

1st October 2015

Latest update of tax revenues

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

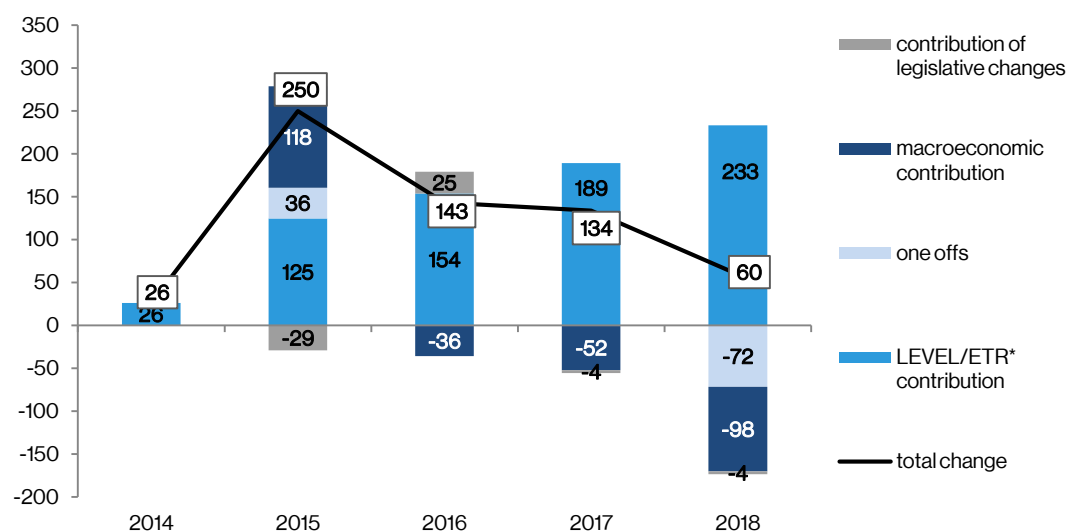
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In comparison with previous forecast, we expect higher accrual tax¹ revenues for 2015 by EUR 250 mil. (0.3 % GDP). The main drivers are accelerating labour market and higher effectiveness of SSC and mineral oil collection in the current year. This 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 fundamentals (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)

⁴ Updated (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)

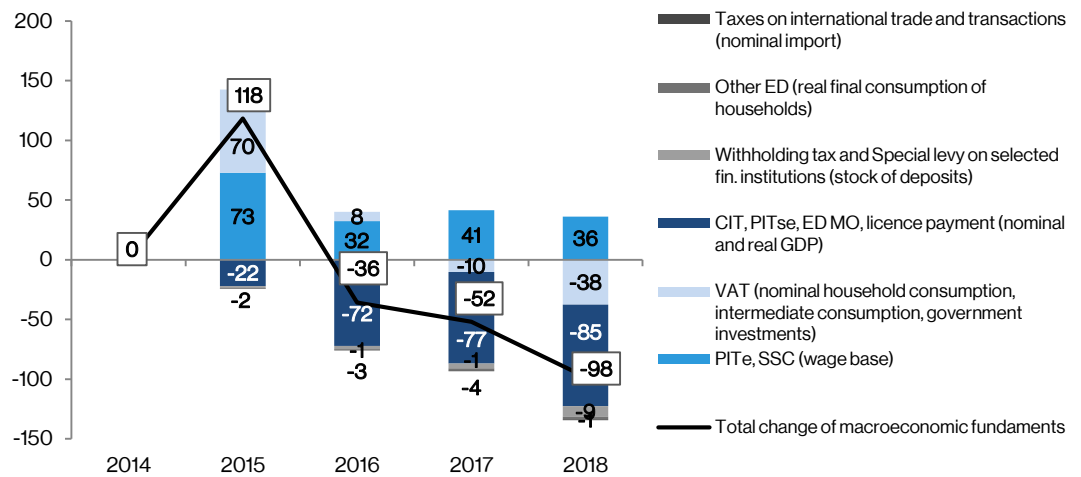
Lower prices contributes negatively

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.

Table 1: Update of main macro indicators, September vs. June 2015 (in p.p.)

	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.)



Source: IFP

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.

