



An Roinn Airgeadais  
Department of Finance

# Tax Expenditures In Ireland – Measurement, Reporting and Evaluation

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Presentation to the Community of Practice on Tax Expenditures

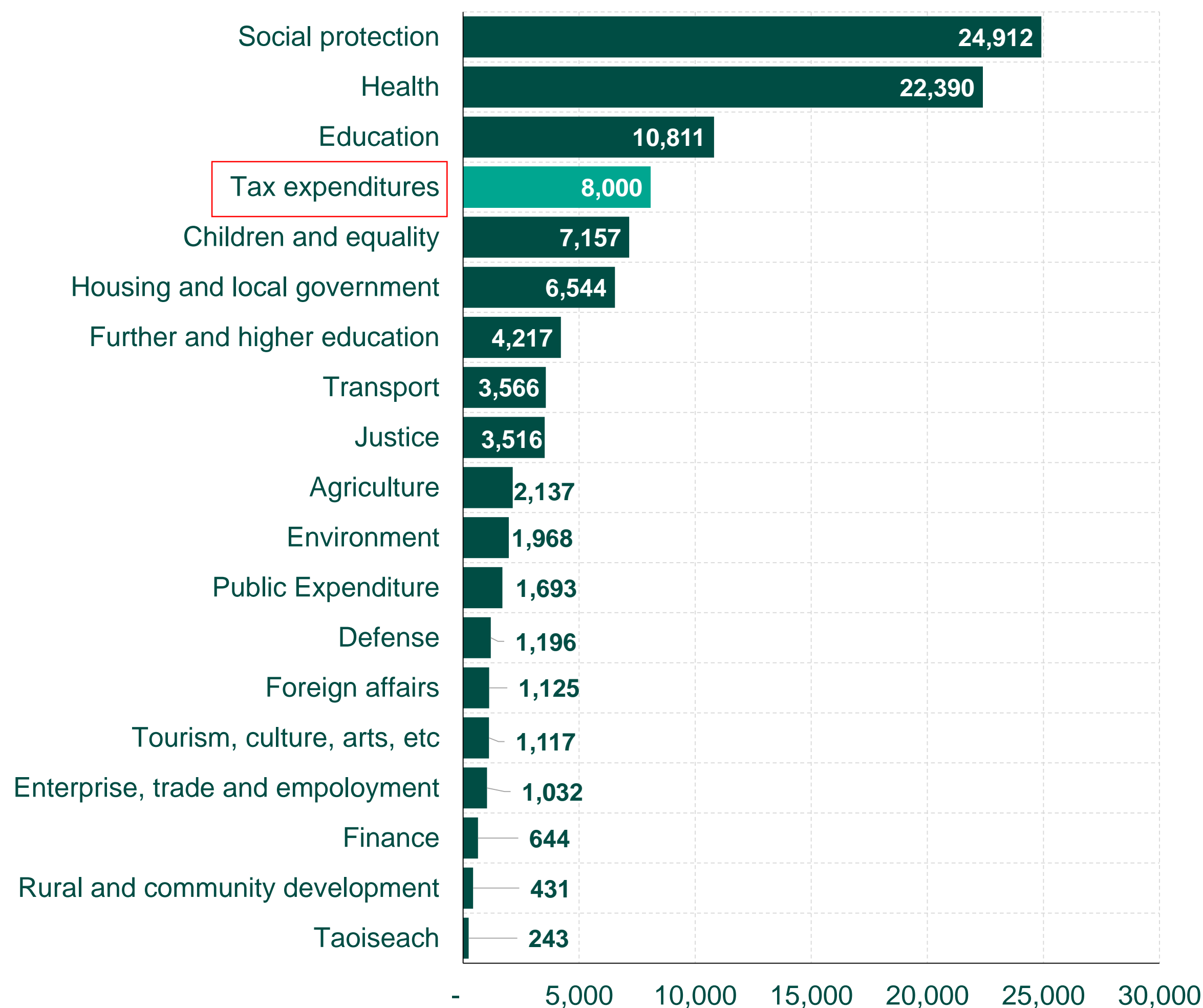
February 6<sup>th</sup>, 2025

# Tax Expenditures in Ireland



- 124 Tax Expenditures in 2024.
- Tax expenditures amounted to €8 billion in 2023, equivalent to 3 per cent of national income or, alternatively, to 9 per cent of total tax revenue.
- To put the overall cost into context, financing this level of revenue forgone would be the equivalent of financing the expenditure of the fourth largest line of voted public expenditure in 2023.

Voted Expenditures €M





# Tax Expenditure Updated Guidelines – 2024 Report

# Purpose of the Updated Guidelines



- The updated Guidelines reflect changes in both the **policy context** and the **tax base**.
- Ireland is one of only a few countries worldwide to publish a structured evaluation framework.
- In recognition of **recommendations** from the Budget Oversight Committee, the Department committed in 2022 to a formal review of the existing tax expenditure guidelines.
- Key updates relate to (i) clarity on the benchmark (ii) evaluation questions (iii) proportionality and prioritisation and (iv) transparency and reporting

# Key updates



## 1. Clarity on the Benchmark

No internationally agreed definition, therefore requires judgement

Updated Guidelines set out key criteria for the benchmark and identifying what constitutes a tax expenditure. These include length of existence, sunset clause and presence of market failure.

## 2. Evaluation Framework – Key evaluation questions

**Ex-Ante** - Focuses on justification for the intervention as well as its planning and design

**Ex- Post** - Takes place for existing tax expenditures. Concentrates predominantly on issues related to the scheme's impact and continued relevance.

## 3. Revised proportionate approach

Implementation and prioritisation is key

First: TEs with an approaching **sunset clause**

Second: Evaluations should follow **proportionate approach** – whereby the most costly tax expenditures are subject to the most frequency and rigour in terms of evaluation

