
OECD STUDIES IN TAXATION

INCOME TAX COLLECTION LAGS



PARIS 1983

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A Report by the Committee on Fiscal Affairs

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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INTRODUCTION AND SUMMARY

The aim of this note is to show how income tax collection lags differ in OECD Member countries. It examines the time lag between the cash collections of income tax⁽¹⁾, and the receipts of income which gave rise to these collections. The intention is to illustrate the effect of different collection systems on these lags which do not, it has to be emphasized, provide any indication of the efficiency with which the revenues are collected.

Twelve OECD countries (Australia, Denmark, Finland, France, Greece, Ireland, Netherlands, Norway, Portugal, Sweden, the United Kingdom and the United States) were able to provide the required data and a brief description of their collection systems. Austria and Japan were able to provide a description of their collection systems only. The result showed that income tax collection lags differ widely as between the reporting countries and as between personal and corporate income taxes. In some countries, most of the income tax collected in 1978, the year chosen to illustrate these collection lags, related to income earned in that year; in others there was a delay of two years.

These comparisons are of interest to policymakers and others who are concerned with the size and the management of public sector deficits. In a number of OECD Member countries collection lags are being studied and adjusted for policy purposes. For example, in 1976 and 1977, Finland temporarily postponed the payment of income tax refunds for debt management purposes. Other countries (e.g. Ireland and the United States) have enacted legislation within the past five years to permanently speed up certain tax payments, and are considering further legislation to reduce tax collection lags in the future. Still others (e.g. the United Kingdom) are examining means by which the payments of tax revenues can be spread more evenly over the year.

These lags are also of relevance when effective income tax burdens are compared since other things being equal, the present value of tax payments will be lower the longer the delay between the receipt of income and the payment of tax arising on that income. That is, nominal tax rates of, say, 20 per cent in both countries A and B are not strictly comparable if country A requires payment of tax in the same year that income is received by the taxpayer whilst country B requires payment of tax the year following receipt of income by the taxpayer. Applying an illustrative discount rate of 10 per cent to the deferred payment permitted in country B reduces the present value of the 20 per cent statutory tax rate to about 18 per cent, while country A's statutory rate remains 20 per cent in present value terms.

1. See Revenue Statistics of OECD Member Countries, 1965-1981, OECD, Paris, 1982.

Part One

SCOPE AND COVERAGE OF THE STUDY

The scope of the study is limited to individual and corporate income taxes as classified in heading 1000 of the OECD classification of taxes(2). Tax receipts of both central and subordinate levels of government are covered, though those countries with income taxes at subordinate levels of government(3) which have provided information about them have been unable to identify separately the receipts of each sub-sector of government.

The personal income tax system was divided into: tax withheld at source; taxes paid intermittently; tax paid when return is filed; late tax payments; tax refunded. A similar breakdown was made for corporate income tax, except that the tax-withheld category was dropped.

The data refer to the calendar or fiscal year 1978 (see country tables). Cash receipts for that year have been traced backwards in time to the various years in which the taxpayer received the income which gave rise to those tax collections. In this way, an indication is provided of the time lag between the actual receipt of the tax by the government and the moment when the income giving rise to that tax liability was earned.

2. See Part III of Revenue Statistics of OECD Member Countries 1965-81, OECD, Paris, 1981.

3. In Australia, France, Greece, Ireland, Netherlands, and the United Kingdom, local income taxes do not exist.

Part Two

THE RESULTS

A. THE COMPARABILITY OF THE RESULTS

Countries have, for the most part, followed similar procedures. There are, however, a number of differences in the coverage of the data in each country.

i) Levels of government covered

Of the six countries in the study with non-central government income taxes Denmark, Finland, Norway and Sweden supplied aggregate data covering central and local income taxes(4), whilst Portugal and the United States supplied data on central government taxes only.

ii) Taxes covered

Many countries excluded certain low-yielding taxes from their submissions (see country tables) and Finland and Denmark included taxes of the 4200 heading (central government net wealth taxes). Ireland was unable to provide a distribution of corporate income tax receipts.

iii) Breakdown between individual and corporate income taxes

All countries, except Finland and Portugal, provided a breakdown as between headings 1100 (individual) and 1200 (corporate).

iv) Refunds

Ireland was unable to estimate the yearly distribution of refunds and the Netherlands was unable to identify them separately. Portugal was unable to estimate the amount of refunds.

v) Estimates

Many countries indicated that the yearly percentage distribution of the 1978 tax collections is a rough estimate.

