

Policy brief 2015/21 Ministerstvo financií SR / www.finance.gov.sk/ifp

1st October 2015 Latest update of tax revenues

Comparison with previous forecast for 2014 - 2018 (from June 2015)

Martina Alexová

In comparison with previous forecast, we expect higher accrual tax¹ revenues for 2015 by EUR 250 mil. (0.3 % GDP). The main drivers are accelerating labour market and higher effectiveness of SSC and mineral oil collection in the current year. This revision has increased tax revenues about EUR 738 mil. (0.9 % GDP) in 2015, EUR 538 mil. (0.7% GDP) in 2016 and EUR 671 mil. (0.8 % GDP) in 2017 compared to the general government budget for 2015 - 2017².

Higher tax revenues on the entire horizon

Better macroeconomic fundaments (labour market, government investments and intermediate consumption of government) together with higher effectiveness of tax collection further increase expected general government (GG) tax revenues for 2015. In the following years, a higher collection of social contributions (SSC), corporate income tax (CIT) and excise duty (ED) on mineral oil is the main driver of the increased tax revenues. Expected tax revenues of GG for 2014 were revised upwards by EUR 26 mil. (0.03 % GDP)³ according to additional information about CIT collection. Current update of tax revenues is based on the latest macroeconomic forecast⁴ and actual information about tax collection.

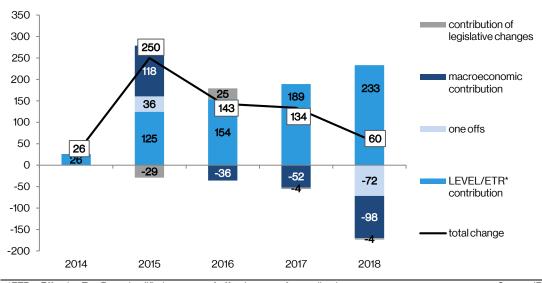


Figure 1: Change of GG tax revenue forecast compared to June 2015⁵ (EUR million)

*ETR = Effective Tax Rate simplified measure of effectiveness of tax collection

Source: IFP

¹Including social security contribution (SSC)

² Final budget figure for 2015 included additional cash reserve on improved tax collection efficiency in the amount of EUR 300 mil. (CIT: EUR 150 mil., VAT: EUR 100 mil., excises: EUR 50 mil.), which was incorporated in the parliament. Taking it into account estimated revenues in 2015 are higher by EUR 437.7 mil.

³ This revision will improve the government deficit for 2014 in October notification by 0,2% GDP (compared to June notification)

⁴Updated (September 2015) macroeconomic **policy brief** is published at IFP website

⁵ Methodology for calculation of contributions can be found in forecast evaluation methodology manual (only in Slovak)

Lower prices contributes negatively

Revised macroeconomic forecast increased tax revenues by EUR 118 mil. (0.15% GDP) in 2015. Main macroeconomic indicators with positive influence on tax revenues are better labour market conditions, higher profitability and government investments. Moderate price development causes deterioration of the nominal economic growth which has a notable negative influence on the tax revenues in the period of 2016 - 2018. On the contrary, wage and employment development has a positive effect on expected tax revenues.

	2 014	2015	2016	2017	2018
GDP, real	0.00	-0.02	-0.56	-0.56	-0.58
GDP, nominal	0.00	-0.30	-1.25	-1.30	-1.32
Final household consumption, real	0.00	0.00	-0.02	-0.16	-0.21
Final household consumption, nominal	0.00	-0.19	-0.82	-1.05	-1.20
Adjusted base for VAT ⁶	0.00	1.32	0.15	-0.18	-0.63
Wage base ⁷	0.00	0.66	0.28	0.31	0.27
Stock of deposits	0.00	0.69	1.70	2.78	2.87

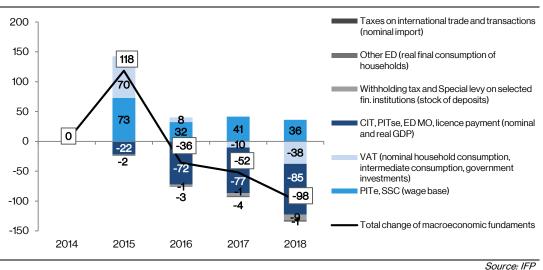


Figure 2: Macroeconomic impact on tax revenue forecast⁸ (EUR mil.)

