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Department of Finance

## DE-RISKING THE PUBLIC FINANCES – ASSESSING CORPORATION TAX RECEIPTS

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## SUMMARY AND KEY MESSAGES

### *The purpose of this document is to shed light on sources of fiscal vulnerability*

- > Corporate tax receipts have more than doubled in just five years. As a result, the share of overall tax revenue accounted for by this revenue stream is now at historically high levels – around €1 in every €4 of all tax collected is sourced from corporate tax payments.
- > This level shift in corporate tax receipts, occurring over a very short timeframe, raises legitimate questions regarding the sustainability of this revenue stream.
- > The concentration of receipts within a small number of firms is an additional vulnerability – the latest data show that over half of corporate tax receipts is paid by just ten large payers. This means that €1 in every €8 of all tax collected by the State is directly sourced from just ten large corporate tax payers, a major concentration risk.

### *Corporation tax receipts flatter the headline fiscal position*

- > Corporate tax receipts proved very resilient during the pandemic, in large part reflecting the importance of pandemic-proof sectors (ICT, med-tech, pharma) to the Irish economy, and the headline fiscal position is now moving towards a surplus.
- > However, there is strong evidence to suggest that the headline fiscal position flatters the underlying situation, a situation not dissimilar to that in 2003-2008 when transitory property-related taxes artificially boosted government revenue.
- > Reliance on potentially volatile sources of income to fund permanent increases in public expenditure is a blind-spot for the public finances.

### *Scenario analysis suggests a potential fiscal hole of €4-6 billion*

- > There is considerable uncertainty around how much of the level shift in corporate tax receipts is permanent, and it is impossible to pin-point an exact quantum.
- > Using a range of methodologies, the analysis set out in this document suggests the quantum of last year's CT receipts that are potentially at risk could be in the region of **€4 to €6 billion**, though it is not difficult to conceive a situation in which the figure could be in excess of this.
- > To boost transparency, the Department will report, in key publications, its estimates of the budgetary position excluding these windfall receipts (GGB\*).

### *Ring-fencing 'windfall' receipts would help to de-risk the public finances*

- > There is a compelling case – namely to de-risk the public finances and ensure fiscal sustainability – to treat a portion of corporation tax receipts as 'windfall' in nature.
- > One option would be to use these transitory receipts to capitalise some forward-looking fund. Replenishing the *Rainy Day Fund* is one possibility – this fund was established in 2019 but subsequently liquidated during the pandemic.
- > As well as enhancing economic and fiscal resilience, accumulating funds in such a vehicle would, if unused, help meet the substantial state pension costs resulting from population ageing.



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<sup>1</sup> The data and analysis set out in this document are compiled by Department of Finance staff. It does not necessarily reflect the views of the Minister for Finance or the Irish Government. Every effort is made to ensure accuracy and completeness. If errors are discovered, corrections and revisions are incorporated into the digital edition available on the Department’s website. Any substantive change is detailed in the online version.

<sup>2</sup> Data presented are as of end-July 2022.

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## Section 1: Introduction

In just over a decade-and-a-half, Ireland has amassed considerable public debt in order to offset the impact of both exogenous (health pandemic, war in Europe) and endogenous, or policy-induced, (financial instability, fiscal mismanagement in the 2000s) shocks to the economy. Compared with its level on the eve of Ireland's sovereign debt crisis, public debt has increased around five-fold in nominal terms, and now stands at over €230 billion. Even allowing for income gains over this period, the increase as a share of national income has been around four-fold.

In the coming decades, Government will need to finance the cost of an ageing population, the transition to 'net zero' economic activity, as well as the re-allocation of workers from declining to expanding sectors of the economy as the production of goods and services becomes even more digitised (the 'digital transition'). These additional financing costs will arise against the backdrop of slowing economic (and, hence, tax revenue) growth and, in all likelihood, higher interest costs than has been the case over the past decade or so.

Against this background, it is important to monitor, assess and report on any fiscal 'blind-spots' that could potentially make a challenging situation even more difficult. In this regard, the warning signs regarding taxation receipts from the corporate sector cannot be ignored. As the sovereign debt crisis brutally revealed, building up permanent fiscal obligations on the basis of temporary revenue streams is immensely costly.

For any finance ministry, stress-testing the public finances for 'tail events' is an important part of the fiscal toolkit. This means focusing not just on the central scenario (what is most likely to happen) but on severe, but plausible, outcomes that lie in the tail of the probability distribution. Arguably, this has become even more important in recent years given evidence to suggest that the global economy has become more risk-prone.<sup>3</sup>

The purpose of this document is to highlight the fiscal vulnerabilities stemming from the upward shift in corporate tax receipts since the mid-part of the last decade, part of which could potentially be windfall in nature. It builds on the analysis set out in earlier Departmental publications.<sup>4</sup> At the outset, it is important to stress that international corporate tax policy changes are not assessed here – instead the analysis focuses on documenting the level-shift in corporation tax receipts and on identifying possible solutions to de-risk the public finances from potentially transient revenue streams.

The paper proceeds as follows. Recent corporate tax revenue trends are documented in section 2, highlighting *inter alia* the concentration of receipts in a *relatively* small number of sectors and in an *absolutely* small number of firms. In section 3, a number of approaches to estimate the associated revenue windfalls are outlined. As part of a risk management strategy, section 4 puts forward some suggestions to build-up fiscal buffers. Section 5 concludes.

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<sup>3</sup> See speech by the Minister for Finance, *Budget Perspectives Conference*, ESRI (June 2022), available at: <https://www.gov.ie/en/speech/47cf0-speech-by-minister-for-finance-paschal-donohoe-td-to-central-bank-esri-eib-at-business-finance-investment-recovering-from-the-pandemic-preparing-for-future-challenges/>

<sup>4</sup> See *Addressing Fiscal Vulnerabilities*, Department of Finance (October 2019), available at: <https://assets.gov.ie/180895/84ddd029-9925-4464-829b-8470079f5d9a.pdf>

## Section 2: Corporation tax revenues 2000-2021

### 2.1: introduction

Perhaps the most notable feature of the Irish public finances since the mid-part of the last decade – at least on the revenue side of the equation – has been the sharp increase in corporate taxation (hereafter ‘CT’) receipts. To put this into perspective, it is not unreasonable to assume that by the end of this year, direct tax receipts from the corporate sector will be four times higher than in 2014, i.e. immediately before the level shift began.

These revenue surprises are the main reason for the better-than-anticipated fiscal position in recent years and are also the key factor behind the resilience of the public finances during, and immediately after, the Covid-19 pandemic.

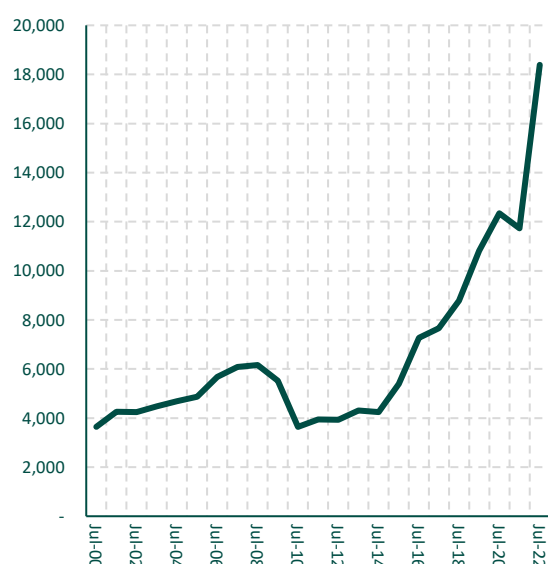
At the same time, however, these dynamics raise questions regarding the sustainability of this revenue stream. At the outset, it is worth stressing that it is not possible to be definitive regarding the sustainability, or otherwise, of these CT trends. That said, it is important to understand the potential exposure of the public finances to any reversal in this revenue stream in order to make an informed judgement about the risks involved.

### 2.2: recent trends

The evolution of CT receipts over the period 2000-2022 is detailed below (**figure 1A**). The data show that CT receipts have increased substantially over time, albeit with significant volatility. Having peaked at €6.7 billion in 2006, receipts declined throughout the financial crisis (2008-2012), a pattern mirrored in other tax headings. Even as the economy recovered, receipts remained relatively low, averaging €4 billion a year, or just over 11 per cent of total receipts. An important explanatory factor was that, in common with most jurisdictions, the Irish corporate tax code recognises trading losses incurred in the calculation of taxable profits. Corporate tax revenues therefore recover when a return to profitability recoups the losses incurred during the downturn.

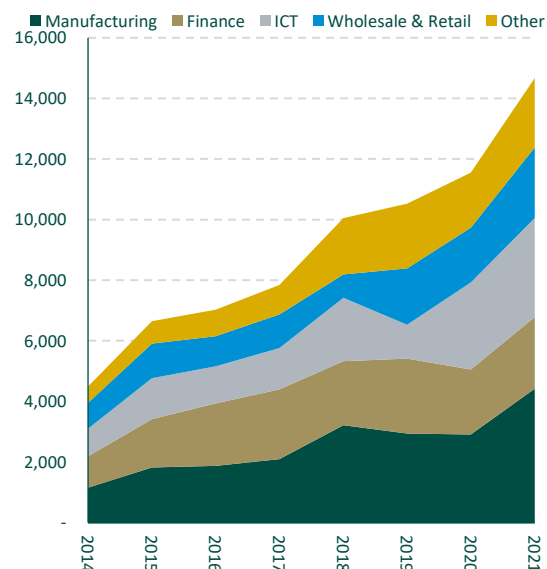
**Figure 1: Corporation tax revenue**

A: 12-month rolling sum of net receipts, € millions



Source: Department of Finance.

B: receipts by largest paying sectors, € millions



Source: Revenue Commissioners.

By the mid-part of the decade, most of these crisis-induced losses had been recovered, with the result that an increasing number of firms began to incur a corporate tax liability. More important, however, was the sharp increase in corporate profitability from 2015 onwards, which contributed to a rapid

expansion in the corporate tax-take. This was especially noticeable in the information and communications technology, pharma manufacturing and financial sectors (**figure 1B**).

