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Stronger tax revenues on the back of a robust economy

Tax revenue forecast and estimate for 2017 – 2021 (June 2018)

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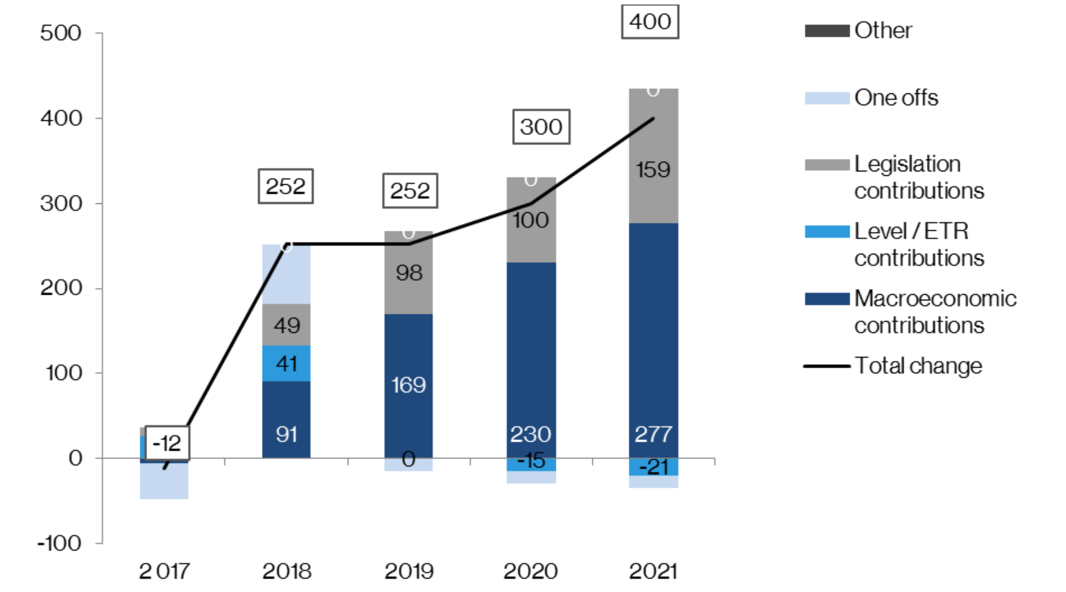
New tax and contributions projection increases expected revenues by EUR 252 to 400 mill. (0.28 to 0.37 % GDP) compared to the February forecast. Two thirds of current revision is based on better macroeconomic development, mainly due to the stronger labour market. VAT tax collection efficiency is improving compared to the last tax projection. New legislative measures increase revenues from 2019.

Strong growth of revenues

Based on updated tax collection information and latest macroeconomic forecast we increase expected General Government (GG) revenues by EUR 252 to 400 mill. for 2018 – 2021 (Figure 1) as compared to February tax revenues estimates. Ongoing improvements in the labour markets contribute significantly to higher accrued revenues. Revised legislative measures positively affect tax estimates. Contribution of changes in effective tax rates is neutral over the forecast horizon.

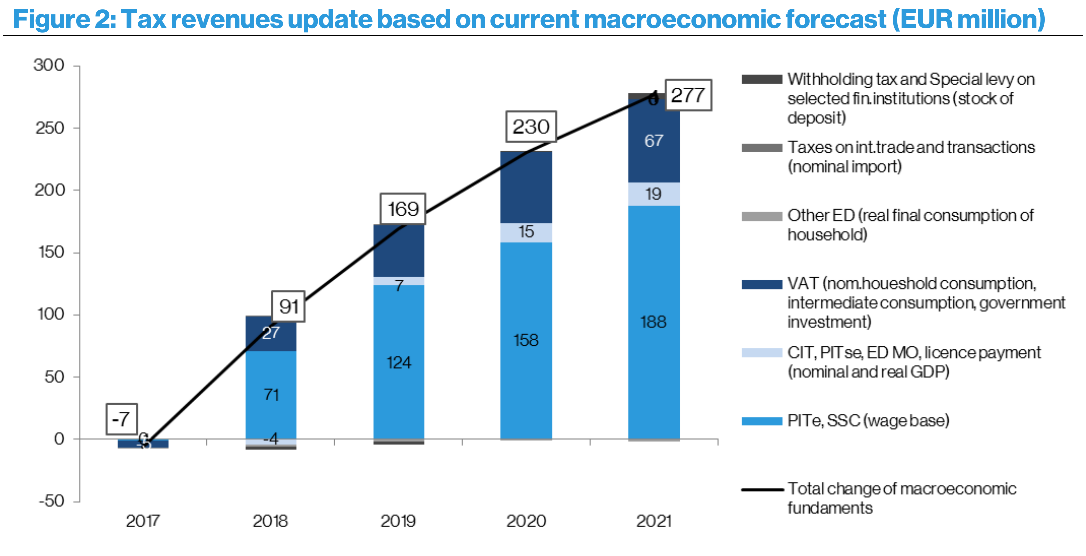
Figure 1: Change of GG tax revenues forecast compared to February 2018 (EUR million)



