

Chapter 2

Special feature: Current issues on reporting tax revenues

2.1. Introduction

The release of the final version of the *IMF Government Finance Statistics Manual 2014* (IMF GFSM 2014) completed the releases of the revised versions of the three classification systems which historically have had, in the area of government revenues, a very strong overlap with the *OECD Tax Classification and Interpretative Guide*:

- the IMF GFSM 2014;
- the 2008 *System of National Accounts (SNA)*;
- the 2010 *European System of Accounts (ESA)*.

The degree of overlap is illustrated by a “bridge” table, contained in the *OECD Interpretative Guide*, which maps how the list of taxes in the *OECD Tax Classification* links to the corresponding lists in the other classification systems. The latest version of this table is shown in Annex A of this Report.

These latest editions of the three classification systems contain some revisions to the definitions and classification of government revenues compared with the previous versions. It has therefore been necessary to review certain sections of the *Interpretative Guide* in those areas where either the methodology for defining tax revenues has been altered or there have been substantial changes to the explanatory drafting in the other classification systems.

This report considers the following issues relating to the methodology in the *OECD Interpretative Guide*:

- payable or non-wastable tax credits;
- the VAT based third EU own resource in the *ESA 2010*;
- the classification of revenues from fines or penalties;
- profits of fiscal monopolies;
- imputed taxes and subsidies arising from the operation of multiple exchange rate systems;
- imputed taxes and subsidies arising from central banks imposing a rate of interest other than market rates;
- taxes on financial and capital transactions.

2.2. Payable or non-wastable tax credits

2.a. Two kinds of tax credits

There are two kinds of tax credit systems:

- Non-payable or wastable tax credits are those which can only ever be used to reduce or eliminate a tax liability. They cannot be paid out to either tax-payers or non-tax payers as a benefit. They are therefore the same as a tax allowance or relief.
- In contrast, payable or non-wastable tax credits can be partitioned into two parts. One part is used to reduce or eliminate a tax liability in the same way as a wastable tax credit.

The other part can be paid directly to recipients as a benefit payment, when the benefit exceeds the tax liability.

2.b. The OECD methodology for classifying non-wastable tax credits and two alternatives

The OECD methodology for classifying non-wastable tax credits is set out in paragraphs 19 and 20 of the *Interpretative Guide*. This states that only the part of a non-wastable tax credit that is used to reduce or eliminate a taxpayer's tax liability should be deducted in the reporting of tax revenues. This is referred to as the "tax expenditure component" of the credit. In contrast, the part of the tax credit that exceeds the taxpayer's tax liability and is paid to that taxpayer is treated as an expenditure item and not deducted in the reporting of tax revenues. This part is referred to as the "transfer component". This approach was also followed in the previous versions of the *IMF GFSM, SNA and ESA*.

Table 2.1 provides information on the non-wastable tax credits in 2014 for those countries reporting them in the Revenue Statistics 2016 (though it may be that some countries with non-wastable tax credits do not appear in the table). It shows the amounts of the non-wastable tax credits and their two components together with the results of using the figures to calculate tax revenue values and the associated tax-to-GDP ratios. This table has the same construction as one that has appeared in the "Part I – Commentary on revenues and trends" in the Revenue Statistics 2014. The treatment consistent with the *Interpretative Guide* is referred to as the "split basis" as shown in columns 5 and 8. Two alternative treatments to the split basis are also shown:

- the "net basis" which treats non-wastable tax credits entirely as tax provisions, so that the full value of the tax credit reduces reported tax revenues, as shown in columns 4 and 7;
- the "gross basis" is the exact opposite, treating non-wastable tax credits entirely as expenditure provisions, with neither the transfer component nor the tax expenditure component being deducted from tax revenue, as shown in columns 6 and 9.

Historically, there have been some practical difficulties in implementing these paragraphs of the *Interpretative Guide*, resulting in some lack of uniformity of reporting. In addition, distinguishing between tax and expenditure provisions can be conceptually difficult and so there are valid arguments for the alternative treatments. This issue was examined in Special Features appearing in both the 2000 and the 2001 editions of the *Revenue Statistics*. Consequently there is no ideal solution to the problem of how these tax credits should be treated. However, any comparison with the tax-to-GDP ratio results based on the two alternative treatments of these tax credits should take into account their potential drawbacks.

