Recording of Accrual VAT Receipts

1 Introduction

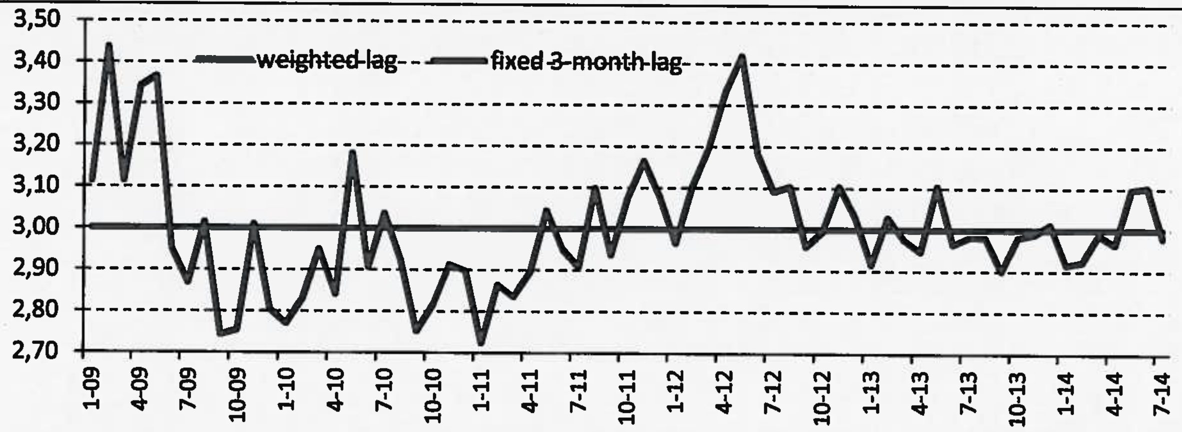
After discussions with the Statistical Office of the Slovak Republic, the Ministry of Finance of the Slovak Republic proposed a change in present time-adjusted cash receipt methodology of accrual VAT recording, aiming to further improve its ability to attribute the cash receipts to the periods to which they economically relate. The documentation was provided on the 4th of February 2013 and the proposal was discussed during the meeting on the 7th of June 2013. Eurostat presented its recommendations and views on the change in an official letter from 15 July 2013 and in conclusions from November 2013 EDP visit to Slovakia. Taking that into account, the proposed change, as described in more details below, 1) treats recording of both the tax collection and refunds equally, 2) ensures limited revisions of annual data. Moreover, to increase transparency and reliability of data, the Ministry of Finance has published monthly time series of tax refunds[1]. In accordance with November 2013 Eurostat mission recommendations, the results below, prepared by the Ministry of Finance, were discussed and audited by external authorities, namely the Statistical Office of the Slovak Republic and the Council for Budget Responsibility. Their respective opinions are attached.

2 Proposed methodology

2.1 Solution to inaccuracy of fixed time adjustment

According to the proposed method, VAT payments and refunds are attributed, as precisely as possible, to the periods to which they economically relate. Instead of applying a fixed one-month lag to tax due and a three-month lag to excess credits refunds, i.e. the current ESA95 methodology implementation, the payments are recorded with more accurate non-fixed time adjustments. The precise time adjustment of tax due and refunds is based on detailed information about VAT cash payments decomposition provided by Financial Administration[2]. Chart below illustrates that the real delay of refunds payment differs from the fixed 3-month period, assumed by recent methodology. The real weighted-average lag of refunds is rather volatile, while longer-lasting shifts usually reflect changes in VAT legislation, but can stem from routine inspection activity of the Financial Administration as well. E.g. from April 2009, average length of delay in the payment of refunds declined as legislation change (introduced within an anti-crisis package) allowed possibility to pay ET refunds one month sooner (i.e. with a two-month delay) to reliable companies, meeting a set of conditions. Similar legislation-induced shifts in average length of refunds lag are likely to appear also in future. On the other hand, the increase in the average delays in 4Q11-2Q12 is attributable to difficulties encountered by the Financial Administration due to an IT failure. The application of the proposed method would eliminate inaccuracy of VAT receipts related to fixed time adjustment.

