THE SECTORAL DISTRIBUTION OF CORPORATE PROFITS IN IRELAND 1975-84

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Considerable controversy surrounds the magnitude of profits of foreign owned companies in Ireland. Recent large revisions to profits in the National Income Accounts may be due to previous underestimates of the profits of foreign owned companies. Secondly there has been some debates as to the extent to which the profits of foreign-owned companies reflect the artificial switching of profits to Ireland or profit switching transfer pricing (pstp.).[1] This paper examines the components of non-financial companies (NFC's) aggregate profits in the National Accounts divided into sectors according to ownership type, that is; public companies in the private sector, Semi-state companies, cooperatives and a residual largely consisting of the profits of foreign owned companies. If all profits of foreign owned companies are due to the use of pstp to switch profits to Ireland, this figure gives a crude estimate of the maximum possible magnitude of transfer pricing. Alternatively a given fraction of estimated multinational companies (M.N.C.s) profits could be attributed to the use of transfer pricing. Although it is also possible that some companies trading in the domestic market use transfer pricing to switch profits away from Ireland (Stewart, 1985).[2] Hence the aggregate size of M.N.C. profits is a result of some companies switching profits to Ireland and other companies switching profits away from Ireland.

The Variability of Aggregate Profits and Size of Non-Financial Profits

Successive issues of the N.I.E. Accounts publish revised figures for aggregate trading profits. Table 1 shows profits for the year 1979 were initially revised downwards from IR£940 to IR£825 million and then subsequently increased to IR£1008 million. However the largest revision for any year was for 1981 (published in 1984). Profits as initially published amounted to IR£870 million, were then revised to IR£1260 million (+ 44 per cent) and the most recent figure is IR£1370 million.

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Table 1: *Aggregate Trading Profits of Companies*[1]

	IR£ million									
Year Published	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
1978	345.4	461.0								
1979	346.6	498.1	630.0							
1980	353.0	502.2	625.5	749.0						
1981	350.4	495.7	667.3	789.7	940.0					
1982	350.4	501.9	660.2	762.8	865.0	840.0				
1983	350.4	501.9	660.2	720.6	825.3	800.7	870.0			
1984	375.6	537.1	721.7	865.8	1008.2	940.8	1259.6	1393.0		
1985	375.6	537.1	721.7	865.8	1008.2	973.6	1303.7	1338.2	1781.0	
1986	375.6	537.1	721.7	865.8	1008.2	973.6	1369.5	1511.2	1784.6	2107.0
1987	375.6	537.1	721.7	865.8	1008.2	973.6	1369.5	1520.8	1788.1	2231.1

[1]Defined as profits before interest and tax. Source— National Income Accounts Table A.1, item 4, various years and National Income and Expenditure 1986, Table 1.

For the year 1981 data revisions have increased aggregate profits as a per cent of G.N.P. from 8.2 to 11.6 and most recently 12.6. Although an increase in aggregate profits is unlikely to have resulted in an increase in G.N.P. as profit outflows also increased.

The aggregate profit figures shown in Table 1 are derived from tax returns submitted to the Revenue Commissioners. Aggregate profit figures in the National Accounts includes trading profits of the Semi-state companies.[3] In addition a measure of trading profits by domestic banks and other financial institutions is included in aggregate profits. This amount is not separately identified in the National Accounts but has been estimated in this paper as described in footnote 2 to Table 2. If trading profits of financial companies are subtracted from aggregate trading profits an estimate of trading profits attributable to non-financial companies (N.F.C.s) is obtained. This figure is shown in Table 2. Estimated trading profits of N.F.C.s also includes trading profits of insurance companies which largely consist of the difference between premium income and claims. This figure is negative for most of of the years 1975-84 but since 1980 this figure has become increasingly large and negative.[4] The next section discusses some possible reasons for the variability of aggregate trading profit data.

Possible Revisions to Non-Financial Trading Profits.