- While the "gross basis" provides comparability between the treatment of public expenditure on in-work income related benefits and non-wastable tax credits, it does not provide comparability between wastable and non-wastable credits. For example, changing a wastable tax credit into a non-wastable tax credit, even if it involves minimal fiscal cost or impact on taxpayers, could produce a large increase in reported revenue. This is because amounts previously deducted from tax revenues would be treated as an expenditure provision and no longer be deducted.
- The most serious drawback of the "net basis" is that it does not ensure comparability between countries with and without non-wastable tax credits. This is because it reduces tax revenues for countries with non-wastable tax credits by amounts that would be

Table 2.1. **Effect of alternative treatments of non-wastable tax credits, 2014**

	Non-wastable tax credits in millions of national currency			Total tax revenues in millions of national currency			Total tax revenues as a percentage of GDP		
	Total value	Transfer component	Tax expenditure component	Net basis	Split basis (per current guidance)	Gross basis	Net basis	Split basis (per current guidance)	Gross basis
	(1)	(2)	(3)	(4) = (5) – (2)	(5)	(6) = (5) + (3)	(7)	(8)	(9)
Australia	8 280	4 936	3 344	441 891	446 827	450 171	27.5	27.8	28.1
Austria	560	245	315	141 232	41 477	141 792	42.7	42.8	42.9
Belgium	1 052	317	735	179 863	180 180	180 915	44.9	45.0	45.2
Canada	11 519	10 489	1 030	607 728	618 217	619 247	30.7	31.2	31.3
Chile	..	..	..	29 145 219	..	..	19.8	..	..
Czech Republic	28 969	8 258	20 711	1 419 016	1 427 274	1 447 984	32.9	31.1	33.6
Denmark	5 495	275	5 220	962 909	963 184	968 404	49.6	49.6	49.9
France	21 243	8 375	12 868	965 005	973 380	986 248	45.1	45.5	46.1
Germany	41 514	14 541	26 974	1 054 718	1 069 259	1 096 233	36.1	36.6	37.5
Iceland	1 162	1 000	162	773 263	774 263	774 425	38.9	38.9	38.9
Ireland	..	..	667	..	55 453	56 120	..	28.7	29.1
Israel	625	587	38	341 127	341 714	341 752	31.2	31.2	31.2
Italy	12 611	7 585	5 027	696 633	704 217	709 244	43.2	43.7	44.0
Luxembourg	217	..	..	..	..	18 761	..	..	38.4
Mexico	43 716	2 423	41 293	2 605 273	2 607 696	2 648 989	15.1	15.2	15.4
New Zealand	2 555	1 686	869	76 225	77 911	78 780	31.8	32.5	32.9
Norway	1 467	1 275	380	1 218 594	1 219 869	1 220 249	38.6	38.7	38.7
Slovak Republic	263	..	..	..	..	23 612	..	..	31.2
Spain	582	..	..	..	..	352 394	..	..	33.8
United Kingdom	31 432	28 005	3 427	556 464	584 469	587 896	30.5	32.1	32.3
United States	144 640	99 810	44 830	4 400 720	4 500 530	4 545 360	25.3	25.9	26.1

Notes: The Austrian children's tax credit is not regarded as a tax credit in the OECD Revenue Statistics and is treated entirely as an expenditure provision.

For Denmark, France and Spain, the total tax revenues have been reduced by the amount of any capital transfer that represents uncollected taxes.

Some non-wastable tax credits in Canada cannot be split into the transfer and tax expenditure components. Their total values have been added to the transfer component.

“..” not available.

treated as expenditure in countries that use comparable expenditure programmes to deliver transfers to those who do not pay taxes. Even between countries with non-wastable tax credits, reporting on a net basis would produce lower tax revenues (everything else being the same) for countries that are giving greater assistance to non-taxpayers with these credits. Arguably, this may give a misleading impression of the extent of the tax system.

However, Table 2.1 does show that, with some exceptions, the choice of method for reporting non-wastable tax credits has only a small impact on the ratio of total tax revenue to GDP. For the countries with available data, the differences between the ratios on a net basis and on a gross basis are one percentage point or more in only France, Germany, New Zealand and the United Kingdom, and half a percentage point or more in Australia, Canada, Czech Republic, Italy and the United States.