# 4. Reporting - The Tax Expenditure Passport

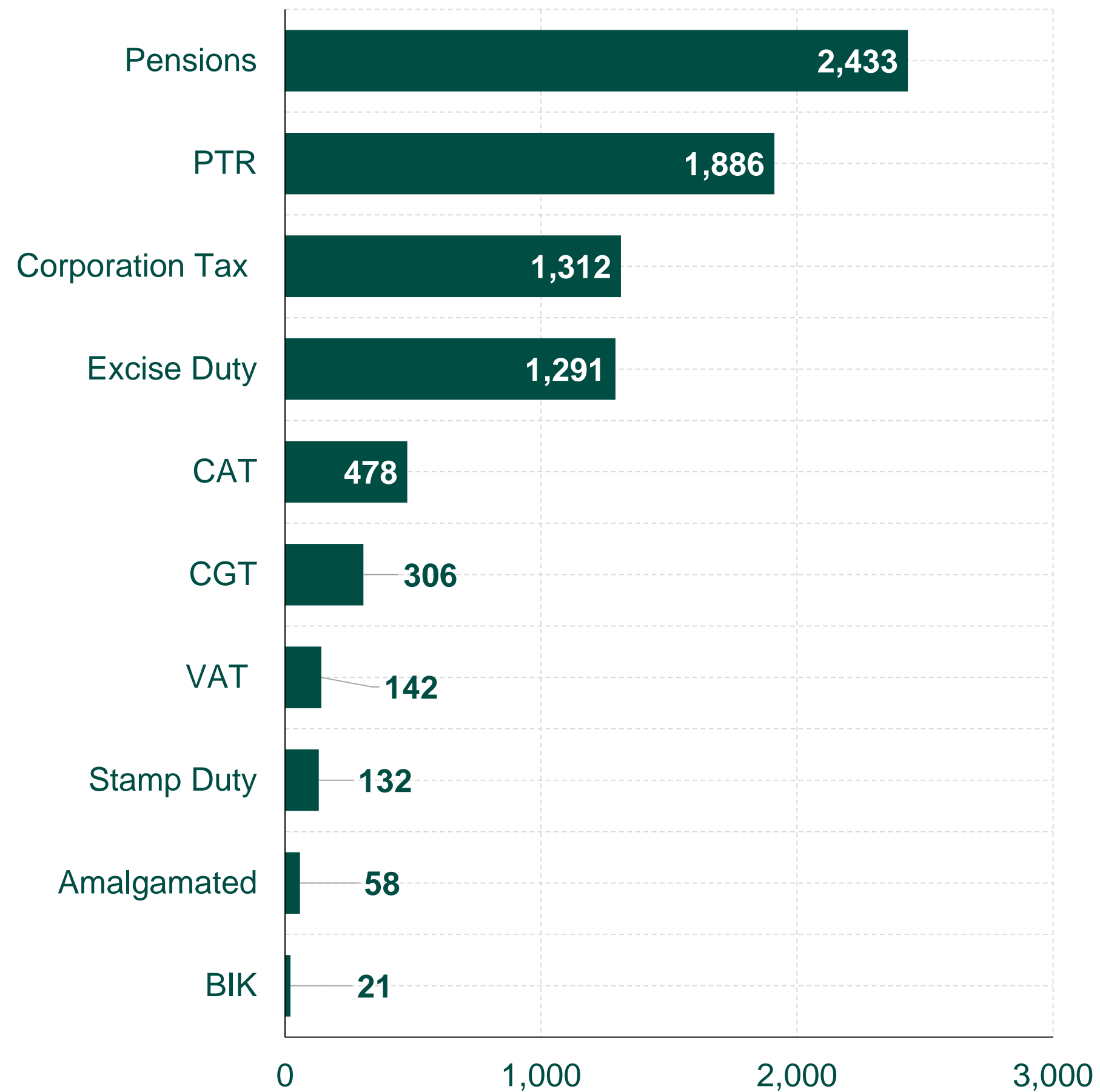


Name: Residential Development Refund Scheme					
Description	Residential Development Refund Scheme provides for a partial refund of the Stamp Duty paid on the building of residential dwelling units on non-residential land, subject to certain conditions. The dwelling units can be single, or multi-unit, dwellings.				
Sunset clause	31/12/2025				
Tax Type	Stamp Duty				
Number of targeted beneficiaries	1,390 (2023)				
Legal Reference	Section 83D of SDCA 1999 (Introduced in Budget 2018)				
Policy Objective/market failure being targeted	Since its introduction, the purpose of this rebate scheme has been to encourage the prompt and efficient use of suitable non-residential land for higher density housing. This is to encourage the maximum possible increase in urgently needed new housing supply, which is a core Government policy goal.				
Reason why not part of benchmark tax system	This Tax Expenditure was first introduced in Budget 2018; it is not considered structural in nature. There is a sunset clause provided for in the legislation. The policy rationale/market failure remains.				
Source of data	Revenue Commissioners				
Revenue forgone € mn	€19.7 (2023)				
Review	This measure was last reviewed in the Report on Tax Expenditures 2020 (published with Budget 2021 – <a href="http://www.gov.ie">www.gov.ie</a> - Budget 2021				
Results of the latest evaluation	<p>The latest review stated that this scheme was never intended to be a measure of general application in respect of all types of housing development.</p> <p>An unavoidable deadweight effect was acknowledged. However, it is clear that it has made, and continues to make, an important contribution to the increased supply of new housing units. The review concluded that this scheme plays a valuable role in supporting the Government's housing policy, and as such should be extended at this time.</p> <p>In addition, the review concluded that the Department with support from Revenue, will continue to monitor the operation of the scheme and will continue to liaise with the Department of Housing, Local Government and Heritage with regard to the contribution of the measure in complementing the Government's housing policy goals.</p>				
Evolution over time	2018	2019	2020	2021	2022
Number of claims	167	958	1284	1499	1392
Exchequer cost € mn	1.2	9.5	13.7	21.2	21.2