The most important revisions to aggregate trading profits are likely to occur because of changes in the recorded profits of foreign owned companies. Recent changes to Trading Profits in the National Accounts have been attributed to "a review of sampling methods." However, there may be other reasons why aggregate profits might be revised. The following points set out some possible ways in which trading profits as

Table 2: *Profits of N.F.C.s for 1975-84 as Published in 1987*[1]

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Aggregate Trading Profits	375.6	537.1	721.7	865.8	1008.2	973.6	1369.5	1520.8	1788.1	2231.1
Trading Profits[2] of Financial Companies	55.6	77.2	110.8	122.0	123.0	159.1	208.4	223.9	272.0	273.0
Trading Profits of N.F.C.s	320.0	464.9	610.9	743.8	885.2	814.5	1161.1	1296.9	1516.1	1958.1

[1]Published in 1985 for the years 1975-77.

[2]This represents the sum of the pre-tax profits of private sector banks, building societies, State owned banks, leasing companies and the surplus of credit unions. Domestic profits of private sector banks were taken as being equal to the pre-tax profits of the Bank of Ireland and Allied Irish Banks, assuming that the profits earned abroad of both these banks approximate domestic profits of other banks. Pre-tax profits of the building societies were taken as being equal to total income less interest paid and management expenses as published in the annual Report of the Registrar of Building Societies, plus Government interest subsidies. The surplus of credit unions is published in the Annual Report of the Registrar of Friendly Societies. Pre-tax profits of State owned banks were taken from the Annual reports of the Industrial Credit Company, the Agricultural Credit Company and the Trustee Savings Banks and total pre-tax profits of leasing companies wee assumed to be slightly larger than the pre-tax profits of Guinness Peat Aviation for 1975-80 and double those of G.P.A. for 1981-84, in order to take account of other leasing activities based at Shannon and the leasing activities of Wang and other non-banking companies.

defined in this paper may differ from aggregate trading profits. In addition, these points show how profits published in the annual reports of public companies, Semi-state companies and co-ops might be adjusted to make them comparable with trading profits in the National Accounts:—

(1) The most recent N.I.E. Accounts state that the depreciation provisions used in estimating aggregate profits "are in most cases the wear and tear and other depreciation allowances for income tax purposes (adjusted approximately for free "depreciation" etc.) as distinct from either the depreciation provisions of the enterprises themselves or depreciation estimates at replacement costs."[5] The problem is how accurate are these depreciation estimates? Because of accelerated capital allowances, depreciation provisions for tax purposes are likely to be considerably larger than depreciation provisions based on historic cost accounts, or even replacement cost if trading profits in the National Accounts are not fully adjusted for accelerated depreciation allowances (because for example, of underrecording of the value of tax allowances by the Revenue Commissioners) depreciation used to estimate aggregate trading profits will be overstated and trading profits will be understated;[6] A similar problem may arise in relation to other tax allowances such as stock relief which have been deducted from profits in order to estimate taxable profits;

(2) A second possible difference between profits in the N.I.E. Accounts and published profits of private and public sector companies, and co-ops arises from variations in the accounting treatment of capital grants. Since 1974 most companies have credited a portion of capital grants received to profits. A smaller number of companies deduct a portion of capital grants received from the annual depreciation provision, thus increasing annual profits (Institute of Chartered Accountants, 1974). Both of these adjustments could have the effect of increasing aggregate profits in the National Income Accounts. Since the receipt of a capital grant is not directly related to trading profits there is a good argument for omitting them. If any capital grants credited to trading profits are removed this would have the effect of reducing aggregate trading profits in the N.I.E. Accounts;

(3) This paper assumes, however, that current grants are included in trading profits in the N.I.E. Accounts as they are in the published accounts of public and private sector companies and co-ops. Current grants for companies in the private sector would largely relate to training grants and employment subsidies and in the public sector would consist of grants to C.I.E. and more recently Aer Lingus;

(4) Profits of associated companies are excluded in this paper in order to avoid double counting. To the extent that the N.I.E. accounts rely on profits data from individual firms rather than consolidated accounts this problem does not arise. The N.I.E. Accounts exclude dividends from trading profits and this has the effect of avoiding double counting;

(5) It is also assumed in this paper that expenditures classified as "extraordinary" are excluded from trading profits. In recent years the aggregate value of these items is likely to be negative due to plant closures and redundancy costs. Positive "extraordinary" items could result from capital gains on fixed assets. Expenditures labelled as "exceptional" are assumed to be included in calculating trading profits. In some cases the distinction between "extraordinary" items and "exceptional" items is quite arbitrary and this may lead to inconsistencies in published accounts for example in relation to foreign exchange gains or losses;