Receipts have remained on a steep upward trajectory since 2015, reaching €15.3 billion last year, an increase of €8.5 billion (123 per cent) relative to 2015. As such, corporation tax revenue made up over 22 per cent of overall tax revenue last year.

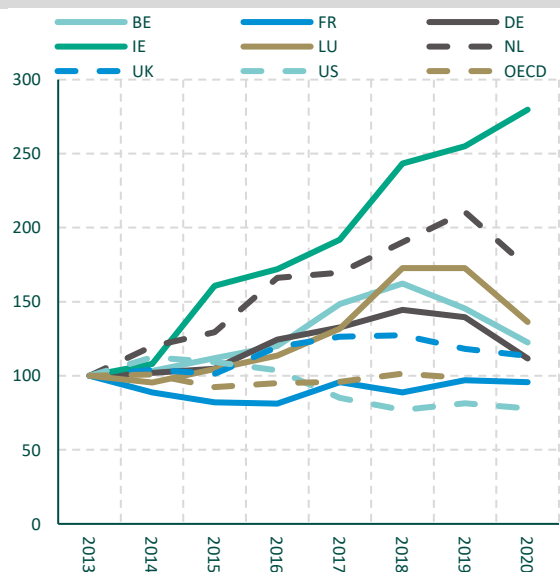
Preliminary indications suggest receipts of around €20 billion this year. This would mean an increase of €13 billion (191 per cent) since 2015; it would also mean that around €1 in every €4 of tax collected would arise directly from the corporate sector.

In terms of cross-country comparisons, Ireland's CT receipts have expanded at an accelerated rate (**figure 2A**). While the OECD average<sup>5</sup> has remained broadly stable between 2013 and 2020, CT receipts in Ireland increased by 180 per cent over the same period. It should be acknowledged that these increased revenues have taken place at a time of significant structural change to both the Irish and international tax systems. A global project to address 'Base Erosion and Profit Shifting' (BEPS) commenced in 2012 and has led to significant domestic, international and multi-lateral changes to corporate tax systems. This has resulted in a permanent re-structuring of MNEs, and an 'onshoring' of profits to jurisdictions around the world, including Ireland.

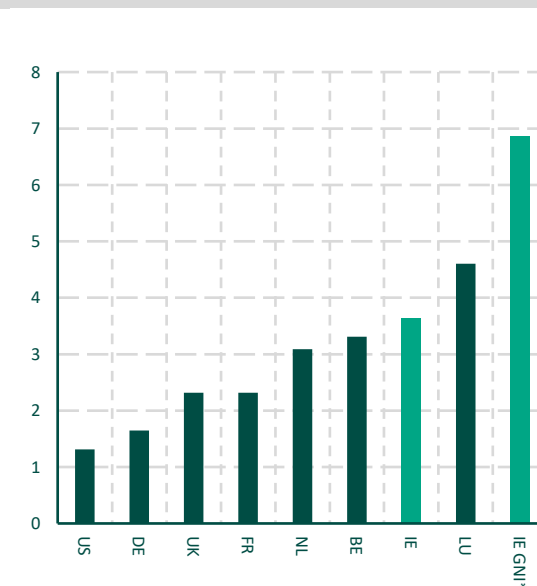
Furthermore, and notwithstanding restrictions on economic activity put in place during the pandemic, CT receipts continued to expand over this period in Ireland. This is in contrast to elsewhere, where CT receipts declined.

**Figure 2: International corporation tax comparisons (vs selection of OECD countries)**

A: corporation tax receipts – 2013 = 100



B: CT as a share of national income, per cent



Source: OECD.

Note: All countries 2020, except for Ireland which are 2021 data.  
Source: Department of Finance and OECD.

As a share of GNI\*, Ireland has by far the largest level of revenues from this source (**figure 2B**). When expressed as a share of GDP, the level of CT receipts is much closer to other OECD countries, reflecting the impact of MNEs on the Irish data.

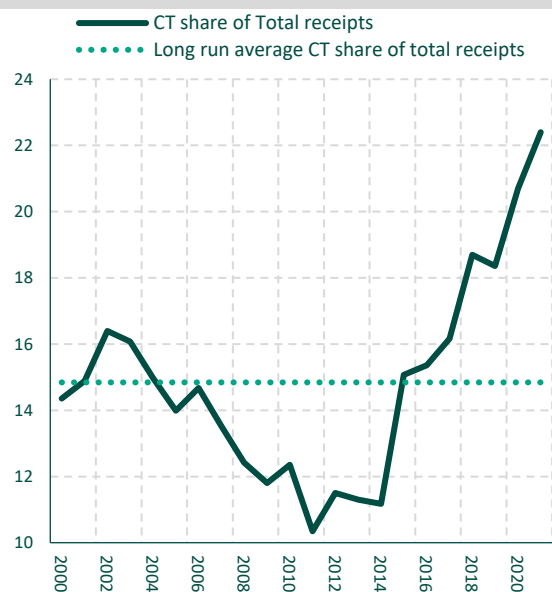
<sup>5</sup> OECD average only available up until 2019. OECD average CT receipts have remained broadly stable but as evident in the graph, a number of Member States have also seen increases in CT receipts, albeit significantly below the growth recorded in Ireland.

### 2.3: sustainability of receipts

The increase in CT receipts has greatly exceeded the growth rate of other taxation streams, with the result that the share of total tax revenue accounted for by direct tax payments from the corporate sector has increased substantially over time. Historically – that is the long-run average between 2000-2021 – CT receipts have averaged just under 15 per cent of total tax receipts, albeit with significant variance. Last year, however, the share of CT receipts reached over 22 per cent, the highest share ever, and over 10 percentage points higher than a decade ago (**figure 3A**).

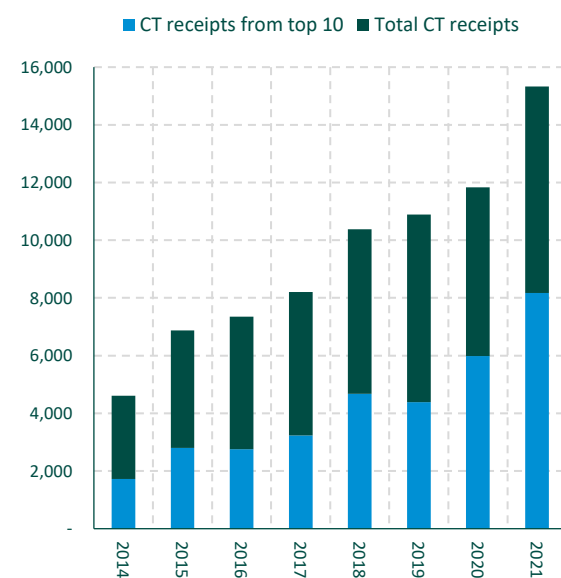
**Figure 3: Corporation tax receipts concentration**

A: CT receipts as a share of total tax receipts



Source: Department of Finance.

B: CT receipts from top ten largest payers, millions



Source: Revenue Commissioners.

A related issue is the well documented concentration of receipts within a small subset of firms. Last year, around €8 billion of net CT receipts were paid by the ten largest payers. This means that just ten companies accounted for more than half of net CT receipts last year (53 per cent).<sup>6</sup> This share has increased from roughly a third of CT receipts at the start of the last decade (**figure 3B**). As a result, firm-specific shocks to profitability present a significant risk to the Government's overall revenue stream (**Box 1**).

It is worth highlighting that the set of top ten paying firms is not static (**figure 4A**), with the composition of the top ten payers changing over time. For instance, while the set of top ten payers in 2021 paid 53 per cent of total receipts last year (€8 billion), those same ten firms paid only 33 per cent (€3.9 billion) of net CT receipts a year earlier. Similarly, the top ten payers in 2019 (40 per cent) saw a notable fall in their weight in 2020 (32 per cent) before increasing again last year (45 per cent). While the changing composition of the top payers indicates that the concentration is at least not limited to just ten firms, it also points to the volatility in payments from individual firms on a year-to-year basis.

This volatility presents challenges in assessing the overall sustainability of Ireland's CT receipts, given that changes in the operations of a small number of foreign-owned multinational firms can have a significant bearing on the quantum of CT receipts. Data from the Central Statistics Office show that

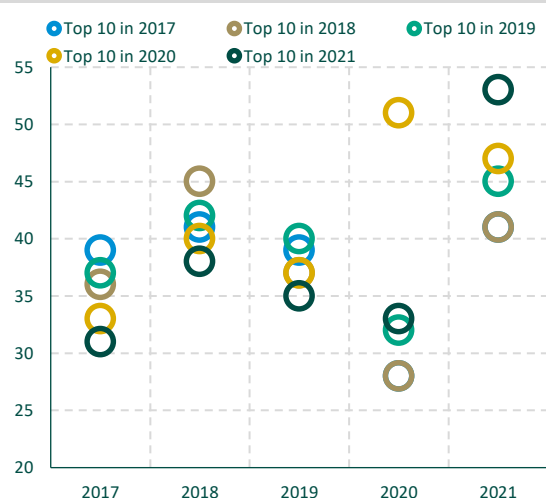
<sup>6</sup> See *Corporation Tax: 2021 Payment and 2020 Returns*, Revenue Commissioners (April 2022), available at: <https://revenue.ie/en/corporate/documents/research/ct-analysis-2022.pdf>

the profitability of large, foreign-owned firms increased by over 70 per cent – from €110 billion to €189 billion – over the 2016-2020 period,<sup>7</sup> with the foreign-owned multinational sector (**figure 4B**) accounting for by far the largest portion of receipts (around 80 per cent). Whatsoever, this share has increased in recent years, more than doubling since 2013.

The largest share comes from the manufacturing sector, which is dominated by the pharmaceutical sub-sector, accounting for around 30 per cent of receipts. This is followed by the ICT and the financial sectors. Given the developments within international tax policy discussions at OECD level, the prevalence of large foreign-owned firms within the CT system in Ireland creates further exposure to any major changes in global tax rules.