2.c. A new methodology adopted by IMF GFSM, SNA and ESA

SNA 2008 was the first of the revisions of the three “associated” classification systems to be published. This document contained a change in the rules for classifying the taxes and benefits associated with non-wastable tax credit systems. Now, the whole amount of

the payable tax credits is registered as a “tax expense” or in other words a subsidy or social benefit, irrespective of how much is used to reduce tax liability, and how much is paid direct to beneficiaries. The taxes and benefits are now shown in the national accounts on the “gross basis” – i.e. the revenues will show the full liability before the non-wastable tax credits are allowed for, and the whole of the credits under the non-wastable tax credits system will be shown as subsidies or social benefits.

The IMF GFSM 2014 and ESA 2010 replicated the changes made in the 2008 SNA in this respect.

The catalyst for the decision to revise the classification of non-wastable tax credits in SNA 2008 was contained in a paper written by the International Public Sector Accounting Standards (IPSAS) Board. “IPSAS 23 – Revenue from non-exchange transactions taxes and transfers”, which was released in December 2006, contained the following extract titled “Expenses paid through the tax system and tax expenditures”. The clearly expressed view that the whole amount of these tax credits should be accounted for totally as expenditure was discussed by the Inter-Secretariat Working Group on National Accounts (ISWGNA) and the SNA’s Advisory Expert Group (AEG) in the context of drafting SNA 2008. As a result, the principle to treat these tax credits totally as expenses was adopted for the new version.

Expenses Paid Through the Tax System and Tax Expenditures

Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.

In some jurisdictions, the government uses the tax system as a convenient method of paying to taxpayers benefits, which would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer’s bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents’ health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual’s tax liability, making a payment by check or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently this amount is an expense of the government and should be recognized separately in the statement of financial performance. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

Taxation revenue shall not be grossed up for the amount of tax expenditures

In most jurisdictions, governments use the tax system to encourage certain financial behaviour and discourage other behaviour. For example, in some jurisdictions, home owners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax assessable income. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue or expenses of the taxing government.

The key distinction between expenses paid through the tax system and tax expenditures is that for expenses paid through the tax system, the amount is available to recipients irrespective of whether they pay taxes, or use a particular mechanism to pay

their taxes. IPSAS 1, “Presentation of Financial Statements,” prohibits the offsetting of items of revenue and expense unless permitted by another Standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

2.d. The classification of non-wastable tax credits remains unchanged in the OECD Interpretative Guide

The OECD Tax Policy and Tax Statistics Working Party No. 2 (WP2) has decided to retain the existing guidelines for reporting non-wastable tax credits as opposed to changing them to align with the revised versions of the other statistical sources. The following paragraphs contain some of the points that were taken into account in the discussion.

There are obvious advantages in opting for and maintaining consistency between the guidelines for presenting information in different statistical sources just to avoid the confusion that can arise when different approaches are adopted. Other things being equal, one option was therefore to revise the *Interpretative Guide* to be consistent with the revisions made to the *IMF GFSM*, *SNA* and *ESA*.

However, on the other hand, there are also some compelling reasons for retaining the existing guidelines which can be set out as follows:

- These issues were previously discussed in WP2 meetings held in 1999 and 2000. The discussions concluded that, from the perspective of tax policy makers and tax administrators, the current OECD guidelines reflect the most appropriate way to report the non-wastable tax credits. The topic was discussed in Special Features in both the 2000 and the 2001 editions of the *Revenue Statistics*.
- It is often the case in tax systems containing non-wastable tax credits that the payable element represents a relatively small element (sometimes a very small element) of the total value of the credit. The “gross-basis” of reporting dictates that the rules for reporting the whole value of the credit would be based on the existence of this smaller element. Additionally, in some cases, a move from a wastable to a non-wastable tax credit could be the result of a minor administrative change. In such cases, the “gross-basis” of reporting could create undesirable situations where a substantial change in reported tax revenues results from an administrative change having a minimal impact on taxpayers or fiscal cost. This is because amounts previously treated as a deduction from tax revenues would be treated as an expenditure provision and no longer deducted.
- The adoption of the “gross-basis” of reporting would create inconsistencies between the reporting in the *Revenue Statistics* and some of the indicators reported in the *Taxing Wages* publication. In the latter, the calculations of both the average personal income tax rate (defined as personal income tax divided by gross earnings) and the average personal tax rate (defined as personal income tax plus employee social security contributions divided by gross earnings) deduct the full value of any non-wastable tax credit from the income tax liability.
- The new guidelines are inconsistent in their application to tax expenditures in general given their application to non-wastable tax credits is different to that of other tax expenditures.
- The “gross-basis” of reporting would also produce inconsistencies between the *Revenue Statistics* and the reporting of tax expenditures. Normally, the full value of any existing non-wastable tax credit would be included in a report on tax expenditures. If the “gross-basis” of reporting were applied to the latter then a wide range of both personal income and corporate income tax credits would have to be excluded.

- There are other provisions in tax systems that are deducted from tax revenues (i.e. tax allowances or wastable tax credits) that could also be seen as a substitute for expenditure programmes. The “gross basis” does not provide comparability between these and the non-wastable tax credits.
- The consequences of these issues are likely to grow as the total value of non-wastable tax credits is increasing over time in a number of OECD countries.

These issues were once again discussed in WP2 meetings in 2015 and 2016. On the basis of the arguments presented in Section 2.d of this chapter, it was decided that from the perspective of tax policy makers and tax economists it would be appropriate to retain the existing OECD guidelines on the presentation of non-wastable tax credits in the *Revenue Statistics* and not to move to the new guidelines adopted in the *IMF GFSM 2014*, the *2008 SNA* and the *2010 ESA*.

2.3. The VAT based third EU own resource in ESA 2010

There has been a change in the recording of the VAT based third EU own resource in *ESA 2010*. These are amounts of VAT that are collected by the governments of the EU member states and then re-mitted to the Institutions of the EU. The level of the contribution of each member state is based on the levels of their particular VAT base.

In the *ESA 1995*, these tax receipts were recorded as “taxes on production and imports” (category D2) directly paid to the rest of the world. However, in the *Revenue Statistics*, these receipts have always been recorded as tax receipts in the EU member states as opposed to receipts of the EU. They have therefore been included in the overall tax to GDP ratio figures of the member states. This is confirmed by the text of paragraphs 102 to 105 of the *OECD Interpretative Guide in Revenue Statistics 2015* set out in italics below.

Levies paid by member states of the European Union (EU)

102. *The levies paid by the member states of the EU take the form:*

- VAT own resources; and
- Specific levies which include:
 1. custom duties and levies on agricultural goods (5123);
 2. gross monetary compensation accounts (5123 if relating to imports and 5124 if relating to exports); and
 3. steel, coal, sugar and milk levies (5128).

103. *The custom duties collected by member states on behalf of the EU are recorded:*

- on a gross of collection fee basis;
- using figures adjusted so that duties are shown on a “final destination” as opposed to a “country of first entry” basis where such adjustments can be made. These adjustments concern in particular duties collected at important (sea) ports. Although the EU duties are collected by the authorities of the country of first entry, when possible these duties should be excluded from the revenue of the collecting country and be included in the revenue of the country of final destination.

104. *This is the specific EU levy that most clearly conforms to the attribution criterion described in §96 above. Consequently as from 1998, these amounts are footnoted as a memorandum item to the EU member state country tables in Chapter 3 and no longer shown under heading 5123. However,*

the figures are included in the total tax revenue figures on the top line for all the relevant years shown in the tables.

105. The VAT own resources, which are determined by applying a rate not exceeding 1 per cent to an assessment basis specified in the Sixth Directive are more of a borderline case. They have some of the characteristics of a transfer (they are not derived from a clearly identifiable source of funds that are actually collected) and some of a tax (the amount of the transfer is determined by the receiving sub-sector of government). In this publication, they are not shown as a tax of the European Union (but as a tax of the EU member states), though the amounts involved are footnoted in the tables contained in Part IV.