(6) A particular problem which mostly affects Semi-state companies relates to the accounting treatment of exchange rate losses or gains on foreign currency borrowing. For recent years most Semi-state companies experienced exchange rate losses. This problem does not arise to the same extent amongst domestically owned private companies because of low foreign borrowing. Semi-state companies follow diverse practices in dealing with exchange rate gains/losses in their accounts, particularly for the earlier years examined. In some

cases the accounting treatment of foreign exchange gains/losses depended on the purpose of foreign borrowing (Aer Lingus) or exchange rate gains/losses on foreign borrowing may only be recognised on redemption of debt (Irish Steel up to 1982, C.I.E.). If realised, foreign exchange losses are sometimes treated as an allocation of post tax profit (N.E.T. up to 1980, Aer Lingus) and less frequently as an expense in measuring profit (N.E.T. post 1980, Bord na Mona, Bord Gais Eireann). As far as was possible foreign exchange gains or losses have been omitted from trading profits in this paper. The effect of treating foreign exchange losses as an expense in earning profits for all Semi-state companies would be to reduce their aggregate trading profits considerably, for example, the trading profits of the E.S.B. for 1982 would be reduced by IR£45.9 million. Foreign exchange losses could also be viewed as part of overall financing costs and hence included in trading profits as N.E.T. does since 1980, however, as far as was possible foreign exchange losses have been omitted from financing costs in this paper;

(7) Finally several adjustment were required to arrive at a comparable measure of trading profits for the E.S.B. The surplus or deficit as published by the E.S.B. using current accounting practice is defined as operating surplus less a provision for repayment of borrowing. Interest received on sinking fund investments is not included, and there is no adjustment to the depreciatin provision for any surplus/deficit arising from the sale of assets. In order to arrive at a comparable definition of trading profits one item currently classified as a non-operating item, that is interest on sinking funds was added to the operating surplus, and interest received on sinking funds was deducted from interest payments to obtain a figure for net interest paid. Trading profits were then defined as operating surplus plus net interest paid.[7] There may also be a case for adding some othere non-operating items to trading profits, for example, credits arising on disposal of assets, and non-repayable supply contributions.

The next section gives some estimates of the size of profits for public companies in the private sector, Semi-state companies, co-ops and a residual which would largely consist of the profits of M.N.C.s, based on the previous points.

Aggregate Profits by Sector

Table 3 shows aggregate trading profits of non-financial companies divided into four sectors: Public companies in the private sector; Semi-state companies; co-ops; and a residual which would consist largely of the trading profits of M.N.C.s and private domestic companies, such as Dunnes Stores, Roches Stores, and Anglo-Irish Meats. Public companies

Table 3: *Aggregate Profits by Sector*[1]

	IR£ million									
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Aggregate Trading Profits of N.F.C.s Trading Profits of:	320.0	464.9	610.9	743.8	885.2	814.5	1161.1	1296.9	1516.1	1958.1
Public Companies[2]	62.2	79.3	104.1	123.8	165.3	143.4	137.4	123.0	100.5	99.6
Jefferson Smurfit in Ireland		n.a.	n.a.	n.a.	n.a.	7.1	8.8	5.0	4.9	9.4
Cement-Roadstone in Ireland										
Tara Mines[3]				1.3	15.3	11.2	4.1	13.9	20.7	50.2
Total	62.2	79.3	104.1	125.1	180.6	161.7	150.3	141.9	135.9	170.9
Semi-state[4] Companies	30.7	48.8	64.9	61.9	80.5	84.5	141.4	209.5	269.3	389.7
Co-ops[5]	20.5	46.9	65.5	74.1	68.2	56.9	51.7	55.9	42.5	53.9
Residual	206.6	289.7	376.4	482.7	555.9	511.4	817.7	889.6	1068.4	1343.6
Repatriation of Profits[6] Dividends and interest				206.4	219.0	258.0	361.7	498.7	658.6	982.7

[1]Profits of all companies have been defined as pre-tax profits + net interest payments — profits of associated companies — capital grants credited to income. Companies whose accounting year ends between January 1st and June 30th were assigned to the preceeding calendar year. Companies whose accounting year ends between July 1st and December 31st were attributed to the current calendar year. Most companies year end is December 31st. A similar procedure is followed in the Census of Industrial Production (Census of Industrial Production, C.S.O. 1985 p. vi.) and is also used in the compilation of aggregate profits in the N.I.E. Accounts. For a discussion of this problem in relation to U.K. data see R. Maurice (ed.)(1968), p.218 and Central Statistics Office, (1985, London) p.94. Choosing June 30th also did not result in any problems resulting from oscillating year ends (Barron, 1986).