In almost all countries there are some differences between the

4. Norway has also included social security contributions.

figures shown in the tables and those shown in the Revenue Statistics publication(5). In some cases these are due to the use of accrual rather than cash base reporting; in others to the exclusion of certain taxes [see (ii) above]; in yet others to the use of fiscal rather than calendar years.

B. SOME COMMENTS UPON THE RESULTS

Whilst, for the reasons set out above, the data are not entirely comparable, they do nevertheless enable some conclusions to be drawn about the income tax collection lags in different countries and how these relate to the collection systems used.

A summary of the distribution of net income tax collections (collections minus refunds) is presented in Table 1, which shows that for the personal income tax the major part of the net collections is based upon income earned in the same year. In all countries more than 90 per cent of the tax collected in 1978 referred to income earned in 1978 or 1977. In France, however, only 11 per cent of 1978 tax collections related to income earned in 1978 because of the way in which the French tax collection system operates (see Appendix II). Most of the net tax collected which relates to income earned prior to 1977 refers to late payments or refunds and, in practice, the figures shown for 1977 are influenced by the tendency for refunds to relate to income earned in that year. The country tables in Appendix I show, not unexpectedly, that tax collection under withholding systems tend to refer to income earned in the same year, whereas taxes paid intermittently tend to be spread over two or three years.

The distribution of corporate income tax collections is somewhat different from that of the personal income tax, in that collection lags are generally longer. In Denmark and Norway all, or almost all, of the 1978 tax collections relate to 1977 profits. In France, Greece, the Netherlands and Sweden the major part of the tax collections in 1978 relate to profits earned in 1978 and in the United States the distribution is 43 per cent in 1978 and 51 per cent in 1977. The longest collection lag is found in the United Kingdom, where almost half of 1978 tax collections relate to profits earned in 1976 [see Appendix II].

The distributional patterns referred to above are determined by the income tax collection systems used in each country and these systems are described in Appendix II. It may also be noted that the lags shown may or may not be representative of those found in other years.

5. These differences are very small in Finland, Ireland, Sweden and the United Kingdom.

Table 1

THE RELATIONSHIP BETWEEN CURRENT YEAR NET INCOME TAX COLLECTIONS
AND THE YEAR IN WHICH THE INCOME GIVING RISE TO SUCH COLLECTIONS
WAS EARNED(1)

OECD Tax Heading(2)	Percentage distribution of 1978 net tax collections by the year in which the income was earned				
	1978	1977	1976	1975	1974 or earlier
<u>Australia</u>					
1000	78	n.a.	n.a.	n.a.	n.a.
1100	96	n.a.	n.a.	n.a.	n.a.
1200	8	n.a.	n.a.	n.a.	n.a.
<u>Denmark</u>					
1000	81	13	6	0	0
1100	86	8	6	0	0
1200	0	96	5(3)	0	0
<u>Finland</u>					
1100 + 1200	93	8	-1	1	
<u>France</u>					
1000	n.a.	n.a.	n.a.	n.a.	n.a.
1100	11	77	9	2	0
1200	69	31	0	0	0
<u>Greece</u>					
1000	71	27		0	
1100	74	26		-1	
1200	60	30		11	
<u>Ireland</u>					
1100(4)	54	36	8	1	1
<u>Netherlands</u>					
1000	73	22	5	0	0
1100	76	19	5	0	0
1200	61	34	6	0	-2
<u>Norway</u>					
1000	81	18	1	0	0
1100	92	6	1	0	0
1200	0	99	1	0	0
<u>Portugal</u>					
1000(5)	44	56	0	0	0
<u>Sweden</u>					
1000	81	15	3	1	0
1100	82	14	3	1	0
1200	68	25	7	0	0
<u>United Kingdom</u>					
1000	67	16	13	3	1
1100	76	16	6	2	1
1200	30	19	45	6	1
<u>United States</u>					
1000	68	30	1	0	1
1100	76	23	1	1	0
1200	43	51	2	0	3

n.a. = not available.