**Figure 4: Sources of corporation tax**

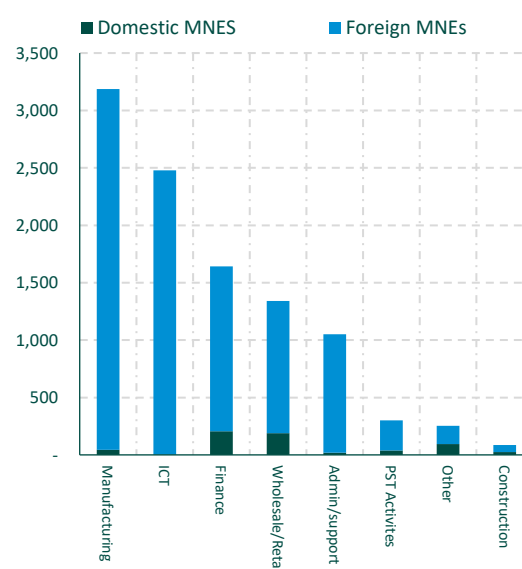
A: share of receipts from top ten payers, per cent



Note: Each marker shows the share of CT receipts paid by the top ten CT payers in a defined year over time.

Source: Revenue and Department of Finance.

B: tax receipts by nationality, € millions



Note: Amount of tax liable in 2020.

Source: Revenue Commissioners and Department of Finance.

Finally, it is also worth noting that while CT receipts from medium-sized enterprises and smaller businesses fell significantly in 2020 (by 25 per cent and 40 per cent respectively) in the midst of the pandemic, receipts from large corporates increased by 18 per cent.<sup>8</sup>

<sup>7</sup> See *Institutional Sector Accounts Non-Financial and Financial 2020*, Central Statistics Office (November 2021), available at:

<https://www.cso.ie/en/releasesandpublications/ep/p-isaff/institutionalsectoraccountsnon-financialandfinancial2020/st/>

<sup>8</sup> See *Corporation Tax: 2020 Payments and 2019 Returns*, Revenue Commissioners (2021) available at:

<https://www.revenue.ie/en/corporate/documents/research/ct-analysis-2021.pdf>.

2021 saw a significant recovery in CT payments from small- and medium-sized enterprises relative to 2020 (up 45 per cent and 78 per cent respectively).

## Box 1: Vulnerability to changes in business models and shifting consumer patterns

A notable feature of the global economy over the past decade or so has been the emergence and growth of so-called ‘superstar’ firms.<sup>^</sup> With some of these locating in Ireland, firm-specific volatility can play an outsized role in overall economic activity. One recent domestic example is that of the ‘patent cliff’ in pharmaceutical sector in 2012.<sup>^^</sup>

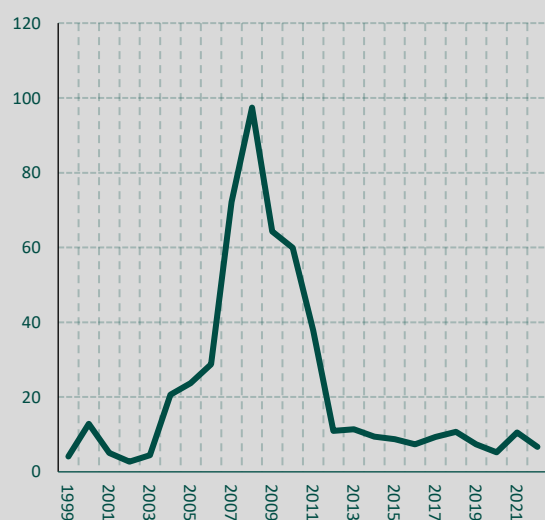
From a public finances perspective, these firms pay a large share of both the total corporate tax bill and the total tax bill. The question arises as to the exposure of the public finances to a specific firm or sub-sector.

‘Churn’ is another notable feature of global economic activity over the past decade, especially in the ICT sector which continues to constantly innovate and adapt. The pace at which technology is changing means that some firms or products may seem viable today but could be redundant in the near-future.

For example, once at the cutting edge of technology, *Blackberry* saw its worldwide market-share fall from 21 per cent in 2009 to 0 per cent by 2016 in the face of competition from other mobile devices.<sup>^^^</sup> Indeed, earlier this year, *Blackberry* ended support for its smartphone systems, essentially rendering their smartphone products redundant. The fall in the popularity of its products can be seen in the collapse of the firm’s daily share price from highs of \$150 per share in 2008 to below \$6 by July 2022 (figure 5A).

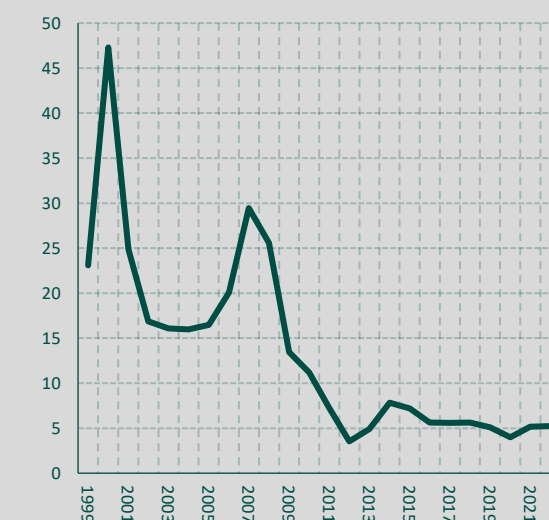
Figure 5: Impact of changing technologies

A: Blackberry share price, \$ USD



Note: annual average of share price.  
Source: Wall Street Journal.

B: Nokia share price, \$ USD



Note: shows annual average of share price.  
Source: Wall Street Journal.

The inter-dependence between a small country’s GDP and large ‘superstar’ firms is especially evident in the case of Finland and *Nokia*. *Nokia*, for instance, had a significant impact on Finnish GDP for more than 15 years (Ali-Yrkkö, 2010). In 1995, *Nokia*’s share of Finnish GDP was only 1 percent, but by 2000, this share had quadrupled to 4 percent. Indeed, it estimated that *Nokia* was responsible for almost half of the total GDP growth in Finland in 2000.<sup>^^^^</sup>

However, *Nokia*’s market share<sup>^^^^</sup> and share price (figure 5B) collapsed in the face of new competition and by 2009, the firm’s share of Finnish GDP fell to 1.6 per cent.

Such examples highlight the risks involved with overreliance on particular sector or a small number of firms.

In summary, the ever-evolving nature of technological development inevitably means that some technologies (and, hence, some firms) are unlikely to be around in a few years’ time (and replaced by others). From a public finance perspective, this means that future tax revenue streams from some of these firms and sectors cannot be guaranteed.

<sup>^</sup> Autor, D, et al. (2019), *The Fall of the Labor Share and the Rise of Superstar Firms*. Available at: <https://economics.mit.edu/files/12979>

<sup>^^</sup> Enright S. and M. Dalton (2013), *The Impact of the Patent Cliff on Pharma-Chem Output in Ireland*, available at: <https://www.gov.ie/en/publication/f18dac-the-impact-of-the-patent-cliff-on-pharma-chem-output-in-ireland/>

<sup>^^^</sup> *Business Insider*, available at: <https://www.businessinsider.com/blackberry-phones-rise-and-fall-chart-2017-2>

<sup>^^^^</sup> Ali-Yrkkö (2010), *Nokia and Finland in a Sea of Change* available at: <https://www.etla.fi/wp-content/uploads/2012/09/B244.pdf>

<sup>^^^^^</sup> According to Gartner market research, *Nokia*’s smartphone market share fell from 49 per cent in 2007 to just 3 per cent by 2013.

## 2.4: income tax

Income tax (IT) is the single most important revenue stream for the Exchequer, accounting for two-fifths of all receipts last year. These revenue streams are also a source of vulnerability for the public finances namely via:

- > the concentration of receipts among a relatively small set of taxpayers, and
- > the relationship between IT and CT receipts.

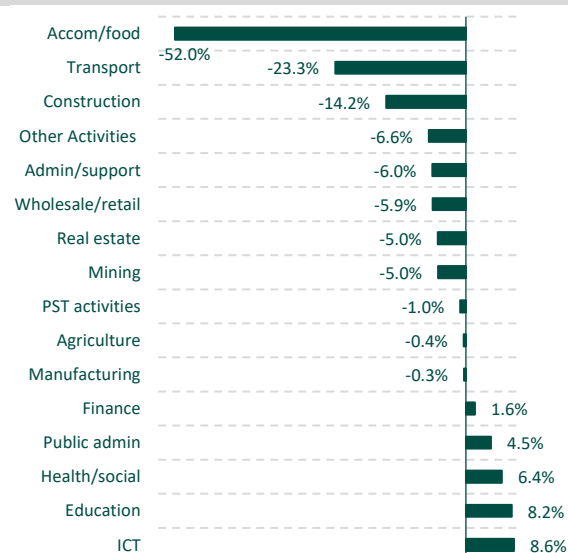
While there has been extensive commentary on the risks associated with CT receipts, IT receipts may also present a source of vulnerability.

### 2.4.1: concentration of income tax receipts among a relatively small subset of the workforce

The concentrated nature of IT receipts is apparent from the asymmetric impact of the Covid-19 pandemic. Despite the restrictions introduced, the IT base (the national wage bill) proved relatively resilient, only declining by 1.3 per cent in 2020. Last year saw a significant increase in IT receipts, with receipts increasing at an annual rate of 18 per cent.

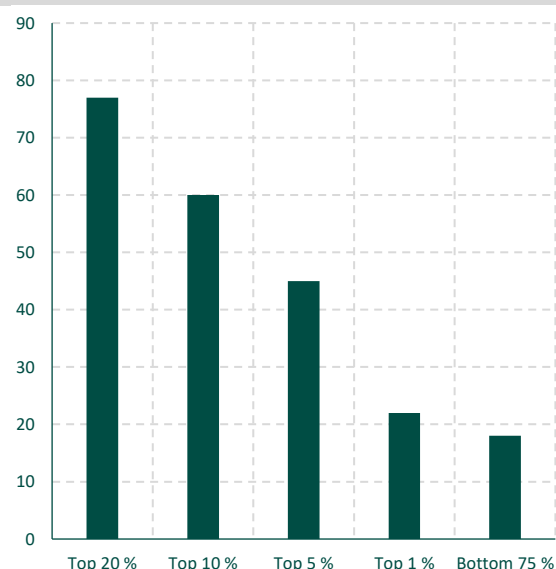
**Figure 6: Breakdown of income tax receipts**

A: change in income tax receipts 2019-2020, per cent



Source: Revenue Commissioners.