[2]This category excludes Jefferson Smurfit for 1976-84 and Cement-Roadstone for 1983-84. The number of companies included under this heading was:— 115, 110, 103, 99, 96, 95, 87, 82, 77, and 72, for the years 1975 to 1984 respectively.

[3]Converted from U.S. dollars at the rate ruling in December each year.

[4]As far as was possible profits of Semi-state bodies are shown excluding foreign exchange gains or losses. The data relates to the following Semi-state companies:— Aer Lingus/Aer Linte, Bord Gais Eireann, B and I, Bord na Mona, C.I.E., E.S.B., I.N.P.C., Irish Shipping, Irish Steel, Irish Sugar, N.E.T. and An Post and Bord Telecom for the year 1984. The amount given in a Parliamentary Question of 15th February 1985 was used where interest payments were not disclosed in the accounts.

[5]This has been estimated by calculating the ratio of trading profits to sales for eight large co-ops (Avonmore, Ballyclough, Cork Marts/I.M.P., Golden Vale, Kerry Co-op, Mitchelstown, North Connaught Farmers, Waterford Co-op) and applying this ratio to aggregate sales of all co-ops. This latter information was derived from the Annual Report of I.C.O.S. for the years 1976-85.

[6]Source: National Income and Expenditure 1986, C.S.O. December 1987, p.34.

in the private sector refers to non-financial public companies with some exceptions, for example R.T.D., Jefferson Smurfit for the period 1976-84, and Cement-Roadstone for 1983-84, as the bulk of the profits of these companies were earned outside Ireland for these periods. The trading profits of Jefferson Smurfit earned in Ireland were however published for the years 1980-84 and Cement-Roadstone for 1983-84 and these amounts are shown separately in Table 3. This sector also includes certain subsidiaries of M.N.C.s that are public companies, for example, Cadbury, Irish Shell, and Esso.[8] In addition the trading profits of Tara Mines (Canadian owned during the period examined) are included separately for the years 1978 (when production commenced) to 1984.

Table 3 shows that trading profits of public companies in the private sector reached a peak in 1979 (in nominal terms) and have fallen continuously since then. Trading profits of Semi-state companies have risen throughout the period but with some fluctuation from year to year, and have grown rapidly since 1980, reflecting the profits of Bord Gais Eireann, and also some increase in trading profits of other Semi-state companies. Profits of the co-ops are estimated to have reached a peak in 1978, and have fluctuated between IR£42 and 54 million since then. Finally the residual showed rapid growth between 1975 and 1979, fell in 1980, and grew rapidly between 1980 and 1981 and again between 1982 and 1984. Table 3 also shows an associated growth in the repatriation of profits, dividends, and interest. The next section considers how accurately the residual reflects the trading profits of M.N.C.s.

How Accurate is the Residual as an Estimate of M.N.C. Profits?

The size of the residual is a function of how trading profits in the N.I.E accounts are defined, compared with trading profits for the three sectors estimated in this paper. The size of the residual is also a function of the size of profits of financial companies included in the N.I.E. Accounts compared (with the estimate of profits of financial companies) in this paper and while the estimate in this paper is likely to be broadly accurate a difference of + or − 10 per cent for 1984 would add or subtract IR£27 million to 'residual profits'. Aggregate trading profits in the N.I.E. Accounts are defined as pre-tax profits plus interest plus rent paid and exclude interest, rent, and dividends received and indirect taxes. Trading profits as measured in this paper depart from the N.I.E. definition in a number of different ways. First of all there is no adjustment for rents paid or received. Most non-financial companies are likely to be net payers of rent, although the inclusion of certain property companies may reduce this difference. Secondly not all public companies disclose interest payments (both in the public and private sectors). Both of these factors mean that trading profits as measured in this paper may be lower than trading profits as measured in the National Accounts. However there are also some factors which may result in an overestimate of trading profits as measured in this paper, for example, the inclusion of trading profits of subsidiaries incorporated abroad. Trading profits of the co-ops may also be overestimated as not all co-ops are likely to have the same ratio of trading profits to sales as the co-ops examined. In particular trading profits of the marts and co-ops engaged in wholesaling as a percentage of sales, are likely to be below those of the co-ops examined. On balance it is likely that the estimates of profits of individual companies in the private sector are smaller in the National Income Accounts compared with profits of private sector companies as measured in this paper, and that estimates of profits of Semi-state companies are larger in the National Income Accounts compared with estimates in this paper. The net effect of these factors is likely to be an under-estimate of the size of the residual, that is the profits of M.N.C.s and other private companies. Nevertheless the residual is useful in providing an indication of the trend of aggregate M.N.C. profits in Ireland over time.