1. The coverage of the data is explained in footnotes to the country tables in Appendix I.

2. Heading 1000 refers to total taxes on income, profits and capital gains. Heading 1100 refers to taxes on incomes, profits and capital gains paid by individuals and heading 1200 to those paid by corporations.

3. A part of this amount may relate to earlier years.

4. No account is taken of the distribution of refunds and late payments.

5. Portugal was unable to estimate the amounts of refunds.

Appendix I

THE RELATIONSHIP BETWEEN INCOME TAX CASH COLLECTIONS
AND THE RECEIPT OF INCOME WHICH GIVES RISE TO SUCH
COLLECTIONS(1)

1. The amounts shown under sub-headings 1100 and 1200 may not total to the amounts shown under the 1000 heading because, in some countries, it is not possible to allocate all of the income taxes between individuals and corporations.

AUSTRALIA

THE RELATIONSHIP BETWEEN CURRENT INCOME TAX COLLECTIONS
AND THE YEAR IN WHICH THE INCOME GIVING RISE
TO SUCH COLLECTIONS WAS RECEIVED

Fiscal Year: 1978

OECD Revenue Code	Source of income tax revenue and form of payment	Income Tax Collected in 1978		% distribution of income tax revenue collected in 1978-79 by year in which the income was received by the taxpayer		
		Estimated Amounts (A\$ Millions)	Percentage Distribution	1978-79	1977-78	1976-77 and earlier
1100	Individual income taxes					
	Withheld at source	11,438	89			
	Paid on assessment	2,406	19	92	n.a.	n.a.
	Refunded (PAYE)	-1,040	-8	72	n.a.	n.a.
	Total	12,804	100	0	97	3
1200	Corporate income taxes					
	Withheld at source	114	4			
	Paid on assessment	3,037	96	90	n.a.	n.a.
	Total	3,151	100	5	76	19
1000	Total net income taxes	15,955	100	8	n.a.	n.a.
				78	n.a.	n.a.

Fiscal Year = year ended 30th June, 1979.

DENMARK

THE RELATIONSHIP BETWEEN CURRENT YEAR INCOME TAX COLLECTIONS AND THE YEAR IN WHICH
THE INCOME GIVING RISE TO SUCH COLLECTIONS WAS EARNED

Central and Local Governments

OECD Revenue Code	Source of income tax revenue and form of payment	Income tax revenues collected in 1978		% distribution of income tax revenue collected in 1978 by year in which income was received (earned) by taxpayer				
		Estimated amount	Percentage distribution	1978	1977	1976	1975	1974 or earlier
		D.Kr.mill.		(Calendar Years)				
1100	Individual income taxes							
	Withheld at source(5)	60,400	87	86	13(1)	1(2)	0	0
	Paid intermittently	9,300	13	79	20	1	0	0
	Paid when (final) tax return is filed	3,500	5	0	0	96	3	1
	Paid late	1,200	2	0	55	23	12	11
	Refunded	-5,100	-7	0	-92	-5	-3	0
	Total	69,300	100	86	8	6	0	0
1200	Corporate income taxes	4,000	100	0	(Accounting Years)			0
					96	5(3)	0	0
1000	Total net income taxes	73,300(4)	n.a.	81	13	6	0	0

n.a. - Not applicable.

1. Tax collected in January 1978.

2. Residual tax (where the residual tax amounted to less than D.Kr.3,000, the amount was collected together with the provisional tax paid in 1978).

3. A part of this amount may relate to earlier years.

4. Including taxes on net wealth which are collected together with income taxes, and excluding OECD revenue code 1120 (i.e. tax on winnings from Lotteries, pools, etc. and property release duty).