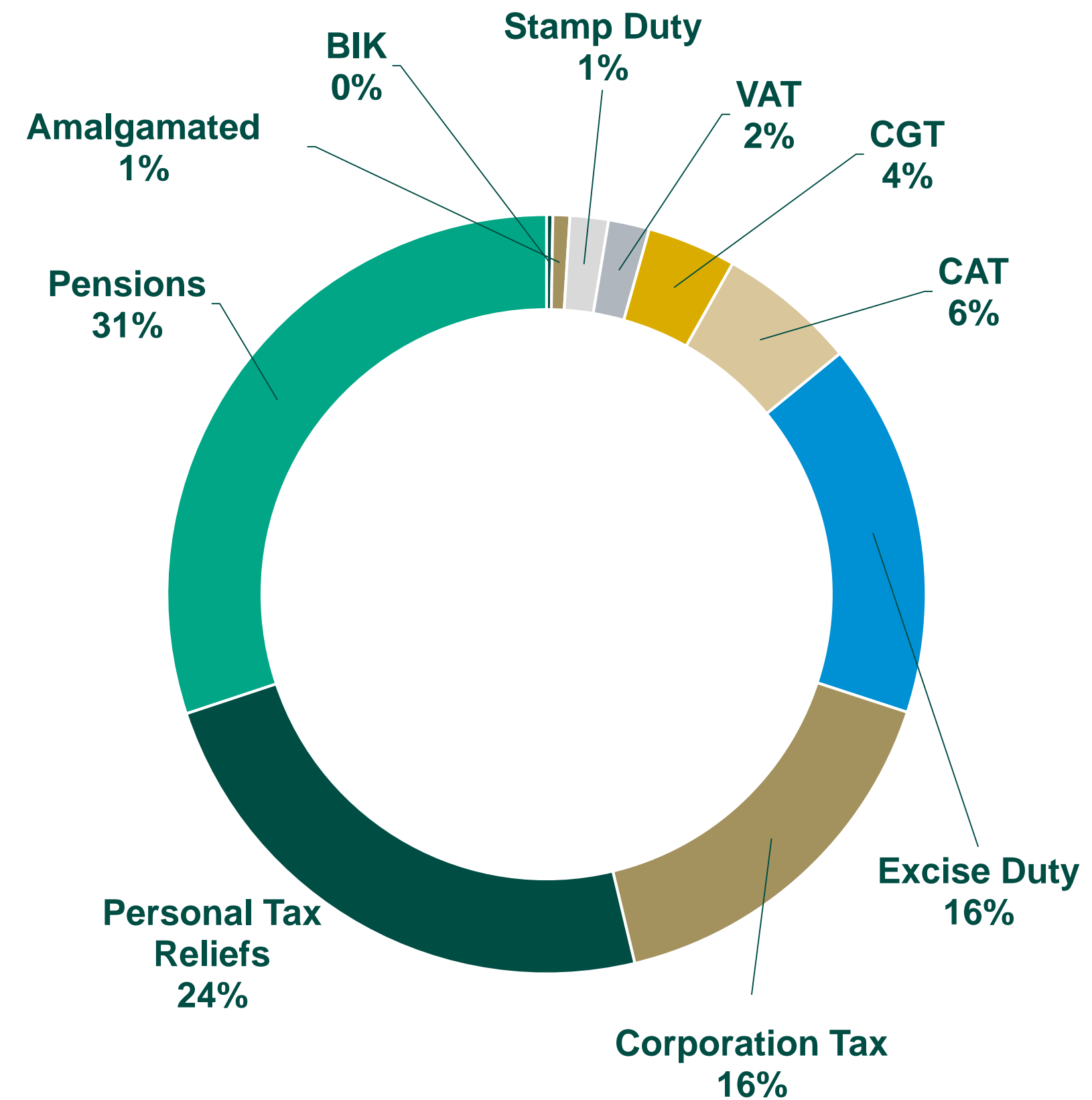


# 1. Tax Expenditure by Category and Share

By category, €M 2023



By category, per cent 2023



## 2. Non Quantified Tax Expenditures



- Data costing lags
- Close to **one fifth** of tax expenditures do not have data on cost