B: distribution of income tax contributions in 2022



Note: Shows projected cumulative burden of income tax and USC in 2022. Source: Department of Finance Tax Strategy Group.

Due to the nature of the restrictions introduced, those in public-facing jobs, which disproportionately consists of those on lower wages, were impacted more severely (**figure 6A**). As such, despite the impact of the pandemic on the labour market, the progressivity of the Irish income tax system, saw receipts largely insulated, as higher earners had a greater ability to adapt to the working from home environment, therefore maintaining their income. While this progressivity has helped to protect the public finances throughout the pandemic, it does contribute to a more concentrated income tax system.

Moreover, IT receipts are also dominated by a relatively small share of high paying tax payers (**figure 6B**). In 2022 (latest available projections), the top 10 per cent of income earners pay 60 per cent of total IT, while the top 1 per cent account for 22 per cent.

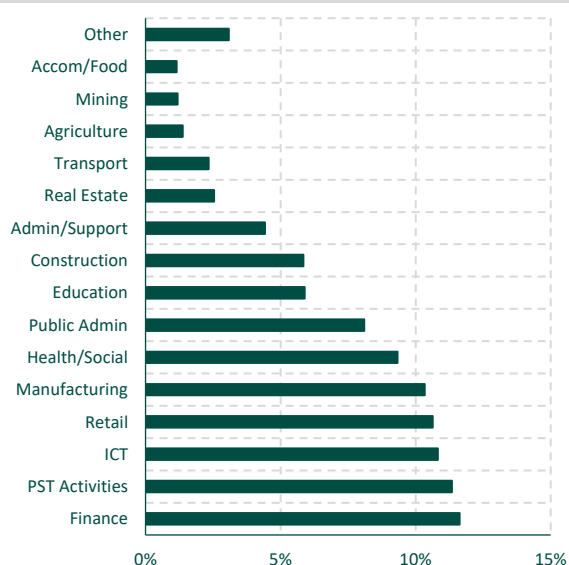
### 2.4.2: relationship with corporate tax receipts

IT receipts show that, similar to the trend observed in CT receipts, there is a high level of concentration within certain sectors (**figure 7A**). The top five sectors for IT receipts, (namely ICT, finance, manufacturing, professional and scientific activities, retail) make up over 50 per cent of overall income tax receipts. Nearly all sectors have experienced income growth between 2019 and 2021; for instance, average yearly pay grew by 16 per cent in the ICT sector over this two-year period, with 17 per cent growth recorded in the professional and scientific activities sector.

Additionally, the foreign-owned sector plays a significant role in IT revenues. Around 60 per cent of IT receipts come from employees of the corporate sector, with around half of this sourced from foreign-owned multinational corporations. In terms of the five highest paying sectors, receipts from foreign owned multinationals dominate (**figure 7B**).

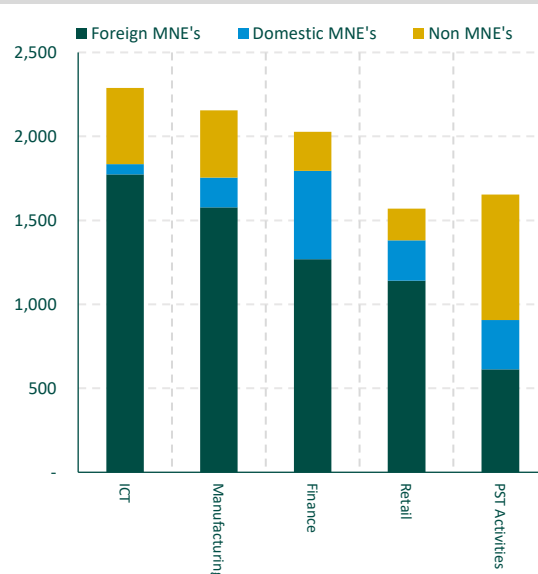
**Figure 7: Breakdown of income tax receipts by sector in 2020**

A: income tax receipts by sector, per cent of income tax



Note: based on receipts from all income tax payers. Source: Revenue Commissioners.

B: income tax payers by nationality, € millions



Note: Based on firm liabilities data. Source: Revenue Commissioners.

Importantly, the five sectors which account for the largest share of IT receipts, also account for around 85 per cent of CT receipts. Any shock to the activity in these sectors would, therefore, not only affect CT receipts but also spill over to IT receipts. This highlights the vulnerability of the public finances to the activities of a small number of multinational-denominated sectors.

In summary, IT receipts are also concentrated within a number of sectors dominated by foreign-owned multinationals and the highest earners within those sectors.

### 2.5: summary

The sharp increase in CT receipts since the mid-part of the last decade has been largely unaffected by the Covid-19 pandemic, with some sectors even benefitting. Indeed, receipts from large corporates increased in 2020, in the midst of the pandemic, while receipts from small- and medium- sized firms fell at the same time.

The vertiginous rise in receipts from the multi-national sector has raised concerns regarding its long-term sustainability and whether these revenues are windfall in nature. The well-documented concentration of large payers, compounds the risk to the public finances as the overall budgetary position has become increasingly exposed to a change in activity in a very small number of multinational firms.

## Section 3: Estimating ‘windfall’ corporation tax receipts

### 3.1: introduction

Given the high level of geopolitical uncertainty, as well as ongoing developments in international tax policy, a shock to the corporate tax base remains a possibility. Moreover, a sectoral shock that impacted corporate profitability would also have significant implications for CT receipts.

From a fiscal sustainability perspective, the level-shift in CT revenue and, additionally, the highly concentrated nature of these receipts, highlight the risk of relying on potentially windfall receipts to fund permanently increasing public expenditure (or financing reductions in taxation). The Department<sup>9</sup> and others have highlighted this exposure, and have warned against increasing expenditure on the basis of receipts that could be transient in nature (**Box 3**). Ireland’s recent history is instructive regarding the potential impact of such risks (**Box 2**).

Given that it is not possible to be definitive regarding the sustainability of CT receipts, it is important to undertake scenario analysis to assess the risks. In particular, it is important to try to quantify the level of ‘windfall’ receipts, i.e. the amount that cannot be explained by underlying drivers and, therefore, may be more vulnerable to a shock.

### 3.2: scenario analysis

While it is not possible to be definitive regarding the sustainability of these receipts, this section sets out a number of different approaches to estimating ‘windfall’ CT receipts. There is, undoubtedly, a range of possible outcomes in relation to corporation tax developments. While it is feasible that the current trend might continue for a number of years, it is also possible that recent trends could reverse abruptly.

It is also important to stress that estimates of ‘windfall’ receipts only include the direct risk to the public finances of any reversal in CT receipts. Depending on the source of the CT shock, other fiscal aggregates could be affected: income tax could be lower if the employment effects were large, VAT receipts could be affected by lower consumption, and unemployment-related expenditure could be higher. The direct budgetary impact, therefore, could be exacerbated by indirect (or second-round) effects. Importantly, the fiscal impact would, in all likelihood, be structural (permanent) as opposed to cyclical in nature and, accordingly, would require policy intervention to address the permanent mismatch between revenue and expenditure.

The following approaches to estimating ‘windfall’ receipts are assessed:

- > the share of CT receipts falls to the long run ‘norm’;
- > CT receipts move in line with GNI\*;
- > CT receipts increase in line with wages in the multinational sector;
- > CT receipts move in line with CT payments from sectors and firms more closely aligned with domestic activity.

While some estimates may be extreme, a key lesson of the global financial crisis (GFC) is that so-called tail-risks, i.e. low probability but high impact shocks, can materialise. From a fiscal sustainability perspective, therefore, it is prudent to assess, and communicate, the impact of different CT revenue scenarios.

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<sup>9</sup> See *Stability Programme Update 2022*, Department of Finance (April 2022), available at: <https://www.gov.ie/en/publication/1ca1d-draft-stability-programme-update-2022/> and *Annual Taxation Report 2021*, Department of Finance (August 2021), available at: <https://assets.gov.ie/7290/750c0d5c58d840c5a811bbb557684966.pdf>

## Box 2: Fiscal sustainability, revenue windfalls and the structural balance

The impact of windfall tax revenues flattering the underlying position was evident in Ireland in the run-up to the sovereign debt crisis and the wider global financial crisis (GFC).

In 2003-2008 economic activity had shifted away from the exporting sectors and was being driven, in no small part, by the tax-rich property market. Capital-related tax revenues, much of which are sourced from the property market, peaked at €7.2 billion in 2006, (**figure 8A**) nearly twice the level of two years earlier.

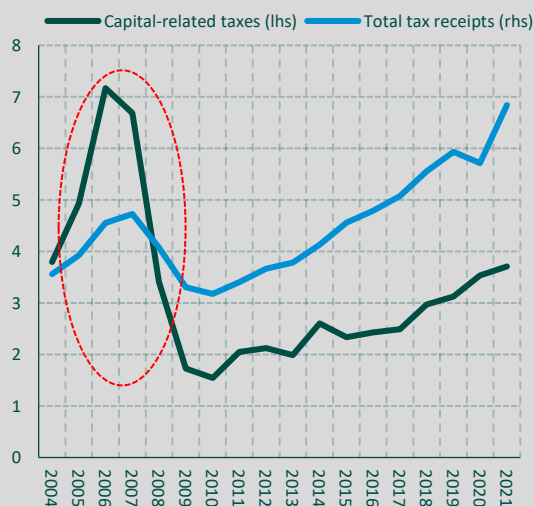
The collapse of the property bubble and the onset of the GFC saw these receipts fall by nearly €6 billion to €1.5 billion in 2010.

Indeed, it is striking that capital-related tax receipts today remain at only half of the levels recorded in 2007 (though part of this can be explained by policy decisions, such as the lower rate on stamp duty on property transactions).