Higher effectiveness of tax collection

Higher effectiveness of tax collection⁹ increases expected tax revenues from EUR 154 mil. (0.19 % GDP) in 2016 to EUR 233 mil. (0.26 % GDP) in 2018. The main reason for such an increase is a higher collection of both social and health contributions. Based on the SSC development in the current year we revised our expectation about their yield on the whole forecasted horizon. Increased revenues from excise duty on mineral oil further raise tax revenues for years 2016-2018. Based on the new information from postponed income tax returns we expect additional revenues from CIT. On the contrary, stabilisation of VAT ETR drag the expected tax revenues slightly down for 2015-2018.

⁶ Analytical approach to capture the most realistic VAT base. Adjusted VAT base is composed from final consumption expenditures of households, intermediate consumption of general government (GG) and gross fixed capital formation of GG. Further, from intermediate consumption and gross fixed capital formation is deducted sum spent by VAT payers

⁷ Annual average wage multiplied by number of employed people

⁸ Taxes are categorized based on the level of influence of the macroeconomic aggregate on the particular tax. ED = excise duty, PITse = PIT business activity, PITe = PIT dependent activity, ED MO = excise duty on mineral oil, SSC = social security contributions

⁹ Effectiveness of tax collection is measured by effective tax rate ("ETR")

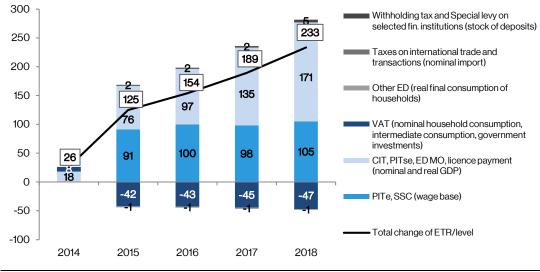


Figure 3: Impact of ETR on tax revenue forecast (EUR mil.)

Source: IFP

Legislative changes

Changes in legislation¹⁰ have a negative impact (-0.04% GDP) on the expected tax revenues in 2015. The overall impact of legislation changes is shown in Table 2.

Table 2: Major changes in legislation (ESA2010, EUR ths.)				
New adopted legislation changes, included	2015	2016	2017	2018
Act no. 222/2004 Coll. on VAT		0	0	0
Domestic reverse charge in construction sector		0	0	0
Act no. 595/2003 Coll. on Income Tax		-3 149	-3 149	-3 149
Exemption of social allowance from Social fund up to EUR 2 000		-3 149	-3 149	-3 149
Act no. 145/1995 Coll. on administrative fees		-1 180	-1180	-1 180
Relief for minivans (it is not a tax revenue)		-1 180	-1 180	-1 180
Act on voluntary and active military service		50	113	115
Act no. 564/2004 Coll. on budget determination of PIT ¹¹		0	0	0
TOTAL		-4279	-4 216	-4 214
Revision of previously incorporated legislation changes, included				
Act no. 222/2004 Coll. on VAT	-28 998	34798	0	0
Return of excess deduction in shorter time period	-28 998	28 998	0	0
Cash accounting scheme (1.1.2016) ¹²	0	5 800	0	0
Act no. 106/2004 Coll. on excise duty on tobacco	0	0	700	700
Change of taxation of cigars and cigarillos (from pieces to weight)	0	0	700	700
Act no. 595/2003 Coll. on Income Tax	0	-5 205	0	0
Withholding tax on cash and in-kinds benefits (change in payment period)	0	-5 205	0	0
TOTAL	-28 998	29 593	700	700
SUM OF NEW AND REVISED LEGISLATION	-28 998	25 314	-3 516	-3 514
Announced but not approved legislation up to September 2015, not included		2016	2017	2018
Lower VAT rate for selected food items		-76 943	-80 611	-84 603
Cigarettes - indexation		7 662	16 472	26 436
TOTAL		-69 281	-64 139	-58 167

Continuing positive development in CIT

In case of CIT we are experiencing ongoing positive development. Based on the new information from postponed income tax returns we expect additional revenues from tax

¹⁰ Adoption of a new legislation and update of previously included legislation impact

¹¹ Since 2016 whole yield from PIT is divided between municipalities and self-governing regions in 70% to 30% ratio. This change has no impact on accrual PIT revenue

¹² Special VAT regime when VAT payer pays VAT on sales after receiving payment from purchaser. Similarly VAT payer reclaim VAT on purchase after paying his supplier

settlement in the amount of EUR 27 mil. (0.03% GDP). It positively influence accrual revenues in 2014¹³. Together with this revision it is expected that adjusted¹⁴ CIT revenues will increase by more than 12% annually in 2014. This is far more than recorded economic (measured by GDP) or profitability growth (3%) within the country in the same year. **We assume this is a secondary effect of successful higher collection rate in VAT**¹⁵. The forecast of CIT revenues in actual year is influenced by positive development of profitability in the first half of the year (3.8% y-o-y). Development of profit in case of profitable companies which in fact pay CIT is even more positive (12% y-o-y in the first half of 2015) but is not incorporated in the estimate. In the following years we expect growth of CIT revenues approximately in line with forecasted profitability measured by GDP minus compensation of employees.