Level of Evaluation	Cost €m	Number of TEs	Number of claims	Total cost € million
Level 3	>100	20	4,846,375	7,021
Level 2	20-100	16	740,000	828
Level 1	0-5	19	330,046	185
Less than €5m	< 5	42	40,086	44
	>0<5	5		
Zero/ no costing/ claims data		22	-	-
<b>Total</b>		<b>124</b>		<b>8,078</b>



# Tax Expenditures Evaluations- Insights and learnings

# Recent publications



**2022 Evaluation of Ireland's R&D Tax Credit**  
September 2022

**TAX EXPENDITURES IN IRELAND - 2024 REPORT**  
October 2024

**Cost Benefit Analysis of the Section 481 Film Tax Credit**  
September 2022

**Review of the Employment Investment Incentive (EII) 2024**  
Incorporating the Start-Up Capital Incentive and Start-Up Relief for Entrepreneurs

**Budget 2024**  
A Cost Benefit Analysis of the Revised Entrepreneur Relief

**Tax Expenditures Evaluation - Updated Guidelines**  
October 2024

# 1. Applications - The Employment Investment Incentive (EII) scheme



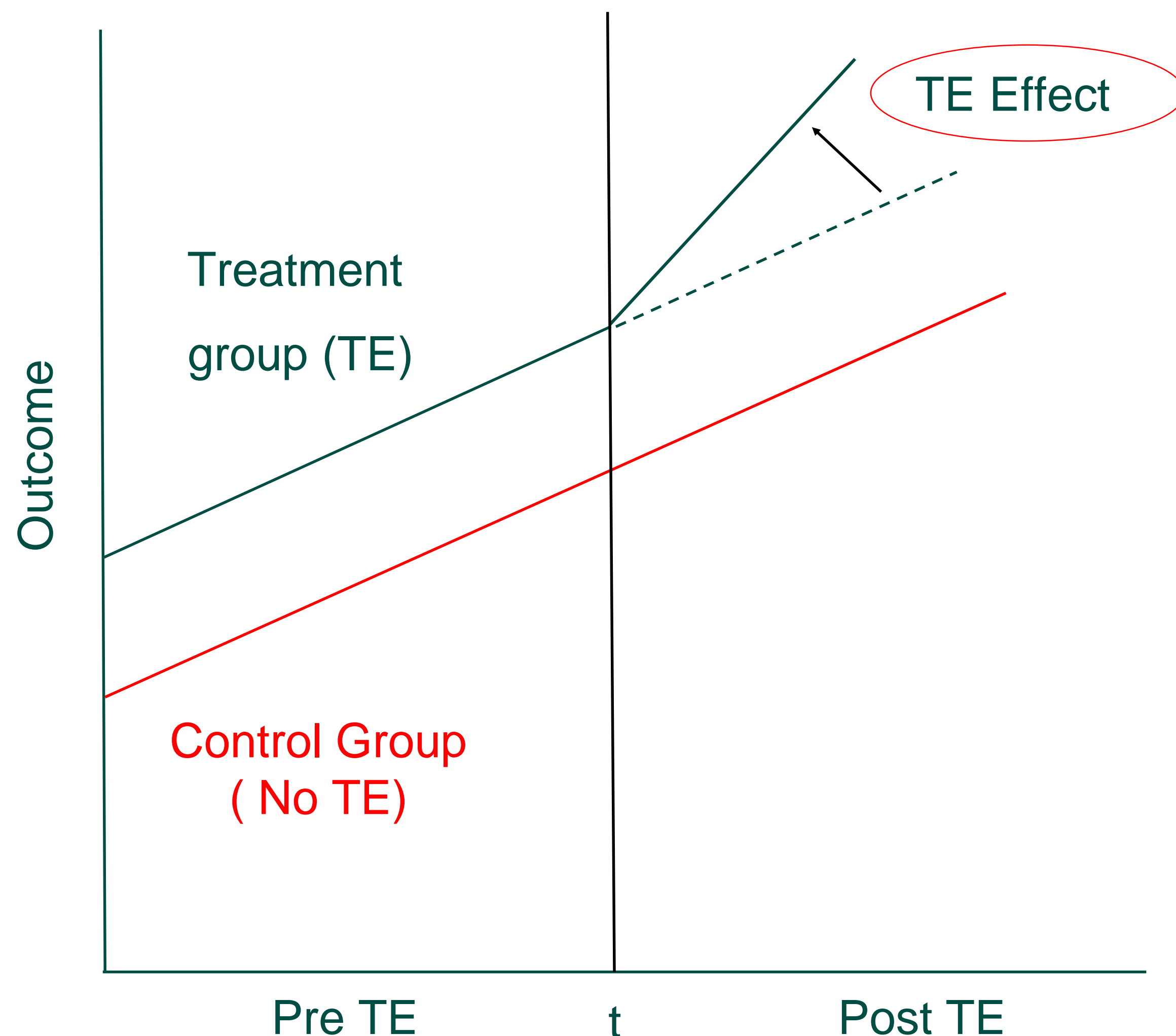
1. EII aims to provide risk capital investments in qualifying SMEs by offering income tax relief to those who invest in shares in SMEs
2. Aim is to support the creation and retention of employment and investment.
3. Available to unquoted micro, small and medium-sized companies carrying out qualifying trades, which are yet to start operations or are within seven years of their first commercial sale or less than ten years since their incorporation

