Where does the government get its money and how do they spend it?

Current revenue is divided into taxation revenue and non taxation revenue. It includes- direct tax, indirect tax, profits of state companies.

T.R= customs, excise, CGT, CAT, stamp duties, PAYE

Non T.R= Central bank surplus income, national lottery surplus.

Current expenditure is the money spent on items used up during the year on a day-to-day basis. E.g. teaches salaries and social welfare payments.

Capital expenditure

The government's capital budget outlines the government's planned expenditure on items not used up during the year but increases the productive capacity of the country. E.g. housing, schools, roads.

Exchequer balance= the difference between the total receipts in the Exchequer minus the total expenditure.

Budget surplus- planned revenue>expenditure

Budget deficit- planned revenue<expenditure

Budget balances- planned revenue=expenditure

Revenue buoyancy = Actual tax revenue collected during the year is greater than expected.

Fiscal drag= This occurs when government revenue is greater than expenditure and results in a deflationary effect on the economy.

Fiscal policy is the actions taken by the government which influence timing, magnitude and structure of current revenue and expenditure.

Neutral fiscal policy refers to a structure of taxes and transfers that keeps the income distribution unchanged even after positive or negative shocks to an economy.

Expansionary fiscal policy is a form of fiscal policy that involves decreasing taxes, increasing government expenditures or both in order to fight recessionary pressures.

Contractionary fiscal policy is a form of fiscal policy that involves increasing taxes, decreasing government expenditure or both in order to fight inflationary pressure.

Fiscal policy and the budget framework

- Each government department prepares an estimate of their expenditure
- Book of estimates is drawn up
- Budget is presented to the DAIL
- Finance act and the appropriation act are voted on

Capital revenue comes from

- Loan repayments from local authorities and semi-states (TG4)
- Borrowing through national loans
- Grants and loans from EU
- Sale of state property

How can government spending affect our daily lives

- Social welfare payments- unemployed people get a certain amount of money.
- Schools, universities and educational centres provide teaching profession with a place, facilities and materials to educate the nation.
- Roads, railway lines, airports enable t transport. Facilitates the tourism industry, international trade and imports of essential goods.

Measures to reduce a current budget deficit

Revenue

Increase indirect taxes- VAT, excise duties or sugar tax.

- Rise in hidden economy activities o evade tax.
- Increased inflation, as goods automatically experience an increase in price.
- A fall in aggregate demand.
- A greater ability to fund public services.

Expenditure

Stabilise or cut wages in the public sector

- Introduce a pay freeze where workers wages will not increase over a period of time.
- Possibility of industrial disputes.

- Skilled workers may emigrate or join the private sector.
- Demotivated staff= decrease in efficiency.
- More predictable public sector wage bill in the near future.

Ways to increase current budget surplus

Revenue

Decrease taxes - VAT, excise, property tax.

- Less inclination to engage in tax evasion - decrease in inflation as prices have gone down.
- Aggregate demand rises
- Less ability to increase spending on capital projects.

Expenditure

Increase numbers employed in the public sectors

- Increase employee numbers in health, defence services= rise in expenditure-increased public sector wage bills-
- Increasing long term employment for citizen-increase in aggregate demand as real incomes and purchasing power increases- standard improvement.
- Increased standard of living.

How you can use the fiscal policy to stimulate economic growth?

Increase spending in healthcare

- leads to more jobs
- Means there is more money in circulation
- Increases aggregate demand
- Increases economic growth

To keep inflation at or below a targeted level

Increase supply to match demand.

Rise taxes= less income- prices can’t grow.

Taxation

Functions of taxation

- To finance government activities
- To achieve economic objectives (reduce inflation)
- To redistribute national wealth
- To achieve social objectives

Equity- should take a higher proportion of income as it rises.

Economy- revenue collected should exceed the cost of collection

Certainty- amount paid should be unambiguous, certain and clear.

Convenience- tax should be levied at a convenient time and manner for the contributor.

Direct taxes are taxes on income and wealth. E.g. PAYE, capital gains tax, DIRT.

Indirect taxes are taxes on transactions and spending. E.g. VAT, customs duties, stamp duties.

Stealth tax- USC (levy).

Specific tax- applied at a fixed rate.

Principles of a fair tax system

- Certain
- Convenient
- Assist the redistribution of income
- Evasion should not be possible
- Equitable- take in a person's ability to pay

Progressive taxation

- Tax measure that takes proportionately more in tax as a person's income increases. E.g. income tax, social charge.

Regressive taxation

- Tax measures that take proportionately less in tax as a person's income increases.
- Doesn’t take into account a person's ability to pay.

How can tax help the government achieve its economic and social aims?

- Increase taxes to decrease consumption. E.g. smoking and drinking
- Impose a levy to discourage waste. E.g. plastic bag levy.
- Imposes fines on anti-social behaviour. E.g. litter fines.
- Give financial aid to boost enterprise. E.g. local enterprise office grants.

Limitation of fiscal policy in stabilizing business cycles

- Time barriers

Takes time to increase spending, by this time the desired effect may not be achieved.

- Influence of world events

If there is a recession in the EU or US, the influence of the domestic economies in those countries may outweigh the impact of our own domestic fiscal policy to stimulate exports.

- European monetary policy

If the ECB reduces the money supply, it is courage’s business expansion and consumer spending and negatively impacts exporters, reducing aggregate demand.

How Ireland’s membership of the EU affects the operation of fiscal policy

- Fiscal restraints and rules they have to follow
- Levels of deficit allowed
- National debt should be less than 60% of GDP
- Budget pre approved by EU- less risk of inappropriate budget being implemented.