VAT effective tax rate (ETR) is stabilizing after nine quarters of its continuous growth. For 2015 we expect ETR at the same level as in first half of the year. For the next three years we expect stable ETR on the 2015 level.

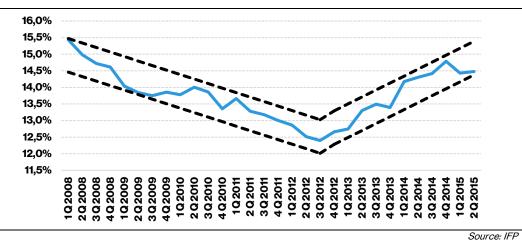


Figure 4: VAT effective tax rate (%)¹⁶

Faster SSC growth than wage base

In the first half of 2015 we have noticed **very positive development of social and health contributions.** In both cases annual growth was higher than corresponding growth of macroeconomic base (Figure 5 and 6). As we are currently unable to reasonably explain higher growth of SSC than wage base, for the rest of the year we forecast approximately its equal growth. Favourable development of contributions from self-employed further increase health contribution revenues compared to social one.

159 thousand people left II. pillar **Opening of the II. pillar increased cash revenues.** According to the latest available information almost 160 thousand people left II. pillar and approximately 21 thousands joined. As a result the cash revenues of Social Insurance Agency will be increased by

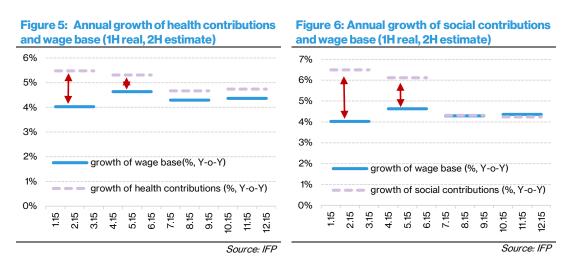
¹³ The amount of advances depend on the last known tax liability. Overpayment and underpayment of advances resulting from the final tax liability declared in the tax return has to be settled up within 40 days after the tax return has been filed. The cash payment from tax settlement is attributed to calendar year when the activity took place to generate the tax liability

¹⁴ Revenues are adjusted about adopted legislative changes which influence benchmarked years (eg. decrease of CIT rate from 23% to 22%, introduction of minimum CIT and etc.), annual increase of non-adjusted CIT revenues equal to 14,4%.

¹⁵ A higher effectiveness of VAT collection is also reflected in better collection of corporate income tax through multiple channels (eg. increase of the final tax liability in legal persons initially reducing their sales or lowering of multiple and artificial invoices included in the accounts, etc.).

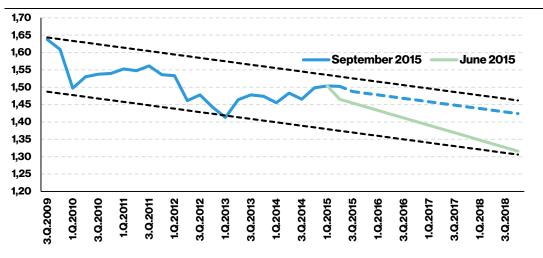
¹⁶ VAT effective tax rate is calculated as VAT revenues divided by the sum of household final consumption, intermediate consumption of general government and gross fixed capital formation of general government. VAT revenues stem from VAT tax returns and are adjusted by legislative changes and other factors

EUR 579 mil. (0.75% GDP). This amount decreases public debt, but has no impact on GG deficit. The accrual impact is estimated at 16 EUR mil. in 2015 and EUR 28 mil. in 2016.