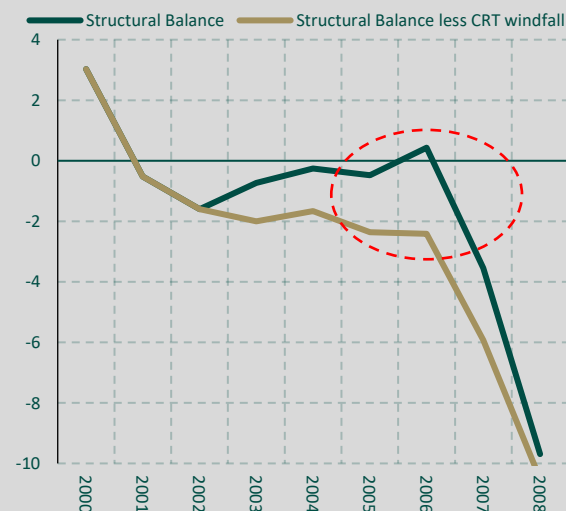
As well as the fall in capital tax receipts, the collapse of the property bubble contaminated other tax revenue streams, given the inter-linkages between the property market and the wider economy. Income tax fell sharply, given that one in eight of those employed at the time was in the construction sector, while VAT receipts were adversely affected by the decline in consumer spending.

**Figure 8: Impact of revenue windfalls**

A: capital tax windfalls pre-GFC, € billions



B: structural balance, per cent of GDP



CRT = capital-related taxes. Assumes the estimate of the output gap is unaffected by change in CRT receipts. Source: Department of Finance.

Source: Department of Finance and OECD

The structural balance is a key fiscal metric – it measures the underlying fiscal position by excluding the impact of the economic cycle on revenue and expenditure, as well as removing the fiscal consequences of one-off factors.

Unsurprisingly, the structural balance also saw a dramatic deterioration between 2007 and 2010. Naturally, the fiscal impact of the wider collapse in economic activity, and a very significant revision in the estimation of the role of the economic cycle, were also contributory factors. The latter can be controlled for by re-calculating the structural balance using the current estimate of the output gap. By simply substituting the average capital tax share in the years prior to the level shift in returns for the share seen in 2010, the growing revenue vulnerability hidden within the structural balance is evident (**figure 8B**).<sup>^^</sup>

In summary, recent economic experience highlights the risks associated with building up permanent expenditure commitments on the basis of temporary revenue streams is potentially hugely costly. Structural deficits must be closed, necessitating Government intervention to bridge any permanent gap between revenue and expenditure.

<sup>^</sup> Estimating Ireland's output gap is difficult as it is a small open economy, with a large amount of foreign-owned multinationals. See: <https://assets.gov.ie/5397/040119115814-205b264d88e64a729720ec988bfe027e.pdf>

<sup>^^</sup> This methodology replaces capital tax receipts between 2003-2008 with the share of capital taxes to GNI\* seen in 2010. This does not take into account changes in tax policy in that time.

### ***scenario 1: share of CT receipts reverts to long-run 'norm'***

The first approach to estimating 'windfall' receipts compares the current share of CT receipts with its long-run average share (2000-2021) of both total tax receipts (**scenario 1A**) and GNI\* (**scenario 1B**); the difference between the current share and the long-run average is considered to be 'windfall'. Last year, CT amounted to over 22 per cent of total tax receipts and 6½ per cent of GNI\*; this compares with 15 and 4 per cent, respectively, over the long-run. On this basis, 'windfall' CT receipts are estimated at around €5-6 billion in 2021, the equivalent of 2¼ -2½ per cent of GNI\* (**figure 9A**).

If a shorter timeframe was used to assess the long-run 'norm' – the historical average over the past decade – windfall receipts would instead be estimated in the range of €4¼-5 billion.

### ***scenario 2: CT receipts move in line with GNI\****

The GNI\* metric is an indicator of the size of the domestic economy in Ireland, in that it removes the globalisation effects that inflate the size of the Irish economy. Accordingly, allowing CT receipts move in line with GNI\* captures the impact on the public finances if receipts were aligned with output in the domestic economy.

To operationalise this approach, actual CT receipts are compared to a scenario where CT increased in line with GNI\* growth from 2014 onwards. This year is chosen as it is prior to the level shift in CT receipts in 2015 and preceded, in general, the significant changes in intellectual property on-shoring that have taken place in recent years.<sup>10</sup> On this basis, windfall CT receipts are estimated at around €8 billion in 2021, 3½ per cent of GNI\* (**figure 9B**). To put this in perspective, total CT receipts from the ICT and manufacturing sector (including pharma) amounted to €7.7 billion in 2021.

This approach is, of course, highly sensitive to the choice of the base year. For instance, if 2015 or 2019 were used instead the estimate of 'windfall' receipts would fall to €5½ and €3¼ billion, respectively.

It is important to note that this is a conservative approach to estimating 'windfall' receipts. In particular, it is not clear why the profits of some of the world's most dynamic multinationals operating in high-tech sectors should increase in line with domestic activity in Ireland. As such, this could be considered an upper bound estimate of 'windfall' CT receipts.

### ***scenario 3: CT receipts from MNCs move in line with wages***

The third approach compares CT receipts with a scenario in which CT payments by foreign multinationals increase in line with wages in the foreign-owned sector from 2014 onwards. This is then added to CT receipts by Irish-owned firms over the same period. The aim of this approach is to provide a more targeted link to underlying domestic activity.

On this basis, 'windfall' receipts in 2021 amounted to almost €6 billion, or around 2½ of GNI\*<sup>11</sup> (**figure 9C**). Once again, this is a relatively conservative approach as profits, in general, have increased more rapidly than wages in most advanced economies in recent decades (with a consequent decline in the labour share of value added.)

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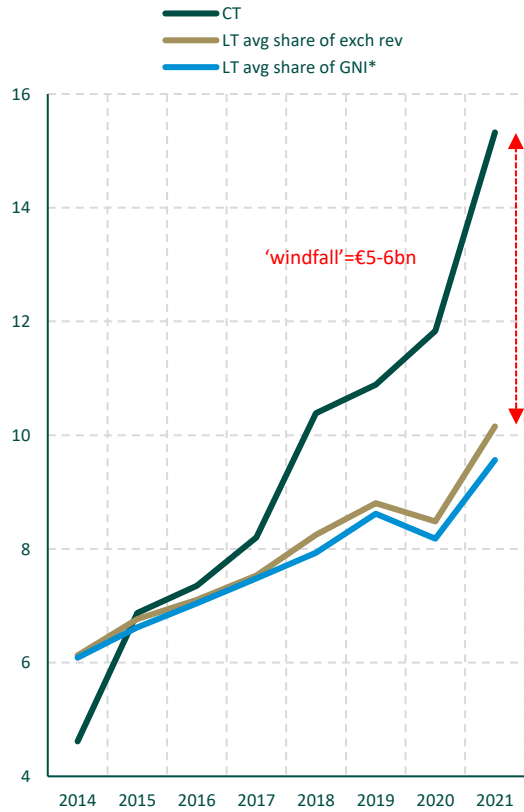
<sup>10</sup> For further discussion on globalisation-related distortions, see *The Balance of Payments in Ireland: Two Decades in EMU*, Department of Finance (2019), available at:

<https://assets.gov.ie/27044/76703b33310041eaa98fa0c6052f3d1f.pdf>

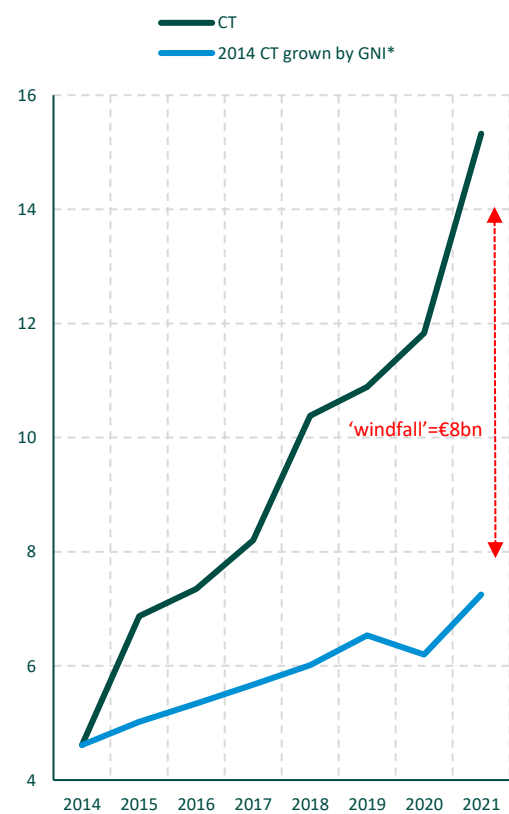
<sup>11</sup> Data on CoE in the foreign-owned sector are not yet available for 2021. For the purpose of this analysis, wages are assumed to grow at a slightly higher rate than the overall economy (12 per cent vs 10 per cent), given the stronger growth in wages in foreign-dominated sectors and in the upper income brackets last year.