Residual profits may also be compared with net profits of U.S. and U.K. companies operating in Ireland which would account for the bulk of foreign direct investment. Table 4 shows profits after tax of U.S. and U.K. firms in Ireland for the period 1975-84 as published by the U.S. and U.K. Governments. This data should be treated with caution. The most recent estimate of the net income of U.S. companies in Ireland for 1984 was revised downwards from $961 million to $514 million. The bulk of these revisions related to the Chemical and Allied Products sector (from $451 to $104 million). There are a number of differences in the definition of profits in this data and the definition used in the National Accounts, for example this data is post-tax whereas the National Accounts profits data is pre-tax and includes interest payments. Profits of U.K. oil companies are excluded from the U.K. data. Both sets of data also include profits of U.S. and U.K. banks operating in Ireland and also include interest and dividend receipts which are of importance for insurance companies. Both these factors would tend to increase aggregate profits of U.S. and U.K. firms compared with trading profits of N.F.C.s shown in Table 3. The maximum possible difference this could make for 1984 is approximately IR£182.9 million (IR£99.41 and 71.9 million for 1983 and 1982 respectively), consisting of the sum of underwriting losses on non-Irish insurance companies plus net earnings of U.S. and U.K. banks and insurance companies plus some other activities included under this heading in U.S. and U.K. statistics. For 1984 IR£124 million of the IR£162.9 million was due to non-banking financial activities of U.S. companies in Ireland. As a result this data is not directly comparable with trading profits in the N.I.E. accounts. Nevertheless it is possible that if both these amounts were excluded and interest paid and corporate tax

Table 4: *Net Earnings of U.S. and U.K. Firms Compared with 'Residual' Profits*

	IR£ million[1]									
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
1 Net Earnings[2] of U.S. Companies	71.2	106.9	157.0	149.0	191.1	209.0	330.2	443.9	668.7	518.0
2 Net Earnings[3] of U.K. Companies	48.7	59.0	64.6	86.0	96.4	99.2	133.0	108.5	72.2	76.7
3 Total	119.9	165.9	221.6	235.0	287.5	308.3	463.2	552.4	740.9	594.7
4 Less:— Net earnings of U.S. and U.K. companies already included in residual	8.4	7.1	15.6	15.4	18.1	18.6	18.9	10.3	12.8	14.2
5 New Total	111.5	158.8	206.0	219.4	269.4	289.7	444.3	542.1	728.1	580.5
6 Residual (from Table 3)	206.6	289.7	376.4	482.7	559.1	511.4	817.7	889.6	1068.4	1343.6
7 Difference	95.1	130.9	170.4	263.1	289.7	221.7	373.4	347.5	340.3	763.1

[1]Both Sterling and the U.S. dollar were converted into Irish Pounds at the average market rate in December of each year.

[2]Defined as the U.S. parents equity in the net income (after foreign income tax) of their foreign affiliates plus net interest received on intercompany accounts, less withholding taxes on dividends and interest. The drop in net income of U.S. companies in Ireland in 1984 is due to data revisions. As originally published net income of U.S. companies in Ireland amounted to IR£929.2. See Survey of Current Business, June 1986, p.34 and August 1987 p.78.

[3]Excluding oil companies. Defined as U.K. companies share of overseas subsidiaries and associated companies net profits + interest received + net profits of branches overseas and after deducting depreciation and overseas tax on dividends.