# 1.1 Market failure



1. SMEs face considerable funding gaps, in particular companies in the early stages of development and scale –up
2. Previous reviews (DOF, 2014; Indecon (2018) concluded that a market failure in the provision of non-institutional equity in SMEs remained an issue.
3. Overall while there had been a significant improvement in funding channels, market gaps continued to exist for early stage start-ups and for higher risk SMEs (Indecon, 2018)
4. Using the Department’s Credit Demand survey – a clear difference in terms of access to finance is evident for SMEs within this category and the wider SME population.

# 1.2 Difference in Difference (DID) modelling



- DID is an econometric technique used to measure the effect of a Tax Expenditure.
- DID compares the changes in outcomes between a group that benefitted from the policy (treatment group) versus a similar group that has not (the control group)
- Challenges:
  - Detailed granular data
  - Selection bias
  - Parallel trends assumption



# 1.3 Results

Year	CS Model		CS model with PSM		CS model with Mahalanobis matching	
<b>Pre-average</b>	<b>-1.744***</b>	<b>-3.13*</b>	<b>-2.58***</b>	<b>-1.754</b>	<b>-1.771***</b>	<b>-2.31</b>
<b>SE</b>	(-0.36)	(-1.28)	(0.55)	(1.37)	(0.53)	(1.79)
<b>Post –average</b>	<b>7.72***</b>	<b>12.54***</b>	<b>8.78***</b>	<b>7.53***</b>	<b>7.92***</b>	<b>8.24***</b>
<b>SE</b>	(-1.41)	(-3.79)	(1.47)	(1.52)	(1.47)	(1.60)
<b>Covariates</b>	N	Y	N	Y	N	Y
<b>N</b>	640,286	640,196	2,789	2,789	2,710	2,710