Effectiveness of excise duty on mineral oil is stabilising Since second quarter of 2013 we are observing increasing effectiveness of **excise duty on mineral oil** (measured by ETR). Positive development was confirmed also in the first half of 2015. Therefore we decided to slow the forecasted declining trend of its ETR (Figure 7). A higher revenue is slightly offset by a less positive expected economy growth. **Development of other excise duties is in line with the latest forecast.**

Figure 7: Excise duty on mineral oil, ETR development (%)



Source: IFP

Without improvement in effectiveness of motor vehicle tax

Lower than expected yield of the special levy in regulated industries

A reform of **motor vehicle tax**, valid from 1st January 2015, introduced harmonised lower tax rates for all vehicles together with discounts for newer vehicles. We expected that lower rates will be compensated by higher effectiveness of the tax collection¹⁷. However, the latest information about advance payments do not confirm improved effectiveness. Therefore we revise downward the tax revenue by EUR 16 million (0.02% GDP) in 2015. In following years we expect steady tax collection on the revised level in 2015.

The yield of the **special levy in regulated industries** which is paid by companies in industries with limited competition is expected to decrease due to the lower tax

¹⁷ According to the analysis of motor vehicle tax returns (for year 2013, analysis available in Slovak) we estimated EUR 20 mil. gap between potential and collected revenues.

settlements by EUR 11 million (0.01% GDP) in 2014. This has been incorporated in the effectiveness of its collection in following years.

Ministry of Finance (MoF) prepares and publishes forecast of tax and social contribution revenues in accordance with the constitutional Fiscal Responsibility Act. The forecast of tax and social contributions revenue was discussed at the meeting of **The Tax Revenue Forecast Committee on 23rd September 2015.** The forecast was evaluated as a **realistic** by every member of the Committee (NBS, KRRZ, Infostat, SISP, Tatrabanka, UnicreditBank and ČSOB¹⁸).

More about tax forecast, including materials and relevant documents can be found on the website of the IFP in the section Economic forecasts ⇒ tax forecast.

This document presents the views of its authors and of the Institute for Financial Policy which do not necessarily reflect the official views of the Ministry of Finance of the Slovak Republic. The analyses prepared by the Institute for Financial Policy (IFP) are published to stimulate and enhance professional and general discussion on various economic topics. Therefore, any quotations of this text should refer to the IFP (and not the MFSR) as to the author of these views.

¹⁸ NBS=National Bank of Slovakia, KRRZ=Council for Budget Responsibility and Infostat are public organizations. SISP, Tatrabanka, UnicreditBank and ČSOB are private banks.

