

# Quarterly Economic Observer: Autumn 2013

NERI launch of QEO Autumn 2013  
September 18th 2013, Buswells Hotel

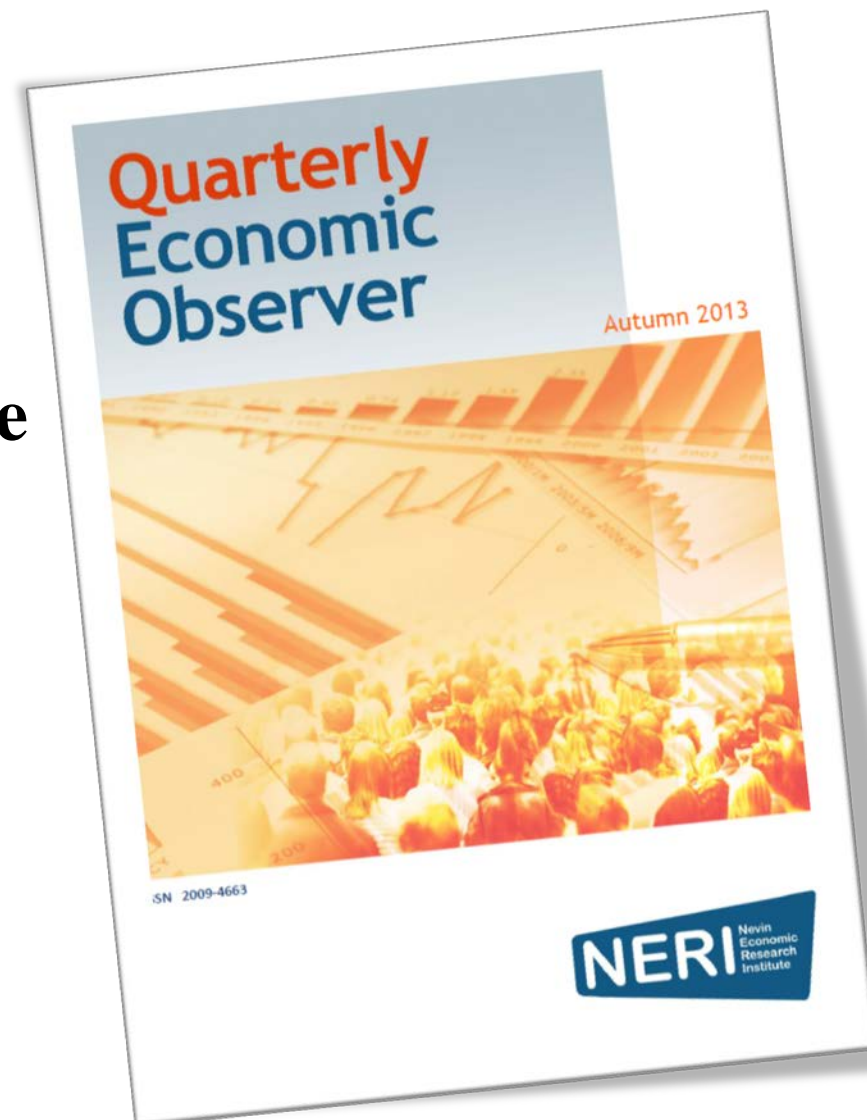
Dr Micheál Collins  
NERI (Nevin Economic Research Institute)  
Dublin  
[mcollins@NERInstitute.net](mailto:mcollins@NERInstitute.net)



*Research for new economic policies*

# Outline

1. QEO Autumn 2013
2. Economic Outlook
3. Budget 2014, Income Taxes and High Earners
4. Other Documents
5. Summary



# 1. QEO Autumn 2013

- Seventh edition of the NERI's QEO
- Three core parts:
  - Review of recent economic trends North and South
  - Economic Outlook North and South
  - Focus section
- Focus on this occasion:
  - Budget 2014 fiscal adjustment
  - Revisit our June 2013 proposals (a better route)
  - Potential of additional income taxation from high earners

## 2. Economic Outlook

- ‘Uncertainty’
  - mixed signals
  - stability, even tentative growth
  - concerns:
    - export growth
    - domestic demand
    - L-T unemployment
    - declining GDP
    - weak investment
  - Outlook given current policies: (but...)