In ESA 2010, the VAT based third EU own resource is now recorded as a current transfer paid by the government of each member state to the Institutions of the EU. This contribution to the budget of the Institutions of the EU is now recorded under the heading “VAT and Gross National Income (GNI) based EU own resources” (category D76). The VAT-based third EU own resource (D761) and the GNI-based fourth EU own resource (D762) both represent contributions to the budget of the EU. The level of the contribution of each member state is based on the levels of their VAT base and their GNI respectively. The heading D76 also includes miscellaneous other contributions of the governments to the institutions of the EU (D763).

The consequence of this change is that the recording of the VAT based budget contribution no longer has any impact on the recording of tax revenues in the National Accounts. The change in the recording of the transfer means that the amounts of taxes on production and imports (D2) payable to the rest of the world will decrease.

There is no impact on the tax revenues recorded in the *Revenue Statistics* because the amount of the transfer was previously recorded as tax receipts in the EU member states. However the change does mean that any link between the VAT based third EU own resource and the presentation of the VAT revenues in the *Revenue Statistics 2016* publication has been removed. As a result:

- the references to VAT own resources have been deleted from the paragraph 102 of the *Interpretative Guide* in *Revenue Statistics 2015* shown above;
- paragraph 105 of the *Interpretative Guide* in *Revenue Statistics 2015* has been deleted entirely; and
- the VAT based third EU resource figures will no longer be shown in the footnotes to the individual country tables in Chapter 5 “Tax revenues by subsectors of general government” of the 2016 publication (i.e. the EU country tables among tables 5.13-5.47).

2.4. The treatment of revenues from fines and penalties

In the *Revenue Statistics*, “fines and penalties” paid in relation to the assessment and payment of taxes have traditionally been recorded as tax receipts. This topic is covered as follows in paragraph 15 of the *Interpretative Guide* in *Revenue Statistics 2015*.

“15. Receipts from fines and penalties paid for the infringement of regulations identified as relating to a particular tax and interest due on payments overdue in respect of a particular tax are recorded together with receipts from that tax. Other kinds of fines identifiable as relating to tax offences are classified in the residual heading 6000. Fines not relating to tax offences (e.g. for parking offences), or not identifiable as relating to tax offences, are not treated as taxes.”

This approach was mirrored in the previous versions of the *GFSM*, *SNA*, and *ESA*. However, the revised versions adopt a different approach and state that, in principle, fines and penalties charged on tax offences should not be treated as taxes. They are instead considered to be compulsory current transfers. There is an exception in the case where it may not be possible to separate payments of fines or other penalties from the tax revenues to which they relate. In this case the fines and penalties are recorded together with the tax revenues. This topic is covered as follows in paragraph 5143 of the new *GFSM*.

“5143 In principle, fines and penalties charged on overdue taxes or penalties imposed for the attempted evasion of taxes should not be recorded as taxes. However, it may not be possible to separate payments of fines or other penalties from the taxes to which they relate. In this case, the fines and penalties relating to a particular tax are recorded together with that tax, and fines and penalties relating to unidentifiable taxes are classified as “other taxes (116)”.

WP2 discussed at a meeting in 2016 whether to retain the existing classification in the *Interpretative Guide* or to move to the revised approach adopted by the other classifications. At this meeting, the following arguments were considered:

- it could be argued that the current draft of the *Interpretative Guide* would lead to better comparative statistics on tax revenues across countries; the approach adopted by the *GFSM*, *SNA*, *ESA* could lead to fines and penalties relating to tax offences being included in the tax revenue figures for one country because they could not be separately identified and excluded for another where the statistical systems enabled identification;
- on the other hand, it is questionable whether the OECD should adopt an alternative approach to the other classification systems on what is essentially a very small component of total revenues.

On balance, it was decided to amend the text in paragraph 15 of the *Interpretative Guide* quoted above to achieve consistency with the *GFSM*, *SNA* and *ESA*.

2.5. The classification of profits from fiscal monopolies

The new *GFSM* now specifically includes new paragraphs confirming that the concept of fiscal monopoly also applies to state lotteries and other gambling to the extent that they are devices to raise revenue rather than further the interests of public economic or social policy. This is despite the fact that they may compete with privately organised lotteries and other gambling. State lotteries were specifically excluded from this category in *GFSM 2001* as they are in the current version of the *Interpretative Guide*.