Source: IFP, UloziskoIFP

Robust labour market

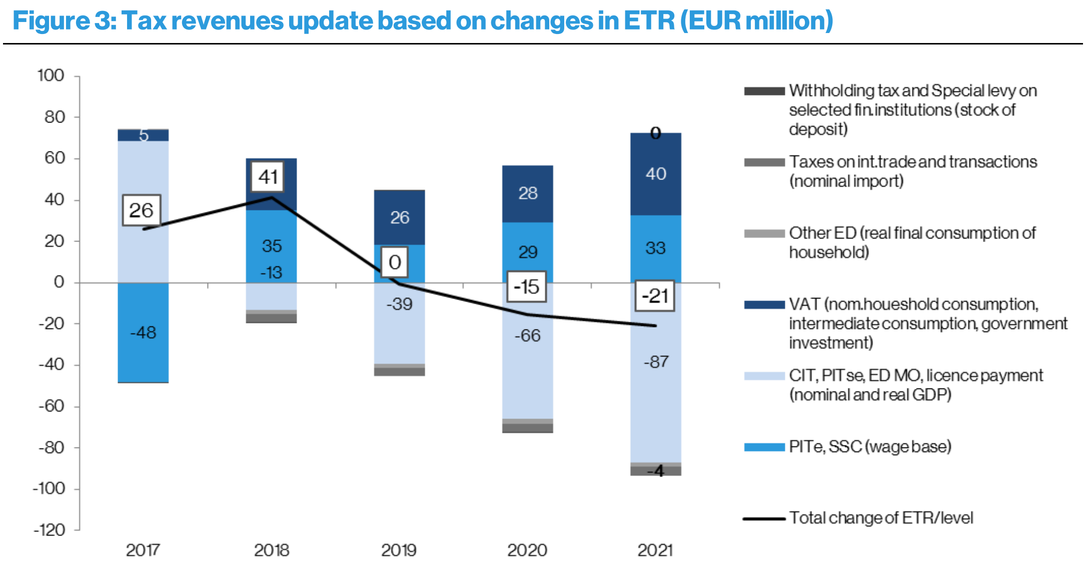
The revised macroeconomic forecast increases tax revenues in 2018 – 2021 (Figure 2). Favourable developments in the labour market have significantly revised up projections of personal income tax (PIT), as well as that of social and health security contributions. Higher disposable income of households positively influences consumption and VAT revenues. Updated growth of macro bases generates weaker revenues of select excise duties.



Source: IFP, *UloziskoIFP*

Harmless ETR

Changes in effective tax rates (ETR) have overall a neutral effect on new tax revenue estimates (Figure 3). Higher CIT settlement for 2017 is offset by lower growth of profitability in next years which drags down ETR. Better tax collection for PIT and SIC outperform their macro base in 2018 which drives up ETR. Changes in ETR for SIC are also influenced by revised impact of legislative measures effective already in 2017. The ETR for VAT is improving in comparison to its level in the previous forecast.



Source: IFP, *UloziskoIFP*

Legislative measures support revenues

Revised legislative measures raise revenues over the entire forecast horizon. New insurance premium tax replaces existing special levy on insurance since 2019. Annual tax settlement of SIC will be introduced in 2021 with positive effect on revenues. Based on analysis of micro data for 2017 we revise up the estimated impact of an increase in maximum assessment base for SIC as well as changes in lump-sum allowances for self-employment on PIT.