**Note: Outcome variable is firm employments. ^ Standard errors (SE) in parenthesis. Statistical significance is observed at the 1%,5%, and 10% level - \*\*\*, \*\*, \*.**

**Source: Revenue.**



## 1.4 Learnings from the EII

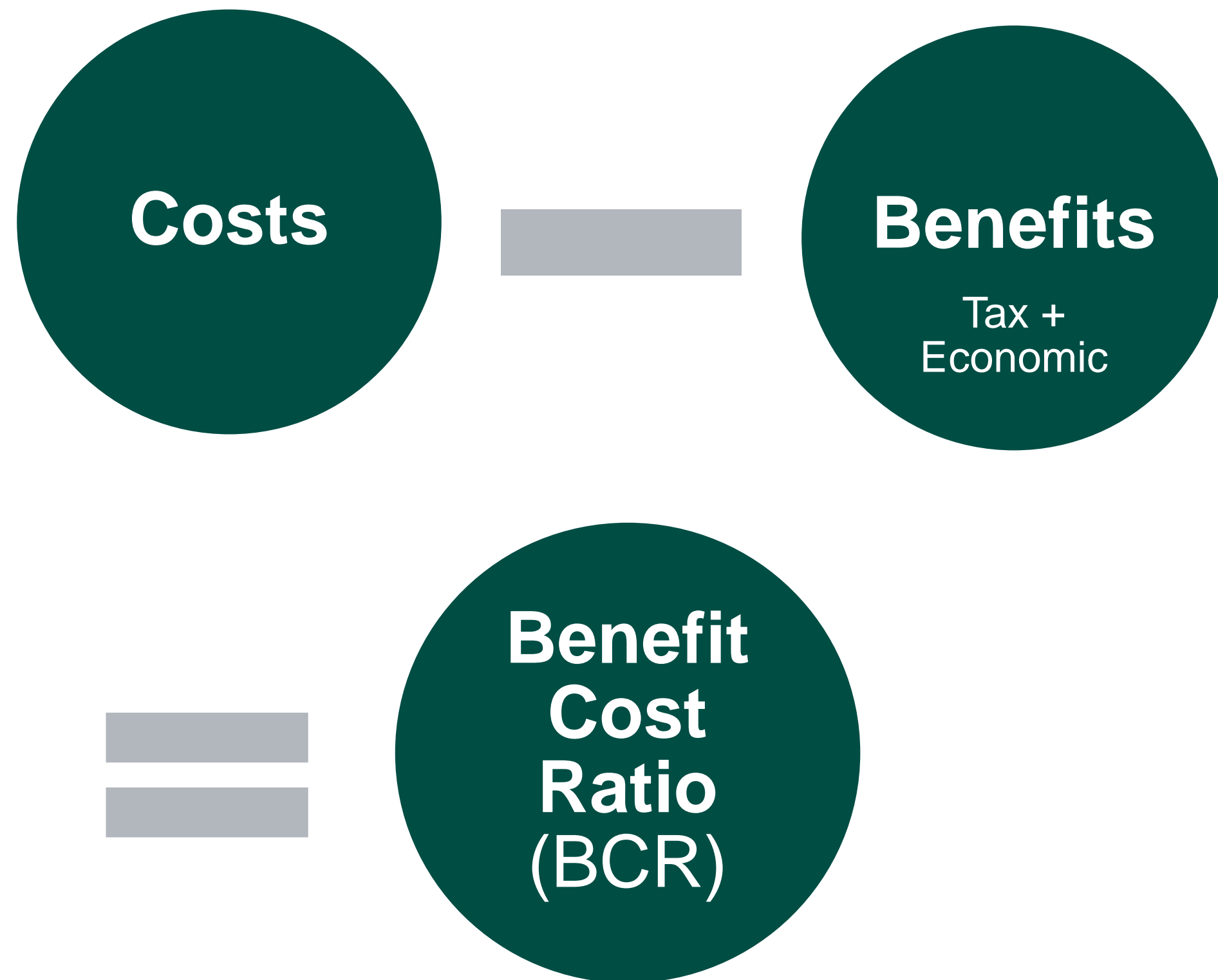
1. Large benefits in using administrative data
2. Results of the analysis suggest that while a positive employment effect is observed from the econometric analysis, the magnitude and reliability of this finding is weakened once robustness tests are applied.
3. Accompanying analysis suggests the EII has helped young SMEs secure equity finance, however the tax support is also likely to be associated with a significant deadweight, amplified by the strong full employment labour market
4. Limitations - financial variables are not captured in available information for the sample of EII firms analysed