**Figure 9: 'Windfall' corporation tax receipts scenarios**

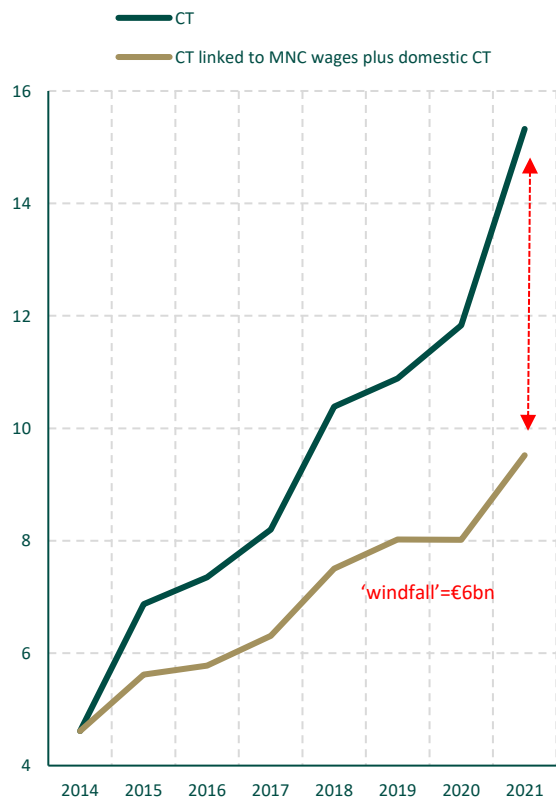
A: scenario 1 – CT returns to long-run average, € bn



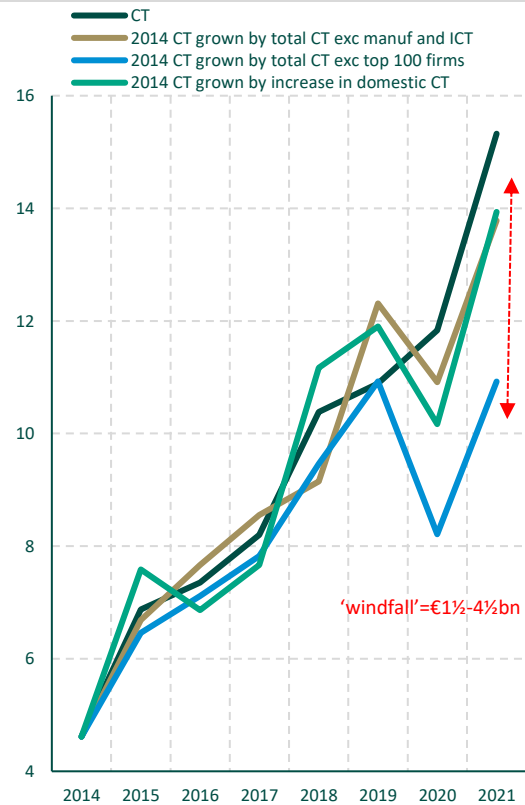
B: scenario 2 – CT grown by GNI\*, € bn



C: scenario 3 – CT linked to MNC wages, € bn



D: scenario 4 – CT grown by underlying CT proxies, € bn



Source: Department of Finance calculations.

Source: Department of Finance calculations.

#### scenario 4: CT receipts move in line with growth in ‘underlying’ CT payments

There are a number of possible different ways to allow CT move in line with estimates of ‘underlying’ CT payments:

- > CT growth excluding payments from the ICT and manufacturing sectors (scenario 4a)<sup>12</sup>;
- > CT growth excluding payments from the top 100 companies (scenario 4b);
- > CT growth excluding payments from foreign-owned multinationals (scenario 4c).

To operationalise this, CT receipts are compared with a scenario where revenue increases in line with the different metrics set out above since 2014. The aim of this approach is to link CT payments to indicators that are more closely related to developments in underlying CT than comprehensive measures of the domestic economy such as GNI\*. As such, this approach adjusts for sectors and firms that are dominated by the multinational sector.

Estimates of ‘windfall’ receipts based on this approach are lower (**figure 9D**), ranging from **€1½-4½ billion**, as the growth (rate) in CT receipts has actually been relatively broad-based at both firm and sectoral level and by ownership over this period. However, the strong growth rate in CT payments from many domestic-oriented firms in the mid-2010s onwards would have been inflated due to the unwinding of losses carried forward during the crisis period. On this basis, estimates based on this approach could be considered a lower bound of potential ‘windfall’ receipts.

#### 3.3: summary

An over-reliance on ‘windfall’ corporation tax revenue poses a clear risk to the stability of the public finances.

Unfortunately, it is not possible to estimate, with any degree of precision, the extent of windfall receipts. Instead, scenario analysis which *inter alia* link CT revenue trends to historical norms and to domestic economic variables is used to assess the extent of any windfalls. Each approach has its own clear limitations and, therefore, an estimate based on the range of different approaches outlined appears more appropriate.

While the range of estimates is very broad, the mid-point is somewhere in the region of **€4-6 billion** last year (**table 1**).<sup>13</sup>

To put this into perspective, it is worth noting that the *Irish Fiscal Advisory Council* has estimated that, of the c. €15 billion in CT collected last year, the windfall could be in the region €6-9 billion.<sup>14</sup>

Finally, it is important to re-iterate that, in practice, the impact could be even larger, given the three-fold increase in the CT receipts since the mid-part of the last decade. Moreover, if there were spill-overs to other tax revenue streams (such as income tax) the impact on the public finances could be severe.

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<sup>12</sup> The estimate of ‘windfall’ receipts is broadly similar if other MNC dominated sectors such as finance and insurance and administrative and support service sectors are also excluded. Estimates are also broadly similar if just the top ten companies are excluded to calculate the growth rate in underlying CT.

<sup>13</sup> Given the strength of CT receipts so far this year, estimates of ‘windfall’ receipts are likely to increase once full-year data become available. However, the negative impact of the BEPS process on CT receipts over the coming years is likely to, at minimum, somewhat offset and potentially more than offset any additional ‘windfall’ that occurs from 2022 onwards.

<sup>14</sup> *Fiscal Assessment Report*, Irish Fiscal Advisory Council (May 2022), available at: <https://www.fiscalcouncil.ie/wp-content/uploads/2022/05/Fiscal-Assessment-Report-May-2022-.pdf>

**Table 1: Estimates of ‘windfall’ corporation tax receipts in 2021**

	€ billions
Growth in domestic CT (scenario 4c)	1.4
Excluding manufacturing and ICT (scenario 4a)	1.5
Excluding manufacturing, ICT, finance and admin	2.4
Excluding top 10 payers	3.9
Excluding top 100 payers (scenario 4b)	4.4
Long-term average share of Exchequer revenue (scenario 1a)	5.2
Long-term average share of GNI* (scenario 1b)	5.8
Foreign wages and domestic CT (scenario 3)	5.8
GNI* (scenario 2)	8.1

Source: Departments of Finance calculations

## Section 4: Reducing fiscal vulnerabilities

### 4.1: introduction

The previous section highlighted the potential for a significant shock to the public finances in the event that ‘windfall’ CT receipts were to collapse. The question then arises as to how to limit the exposure of the public finances to such a shock.

One option is to ring-fence ‘windfall’ receipts, with the monies being transferred to the *Rainy Day Fund* or, alternatively, a fund designed to de-risk the public finances from the costs associated with population ageing.

### 4.2: overview of the Rainy Day Fund

Included as a commitment in the 2016 *Programme for a Partnership Government*, the *Rainy Day Fund* (RDF) was established by the *National Surplus (Reserve Fund for Exceptional Contingencies) Act 2019* (the Act). Creation of the fund formed part of the Government’s policy to stabilise the public finances and to increase the State’s resilience to external economic shocks. The objective of the RDF was to act as a counter-cyclical buffer complementing the operation of the automatic stabilisers in the event of a particularly severe economic downturn.

The RDF was initially capitalised with a €1.5 billion transfer from the *Ireland Strategic Investment Fund* (ISIF). The Act also provides for annual transfers of €500 million from the Exchequer from 2019 to 2023 as well as other transfers as decided on by the Minister, with the support of a resolution by *Dáil Éireann*. The total size of the fund is capped at €8 billion.

The economic impact of the UK’s exit from the European Union and the Covid-19 pandemic in recent years has meant that none of the €500 million statutory transfers or any others have been made.

The Act also set out the criteria for the drawdown of funds from the fund. To do so, the Minister must be satisfied, on reasonable grounds, that the proposal (to drawdown) is necessary in order to:

- > remedy or mitigate the occurrence in the State of exceptional circumstances;
- > prevent potential serious damage to the financial system in the State and ensure the continued stability of that system; or,
- > support major structural reforms which have direct long-term positive budgetary effects.<sup>15</sup>

The global pandemic was a clear case of ‘exceptional circumstances’ and in 2020, in line with the criteria set out in the Act, the Government, as part of *Budget 2021*, approved the drawing down of the entire RDF. This amounted to €1.5 billion at that point and, as a result, the RDF has now been fully liquidated.

It is important to note that under the current provisions of the Act, transferring any amount apart from the specified €500 million in a particular year or making a transfer from 2024 onwards would require a resolution by *Dáil Éireann*.

### 4.3: rationale for use of the Rainy Day Fund

The universal nature of the Covid-19 crisis motivated an unprecedented coordinated response from the EU Member States and institutions. In particular, the creation of the *Recovery and Resilience Facility* (RRF), and the exceptional levels of monetary policy support put in place by the European Central Bank, were designed to ensure that Member States were able to take whatever measures were necessary to battle the virus and support their economies. However, not all challenges and crises

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<sup>15</sup> In line with the EU fiscal framework.

are universal and the tackling of asymmetric economic shocks will naturally fall more heavily on national governments.

In such cases, the ability of fiscal policy to act as a buffer and limit the adverse effects of a severe recession can be significantly constrained given both market pressures and the possibility of pro-cyclical fiscal adjustments being required under fiscal rules. This means that automatic stabilisers are not always able to provide sufficient support to the economy during recessions. A well-functioning RDF can mitigate this risk by ensuring funds are available to government to be drawn down in times of economic distress in order to provide counter-cyclical support to the economy.

#### 4.4: fund linked to fiscal challenges related to population ageing

Given the significant fiscal challenge posed by population ageing (**Box 4**), there is a strong case for using ‘windfall’ CT receipts to make provisions for the sustainability risks facing the State Pension system.<sup>16</sup> The use of a long-term fund similar to that previously seen with the National Pension Reserve Fund (NPRF) in addition to necessary structural reforms could help mitigate against the significant fiscal costs associated with population ageing.

In the context of increasing State Pension costs due to population ageing, the Commission on Pensions put forward two broad approaches to address fiscal sustainability challenges, namely moderating expenditure (increases in the State Pension Age) and increasing Social Insurance Fund (SIF) revenue (increases in PRSI contribution rates by employees and employers).<sup>17</sup>

While funds in the NPRF were drawn-down during the global economic crisis under emergency circumstances (**Box 5**), creating a new forward-looking fund with an objective similar to that of the NPRF<sup>18</sup> would see current ‘windfalls’ help to protect against the future risks to the sustainability of the State Pension system. Indeed, such an approach has been advocated for by the *Irish Fiscal Advisory Council* as a way of reducing reliance on potentially transient forms of income at present while mitigating against fiscal challenges that will present themselves over the coming decades.<sup>19</sup>

As the NPRF is now dissolved, a new fund would have to be established and seeded. This process could be started by transferring windfall CT receipts, once the RDF has reached its cap of €8 billion. Alternatively, transfers could be split between the funds even before the cap in the RDF was reached, once the fund was active.