Source:— Business Monitor, MA4, London: H.M.S.O; Survey of Current Business, Department of Commerce of the U.S.

payments were added in, that aggregate trading profits of U.S. and U.K. companies operating in Ireland would be higher than the figures shown in Table 4. However the residual calculated in Table 3 which consists of the trading profits (pre-tax profits plus interest payments) of both U.S. and U.K. companies as well as other foreign owned companies (German, Swiss, Italian, Japanese, etc.) and private companies which are domestically owned, should be considerably higher than the aggregate net earnings of U.S. and U.K. companies. Table 4 row 7 shows this to be the case, though for some years, for example 1980 a rather larger difference between residual profits and profits of U.S. and U.K. companies might be expected.

Finally 'residual profits' can also be compared with an estimate of the profits of foreign owned firms for 1983 derived from survey data (I.D.A.

1985, p.13). The I.D.A. survey estimates profits of manufacturing firms at IR£790 million for 1983. If published profits of U.S. and U.K. owned manufacturing firms for 1983 of IR£616 million are subtracted an estimate of other foreign owned manufacturing firms profits of IR£174 million is obtained.[9] Hence if total profits of U.S. and U.K. firms for 1983 of IR£741 million are added to other foreign owned manufacturing firms profits and an estimate of interest paid by all manufacturing firms of IR£50 million is included (I.D.A. 1985, p.3) an estimate of trading profits of foreign firms of IR£965 million is obtained. As already mentioned this total includes post tax profits of U.S. and U.K. financial firms but excludes tax and interest payments of U.S. and U.K. non-manufacturing firms and also excludes trading profits of other foreign-owned firms, for example importing, distribution, and mining companies. This total is lower than 'residual profits' of IR£1068 million which might be expected because the latter figure includes trading profits of Irish owned private companies, but the two figures are sufficiently close to suggest that 'residual profits' may be slightly underestimated.

The I.D.A. survey estimated that 20-25 per cent of manufacturing firms profits are retained in Ireland and the size of 'residual profits' compared with profit outflows for 1983 (Table 3) is consistent with this estimate. However, as noted in above and eleswhere (Stewart, 1985, p.185), the distinction between current and capital flows for M.N.C.s may not be relevant, so that total outflows in any one year may be substantially larger that outflows of dividends and interest for that year.

Residual Profits as a Percentage of G.N.P., Exports and Aggregate Profits

Table 5 shows the residual as a percentage of G.N.P., exports and aggregate trading profits for the years 1975-84. 'Residual profits' amounted to between 5.8 and 9 per cent of G.N.P. for the period 1975-84.[10] If it is assumed that all the 'residual' is due to the use of pstp Table 5 shows that exports are overestimated by between 11 and 14.9 per cent, for the period 1975-84, although the effect for particular sectors is likely to be much larger, for example the chemicals and pharmaceuticals sectors where a large proportion of the profits of U.S. companies in Ireland arise. Again if it is assumed that all the residual is due to pstp aggregate trading profits are over-estimated by a considerable margin varying from 52 to 60 per cent over the period 1975-84. It is unreasonable to assume that all the residual arises through the use of pstp. The residual is an estimate of trading profits and hence includes interest payments whereas pstp is likely to become reflected in pre-tax profits. Foreign owned companies might be expected to have profit rates at least of the same magnitude as Irish owned companies or greater than Irish companies due to market power. Special factors could also cause foreign owned firms to have profit rates or value added in Ireland above the average for similar sectors in other countries (Honohan, 1985). For example, a report on the financial system by the National Economic and Social Council (1984, p.7) states that profits of foreign owned companies may be higher than indigenously owned companies because (a) not all costs are incurred in Ireland and (b) foreign firms operate in more profitable markets. However in relation to the first point M.N.C.s could use pstp to switch profits away from Ireland to the country where costs are incurred as in the case relating to import prices into the U.K. by the Swiss pharmaceutical firm Hoffman La Roche (Adams, 1984, p.23). In relation to the second point, most trade by M.N.C.s in Ireland is likely to be intra-firm, and this raises the question of to what extent and why the Irish plant is the most profitable in a sequence of operations.

