



STATISTICS DIRECTORATE

**National Accounts and Economic Statistics**

**APPENDIX ON GENERAL GOVERNMENT:  
RECORDING TAX REVENUE AND TAX CREDITS**

**PROPOSAL FOR THE NEW SNA**

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***PROPOSAL FOR THE NEW SNA***

**Issue 1: Definition of taxes**

*In the revised SNA, the present §7.48 and 8.43 should be modified in the following way:*

“Taxes are compulsory, unrequited payments, in cash or in kind, made by institutional units to government units. They are described as unrequited because the government provides nothing directly in exchange to the individual unit making the payment, although governments may use the funds raised in taxes to provide goods or services to other units, either individually or collectively, or to the community as a whole.”

*Comments, comparisons:*

- with the present SNA: “nothing directly in exchange” replaces “nothing in return”
- with GFSM2001: no difference in substance with GFS definition (§4.21)
- with ESA95 Manual on government deficit and debt (EMGDD): no difference
- with IPSAS (from IFAC-PSC, and ITC): consistent with the notion of “non-exchange transaction”.

**Issue 2: Accrual recording of taxes**

*In SNA 93, §7.59-60 and 8.49-50 are to be replaced by the following wording, exposed in three new paragraphs (P.1:introduction, P.2: time of recording, P.3: amounts to be recorded):*

**P.1:** Like most transactions in the SNA, taxes and social contributions are to be recorded on an accrual basis (see also chapter 2 and 3). Accrual recording means basically that flows are recorded when economic value is created, transformed, exchanged or extinguished and not when cash payments are made. In addition, it may be considered that this implies—like for accrued interest—that the flows recorded at this time are amounts due as the consequence of the underlying economic event, under the tax law.

The implementation of this general recommendation for taxes and social contributions leads to consider successively the two questions:

- the time of recording
- the amounts to be recorded

*Comments, comparisons:*

- with SNA and GFSM2001: clarifies that accruals raises both the question of the time and of the amounts

- *with EMGDD: no difference*

**P.2:** Time of recording:

This is when the activities, transactions or other events occur which create the liability to pay taxes - in other words, when the taxable events occur -, and not when they are actually paid. In the case of taxes, this usually means when income is paid or when a transaction (purchase of goods and services etc.) generating the liability is made.

Some flexibility is permitted in two cases:

- Parallel economy: some activities, transactions or events escape the attention of the tax authorities<sup>1</sup>. It is then difficult to put in relation the liability to pay taxes and the taxable economic event. Notwithstanding the fact that the amounts to be recorded can be determined only when the tax assessment is made, some flexibility should be accepted concerning the time of recording in the System. If it cannot be the time of the taxable event itself, it may be the time of the tax assessment.
- Taxes on income: in some cases, depending on the tax system, the liability to pay income taxes can only be determined in a later accounting period than that in which the income accrues and becomes taxable. This is the case when amounts due are evidenced and known with sufficient certainty only through tax assessments, declarations etc. The case of prepayment of taxes may also be considered as specific.

Therefore, in these two cases, the relevant time of recording the taxes may be not the time when they accrued (the time when the economic event generated the obligation to pay taxes), but the time when the taxes were known as due to be paid with sufficient certainty. This is not necessarily similar to the accounting period of the payment. However, in the specific case of prepaid taxes on income, the accounting period of the payment may be considered as the relevant one.

**Comments, comparisons:**

- *with SNA: extends cases where flexibility is permitted (for the amounts) to the time of recording, when it is due to be paid*
- *with GFSM2001: idem*
- *with EMGDD: no difference in substance*
- *Side question(with IPSAS): is the tax gap equivalent to the amount of uncollectible taxes. Should this be clarified?*

**P.3:** Amounts to be recorded

Like other transactions, accrued taxes are often understood as due amounts of taxes (or amounts of taxes due to be paid), as generated by the underlying economic event. However, recording accrued amounts of taxes and social contributions - at the time they are due or generated - should not lead to record amounts that are known to be uncollectible, or unlikely to be collected. The net borrowing / net lending of the general government should not be artificially improved by the recording of amounts of taxes which are unlikely to be uncollected.

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<sup>1</sup> Parallel economy is a major factor explaining the difference between what the government is entitled to collect under the tax law and what is really collectible. This difference is often referred to as the “tax gap”.

With respect to *amounts of accrued taxes*, the recommendation is to record in national accounts:

- either, amounts assessed as due adjusted by a coefficient reflecting the assessments never collected (in the recent past). Thus, the amounts of accrued tax are written down according to this adjustment, in such a way that uncollectible taxes are not recorded as government revenue. An adjustment on the revenue side of the general government is preferable to an adjustment on the expenditure side (and therefore preferable to a capital transfer for example).
- or, amounts actually paid. Nevertheless, these cashed amounts of taxes should be recorded at the time they were accruing. This method is often referred to as the time-adjusted cash basis of recording.

A combination of both methods is possible.

***Comments, comparisons:***

- *with SNA: clarifies that uncollectible taxes should not be part of government revenue, recommends the use of a coefficient, does not limit the recording of (time-adjusted) cashed amounts to special cases*
- *with GFSM2001: no difference in substance*
- *with EMGDD: no significant difference in substance, except that the recording of a capital transfer is not considered as relevant as the method of coefficient.*

**Issue 3: Tax credits**

***Paragraphs to be added ex-nihilo to the SNA***

**Definition:**

It is common that tax systems comprise elements of social redistribution (tax scales, marginal tax, impact of the size of the household, of the number of children etc.). This does not influence the recording of taxes in national accounts. Tax credits may be one element of such redistribution.

A tax credit is a reduction of tax offered to households or other entities – most often of tax on income – which is embedded in the tax system. To be recorded as such, this reduction should be part of the tax system, calculated on the same base and over the same time period like taxes. Individual information should be available through the tax statement of households or other entities benefiting from the measure.

- a) **Case of “non-wastable tax credits”:** non-wastable means that the total amount of the credit may exceed the amount of tax due, and that the element of the credit in excess over the tax due is to be paid by the government to the taxpayer.

The part of the tax credit that exceeds the taxpayer's liability and is paid to the taxpayer should be treated as an expenditure transaction (most often a social benefit) and not be deducted in the reporting of global tax revenues.

- b) **Borderline with social benefits and subsidies**

Some social benefits (like retirement pensions) and subsidies (to corporations for hiring specific categories of workers, young or handicapped workers etc.) should not be recorded as tax credits – deducted from due taxes - just because they may be netted from the amounts of taxes due to be paid in some circumstances. There should be no global netting of tax liability and benefits or subsidies resulting in a decrease of the tax burden.

The recording of tax credits should meet some criteria:

- The tax credit measure must appear as part of the tax law, the tax code and on tax statements. To that extent, could only be deducted from a given tax, amounts that are calculated on the same base as the tax (usually the income), and over the same period of time. Thus, possible VAT reimbursement to specific categories of the population cannot be deducted from the tax on income.
- The amount recorded as tax credit – deducted from tax due – cannot exceed the amount of tax due by beneficiaries. Individual information must be available through the tax statement of households or other entities benefiting from the measure. The element due in excess to tax is an expenditure of government.