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<sup>16</sup> For more details on the sustainability challenges facing the State Pension system in Ireland see the Department of Finance’s submission to the Commission on Pensions, available at: <https://www.gov.ie/en/publication/c199e-department-of-finance-submission-to-the-commission-on-pensions/>

<sup>17</sup> See Final report by Commission on Pensions, (October 2021), available at:

<https://www.gov.ie/en/publication/6cb6d-report-of-the-commission-on-pensions/>

<sup>18</sup> i.e. to safeguard the public finances against the rising costs of State Pensions as a result of population ageing.

<sup>19</sup> See Barnes, S. (2022, June 16), *State must channel corporation tax revenue into pension funds*, available at <https://www.irishtimes.com/opinion/2022/06/16/state-must-channel-corporation-tax-revenue-into-pension-funds/>

### Box 3: Windfall corporation tax receipts – who says what?

The risks associated with becoming overly-reliant on potentially volatile CT windfalls to fund permanent expenditure commitments have been highlighted by several economic institutions. Given this vulnerability, a number of analysts and commentators have suggested ring-fencing a proportion of the potential windfall CT receipts for transfer to the *Rainy Day Fund*. The purpose of this box is to collate the views of key economic institutions.

#### Central Bank of Ireland

In its third quarter (2022) bulletin, the Central Bank (the Bank) argues that using windfall CT receipts to fund higher expenditure growth in excess of current plans would risk adding to existing inflationary pressures in the economy. As such, the Bank recommends resuming payments to the RDF as well as extending its lifespan in order to assist in rebuilding the resilience of the public finances.<sup>^</sup>

Even before the pandemic, Conefrey *et al* assessed the advantages of saving versus spending fiscal windfalls, using the COSMO model. The analysis found that in the case where a windfall revenue is saved, this could improve the public finances, and help the government avoid resorting to pro-cyclical policies in the case of a negative shock. However, if the windfall is used to fund government expenditure in an economy that is working at full capacity, this could drive a loss of competitiveness and decrease output in the traded sector.<sup>^^</sup>

#### Irish Fiscal Advisory Council

The Irish Fiscal Advisory Council (the Council) suggests saving transient CT receipts in the RDF or the NPRF with the aim of avoiding reliance on these revenues.

In addition, the Council recommends the level of risk be demonstrated by showing the effect of these transient revenues on the general government balance by publishing the GGB with and without these revenues.<sup>^^^</sup>

#### International Monetary Fund

In its annual article IV assessment for Ireland, the International Monetary Fund (the IMF) argues that ‘*given the uncertainty and the volatile nature of CT revenues, they should be treated with caution, allocating any windfalls to either the Rainy-Day Fund or to reduce debt*’.<sup>^^^^</sup>

#### European Commission

The European Commission (the Commission) has mentioned Ireland’s RDF on several of occasions. In its *Post-Programme Surveillance Report* (Autumn 2020), the Commission highlighted that the original purpose of the RDF is still merited and advocates setting aside windfall CT receipts as a potential option to address this vulnerability. The Commission also recommended ‘*establish(ing) a tailor-made general government balance that excludes corporate tax windfalls*’.<sup>^^^^^</sup>

#### Economic and Social Research Institute

The Economic and Social Research Institute (the Institute) refers to windfall CT receipts in its 2022 summer quarterly bulletin. The Institute argues that these receipts should not be used to fund permanent expenditure, and instead they should be targeted towards ‘*one-off productivity enhancing investments* or accumulated for future use (such as in a RDF)’.<sup>^^^^^^</sup>

#### OECD

In its *Economic Survey of Ireland* (2020), the OECD refers to the RDF and recommends that the government should commit to transferring CT ‘windfall’ receipts to the fund to help offset future negative shocks.<sup>^^^^^^^</sup>

<sup>^</sup> See Quarterly Bulletin, Central Bank (July 2022), available at:

[https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2022/quarterly-bulletin-q3-2022.pdf?sfvrsn=47cf971d\\_9](https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2022/quarterly-bulletin-q3-2022.pdf?sfvrsn=47cf971d_9)

<sup>^^</sup> See Conefrey, O’Reilly and Walsh (2019), *Fiscal Windfalls: A Model Based Analysis*. Central Bank of Ireland Economic Letter Volume 2019, No.3 available at:

[https://www.centralbank.ie/docs/default-source/publications/economic-letters/vol-2019-no-3-fiscal-windfalls-a-model-based-analysis-\(conefrey-o-reilly-and-walsh\).pdf?sfvrsn=10](https://www.centralbank.ie/docs/default-source/publications/economic-letters/vol-2019-no-3-fiscal-windfalls-a-model-based-analysis-(conefrey-o-reilly-and-walsh).pdf?sfvrsn=10)

<sup>^^^</sup> See *Fiscal Assessment Report*, IFAC (May 2022) *op cit*.

<sup>^^^^</sup> See IMF- Ireland Article IV Consultation Staff Report Press Release, July 2022, available at:

<https://www.imf.org/en/Publications/CR/Issues/2022/07/07/Ireland-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Informational-Annex-520463>

<sup>^^^^^</sup> See: EU Commission, Ireland – Post Programme Surveillance Report Ireland, Autumn 2020, available at:

[https://economy-finance.ec.europa.eu/publications/post-programme-surveillance-report-ireland-autumn-2020\\_en](https://economy-finance.ec.europa.eu/publications/post-programme-surveillance-report-ireland-autumn-2020_en)

<sup>^^^^^^</sup> See ESRI Quarterly Commentary Summer 2022, available at:

<https://www.esri.ie/system/files/publications/QEC2022SUM.pdf>

<sup>^^^^^^^</sup> See OECD Economic Survey: Ireland 2020, available at:

[https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-ireland\\_19990324](https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-ireland_19990324)

#### Box 4: Following the science – assessing the fiscal impact of population ageing

Over the coming decades, population ageing will see marked changes in the demographic profile of the Irish population (figure 10A).

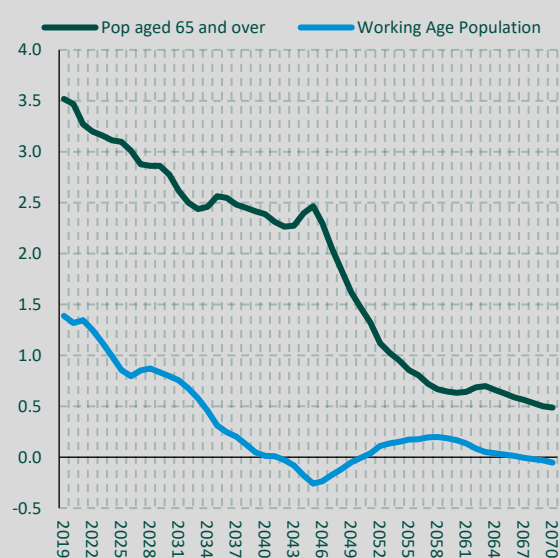
This will have a significant impact on the public finances. Analysis from the Department of Finance suggests age-related expenditure<sup>^</sup> is set to increase by 8 percentage points of GNI\* by the mid-point of the century.<sup>^^</sup> In other words, by 2050 the annual cost of age-related expenditure is set to be approximately €19 billion higher in today's terms than in 2019.<sup>^^^</sup>

At the same time, the productive capacity of the Irish economy is expected to slow significantly due to the impact of ageing on labour supply.

As a result, slower revenue growth is anticipated, making it more difficult for the public finances to absorb the increased demographically sensitive outlays.

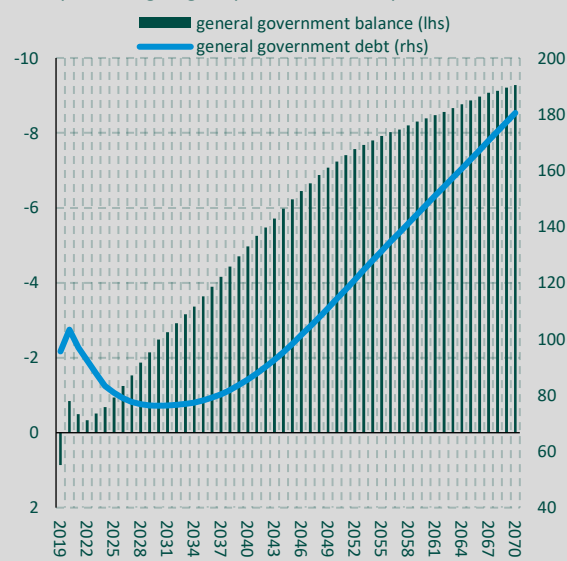
**Figure 10: Impact of population ageing**

**A: Population growth rates, per cent**



Source: Department of Finance

**B: Impact of ageing on public finances, per cent of GNI\***



Note: On a no-change policy basis.

Source: Department of Finance

Simulations carried out by the Department suggest that in a no-policy change hypothetical scenario, the fiscal costs associated with population ageing would add around 20 percentage points to the debt-to-GNI\* ratio by 2050. Beyond 2050, the fiscal position is expected to deteriorate significantly, with the debt-to-GNI\* ratio reaching 180 per cent by 2070 (figure 10B).

As such a no-policy change approach would be unsustainable. Indeed, it is estimated that failure to increase the State Pension Age and keeping it at 66 years of age would cost €50 billion by 2070.<sup>^^^^</sup>

Consequently, in keeping with the theme of this paper, failure to make significant structural reforms to mitigate against the cost of population ageing is a significant fiscal vulnerability. While Ireland's current age structure means impactful reforms can be made, it does not mean reforms can be delayed.

<sup>^</sup> Age-related expenditure includes expenditure on pensions, health care, long-term care and education.

<sup>^^</sup> Within this pension expenditure (State Pension and Public Sector Pension expenditure) is expected to increase by 4.7 percentage points by 2050.

<sup>^^^</sup> In terms of latest estimates of GNI\* in 2021.

<sup>^^^^</sup> See Population Ageing and the Public Finances in Ireland 2021.

#### 4.5: reducing fiscal vulnerabilities – boosting transparency

It is also important to communicate the exposure of the public finances to transient receipts. The headline fiscal balance flatters the underlying budgetary position, similar to the situation that prevailed in 2003-2008 when temporary receipts from the property sector painted an artificially rosy picture of the public accounts.

