

**TASK FORCE ON HARMONISING PUBLIC SECTOR ACCOUNTS
WORKING GROUP 2
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Tax revenue, uncollectible tax, tax credits

Thank you for the opportunity to comment on your paper “Tax revenue, uncollectible tax, tax credits”. Overall, this paper provides a very useful comparison between the various methods in recognising tax revenue. In particular, the timing and the recording of tax credit are both challenging issues that are critical in ensuring the comparability of tax revenue between nations. I suggest that the discussion on tax credits should be part of the tax revenue definition or the section related to the determination of the “amounts to be recorded”. The rationale being that the outcome on the Tax Credit issue will impact on the elements to be included in tax revenue and the amount to be recognised as tax revenue.

In summary the objective is: To provide additional guidance in SNA to ensure international comparability of tax revenue considering that each country has its own tax system in place. For example, some countries may have social benefits and subsidies embedded in their tax systems other would make the payment to the individual rather than as a discount to the taxpayer liability.

Specific comments are as follows:

Preface

The summary of the conclusion is very useful to the reader, in particular, the inclusion of the SNA current treatment. In addition, I would suggest that to assist readers, it would be useful to attach Appendices summarising the various treatments under the different frameworks of “tax revenue definition”, “time of recording” and “amount to be recorded”.

I. DEFINITION OF TAX REVENUE

I support the wording “nothing is obtained in exchange”. The word “directly” has created controversy in Australia and I suggest that this word should not be included; this would remove a possible contentious issue in future interpretation of SNA guidelines.

The accountants’ notion of “past event” is important for determining the timing of the tax revenue and asset recognition. Therefore, this concept should be included in the discussion on the Time of Recording under part II of the paper not in part I.

II. ACCRUAL RECORDING OF TAXES

Time of recording

There exists 3 possible options:

- *Option 1:* At the time “when the taxable event occurs”;
- *Option 2:* At the time of an assessment/declaration/tax return is provided; or
- *Option 3:* At the time the tax is paid.

To assist the discussion on this issue, the paper should outline the three options as listed above. The preferred option should be indicated including a rationale for the proposal.

In the Preface Issue 2, the paper states that the SNA, GFSM, ESA agree on the general principle of recording tax at the time “when the taxable event occurs”. It should also add that IPSAS ITC also support this principle. In particular, as mentioned above with regards to the accountant’s notion of “past event”, IFAC-PSC ITC Chapter 3 (taxes) paragraph 3.6 states that “Taxes give rise to assets and revenue, which, under accrual accounting principles, should be recognized when the “taxable event occurs”. The taxable event is the past event that the government, legislature, or other authority has determined will be subject to taxation.”

However SNA, FGSM, ESA and IPSAS recognise the limitation of such approach and attempt to set more realistic guideline in the timing of Tax recognition. Therefore, Option 2 or Option 3 or a combination of both should be adopted. The accountants’ notion of recognising only when able to reliably measure the transaction could be incorporated in SNA. It is noted that the SNA current principle as stated in paragraph 8.49 would result in the same timing as the application of the accountants’ principle.

Amounts to be recorded

SNA, ESA 95 and IPSAS guidelines identify as a general principle that tax revenue recognised should not include parallel economy/ tax gap value, even if this amount could be estimated. This supports the timing argument that tax revenue should only be recognise when the tax revenue can be reliably measured. It is vital that the initial recognition of tax revenue is as accurate as possible. The rationale being that as the paper rightfully states in C.3 “It is implausible that GFS compilers (users) would agree to perpetually revise taxes of previous years” as well as the fact that government will make expenditure decision at budget time base on the tax revenue amount known at that time. If the estimated amount is vastly different to the actual, it may create an unexpected and possibly unacceptable surplus or deficit.

If not included as part of the definition of “tax revenue”, I suggest that the discussion on tax credits be included in this section.

Tax credits raise the challenging issue of what elements of a tax system are categorised as tax revenue and what are recognised as a country tax expenses. The resolution of this issue is critical to ensure comparability of national accounts. It is interesting to note that there are no guidelines on this issue in the current SNA. Given the importance of this issue, I recommend that the inclusion of guidelines in SNA on this matter be strongly supported by the TFHPSA.

OECD/GFSM principle differs from IPSAS-PSC as follows:

- OECD/GFSM method distinguishes between tax credits up to the amount of the tax liability of the taxpayer and the amount in excess of this liability. The former is to be deducted from the tax value, the later is to be classified as expenditure;
- IPSAS-PSC aims to provide a clear distinction between tax credits calculated on the same basis as the tax due and tax credits that are akin to the provision of social benefits and subsidies. The former reduces tax revenue, whereas the latter would increase tax revenue by the same amount and an expense would be recognised.

The OECD/GFSM option would recognise different tax revenue and expenses depending on the country tax system as it may include or exclude as the case may be social benefits and subsidies.

I support the IPSAS-PSC option, as it is more principle based and would ensure better comparability between countries. This option identifies clearly the nature of the transaction.

I note that Mr Johann Bjorgvinsson's *Tax-relief definition I*, as stated in his email dated 22 July 2004, closely align with the IPSAS-PSC option. However guidance should reflect IPSAS-PSC requirement that tax credits akin to social benefits and subsidies should increase tax revenue. I think that this is very important as it recognises that before being able to provide this type of tax credits, the government should recognise the amount as a tax revenue.

Uncollectible tax

The use of a coefficient, as outline in the paper, to determine the collectible amount is similar to the rationale applied under IPSAS for the calculation of the provision for doubtful debt. However, IPSAS recognises an increase of the provision as an expense (capital transfer) not a reduction of revenue. Furthermore, in the instance where it is evident, after all effort is made to collect the amount, that the amount is uncollectible, then the amount should be written-off, that is expensed (capital transfer). To do nothing as suggested in 3.C is not a viable option, an adjustment must be made to recognise that it is not probable that the amount will be collected in the future.

Conclusion

To meet the objective of ensuring international comparability of tax revenue between countries, it is important that the SNA guidelines contains:

- a clear definition of “tax revenue”,
- an unequivocal distinction between tax credits that are in the nature of social benefits or subsidies and other tax credits;
- appropriate timing for the recording of tax revenue; and
- the requirement to apply a coefficient based on past experience to determine the collectible amount of tax due to a government.

Annex I:

It would be useful to add the end date of the financial year, for example 31 December or 30 June. Australia financial year-end is 30 June. I assume that the example relates to a 31 December financial year-end.

I appreciate the opportunity to provide comments on this draft paper and I hope that the above comments are useful.

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