## 2. Applications – The Revised Entrepreneur Relief

1. A reduced rate of (capital gains) tax for the disposals of business assets
2. Objective - to support and encourage entrepreneurial activity and the reinvestment of proceeds to new business ventures
3. A survey of relevant stakeholders and Cost Benefit Analysis (CBA)
4. The CBA - listing all the relevant costs and associated benefits associated with the scheme
5. Results – A Benefit Cost Ratio of **1.7** was obtained
6. Analysis relies on survey proxies for deadweight –which may not fully reflect what would have occurred in the absence of the relief.

# 2.1 Cost Benefit Analysis



- Cost Benefit analysis (CBA) – measuring the costs of a TE against its benefits.
- If the benefits outweigh the costs the BCR is  $>1$  meaning the scheme has a positive impact and should continue and vice-versa.
- Follow Department of Public Expenditure, NDP Delivery and Reform’s Public Spending Code
- Key concepts:
  - Counterfactual/ Deadweight
  - Shadow price of labour/
  - Shadow price of public funds
- **Sensitivity Analysis** – shows under what conditions there is a positive economic impact from the tax expenditure

## 2.2. Sensitivity Analysis



Table: Sensitivity analysis									
Additional Labour Force	80%	70%	60%	<u>50%</u>	40%	30%	20%	10%	0%
<b>Deadweight</b>									
20%	6.7	6.2	5.8	5.4	4.9	4.5	4.0	3.6	3.2
30%	3.9	3.6	3.4	3.1	2.9	2.6	2.4	2.1	1.8
40%	2.5	2.3	2.2	2	1.8	1.7	1.5	1.3	1.2
<u>44%</u>	2.1	2	1.8	1.7	1.6	1.4	1.3	1.1	1.0
50%	1.7	1.6	1.5	1.3	1.2	1.1	1.0	0.9	0.8
60%	1.1	1.0	1.0	0.9	0.8	0.7	0.7	0.6	0.5
70%	0.7	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.3
80%	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2

Note: Green figures represent a positive CBA result (greater than 1) while red indicates a CBA result less than 1 i.e. where the cost of the relief outweighs the sum of its benefits. All of the results take account of the shadow cost of public funds.

Source: Department of Finance analysis



# Evaluating TEs- What did we find?

1. Evaluations involve trade-offs between effective evaluation and available resources
2. Implementation and prioritisation (sunset clauses, proportionality?)
3. Data accessibility (Survey, administrative), know-how and collaboration
4. Methodology choice – what does the data allow to be analysed?
5. Communicating the results – what happens when the results are negative?



# Thank you

## Tax Expenditure Report

You can find the report at the following link

<https://www.gov.ie/pdf/?file=https://assets.gov.ie/306484/a1b82bf8-672f-4842-8867-aa6f4448cc92.pdf#page=null>

## Tax Expenditure Guidelines

[www.gov.ie/pdf/?file=https://assets.gov.ie/306446/2646abd7-afe7-4e9c-b2d4-508332ef58c3.pdf#page=null](https://www.gov.ie/pdf/?file=https://assets.gov.ie/306446/2646abd7-afe7-4e9c-b2d4-508332ef58c3.pdf#page=null)