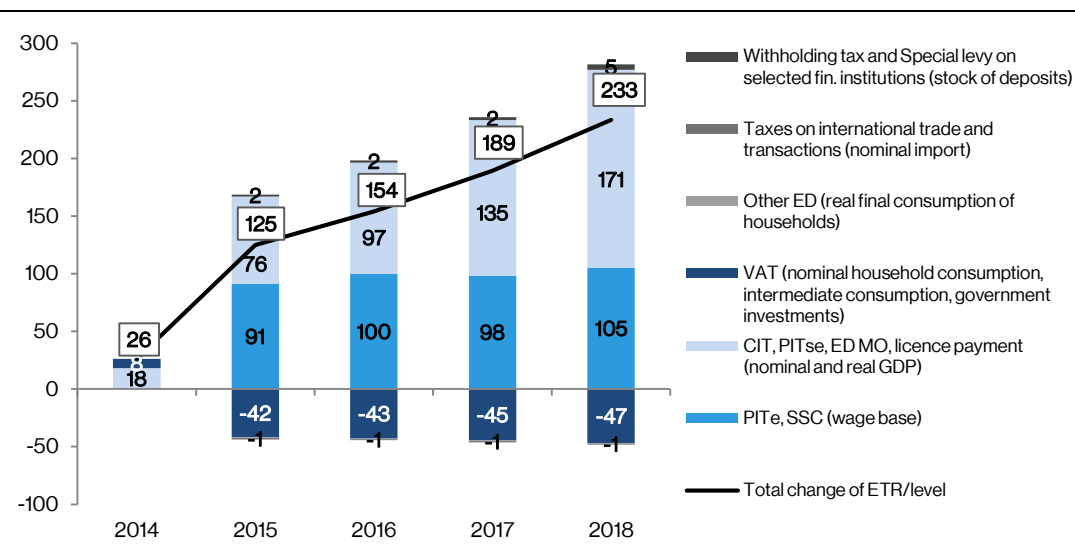
⁶ Analytical approach to capture the most realistic VAT base. Adjusted VAT base is composed from final consumption expenditures of households, intermediate consumption of general government (GG) and gross fixed capital formation of GG. Further, from intermediate consumption and gross fixed capital formation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

	2015	2016	2017	2018
New adopted legislation changes, included				
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	-1 180	-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 PIT¹¹		0	0	0
TOTAL		-4 279	-4 216	-4 214
Revision of previously incorporated legislation changes, included				
Act no. 222/2004 Coll. on VAT	-28 998	34 798	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

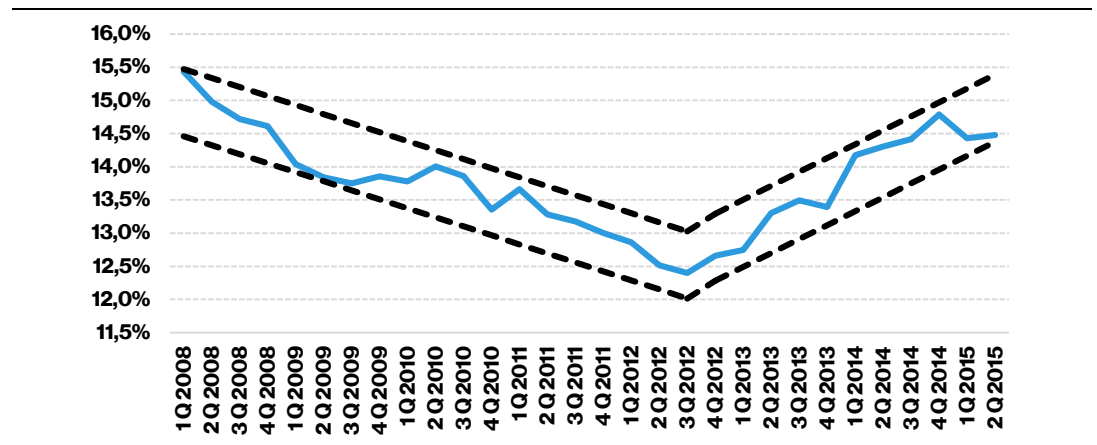
¹¹ Since 2016 whole yield from PIT is divided between municipalities and self-governing regions in 70% to 30% ratio. This change has no impact on accrual PIT revenue