Weighted lag of ET refunds compared to period when occured vs fixed 3-month lag



Source: FASR, MFSR

[1] http://www.finance.gov.sk/Default.aspx?CatID=4738

[2] Financial Administration of Slovak Republic (FASR) is the revenue authority in Slovakia

2.2 Limited annual data revisions

The exact attribution of VAT due and refunds to the periods to which they economically belong would, due to supplementary tax returns (e.g. filed as a consequence of tax audit), eventually induce constant small retroactive revisions of VAT accruals several years back. As frequent revisions are unfavourable, a small-sized amendment to the time adjustment is needed. The proposed method assumes only spring and autumn notifications as in current ESA 95 methodology. VAT revenues notified in autumn notification are final. All the transactions after autumn notification, related to previous periods, are recorded in the current year in line with the present methodology.
At the time when the spring notification for year (t-1) is prepared, the decomposition of VAT due paid in February (t-1) - December (t-1) and VAT refunds paid in April (t-1) - January (t) are available from the Financial Administration. It is necessary to estimate the "missing" VAT refunds for 2 months and VAT due for 1 month in the same way as the VAT refunds for March are estimated under the present methodology. Furthermore, due to audits of VAT refunds and postponed VAT payments by some tax payers, there are small differences between data from decomposition and data from tax returns. These differences decline further in following months as audits are closed and tax payers pay VAT due, becoming very limited after six months. Based on that, for the purposes of spring notification, latest six months of VAT due and refunds are estimated from VAT tax returns as those are available by that time. Autumn notification is based on data from decomposition. This approach ensures that already the spring notification outcome provides a reliable estimate of accrual VAT receipts.

Notified VAT revenue according to the proposed method in particular periods (thousands Euro)

	spring 2010	autumn 2010	spring 2011	autumn 2011	spring 2012	autumn 2012	spring 2013	autumn 2013	spring 2014	**autumn 2014[3]**	**Recent method, autumn**
2009	4 260 147	4 279 256	4 279 256	4 279 256	4 279 256	4 279 256	4 279 256	4 279 256	4 279 256	**4 279 256**	**4 221 289**
2010	0	0	4 202 934	4 166 402	4 166 402	4 166 402	4 166 402	4 166 402	4 166 402	**4 166 402**	**4 182 177**
2011	0	0	0	0	4 584 803	4 529 990	4 529 990	4 529 990	4 529 990	**4 529 990**	**4 710 914**
2012	0	0	0	0	0	0	4 370 887	4 335 678	4 335 678	**4 335 678**	**4 327 702**
2013	0	0	0	0	0	0	0	0	4 692 895	**4 680 711**	**4 696 136**

Source: FASR, IFP

2.3 Miscellaneous

The decomposition provided by Financial Administration contains also transactions without assigned time period to which they economically relate. The value of such transactions is negligible compared to the VAT revenues. A practical solution in respect to those transactions is to simply time-adjust them in line with the present methodology.
There is a small amount of transactions that economically relate to the period before 2009. The same approach as with transactions without assigned time period is applied.

3 Conclusion

Publication of requested data and assessment of the proposed methodologies shows that above described proposed methodology provides more accurate VAT revenues than the current ESA 95 methodology implementation. These alternatives minimize the inconsistences of current methodology caused by fixed time lags of VAT refunds. Financial Administration is able to provide detailed and reliable data on decomposition of both VAT refunds and VAT payments. However, there is still need to test and assess the quality and reliability of provided data in the longer period and discuss possible improvements with Financial Administration. Thus Slovak Statistical Office agreed with the Ministry of Finance of the Slovak Republic and the Council for Budget Responsibility to ask Eurostat to prolong the test period to July 2015.

[3] For autumn 2014 notification, preliminary figures are provided based on information available at the beginning of August 2014.