WP2 discussed whether to retain the existing classification in the *Interpretative Guide* or to adopt the revised approach adopted by the *GFSM*. It was decided to acknowledge the previous approach that the traditional concept of fiscal monopoly is not generally extended to include state lotteries, the profits of which are usually accordingly regarded as non-tax revenues. However, it was also decided to add new text to say that they can be included as tax revenues if the prime reason for their operation is to raise revenues to finance government expenditure. Paragraph 63 of the new *Interpretative Guide* has been amended to reflect this addition and the revised entry on fiscal monopolies, contained in paragraphs 61 to 63, is set out in Annex A to this chapter.

2.6. An imputed tax resulting from the operation of multiple exchange rate systems

New text is also included in paragraphs 5.88 to 5.90 of the new *GFSM* (see Part b. of Annex B to this chapter) about the recording of imputed taxes and subsidies resulting from the operation of multiple exchange rate systems by a central bank or other official agency. The inclusion of this item is consistent with both *SNA 2008* and *SNA 1993* which also classify these transactions as taxes and subsidies, however, it was not previously included in the calculation of tax revenues in the *GFSM 2001*.

This item has historically been excluded from the OECD definition of tax revenues and is one of four items listed in paragraph 83 of the new *Interpretative Guide* as areas where the OECD classification of taxes has differed from SNA concepts. It was decided that the *Interpretative Guide* should continue to exclude this item from tax revenues for three main reasons:

- the OECD's definitions are intended to reflect the perspectives of tax policy makers and tax administrators; the general approach is to exclude implicit or imputed taxes and subsidies from the definition of taxes;
- no payments of tax are actually made in practice so these amounts are not likely to be perceived as tax payments either by the market participants or governments;
- central banks are not generally considered to be part of the general government sector.

2.7. An imputed tax resulting from the central bank paying a rate of interest that is below other market rates on required reserves

Imputed taxes and subsidies resulting from the central bank imposing a rate of interest other than the market rates are also included as tax revenues for the first time in paragraph 5.70 of the new *GFSM*. The relevant text is set out in Part a. of Annex B. It is consistent with the approach adopted in *SNA 2008* where the classification is explained in paragraphs 7.122 to 7.126.

This item is directly analogous to the position relating to imputed taxes and subsidies resulting from the operation of multiple exchange rate systems discussed in Section 2.6 of this chapter. It was decided that it should also be excluded from the OECD definition of tax revenues for the same reasons.

2.8. Taxes on financial capital transactions

Taxes on financial and capital transactions (OECD Category 4400) are described in paragraph 47 of the new *Interpretative Guide*. They include taxes on the issue, transfer, purchase and sale of securities, taxes on cheques, and taxes levied on specific legal transactions such as validation of contracts and the sale of immovable property.

Both the *Interpretative Guide* and the *GFSM 2001* classified these revenues under the heading of taxes on property. However, in the new editions of the *GFSM*, *SNA* and *ESA*, they are treated as general taxes on goods and services – i.e. a tax on the services of the unit selling the asset. This would be equivalent to being a sub-heading under the OECD category 5000. After discussion, WP2 decided to retain the original classification as a tax on property in order to align with the principle of maintaining consistency with historical data series as far as it is possible to do so.

2.9. Conclusion

On the basis of the above, the differences between the *OECD interpretative Guide* and the new editions of the *GFSM*, *SNA* and *ESA* are as listed below:

- OECD includes compulsory social security contributions paid to general government in total tax revenues. Imputed and voluntary contributions plus those paid to private funds are not treated as taxes.
- OECD excludes imputed taxes or subsidies resulting from the operation of official multiple exchange rates and from the central banks imposing a rate of interest on required reserves that is different from other market rates.
- There are differences in the treatment of non-wastable tax or payable credits.
- OECD classifies taxes on financial and capital transactions under the heading of property taxes whereas the other classification systems classify them as general taxes on goods and services.
- There are different points of view on whether or not some levies and fees are classified as taxes.

ANNEX A

5122 – Profits of Fiscal Monopolies: New text for Interpretative Guide

61. This sub-heading covers that part of the profits of fiscal monopolies which is transferred to general government or which is used to finance any expenditures considered to be government expenditures (see §18). Amounts are shown when they are transferred to general government or used to make expenditures considered to be government expenditures.