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 VAT¹⁵**. 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



Source: IFP

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

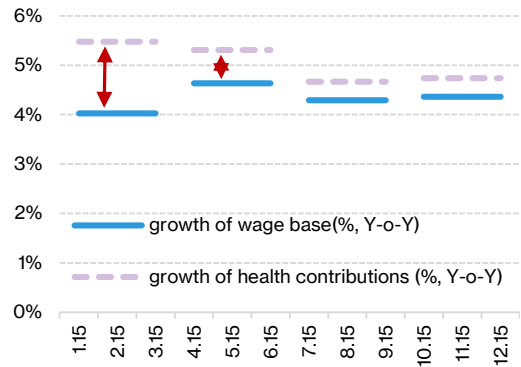
¹⁴ Revenues are adjusted about adopted legislative changes which influence benchmarked years (eg. decrease of CIT rate from 23% to 22%, introduction of minimum CIT and etc.), annual increase of non-adjusted CIT revenues equal to 14,4%.

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

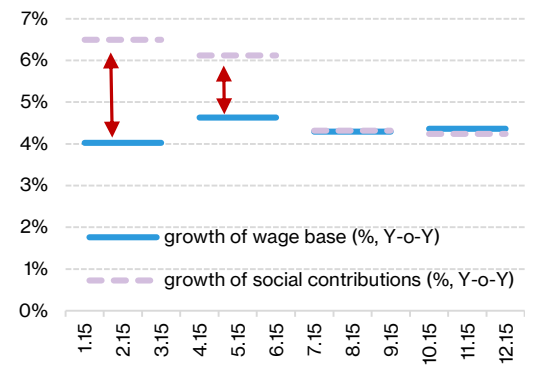
EUR 579 mil. (0.75% GDP). This amount decreases public debt, but has no impact on GG deficit. The accrual impact is estimated at 16 EUR mil. in 2015 and EUR 28 mil. in 2016.

Figure 5: Annual growth of health contributions and wage base (1H real, 2H estimate)



Source: IFP

Figure 6: Annual growth of social contributions and wage base (1H real, 2H estimate)

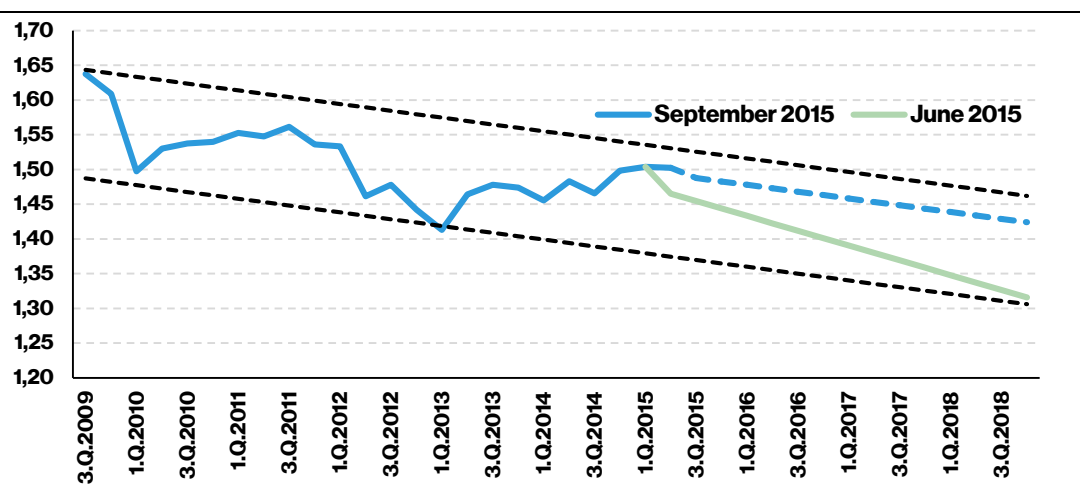


Source: IFP

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

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.

Lower than expected yield of the special levy in regulated industries

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](#).

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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 4: Difference between actual forecast and June 2015 forecast - contributions (ESA2010, tis. EUR)

	2014	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
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

