Press Release

Fiscal Assessment Report — Ireland’s Bounty

Ireland’s next government can expect steady growth and substantial tax receipts. Record employment rates and soaring tax receipts are not expected to unwind soon.

This is good. But a lot will depend on two things. First, what happens corporation tax. Second, how the next government sets its budgets.

Ireland's public finances are being kept in surplus by extraordinary corporation tax receipts. These could well grow further as tax allowances end and the effective rate rises. However, these receipts remain high risk. As few as three companies account for about 40% of them. A hit to even a single firm could lead to substantial falls.

A danger is that budget policy has lost its anchor. Inflation has eased. Yet net spending is growing rapidly. Even with inflation expected to be 2%, expansions are likely to remain high at 8% on average for 2024 and 2025.

The next government might be tempted to divert more corporation tax to spending increases and tax cuts. In an already strong economy, this could mean further overspends, bad value for money, and delays.

The biggest risk is that budgets continue in this vein and exceptional corporation taxes dry up. This would set public debt on a much riskier course. It would be painful to reverse, especially as pressures from an ageing population mount.

Now is the time to plan seriously. The Government should:

1) set out a sustainable rule it will stick to. This can help curb pressures and avoid needless job losses in the next recession.

2) realistically plan for health, housing, and climate challenges. Ireland is already a high spender in health and housing. But it can get better value for its spend. On climate, Ireland can take more actions sooner to avoid heavy penalties later on.

3) treat its exceptional corporation tax receipts more like Norway treats its oil. This means recognising it as a high-risk, finite resource and saving more.

Commenting on the report, Seamus Coffey, the Council’s Chairperson noted:

“Ireland is in a favourable position. But a lot depends on how the next government budgets and how it manages corporation tax. The next government should put in place some guardrails in the form of a rule. This would ensure it doesn’t ramp up ongoing commitments as each budget day approaches. A rule and some realistic plans would help to tackle infrastructure deficits, ageing pressures, and climate needs, while also protecting growth, and limiting future job losses.”