62. Fiscal monopolies reflect the exercise of the taxing power of government by the use of monopoly powers. Fiscal monopolies are non-financial public enterprises exercising a monopoly in most cases over the production or distribution of tobacco, alcoholic beverages, salt, matches, playing cards and petroleum or agricultural products (i.e. on the kind of products which are likely to be, alternatively or additionally, subject to the excises of 5121), to raise the government revenues which in other countries are gathered through taxes on dealings in such commodities by private business units. The government monopoly may be at the production stage or, as in the case of government-owned and controlled liquor stores, at the distribution stage.

63. Fiscal monopolies are distinguished from public utilities such as rail transport, electricity, post offices, and other communications, which may enjoy a monopoly or quasi-monopoly position but where the primary purpose is normally to provide basic services rather than to raise revenue for government. Transfers from such other public enterprises to the government are considered as non-tax revenues. The traditional concept of fiscal monopoly is not generally extended to include state lotteries, the profits of which are usually accordingly regarded as non-tax revenues. However, they can be included as tax revenues if the prime reason for their operation is to raise revenues to finance government expenditure. Fiscal monopoly profits are distinguished from export and import monopoly profits (5127) transferred from marketing boards or other enterprises dealing with international trade.

ANNEX B

IMF text adding implicit taxes and subsidies to their list of taxes***a. An implicit tax resulting from central bank paying a rate of interest that is below other market rates on required reserves***

5.70. This category also includes the implicit taxes resulting from the central bank imposing a rate of interest other than the market rates. The central bank's main responsibility is to formulate and carry out monetary policy as part of economic policy. It therefore often acts differently than other financial corporations and generally has received the authority from government to impose its policies. In cases where the central bank uses its special powers to set interest rates that are out of line with market rates, the difference gives rise to an implicit tax and subsidy (see paragraph 6.89 and Box 6.2 for an illustration of recording these implicit taxes and subsidies). This procedure is analogous to and consistent with the practice of treating the difference between the market exchange rate and an alternative exchange rate imposed by the central bank as an implicit tax or subsidy (see paragraph 5.89).

b. An implicit tax resulting from the operation of a multiple exchange rate regime by the central bank or other official agency**Exchange profits**

5.88. Exchange profits include the profits generated when the monopoly powers of government or monetary authorities are exercised to extract a margin between the purchase and sale prices of foreign exchange, other than to cover administrative costs. The revenue derived constitutes a compulsory levy extracted from both purchaser and seller of foreign exchange. Similarly, an implicit tax results from the operation of a multiple exchange rate regime by the central bank or other official agency. It is the common equivalent of an import duty and export duty levied in a single exchange rate system or of a tax on the sale or purchase of foreign exchange. As in the case of the profits of export or import fiscal monopolies, the revenue represents the exercise of monopoly powers for tax purposes and is included in tax revenues when received by government.

5.89. Under a multiple exchange rate regime, two or more exchange rates are applicable to different categories of transactions; the rates favor some categories and discourage others. The multiple rates influence the values and the undertaking of transactions expressed in domestic currency. The net proceeds as a result of these transactions are calculated as implicit taxes or subsidies (see paragraph 6.89). The amount of the implicit tax or subsidy for each transaction can be calculated as the difference between the value of the transaction in domestic currency at the actual exchange rate applicable and the value of the transaction at a unitary rate that is calculated as a weighted average of all official rates used for external transactions.

5.90. Exchange profits are often included in a lump sum payment from the monetary authorities to government. Such a lump sum payment should be disaggregated according to the nature of the components, and each component classified according to their nature. These lump sum payments may include components of dividends, exchange profits, interest and/or equity withdrawals. This category for exchange profits should not include any payments to government of exchange profits realised other than as a result of maintenance of an exchange rate differential. Also excluded from this category are any transfers to government of unrealised revaluation profits, which are in the nature of a book entry resulting from revaluation of foreign exchange or gold holdings for the owner. As discussed in paragraph 5.115, such payments to government based on holding gains are classified as a withdrawal of equity rather than a tax. Any operational profits transferred to government should be classified as *dividends* (see paragraph 5.111).