

TFHPSA – Working Group 2

Item 5: Tax Revenue, Uncollectable tax, Tax Credits

UK comments on issues raised in 23 December 2003 paper.

I Definition of tax revenue

The paper proposes that no important change in substance is necessary. The UK wants to comment on the detail of the proposal if it goes forward and we also want to suggest an alternative.

a) Detail of wording

Our point relates to the split between taxes and fees. Currently SNA says:

"If the issuance of the licence (or certificate or authorisation) implies a proper regulatory function of government (checking competence, qualifications, safety, quality etc), the payment should be recorded as the purchase of a service produced by the government, unless the payments are clearly out of proportion to the costs of providing the services."

We feel that this definition needs tightening to say that the payments can only be treated as the purchase of a service if payments are broadly similar to the costs of providing the services for each purchaser. At present there are examples of payments treated as fees because the total costs are in proportion to the total income, while there are large imbalances for some individuals.

A possible example of this would be passport fees in the UK which are treated as fees for purchases of a service. These passport fees cover the costs of issuing the passports plus the costs of overseas consular services. The use of consular services is however very uneven with those who fall ill, have accidents or are victims of crime overseas making substantial use of the services, while the majority make no use of them. There is therefore significant redistribution of benefit between the “purchasers” of services.

The UK proposes that the condition at the end of the current text be amended by adding a phrase on the lines of “for all or any of the entities benefiting from the services”.

b) Alternative proposals

A more fundamental proposal would lead to all payments to government being treated as taxes except under much more restrictive conditions.

The current SNA suggests treatment of receipts by government as tax or service charge according to whether income matches costs. The level of fees can be set in many different ways and one could argue that the method used to determine the level should not determine the classification of the payment. SNA seems to be confusing value with purpose. The purpose of the fee or levy is to raise money so that government can carry out its duty as an administrator of regulation and re-distributor of income and wealth. Following this line of argument means that all fees or levies imposed by government would be taxes implying the deletion of the extract from SNA quoted above.

There may still be a case for an exception to this, which would be as follows:

“Payments would be considered a service charge if and only if a quasi-corporation undertaking market activity could be identified, together with a separate set of accounts, and a legal basis allowing it to operate in a ring-fenced manner, as a public corporation.”

There could be other consequences of this change because it implies:

- granting permission is not a required service
- therefore granting permission is not an economic service activity
- and the right to grant permission is not an economic asset.

There would then follow some implications for clarifying the definition of assets but these are beyond the scope of this note.

III. The recording of tax credits.

The paper proposes adopting the OECD Revenue Statistics criteria for personal tax credits into SNA. We can see that this would cover a hole in SNA guidance but believe it is still not sufficiently precise. It does not define a tax credit. Implicitly it is a credit administered by the tax authorities. However, this is inadequate because the tax authority can administer a range of other payments to and from individuals which have no direct connection with the tax system itself. For example, in the UK the Inland Revenue can administer the recovery of student loans and the recovery of certain debts.

Looking forward there is likely to be a move to more joined up government and the distinction is likely to become even less clear. In the UK there could be a single government agency responsible for the collection of taxes from, and the payment of benefits to, individuals. If this went forward then every individual would have a single net monthly transaction making a payment to this agency or receiving a payment from this agency. In that case the OECD Revenue Statistics guidelines would lead to full netting off of taxes and benefits. This would be contrary to the gross principles of SNA and imply a large fall in tax burdens.

An example helps to illustrate this. Suppose the administration of state old age pensions were transferred to the tax authority. Under the OECD rules the pensions would be non-wastable tax credits and the pension would reduce or extinguish the tax liability of pensioners. OECD have said that of course state pensions would not count as tax credits but there is nothing in the rules which makes this clear.

The UK has operated a rule which says that a tax allowance can be treated as negative taxation if it meet all the following criteria:

- the benefit to individual tax payers does not exceed the amount of tax paid by them
- it is made as a matter of economic policy
- the allowance is an integral part of the tax system

These rules still require interpretation but mean that all of the examples mentioned above (student loans, recovery of debts and state pensions) would not count as tax allowances or tax credits because they fail at least one of the three criteria.

The UK therefore proposes its rules as an addition to SNA in place of the OECD Revenue Statistics criteria, for personal tax credits.

We also note that there could be a different and unresolved issue for company tax credits. Where there are examples of non-wastable tax credits, this raises potential new issues where the result is a payment to the corporation. These payments would then be subsidies and there would be an impact on GDP. This emphasises the need for very clear rules.