

Synopsis of the winning paper “The Financial Crisis in Ireland and Government Revenues” by Ronan Hickey and Diarmaid Smyth

This paper examines trends in government revenues during and after the financial crisis. On taxation, it highlights the role that strengthening income tax receipts have played in driving the recovery in revenues; income tax was 27 per cent above its 2007 level at the end of last year reflecting a combination of direct policy measures – such as the introduction of the USC – and the strengthening economy. As a result income tax represented 40 per cent of total tax revenue, up from just one quarter at the height of the boom. Relying on stable sources of revenue - such as income tax - rather than cyclically sensitive ones— as was the case during the boom - is desirable from a public finance perspective and reduces a key vulnerability that developed in Ireland in the mid-2000s. Non-tax revenues, meanwhile, have increased sharply since the crisis, partly due to measures introduced by the Government to assist the financial sector. This has included bank guarantee fees, interest revenue and increased Central Bank surplus income, all of which have helped with the achievement of fiscal targets. However, these sources of income can be expected to decline markedly in the years ahead. In net terms the assistance provided by the Government to the financial sector has had a significantly negative impact on the government finances, increasing the deficit and debt levels substantially. While the latter is declining, the high level of public debt remains a key vulnerability for the economy. Accordingly, there would appear to be a strong case that any unexpected gains from non-tax revenues be used to exclusively reduce public debt. Similar arguments could be made in relation to any future income receipts arising from either the IBRC related Special Portfolio and the expanded Asset Purchase Programme.