Table 3: Actual forecast and com	parison	with	Gener	ral Go	vernn	nent bu	dget f	or 2015	-2017 a	nd prop	oosal fo	or GG bu	idget fo	r 2016 ·	-2018 (EUR mi	illion, E	SA20	10)									
	(1) GG b	oudget 2	015 – 201	L7 (Sep 2	014)	(2)	Proposal f	or GG budg	et 2016-201	.8 (June 201	.5)		(3) Actua	al forecast (September	2015)			Differ	ence (3)	- (1)			Diff	erence (3) – (2)		
Indicator	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017 2	201 8
Total GG tax revenues	12 067	12 469	12 950	13 459	13 890	12 098	12 782	13 320	13 868	14 403	15 171	12 098	12 808	13 414	13 882	14 399	15 091	31	338	464	423	509	0	26	94	14	-4 -	-80
Tax on income, profit and capital assets	4 353	4 560	4 852	5 100	5 382	4 371	4 767	5 086	5 385	5 720	6 148	4 371	4 796	5 157	5 399	5 735	6 090	18	236	305	299	352	0	29	71	14	14 -	-58
Personal income tax	2 145	2 269	2 394	2 536	2 685	2 146	2 276	2 413	2 555	2 709	2 887	2 146	2 278	2 423	2 555	2 709	2 886	1	9	29	19	24	0	2	9	0	-1	-2
Income from dependent activity and function benefits	2 010	2 132	2 249	2 385	2 527	2 010	2 138	2 267	2 407	2 556	2 728	2 010	2 138	2 275	2 406	2 555	2 726	0	6	26	22	28	0	0	8	0	-1	-2
Income from business and other self – employment activity	135	137	145	152	157	136	138	146	148	153	159	136	140	148	149	154	160	1	3	3	-3	-4	0	2	1	1	0	0
Corporate income tax	2 031	2 120	2 312	2 407	2 525	2 047	2 315	2 518	2 661	2 833	3 064	2 047	2 342	2 575	2 677	2 846	3 007	17	222	263	270	322	0	27	57	16	13 -	-57
Withholding income tax	178	171	146	156	173	178	175	155	169	178	197	178	175	159	167	180	197	0	4	13	10	7	0	0	4	-2	2	0
Domestic taxes on goods and services	6 681	6 931	7 142	7 393	7 653	6 681	7 028	7 263	7 502	7 818	8 125	6 681	7 036	7 318	7 536	7 817	8 116	0	105	177	143	164	0	8	56	34	-1 ·	-10
Value added tax	4 696	4 917	5 099	5 314	5 546	4 696	5 013	5 200	5 424	5 700	5 992	4 696	5 021	5 236	5 424	5 645	5 907	0	104	137	110	99	0	8	37	0	-55 -	-84
Excise taxes	1 985	2 014	2 043	2 079	2 107	1 985	2 015	2 063	2 078	2 118	2 134	1 985	2 015	2 082	2 113	2 172	2 208	0	1	40	33	65	0	0	19	34	54	75
On mineral oil	1 045	1 067	1 080	1 104	1 126	1 045	1 077	1 107	1 104	1 110	1 114	1 045	1 077	1 126	1 139	1 165	1 190	0	10	46	36	39	0	0	20	35	55	77
On spirits	201	202	206	210	212	201	202	204	208	213	217	201	202	205	209	213	217	0	-1	-1	0	1	0	0	1	1	1	1
On beer	56	56	57	58	59	56	55	59	60	61	62	56	55	56	57	58	59	0	-1	-1	-1	-1	0	0	-3	-3	-3	-3
On wine	4	4	4	4	5	4	4	5	5	5	5	4	4	5	4	5	5	0	0	0	0	0	0	0	0	0	0	0
On tobacco	636	643	654	661	662	636	640	652	664	692	698	636	640	653	665	692	698	0	-3	-1	4	30	0	0	0	0	0	0
On electricity	17	17	17	17	18	17	14	13	13	14	14	17	14	13	13	13	14	0	-3	-4	-4	-4	0	0	0	0	0	0
On natural gas	25	23	24	24	24	25	22	23	23	23	24	25	22	24	24	24	25	0	-1	0	0	0	0	0	1	1	1	1
On coal	1	1	1	1	1	1	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxes on international trade and transactions	28	29	30	26	28	28	32	30	25	27	29	28	32	28	23	25	27	0	2	-2	-3	-3	0	0	-2	-2	-2	-2
Local taxes (including motor vehicle tax to 2015)	640	652	675	682	702	640	647	514	517	538	562	640	647	514	516	537	561	0	-5	-161	-166	-165	0	1	0	-1	-2	-2
Other taxes	364	297	251	258	125	377	309	427	439	300	307	377	297	396	408	286	298	13	0	145	151	161	0	-12	-31	-31	-14	-9
Social security funds (SSC) (S1314)	8 132	8 547	8 673	9 064	9 491	8 132	8 539	8 790	9 049	9 515	10 031	8 132	8 539	8 946	9 179	9 653	10 171	0	-8	274	115	162	0	0	156	129	138 1	L40
Social contribution (incl. taxes due)	5 495	5 767	5 965	6 225	6 489	5 495	5 761	5 976	6 243	6 540	6 870	5 495	5 761	6 072	6 324	6 625	6 956	0	-7	108	98	136	0	0	96	80	85	86
Health contribution (incl. taxes due)	2 636	2 780	2 708	2 839	3 002	2 636	2 779	2 815	2 806	2 975	3 161	2 636	2 779	2 874	2 855	3 028	3 215	0	-2	166	16	26	0	0	60	49	53	54
TOTAL tax and SSC revenues	20 198	21 017	21 622	22 523	23 381	20 229	21 321	22 110	22 918	23 919	25 202	20 229	21 347	22 360	23 061	24 052	25 262	31	330	738	538	671	0	26	250	143	134	60
Fines and penalties	39	42	42	42	42	39	49	50	50	50	50	39	49	35	35	35	35	0	7	-7	-7	-7	0	0	-14	-14	-14 -	-14
Tax and SSC revenues including penalties	20 238	21 059	21 664	22 565	23 423	20 268	21 370	22 159	22 967	23 968	25 252	20 268	21 396	22 395	23 096	24 087	25 297	31	337	731	531	664	0	26	236	129	119	45
% HDP	27.5	28.0	27.8	27.5	27.0	27.5	28.4	28.5	28.1	27.8	27.7	27.5	28.4	28.9	28.5	28.1	27.9	0.0	0.4	0.9	0.7	0.8	0.0	0.0	0.3	0.2	0.1	0.0
Central government (S1311)	9 429	9 797	10 127	10 488	10 883	9 446	10 100	10 455	10 876	11 368	11 946	9 446	10 137	10 563	10 855	11 309	11 812	18	340	436	367	426	0	37	108	-21	-58 1	-
State financial assets (S1311)	291	225	179	187	55	304	236	194	203	58	61	304	225	182	190	60	63	13	0	3	3	5	0	-12	-12	-13	1	2
Local government (S1313) - municipalities	1 719	1 803	1 950	2 060	2 183	1 719	1 798	1 958	2 056	2 194	2 332	1 719	1 798	1 959	2 088	2 229	2 367	0	-5	9	28	46	0	0	1	32	36	35
Local government (S1313) – high territorial	556	573	623	654	699	556	575	634	656	705	754	556	576	634	674	725	774	0	3	11	20	26	0	1	0	18	20	20
units Radio and TV licence fee (S1311)	71	71	70	69	69	71	71	78	77	77	77	71	71	75	75	75	75	0	1	5	5	6	0	0	-4	-2	-2	-2
CO2 emission tax (S1311)	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	0	0	0	0	0	0	0	0		0
Expenditure on public purpose	47	51	54	50	54	47	52	59	55	58	63	47	52	60	56	59	64	0	2	6	6	6	0	0	1	1	1	1
of which persons	21	22	23	25	27	21	22	24	26	28	30	21	22	24	26	29	31	0	0	1	1	1	0	0	1	1	1	1
of which corporates	26	29	31	25	26	26	30	35	29	31	33	26	30	36	30	31	33	0	1	5	4	4	0	0	0	1		0
or milen corporates											25							-	-	-	-	-	-	-	-	-		