Table 1: New legislation included in tax revenue forecast (EUR million)

Legislative measures	ESA 2010 2017	2018	2019	2020	2021
New legisaltive measures		**27**	**81**	**85**	**147**
Insurance premium tax			74	76	78
Abolition of special levy from insurance			-20	-20	-20
Reclassification of levy on compulsory car insurance (*PZP*)		27	28	29	30
Annual tax settlement for SIC					59
Index of tax reliability			0	0	0
Tax support for dual education and training			-	-	-
Revised legislative measures	**10**	**22**	**16**	**15**	**12**
Introduction of 13th and 14th salary (1.5.2018)	0	2	4	4	3
Increase of maximum assessment base of SIC	25	26	26	25	24
Abolition of maximum assessment base of HIC	6	9	8	6	3
HIC allowance update	2	-3	-5	-7	-9
Abolition of HIC allowance for employers	0	-2	3	5	7
Special levy from insurance	0	11			
Lump-sum allowances for self-employment PIT	-21	-21	-21	-21	-21
Revision of CIT legislative measures impact	-3	0	1	4	6
TOTAL LEGISLATION IMPACT	**10**	**49**	**98**	**100**	**159**
TOTAL LEGISLATION IMPACT (% of GDP)	***0.01***	***0.05***	***0.10***	***0.10***	***0.15***

Source: IFP, ***UloziskoIFP***

Table 2: Update of main macro indicators, February 2018 vs. June 2018

	growth in %					change compared to February 2018 (in pp)				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
GDP, real	3.4	4.1	4.5	3.9	3.3	0.0	-0.2	0.0	0.0	-0.1
GDP, nominal	4.7	6.4	6.9	6.4	5.9	-0.1	0.3	0.3	0.2	0.1
Final household consumption, real	3.7	3.4	3.2	2.8	2.5	-0.1	-0.1	0.0	0.0	0.0
Final household consumption, nominal	5.1	6.0	5.6	5.3	5.0	-0.2	0.4	0.2	0.2	0.1
Adjusted base for VAT	4.6	5.6	5.4	5.0	4.9	-0.1	0.5	0.2	0.2	0.1
Wage base	6.5	7.5	6.8	6.5	6.0	0.0	0.6	0.3	0.2	0.1
Stock of deposit	5.3	5.6	6.9	6.1	6.5	0.1	-0.9	0.6	-0.2	0.5

Source: IFP, ***UloziskoIFP***

Stronger tax settlement of CIT for 2017

Following the tax settlement of CIT related to year 2017, accrual tax revenues for 2017 and 2018 are adjusted upwards. Tax settlement declared in filled tax returns[1] has already outgrown our expectations from the last tax projection. Therefore, we revise tax settlement of corporations which postponed submission of tax returns[2]. During years 2019 – 2021, higher than expected tax settlement for 2017 is offset by assumed slower growth of corporate profits.

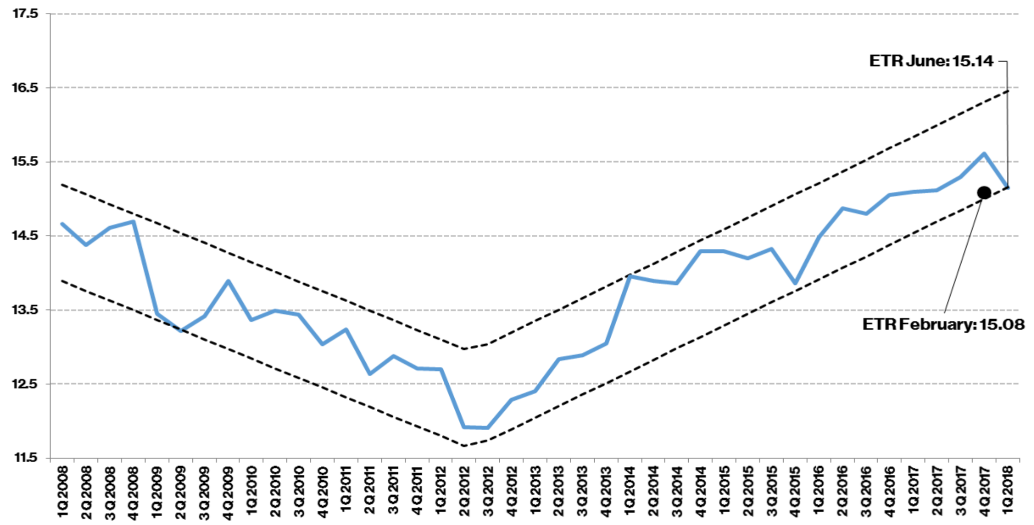
Growing VAT revenues

In comparison to the last tax projection, VAT collection efficiency is improving. VAT tax revenues are revised upwards due to stronger growth of cash revenues and positive one-off impact related to audits by Financial administration. Tax projection for 2019 – 2021 assumes further VAT revenues growth supported by increasing consumption of households and preserving the current efficiency of tax collection.