## Table 3.1 Projections of Output, Public Finances and Labour Market (Republic of Ireland) to 2016

	2012 values	2012	2013	2014	2015	2016
<b>National Income</b>		<i>Percentage change over previous year</i>				
Gross Domestic Product	€163.9bn	0.2	1.0	1.2	1.8	3.0
Personal Consumption	€82.6bn	-0.3	-0.4	0.0	0.9	1.7
Investment	€17.4bn	-1.0	0.8	4.1	4.1	4.1
Government Consumption	€25.1bn	-3.7	-1.0	-2.0	-1.5	0.2
Exports	€176.7bn	1.6	2.0	2.9	3.0	3.5
Imports	€136.9bn	0.0	1.0	2.4	2.5	2.6
<b>Government Finances</b>		<i>Percentage of GDP</i>				
General Government Deficit		-7.6	-6.8	-4.6	-3.1	-2.4
Gross Debt	€192.4bn	117.6	123.6	122.3	120.9	116.0
<b>Labour Force</b>		<i>Percentage change over previous year</i>				
Employment	1,837,800	-0.6	1.4	1.7	2.2	2.8
		<i>Percentage of Labour Force</i>				
Unemployment	316,000	14.7	13.8	13.3	12.8	12.1

**Notes:** 2012 data from CSO National Accounts and Eurostat Labour Force Survey. 2013-2016 data are NERI projections.

## Table 3.1 Projections of Output, Public Finances and Labour Market (Republic of Ireland) to 2016

	2012 values	2012	2013	2014	2015	2016
<b>National Income</b>		<i>Percentage change over previous year</i>				
Gross Domestic Product	€163.9bn	0.2	1.0	1.2	1.8	3.0
Personal Consumption	€82.6bn	-0.3	-0.4	0.0	0.9	1.7
Investment	€17.4bn	-1.0	0.8	4.1	4.1	4.1
Government Consumption	€25.1bn	-3.7	-1.0	-2.0	-1.5	0.2
Exports	€176.7bn	1.6	2.0	2.9	3.0	3.5
Imports	€136.9bn	0.0	1.0	2.4	2.5	2.6
<b>Government Finances</b>		<i>Percentage of GDP</i>				
General Government Deficit		-7.6	-6.8	-4.6	-3.1	-2.4
Gross Debt	€192.4bn	117.6	123.6	122.3	120.9	116.0
<b>Labour Force</b>		<i>Percentage change over previous year</i>				
Employment	1,837,800	-0.6	1.4	1.7	2.2	2.8
		<i>Percentage of Labour Force</i>				
Unemployment	316,000	14.7	13.8	13.3	12.8	12.1

**Notes:** 2012 data from CSO National Accounts and Eurostat Labour Force Survey. 2013-2016 data are NERI projections.

### Table 3.1 Projections of Output, Public Finances and Labour Market (Republic of Ireland) to 2016

	2012 values	2012	2013	2014	2015	2016
<b>National Income</b>		<i>Percentage change over previous year</i>				
Gross Domestic Product	€163.9bn	0.2	1.0	1.2	1.8	3.0
Personal Consumption	€82.6bn	-0.3	-0.4	0.0	0.9	1.7
Investment	€17.4bn	-1.0	0.8	4.1	4.1	4.1
Government Consumption	€25.1bn	-3.7	-1.0	-2.0	-1.5	0.2
Exports	€176.7bn	1.6	2.0	2.9	3.0	3.5
Imports	€136.9bn	0.0	1.0	2.4	2.5	2.6
<b>Government Finances</b>		<i>Percentage of GDP</i>				
General Government Deficit		-7.6	-6.8	-4.6	-3.1	-2.4
Gross Debt	€192.4bn	117.6	123.6	122.3	120.9	116.0
<b>Labour Force</b>		<i>Percentage change over previous year</i>				
Employment	1,837,800	-0.6	1.4	1.7	2.2	2.8
		<i>Percentage of Labour Force</i>				
Unemployment	316,000	14.7	13.8	13.3	12.8	12.1

