

Economic impacts of tax changes - indirect taxation

The purpose of the audit was to examine assessments of the economic impacts of indirect taxes. The auditors reviewed tax changes made during the current government term and official documents related to them. The focus was on the changes in value added tax rates, taxes on traffic fuels, alcohol tax and the cigarette tax and the tax on confectionery, ice cream and soft drinks¹.

The aim was i) to examine whether the impact assessments of the government proposals give true and fair view on the economic impacts of the changes; ii) to verify analyses of the economic impact assessments; and iii) to compare the changes with the recommendations set out in the taxation theory.

According to the observations made by the National Audit Office, the calculations used as a basis for the assessments of the economic impacts of the government's proposals are correctly made. Most of the tax revenue forecasts concerning the changes examined in the audit are also accurate and the public servants of the Ministry of Finance are thoroughly familiar with the field.

In the government proposals examined in the audit, most of the impact assessments concerning households and public sector finances are adequate even though the calculations and assumptions are poorly documented. At the same time, however, few of the proposals contain proper assessments of corporate impacts.

All government proposals examined in the audit included an estimation of how the proposals impact tax revenue. However, there are no references to the material used as a basis for the tax revenue forecasts. Some of the calculation templates used by the Ministry of Finance for internal purposes were vague and obscure and did not contain any references to source material.

According to the audit findings, communication between the departments of the Ministry of Finance is inadequate. Because of the scarcity of communication, the government proposal on value added taxation contained an error. In the tax revenue forecast, impacts of the change in VAT on consumption were taken into account, which means that the forecast was dynamic. However, according to the government proposal, the tax revenue estimate was static.

Audit results indicate that indirect taxation has been tightened more or less in accordance with the taxation theory and the recommendations of expert groups. As decisions on tax changes are made, more extensive use should be made of the expertise in the Ministry of Finance. Delays in final political decision-making have shortened the time available for the drafting of government proposals and, consequently, made smooth drafting of laws more difficult.

¹ HE 89/2012 (value added tax rates), HE 53/2011 (traffic fuels), HE 54/2011 (alcohol tax), HE 94/2011 (cigarette tax) and HE 55/2011 (tax on confectionery, ice cream and soft drinks)