Tax receipts down & spending up on the back of Covid supports for businesses & weaker corporation tax returns – Donohoe & McGrath

From Department of Finance; Department of Public Expenditure and Reform

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- Today’s Exchequer figures show that tax revenues in October were down 28 per cent, or €1.2 billion on the same month last year;
- October’s tax returns are net of €550 million retained by the Revenue Commissioners to facilitate payments under the Covid Restrictions Support Scheme (CRSS);
- Excluding the CRSS deduction, income tax receipts would have been marginally up on October 2019, continuing the relatively robust performance of income taxes this year;
- Conversely, after excluding the CRSS-related deduction, corporation tax receipts are significantly below those received in October 2019, by just under €600 million.
- Total net voted expenditure to end-October was €53.9 billion. This represents a 25 per cent or €10.7 billion increase on 2019, and is €7.8 billion, or 17 per cent ahead of profile;
- The rise in expenditure reflects increased departmental drawdown in response to the Covid-19 pandemic, particularly in the areas of health and social protection;
- An Exchequer deficit of €11.7 billion was recorded to end-October 2020;
- The Exchequer deficit includes drawdown of €1.5 billion from the Rainy Day Fund.

An Exchequer deficit of €11,681 million was recorded to end-October 2020. This compares to a deficit of €1,697 million in the same period last year. The €9,984 million year-on-year deterioration in the Exchequer balance is primarily driven by increases in voted current and capital expenditure. Cumulative tax receipts of €42,609 million at the end of the period were down by 5.3 per cent or €2,364 million on last year. Receipts-to-date have benefitted from a strong performance in January and February as well as solid income and, on a cumulative basis, corporate tax receipts, which have compensated — to an extent — for sharp declines in other tax heads, notably VAT and excise receipts.

October tax receipts were heavily impacted by two key issues. Firstly, payments will be made under the Covid Restrictions Support Scheme (CRSS) in November. Some €550 million has been held back by the Revenue Commissioners to help pay these cash transfers to businesses, reducing the income tax and corporation tax heads by €275 million each. Secondly, excluding the CRSS-related deduction from corporation tax receipts, returns are still significantly below those received in October 2019. The Department was aware there would be an under-performance in October and this was taken into account in the Department’s projected
outturn for 2020, published at Budget 2021. The shortfall in corporation tax receipts this month underlines the volatility of returns under this tax head.

Total net voted expenditure to end-October was €53,947 million. In year-on-year terms, this was up €10,723 million, or 24.8 per cent on the same period in 2019. The rise in expenditure reflects increased departmental drawdown in response to the Covid-19 pandemic, particularly in relation to the Department of Health and the Department of Employment Affairs and Social Protection.

Commenting on the figures, the Minister for Finance, Paschal Donohoe T.D. said:

‘Today’s Exchequer returns highlight two key issues in relation to the public finances. Firstly, the level of support given to businesses under the Government’s new Covid Restrictions Support Scheme (CRSS) is very significant and is having a material impact on the Exchequer deficit. Despite the cost, it is appropriate that Government steps in to help businesses during this time. Secondly, a more medium-term issue is the unreliability and unsustainability of corporation tax receipts. As I have said many times before, we cannot rely on this revenue stream into the future; a fact that will be reflected in the Department’s medium-term forecasts when published in the spring’.

The Minister for Public Expenditure and Reform, Michael McGrath T.D. said:

‘Today’s figures also show that the Government has continued to direct an unprecedented amount of resources at fighting the pandemic. Spending on our health service is at record levels. So too is the amount of resources aimed at protecting incomes. We will continue to use the resources of the State to protect citizens, business and communities through this crisis. The increased expenditure necessitated by Covid-19 is warranted in view of the exceptional circumstances we face, and allows us, for example, to ensure our schools remain open, that public services continue to be provided and that community and sporting organisations receive vital support’.

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ENDS

Notes to editors:

- The revised forecast for tax revenue was set out in Budget 2021.
- Tax revenue last year amounted to €59.3 billion.
- The April Fiscal Monitor incorporated the revised taxation profiles for 2020.