Table 6: *Residual Profits as a Percentage of G.N.P., Exports and Aggregate Profits*

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
G.N.P.	5.44	6.27	6.73	7.39	7.28	5.68	7.53	7.14	7.91	9.17
Exports of goods and Services	12.76	13.46	13.36	14.31	14.12	11.02	14.86	13.83	13.78	13.75
Aggregate Trading Profits	55.00	53.94	52.14	55.75	54.14	52.53	59.71	58.50	59.75	60.22

Source: National Income and Expenditure, 1983 and 1984 and 1986.
Dublin: Stationary Office 1985 and 1987.

If only half of one quarter of residual trading profits are due to pstp aggregate profits remain considerably overestimated and exports are also overestimated. However as indicated earlier, G.N.P. may not be affected to the same extent because it is likely that higher declared profits in Ireland has resulted in an increased outflow of funds. Table 6 shows the effects on G.N.P. exports and aggregate profits for 1984, if it is assumed that pstp accounts for varying proportions of aggregate profits and ignoring any balance of payments effects of higher declared profits on subsequent profit outflows.

Table 6: *The Effect of Varying Rates of 'Profit Switching' on G.N.P. Exports and Aggregate Trading Profits for 1984*

Percentage of Residual Trading Profits Assumed to be due to the use of Pstp	Percentage due to Pstp G.N.P.	Exports	Aggregate Profits
50	4.6	6.9	30.1
25	2.3	3.4	15.0
10	0.9	1.38	6.02

Conclusion

Aggregate trading profits of non-public M.N.C.s in Ireland were estimated as a residual by subtracting profits of other sectors from aggregate profits. This residual would largely consist of the profits of M.N.C.s operating in Ireland but also includes profits of private Irish companies. Table 5 shows that estimated profits of M.N.C.s varied between 52 per cent and 60 per cent of aggregate trading profits during the period 1975-84. Table 6 shows that if only a fraction of these profits are due to pstp this would have a considerable effect on aggregate trading profits. Exports would also be affected as estimated profits of M.N.C.s accounted for between 11 and 14.9 per cent of exports between the years 1975 and 1984.

FOOTNOTES

(1) For a discussion of profit switching transfer pricing see Stewart 1985 and 1977.

(2) In this context it is interesting to note that the Annual Report and Accounts of Youghal Carpets Ltd. for the year 1971-73, carried a note stating that the Group's taxation position was under negotiation with the Irish and United Kingdom Revenue Authorities possibly resulting in a future tax liability. At this time Youghal Carpets had manufacturing plant in both Ireland and the U.K. and substantial inter-subsidiary trading.

(3) The examples given are the E.S.B., Central Bank, Bord na Mona and C.I.E., National Income and Expenditure, 1985, Dublin: Stationery Office, 1986, p.2.

(4) The underwriting loss amounted to IR£ million 32.1, 38.8, 73.6, 97.1 and 63.7 for the years 1980-1984 respectively. See Department of Industry, Trade, Commerce and Tourism, Assurance Companies, various issues, Table 21 for 1980-84.

(5) National Income and Expenditure, 1985, Dublin: Stationery Office, 1986, p.63.

(6) In the U.K. data on aggregate trading profits is also provided by the Inland Revenue. According to Moore and Jones (1980) profits in the U.K. are underestimated because of a large proportion of trading profits are not taxed due to depreciation allowances and stock relief, and hence are often not recorded. Profit figures may then be subsequently adjusted using other data sources. According to Scherer (1980, p.282) a similar problem affects profits data produced by the U.S. Internal Revenue Service.

(7) Many of the difficulties that arise in interpreting the accounts of Semi-state companies would not arise if the recommendations of N.E.S.C. 1985, p.57 were implemented.

(8) A full list of these companies is contained in Stewart, 1987, pp.40-44. In addition the profits of Castletown were included for the years 1981-84, Power Corporation for 82-84, Printech for 1981-84, Ogilvy and Butler for 1984, and Superwood Holdings for 1982-84.

(9) There may also be differences in the way profits are measured in the U.S. data, the U.K. data and the I.D.A. Survey. For example, it is assumed the I.D.A. survey refers to pre-tax profits (although no definition is given), while profits are measured after tax in the U.S. and U.K. data. Although this difference is not likely to be important as corporate tax payments are likely to be negligible.

(10) Honohan (1984) estimated that pstp accounted for 4.5 per cent of G.N.P. in 1979 compared with an upper bound estimate of 7.3 per cent in this paper.

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