**Notes:** 2012 data from CSO National Accounts and Eurostat Labour Force Survey. 2013-2016 data are NERI projections.

### Table 3.1 Projections of Output, Public Finances and Labour Market (Republic of Ireland) to 2016

	2012 values	2012	2013	2014	2015	2016
<b>National Income</b>		<i>Percentage change over previous year</i>				
Gross Domestic Product	€163.9bn	0.2	1.0	1.2	1.8	3.0
Personal Consumption	€82.6bn	-0.3	-0.4	0.0	0.9	1.7
Investment	€17.4bn	-1.0	0.8	4.1	4.1	4.1
Government Consumption	€25.1bn	-3.7	-1.0	-2.0	-1.5	0.2
Exports	€176.7bn	1.6	2.0	2.9	3.0	3.5
Imports	€136.9bn	0.0	1.0	2.4	2.5	2.6
<b>Government Finances</b>		<i>Percentage of GDP</i>				
General Government Deficit		-7.6	-6.8	-4.6	-3.1	-2.4
Gross Debt	€192.4bn	117.6	123.6	122.3	120.9	116.0
<b>Labour Force</b>		<i>Percentage change over previous year</i>				
Employment	1,837,800	-0.6	1.4	1.7	2.2	2.8
Unemployment	316,000	14.7	13.8	13.3	12.8	12.1

**Notes:** 2012 data from CSO National Accounts and Eurostat Labour Force Survey. 2013-2016 data are NERI projections.



### Table 3.1 Projections of Output, Public Finances and Labour Market (Republic of Ireland) to 2016

	2012 values	2012	2013	2014	2015	2016
<b>National Income</b>		<i>Percentage change over previous year</i>				
Gross Domestic Product	€163.9bn	0.2	1.0	1.2	1.8	3.0
Personal Consumption	€82.6bn	-0.3	-0.4	0.0	0.9	1.7
Investment	€17.4bn	-1.0	0.8	4.1	4.1	4.1
Government Consumption	€25.1bn	-3.7	-1.0	-2.0	-1.5	0.2
Exports	€176.7bn	1.6	2.0	2.9	3.0	3.5
Imports	€136.9bn	0.0	1.0	2.4	2.5	2.6
<b>Government Finances</b>		<i>Percentage of GDP</i>				
General Government Deficit		-7.6	-6.8	-4.6	-3.1	-2.4
Gross Debt	€192.4bn	117.6	123.6	122.3	120.9	116.0
<b>Labour Force</b>		<i>Percentage change over previous year</i>				
Employment	1,837,800	-0.6	1.4	1.7	2.2	2.8
		<i>Percentage of Labour Force</i>				
Unemployment	316,000	14.7	13.8	13.3	12.8	12.1

**Notes:** 2012 data from CSO National Accounts and Eurostat Labour Force Survey. 2013-2016 data are NERI projections.

# 3. Budget 2014,...

- QEO restates our suggestions in *June 2013*:
  - The Budget 2014 fiscal adjustment should be €2 billion rather than €3.1 billion with the saving on the Promissory Note restructuring used to reduce the Budget's scale.
  - The remaining adjustment should be re-orientated towards taxation measures with the only expenditure cuts being those already agreed and announced under the two public sector wage agreements.
  - The Budget should be accompanied by an Investment Stimulus which would assist in counteracting the negative impact of the Budgetary adjustment on the domestic economy.

## Table 4.1 Proposed Fiscal Consolidations compared - 2014 and 2015 (€ billion) (Section 4 p28)

	Dept. of Finance		NERI	
	2014	2015	2014	2015
Reductions in current expenditure	1.90	1.30	0.35	0.30
Reductions in capital expenditure	<u>0.10*</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>Total Expenditure Reductions</b>	<b>2.00</b>	<b>1.30</b>	<b>0.35</b>	<b>0.30</b>
<b>Total Revenue Increases**</b>	<b><u>1.10</u></b>	<b><u>0.70</u></b>	<b><u>1.65</u></b>	<b><u>0.70</u></b>
<b>Overall Budget Adjustment</b>	<b>3.10</b>	<b>2.00</b>	<b>2.00</b>	<b>1.00</b>
Investment Stimulus			1.50	3.00

**Source:** Department of Finance (2013a: 6 ,22) and NERI (2013: 39)

**Notes:** \* The proposed 2014 capital expenditure reduction has subsequently been deferred by Government.

\*\* including new and carry-over measures.

## Table 4.2 NERI’s proposed additional tax measure in Budgets 2014 and 2015 (€ million)\*

	2014	2015
Revenue ‘carry-over’ from previous year’s budget**	600	100
Changes to income taxes	400	200
Wealth tax	150	150
Employer Pay-related Social Insurance	100	100
Corporation Tax	250	100
Capital Gains Tax	100	-
Capital Acquisition Tax	50	50
<b>Total</b>	<b>1,650</b>	<b>700</b>

**Source:** NERI (2013: 36)

**Notes:** \* See the NERI’s Summer 2013 Quarterly Economic Observer which discussed each of these potential revenue sources (2013: 35-36, 39-44)..

