill (figure 15A). Corporate tax revenue is expected to grow by €1.7 billion (7.9 per cent), reflecting the assumed increase in profitability. As previously documented, this revenue stream is highly concentrated among a small number of large companies and is, accordingly, extremely volatile.

In relation to indirect taxes, VAT receipts are projected to increase by €1.1 billion (5.9 per cent) next year, taking into account the projection for (nominal) consumer spending (figure 15B). The equivalent growth (figure 15C) for excise duty receipts is €0.6 billion (9.6 per cent). The projections for these tax headings take into account the continuation of the reduction in excise on petrol and diesel (to end-February), reduction of VAT on electricity and gas (end-February), as well as the reversal to the 13½ per cent rate for the tourism sector (end-February). As a result of these developments, overall tax as a share of GNI* amounts to 31½ per cent next year (figure 15D).

3.3.2 Other revenue

Non-tax revenue will continue to benefit from dividend payments to the Exchequer next year. The Exchequer will benefit from continued payments by the Central Bank of Ireland and from the distribution of the National Asset Management Agency surplus, with a further €1 billion and €0.35 billion, respectively, currently expected to be paid to the Exchequer in 2023. These payments are, as always, dependent upon market conditions.

On the capital side, the decline in capital resources is primarily due to the end of monthly Exchequer cash flow loans to the Social Insurance Fund reflecting the recovery in the labour market. A further €282 million is also set to be received under the Brexit Adjustment Reserve next year.

3.3.3 Expenditure

Budget 2023 provides for total voted expenditure of €90.4 billion next year (table 9). Core expenditure of €85.9 billion is provided for, an increase of €5.1 billion (6.3 per cent) on last year and broadly consistent with the parameters set out in the Summer Economic Statement. Temporary funding of €4.5 billion is also provided for inter alia COVID-related spending and assistance to refugees from Ukraine.

Box 4

Table 8

Table 9

Summary

Putting all of this together, an Exchequer surplus of €1.7 billion is in prospect for next year. The projected surplus also takes into account the transfer of €4 billion to the National Reserve Fund next year.

3.4 Medium-term outlook for the Exchequer

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