[1] Approximately 150 000 corporations submitted tax return till the end of May 2018. In terms of volume, roughly 55 % of total tax revenues is accounted for.

[2] Submission of tax return for year 2017 was postponed till the end of June or September.

Figure 4: Effective tax rate VAT (%)

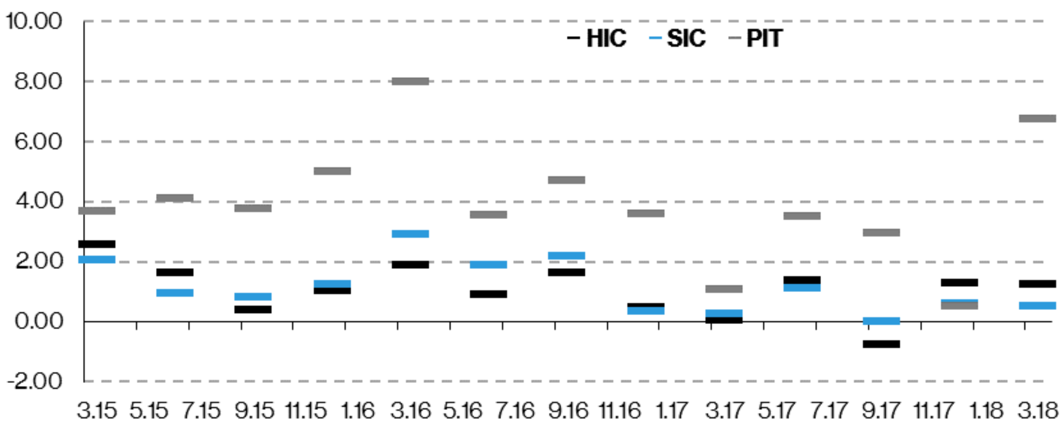


Source: IFP, UloziskoIFP

Revenues outpace macrobase

Ongoing strong labour market development significantly spurs tax revenues. Collection of PIT and SSC outperform their own macro base in 1Q 2018 (Figure 5). For 2019 – 2021 we expect unit elasticity for SSC. Tax allowances for PIT are indexed to minimum living standards, which increases. This will have negative impact on expected PIT revenues from 2019 onwards.

Figure 5: Comparison of growth of wage base and revenues from PIT and SSC (YoY, in percentage)



Source: IFP, UloziskoIFP

Revision of excises duties

Excises duties are revised slightly down compared to the previous forecast. Lower tax collection of excises duties on spirits drags down expected revenues. We revise expected revenues from mineral oils in line with the growth of the real GDP. Other excise duties remain stable compared to the previous forecast.

We increase expected GG revenues by EUR 386 mill. for 2018 compared to the approved GG budget for 2018-2020. This is mainly due to higher than projected revenues from VAT and Social security funds, which are boosted by stronger macroeconomic development.

The Ministry of Finance of the Slovak Republic, in accordance with the Constitutional Act on Budget Responsibility, has updated and published the forecasts of tax and levy revenues. These forecasts were discussed at the meeting of the **Tax Forecast Committee (VpDP) on June 21, 2018. The Bureau of Budgetary Responsibility Council (KRRZ), NBS, Infostat, SISP, Tatrabanka, CSOB a UniCreditBank have marked the forecast as realistic.**

More on tax forecasts as well as background materials can be found on IFP web page under Economic Forecasts ⇨ tax forecasts.

Detailed data on the development of individual tax revenues at the forecast horizon, as well as the breakdown of the contributions of individual factors to the update of the forecast, or the underlying data for the individual data in the commentary are available at UloziskoIFP.

The paper presents the views of the author and the Financial Policy Institute, which may not necessarily reflect the official views of the Ministry of Finance of the Slovak Republic. The purpose of commentaries publishing by the Financial Policy Institute (IFP) is to encourage and improve expert and public debate on current economic issues. Text quotations should therefore refer to the IFP (and not the MF SR) as the author of these opinions.