\*\* Data from the Department of Finance SPU April 2013.

## Table 4.2 NERI's proposed additional tax measure in Budgets 2014 and 2015 (€ million)\*

	2014	2015
Revenue 'carry-over' from previous year's budget**	600	100
Changes to income taxes	400	200
Wealth tax	150	150
Employer Pay-related Social Insurance	100	100
Corporation Tax	250	100
Capital Gains Tax	100	-
Capital Acquisition Tax	50	50
<b>Total</b>	<b>1,650</b>	<b>700</b>

**Source:** NERI (2013: 36)

**Notes:** \* See the NERI's Summer 2013 Quarterly Economic Observer which discussed each of these potential revenue sources (2013: 35-36, 39-44)..

\*\* Data from the Department of Finance SPU April 2013.

# 3. Income Taxes & High Earners

- Section 4 examines the levels of taxation paid by households
  - CSO data from SILC 2011
  - Deciles of households
  - 2011-2014...
  - Calculate effective taxation rates
  - Room at the top
  - In the medium term...

**Table 4.5: Gross Income, Income Tax Paid and Effective Tax Rates, by household decile 2011**

Decile	Average Annual Gross Income €	Average Annual Tax and SI paid €	Average Effective Tax %
<b>Bottom</b>	8,675.89	18.27	0.21%
2	15,317.67	28.21	0.18%
3	21,949.04	145.04	0.66%
4	27,852.17	483.51	1.74%
5	34,795.24	980.41	2.82%
6	43,264.32	2,555.49	5.91%
7	55,139.07	5,422.09	9.83%
8	70,347.16	9,336.24	13.27%
9	93,277.24	16,739.83	17.95%
<b>Top</b>	159,018.00	40,767.51	25.64%
<b>Mean annual</b>	<b>52,949.46</b>	<b>7,644.31</b>	<b>14.44%</b>
<b>Mean weekly</b>	<b>1,014.75</b>	<b>146.50</b>	<b>14.44%</b>

**Source:** Collins (2013a) using CSO SILC data.

**Note:** Table 7.3.1 in the appendix provides corresponding figures for 5% groups of the household population.

## *Additional Revenue from High Earners*

- Never easy...
- Top decile: €109,000+
- Room for increase to be progressive
- Modest increases
  - Top decile an average  $\uparrow$  of €47 per week
  - Total of €400m for exchequer




**Table 4.7: Raising €600 million in additional taxation revenue from the top 10% of households**

	Overall Increase in revenue	Annual Amount per household	Weekly Amount per household
<b>The top 10% of households</b>			
<b><u>2014</u></b>			
1.5% increase for top decile	<b>€400m</b>	€2,380	€46
<b><u>2015</u></b>			
0.8% increase for top decile	<b>€200m</b>	€1,270	€24
<b>The top two 5% household groups</b>			
<b><u>2014</u></b>			
2.0% increase for top 5%	€300m	€3,900	€76
1.0% increase for second 5%	<u>€100m</u>	€1,200	€24
	<b>€400m</b>		
<b><u>2015</u></b>			
1.0% increase for top 5%	€150m	€1,950	€38
0.5% increase for second 5%	<u>€50m</u>	€610	€12
	<b>€200m</b>		

**Source:** Calculated by author using NERI Microeconomic model and based on microdata from CSO's 2011 SILC survey.

**Note:** Calculations have been rounded.

# 4. Other Documents

 **NERI** Nevin  
Economic  
Research  
Institute  
*Research for new economic policies*

**NERI Working Paper Series**

---

**Income Taxes and Income Tax Options -  
A Context for Budget 2014**

**Micheál L. Collins**

**September 2013**

**NERI WP 2013/No 5**

---

For more information on the NERI working paper series see: [www.NERIinstitute.net](http://www.NERIinstitute.net)

**PLEASE NOTE:** NERI working papers represent un-refereed work-in-progress and the author(s) are solely responsible for the content and any views expressed therein. Comments on these papers are invited and should be sent to the author(s) by e-mail. This paper may be cited.

**Quarterly  
Economic  
Facts**

Autumn 2013



ISSN 2009-4671

 **NERI** Nevin  
Economic  
Research  
Institute

# 5. Summary

- Uncertain economic outlook
- Budget 2014
  - Adjustment scale debate
  - Public Service reductions?
  - Better route
  - Investment stimulus
  - Income tax potential from high earners

[www.NERInstitute.net](http://www.NERInstitute.net)