Table 4: Difference between actual forec	ast and	June 201	5 forecas	t - contril	outions (ESA2010	, tis. EUR)														
	2 014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	
	LEVEL/ETR contribution						Macroeconomic contribution						One offs	;		Legislation contribution					
Personal income tax	1 867	-4 951	-3 711	-9 387	-6 873	0	14 427	4 784	9 512	6 115	0	0	0	0	0	0	0	-796	-779	-779	
Corporate income tax	27 092	77 062	72 933	75 691	83 583	0	-19 566	-56 884	-62 836	-68 477	0	0	0	0	-71 645	0	0	0	0	0	
Withholding income tax	0	6 875	7 470	8 306	11 156	0	-2 841	-4 756	-6 146	-11 320	0	0	0	0	0	0	0	-5 205	0	0	
Value added tax	8 127	-41 847	-42 824	-44 662	-46 736	0	69 764	7 958	-10 196	-37 558	0	37 638	0	0	0	0	-28 998	34 798	0	0	
Excise taxes	0	19 356	40 917	60 974	82 422	0	-176	-6 439	-7 752	-8 552	0	0	0	0	0	0	0	0	700	700	
On mineral oil	0	19 919	41 495	61 556	83 008	0	-166	-6 214	-6 177	-6 495	0	0	0	0	0	0	0	0	0	0	
On tobacco	0	300	303	304	306	0	-7	-153	-1 067	-1 389	0	0	0	0	0	0	0	0	700	700	
Other taxes	-10 886	-29 756	-26 777	-11 553	-4 916	0	-1 290	-6 091	-4 472	-6 403	0	-1 648	0	0	0	0	0	-1 180	-1 180	-1 180	
Tax revenues	26 200	26 738	48 008	79 367	118 637	0	60 319	-61 427	-81 889	-126 196	0	35 990	0	0	-71 645	0	-28 998	27 617	-1 259	-1 259	
Social contribution (include taxes due)	0	57 230	64 571	66 480	68 669	0	39 135	17 300	20 150	18 811	0	0	0	0	0	0	0	-1 625	-1 592	-1 590	
Health contribution (include taxes due)	0	40 795	41 318	43 535	45 973	0	18 770	8 301	9 675	9 037	0	0	0	0	0	0	0	-678	-665	-665	
Social security funds (SSC)	0	98 025	105 889	110 015	114 642	0	57 905	25 601	29 825	27 848	0	0	0	0	0	0	0	-2 302	-2 256	-2 255	
	26,200	424762	453.000	400 202	222.270	0	110 224	25.026	53.064	00.240		25.000	•	0	74 645	•	20.000	25.24.4	2 545	2544	
Total tax and SSC revenues	26 200	124 763	153 896	189 382	233 279	0	118 224	-35 826	-52 064	-98 348	0	35 990	0	0	-71 645	0	-28 998	25 314	-3 515	-3 514	