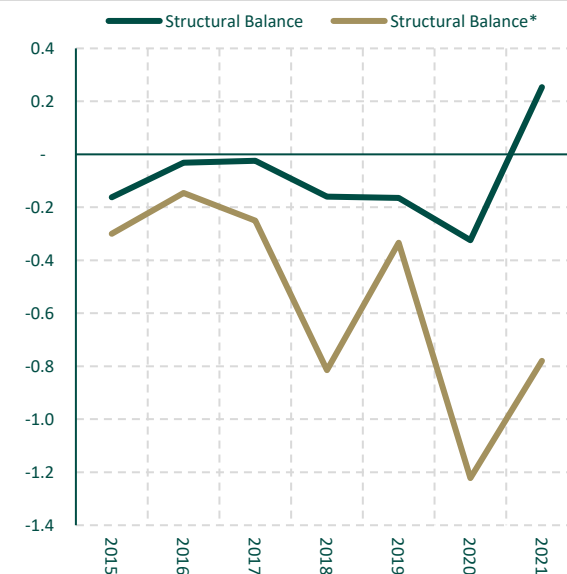
To address this shortcoming, the Department will publish a new measure of the general government balance which excludes these transitory receipts (GGB\*).<sup>20</sup> This measure will be included in the Department's key publications, such as its annual update of the stability programme (spring forecasts, April) and its annual economic and fiscal outlook (autumn forecast, October).

**Figure 11: Estimates of the underlying fiscal position**

**A: general government balance, per cent GNI\***



**B: structural balance, per cent GDP**



Note: Due to the methodology used to estimate the output gap, estimates of the structural balance are produced as a share of GDP. Assumes output gap and related elasticities are unchanged from standard approach taken by the Department.  
Source: Department of Finance calculations.

Source: CSO and Department of Finance calculations.

#### 4.6: summary

The public finances remain vulnerable – Ireland's public debt is amongst the highest in the developed world and the population is set to age rapidly in the years ahead, with major implications for the public finances.

Against this backdrop, there is a strong economic and fiscal case to be made for replenishing the *Rainy Day Fund*. Accumulating a fund of liquid assets would help to reduce the vulnerability of the public finances to transient corporate tax receipts and, if these funds were unused, help mitigate the impact on the public finances of an ageing population in the years to come.

Finally, it is worth stressing that there is near-unanimity among the institutions, domestic and international, that provide economic advice, on the need for some form of a rainy day fund.

<sup>20</sup> This approach has been recommended by the European Commission and the Irish Fiscal Advisory Council.

## Box 5: The National Pension Reserve Fund – a brief history

The Rainy Day Fund was not the first reserve set up by the Irish Government to ring-fence funding for future fiscal challenges. The *National Pension Reserve Fund* (NPRF) was established in 2001 to “reduce and smoothen the Exchequer burden arising from Ireland’s additional pension commitments over a lengthy period”.<sup>^</sup>

The NPRF was seeded with an initial transfer of approximately €6.5 billion from the Exchequer via the contributions from the sale of *Telecom Éireann*. Alongside this, annual transfers from the Exchequer of 1 per cent of GNP were made. Between 2001 and 2009, an average of €2.5 billion, in today’s terms, was made in annual transfers to the Fund (see [Annex 1](#)).<sup>^^</sup> At its peak in 2010, the NPRF held assets to the tune of €22.7 billion (around 17.6 per cent of GNI\* that year) ([figure 11a](#)).

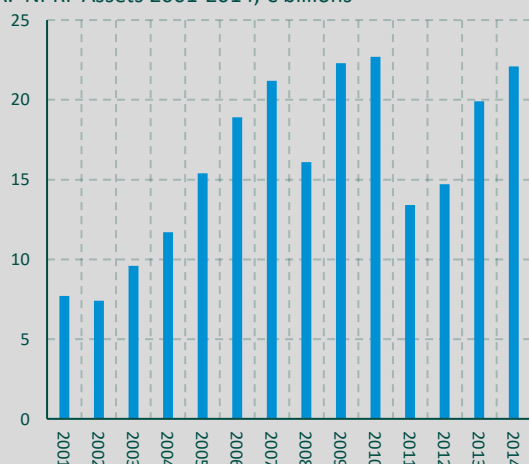
In response to the GFC, the Fund was amended to form two separate portfolios – the *Discretionary Portfolio* (the responsibility of the NPRF Commission) and the *Directed Portfolio* (investments under direction from the Minister for Finance). A total of €20.7bn of the directed portfolio was invested in Allied Irish Bank (AIB) and Bank of Ireland (BoI).

In 2014, the NPRF discretionary portfolio was valued at €7.2 billion. The same year, the *Ireland Strategic Investment Fund* (ISIF), was legally established as a successor to the NPRF. ISIF was established with a different mandate to the NPRF- to invest on a commercial basis to support economic activity and employment in Ireland. All transferable funds that were held within the NPRF were transferred to ISIF.

Investments, including those in AIB and BoI, were also transferred to ISIF and continue to be held under direction from the Minister for Finance. The NPRF commission was dissolved as of 31<sup>st</sup> December 2021 with no assets remaining in the fund.<sup>^^</sup> While the NPRF was not set up as a rainy day fund *per se*, following the extraordinary challenges brought about by the GFC the NPRF was effectively used as one. The experience of the time highlights the importance of having such a fund as a financial safety net, so as to protect the public finances from future shocks.

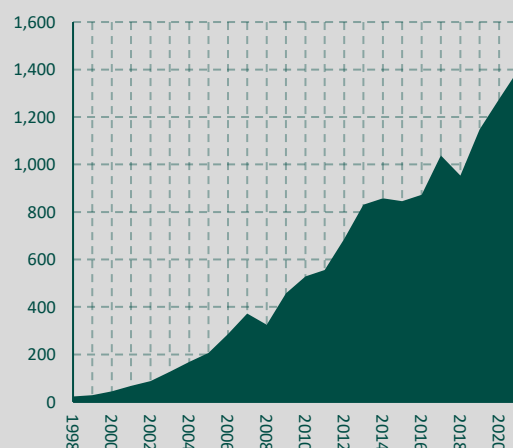
**Figure 12: The development of sovereign wealth funds over time**

**A: NPRF Assets 2001-2014, € billions**



Source: Department of Finance

**B: NGPFG Assets 1998-2021, € billions**



Source: Norges Bank Investment Management

Another example of a reserve fund established with a long-term focus is Norwegian Government Pension Fund Global (NGPFG). The Norwegian government established the NGPFG in the 1990s to manage the windfall revenues generated from the discovery of one of the world’s largest oilfields in the North Sea. Now one of the largest sovereign wealth funds in the world ([figure 11B](#)), the NGPFG is designed to protect against economic challenges. The fund also acts as an intergenerational savings device, tasked with helping to meet future pension liabilities in light of the ageing of the Norwegian population.<sup>^^^</sup>

An agreed fiscal rule is in place to ensure the government does not spend more than the expected return on the fund, to preserve the real value of the fund for future generations.<sup>^^^^</sup> This framework also provides for spending to be increased in economic downturns and decreased in economic upturns, to smooth fluctuations in the economy.

<sup>^</sup> <https://www.ntma.ie/uploads/publication-articles/NPRF-Review-2004.pdf>

<sup>^^</sup> Does not include the prefunding invested in a temporary fund before the NPRF was legally established.

<sup>^^^</sup> <https://isif.ie/uploads/reports/NTMA-Annual-Report-2021.pdf>

<sup>^^^^</sup> See: Wood, O’Sullivan, Goergen, Baric (2017). ‘*The Norwegian Government Pension Fund Global and the Implications of its Activities for Stakeholders*’: <https://doi.org/10.1093/oxfordhb/9780198754800.013.14>

<sup>^^^^^</sup> <https://www.regjeringen.no/en/topics/the-economy/economic-policy/economic-policy/id418083/>

## Section 5: Conclusion

Corporate tax policy in Ireland has been an integral part of industrial policy for decades. The primary policy focus has always been on the generation of quality employment and economic activity in Ireland, rather than a narrow focus on the raising of corporation tax revenues. In recent years, however, the ramping-up of corporate tax receipts has been exceptional – in less than a decade, receipts from this source have increased by 230 per cent.

The analysis set out in this document suggests that there is now compelling evidence to suggest that headline fiscal position flatters the underlying situation.

While it is impossible to be definitive, analysis set out in this paper suggests that around €4-6 billion of last year's receipts cannot be explained by standard domestic economic variables and, as such, may be transient in nature.

The direct impact of a decline in these receipts, coupled with indirect effects (loss of employment taxes, spending taxes) would be a significant 'one-two punch' for the public finances. Prudent economic and fiscal policy would, therefore, see these receipts as 'windfall', or transient, in nature and treated accordingly. Indeed, there is near unanimity among the institutions, domestic and international, that provide economic advice to the Government regarding the need to set aside windfall receipts.

This paper explores some of the ways in which de-stabilising effects on the public finances could be avoided. The optimal approach would be to use some portion of these transient receipts to replenish the *Rainy Day Fund* or, alternatively, to capitalise a fund designed to mitigate against future fiscal challenges.

To enhance transparency, the Department will report a new metric – GGB\* – that strips out the estimated corporate tax windfall in its key publications.

## Annex 1: Annual contributions to the National Pension Reserve Fund

Table A1: total annual NPRF contributions, € millions in today's terms (unless stated)												
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total NPRF contributions
NPRF transfers	5,466	2,533	972	1,035	1,103	1,177	1,320	1,447	1,616	1,690	3,000	21,359
NPRF transfers (as per cent GNI*)	6.8%	2.7%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	1.1%	2.2%	
GNI*	80,717	94,223	103,627	112,825	123,735	132,562	144,136	157,818	165,428	156,420	134,260	
Annual Contributions	15,838	6,287	2,194	2,145	2,085	2,077	2,142	2,144	2,285	2,527	5,226	44,950

Includes pre-funding made to temporary fund before NPRF was established in 2001 (i.e. transfers in 1999 and 2000).

Source: Department of Finance.





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