5. Including dividend tax, which is estimated on a net basis (i.e. payment of dividend tax - refunded dividend tax).

FINLAND

THE RELATIONSHIP BETWEEN CURRENT INCOME TAX COLLECTIONS AND THE YEAR IN WHICH
THE INCOME GIVING RISE TO SUCH COLLECTIONS WAS RECEIVED

Central and Local Income Governments

Fiscal Year 197

OECD Revenue Code	Source of income tax Revenue and form of payment	Tax(1) revenues collected in 1978		% distribution of income tax col- lections in 1978 by the year in which income was received by by taxpayers(2)			
		Amount (millions)	Percentage distribution	1978	1977(3)	1976(3)	1975 or earlier
1000(1)	1. Withheld at source	20,550	83	93	8	0	0
	2. Paid intermittently	4,720	19	85	11	2	2
	3. Paid after assessment	2,320	9	0	30	66	4
	4. Paid late	100	0	0	0	30	70
	5. Refunded to taxpayers	-2,830	-11	0	-28	-68	-4
	Total net income taxes	24,860	100	93	8	-1	1

Fiscal year = calendar year.

1. Income tax revenues 1100 and 1200 and also taxes of heading 4200 collected by Central Govern-
ment on behalf of all tax receivers (except taxes under sub-heading 1120).

2. The distribution is to be regarded as a rough estimate.

3. Payments of refunds in 1976 and 1977 was postponed to the following year.

FRANCE

THE RELATIONSHIP BETWEEN CURRENT INCOME TAX COLLECTIONS
AND THE YEAR IN WHICH THE INCOME GIVING RISE TO SUCH
COLLECTIONS WAS RECEIVED

Central and Local Income Governments

OECD Revenue Code	Source of income tax Revenue and form of payment	Tax(1) revenues collected in 1978		% distribution of income tax collections in 1978 by the year in which income was received by taxpayers(2)						Fiscal Year 1978
		Amount (Millions)	Percentage distribi- bution	1978	1977	1976	1975	1974 or earlier		
1100	Individual Income Tax									
	-Withheld at source	11,185	11	100	0	0	0	0	0	0
	-Paid intermittently (2)	51,913	52	0	100	0	0	0	0	0
	-Paid when final tax return is filed (3)	33,964	34	0	73	27	0	0	0	0
	-Paid late (4)	2,035	2	0	0	0	100	0	0	0
	-Refunded	0	0	0	0	0	0	0	0	0
	<u>TOTAL</u>	99,097	100%	11	77	9	2	0	0	0
1200	Corporate Income Tax									
	-Paid intermittently	32,349	69	0	100	0	0	0	0	0
	-Paid after final tax return is filed (5)	9,974	21	0	100	0	0	0	0	0
	-Paid late (4)	0	0	0	0	0	0	0	0	0
	-Refunded (6)	-4,530	-9	0	-100	0	0	0	0	0
	<u>TOTAL</u>	46,853	100%	69	31	0	0	0	0	0
1000	<u>Total Net Income Taxes (7)</u>	168,628	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

1. Estimate.
2. Prepayments and monthly withholding.
3. Six and a half months after the declaration.
4. Including interest payments.
5. Prepayments and forfeit of Frs.3,000.
6. Excess payments made in 1977.
7. The sub-totals 1100 and 1200 do not add up to the total of 1000.

GREECE

THE RELATIONSHIP BETWEEN CURRENT YEAR INCOME TAX COLLECTIONS AND THE YEAR IN WHICH
THE INCOME GIVING RISE TO SUCH COLLECTIONS WAS EARNED

Central Government

Fiscal Year: 1978

OECD Revenue Heading	Source of income tax revenue and form of payment	Income tax revenues collected in 1978		% distribution of income tax revenue collected in 1978 by year for which the tax was changed		
		Amount in mill. Drachmas	Percen- tage distribution	1978	1977	1977 and earlier
1100	Individual income taxes					
	Withheld at source	18,174	60	100	0	0
	Paid intermittently	4,300	14	100	0	0
	Paid when final tax return is filed	7,972	26	0	100	0
	Paid late	3,893	13	0	0	100
	Refunded	-4,057	-13	0	0	100
	Total	30,282	100	74	26	-1
1200	Corporate income taxes					
	Withheld at source & paid intermittently	5,297	60	100	0	0
	Paid when final tax return is filed	2,640	30	0	100	0
	Paid late	949	11	0	0	100
	Refunded	0	0	0	0	0
	Total	8,886	100	60	30	11
1000	Total net income taxes	39,168	100	71	27	0

Fiscal year = calendar year.