

Recording of tax credits in benchmark 2020

Several mechanisms can reduce the amount of taxes: tax deduction, tax reduction, or tax credit. Among these mechanisms, the tax credit has a specific status because it is payable, the taxpayer can obtain a refund that exceeds the amount of the tax. The majority of mechanisms that reduce taxes are recorded as lesser taxes in the accounts, but payable tax credits are recorded as government expenditure; symmetrically, the tax is recorded without subtracting the tax credit.

In the benchmark 2014, INSEE followed these recommendations, but since then, Eurostat has clarified the time of recording tax credits at the request of some countries. Thus, the benchmark 2020 conforms to these new European recommendations. On one hand, the time of recording tax credits has been revised: tax credit expenditure must be recorded when accrued, and not at the time the amounts due are established by the administration. This change leads to significant modifications in the subsidy chronicle, especially in 2019 and 2020 with the tax credit for competitiveness and employment (CICE). Furthermore, the extension of the tax credit for personal services to non-active persons is considered in the benchmark 2020 as a social benefit in kind, instead of a subsidy (partly to households and partly as a subsidy on products) as in the benchmark 2014.

1. Tax credits in national accounts

The European System of Accounts (ESA) 2010 distinguishes between two types of tax credits (TC): payable and non-payable tax credits. A tax credit is considered "payable" if the taxpayer can receive a refund from the state when the tax advantage exceeds the amount of tax owed. For example, the tax credit for employing a home service worker (personal services) is refundable because households that are low-taxable or non-taxable can benefit from it in the form of a government payment. Conversely, the tax credit obtained for donations to charities is "non-refundable", as it cannot exceed the tax owed and therefore does not result in any refund.

These two types of mechanisms are recorded differently in national accounts. Non-payable tax credits are recorded as reduced tax revenues, with the tax revenue being equal to the tax paid after deducting the tax credit. On the other hand, payable tax credits, which are fully owed by public administrations regardless of the amount of tax owed, are equivalent to public administration expenditures. Thus, these tax credits are recorded as expenditure, and the observed tax revenues are increased by these same amounts, to reconstruct the tax owed before the deduction of tax credits.

The taxes concerned are personal income tax and corporate tax, which are recorded in national accounts as income tax (D.51). Tax credit expenditures are subsidies (D.39, for example, the tax credit for competitiveness and employment, CICE), social benefits (D.63, for example, the tax credit for child care expenses), various current transfers, or investment aids (D.7 or D.9, for example, the research tax credit).

2. Tax credits are recorded at the time they are generated

The recording rules for payable tax credits were clarified with the update of the European manual on government deficit and debt ([MGDD](#)) in 2023 for implementation in the benchmark 2020. Besides adding details on assessing the refundable nature of tax credits, the manual specifies that their time of recording is defined independently of the tax itself. The rules for recording public administration intervention expenditures apply, that is, at the moment the economic event underlying the intervention takes place: "Governments have the intention to provide different forms of benefits through tax credits. Such benefits should be recorded as expenditure when accrued, similarly as if they had been paid out in cash rather than delivered through tax credits." (MGDD, chapter 2.2 §.59).

In the French accounts, tax credits on income tax and corporate tax were recorded at the time the administration recognized the amounts of taxes and tax credits, during the issuance of tax assessments. The new international recommendation on this point changes the treatment: in the benchmark 2020, tax credit expenditures are thus recorded, wherever possible, in alignment with the principles for recording public administration intervention expenditures. However, the recording of revenues is not altered.

This new rule significantly changes the chronicle of revenues and expenditures for the tax credit for competitiveness and employment (CICE). It is a mechanism to reduce labor costs introduced on January 1, 2013, and phased out in 2019, in favor of reductions in social contributions. It consists of a tax credit equal to a fraction of the gross wages of employees paid below the threshold of 2.5 times the minimum wage. In national accounting, public administration expenditures for the CICE constitute a subsidy on production (subsidy on wages and labor). A company pays remunerations in a given year (T), and declares the amount of the tax credit in its income statement the following year (T+1). In previous bases, the time of recording the expenditure was the date the administration recognized the amounts of taxes and tax credits, thus the year of income declaration, i.e. T+1. In the benchmark 2020, the generating event of the expenditure is aligned with the creation of the right to the tax credit. In the case of a production subsidy, it is the year when the subsidized production takes place, that is, the year when the transactions generating the right to the subsidy occur. Thus, for the CICE, and for the majority of tax credits, this methodological change generally leads to advancing the tax credit expenditure by one year. However, the recording of revenues is not altered. For the CICE, revenue is recognized at the moment the company deducts the CICE amount from its tax payable, or when its claim is refunded in cash, starting from the year T+1.

This change in recording has a practical consequence that should be highlighted. Tax credits will need to be forecasted at the time of preparing the provisional account in the benchmark 2020 because the amounts declared by companies and households are not yet known to public administrations. This change could thus increase revisions in the General government account.

3. A portion of the tax credits for personal services is recorded as an in-kind social benefit

The treatment of the tax credit for personal services was revised following its extension to non-active individuals in 2018. This is a scheme allowing households that employ home service workers, either directly or through a provider, to benefit from a tax credit for half of the incurred expenses (up to a limit). In the benchmark 2014, the associated expenditures were recorded as production subsidies for direct employment by households, and as product subsidies for employment *via* a service organization. A significant change occurred in 2018: previously granted under the condition of being employed, the tax credit was opened to non-active individuals (particularly retirees). It more than doubled, increasing from €2.1 billion to €4.7 billion in 2018 (the year the tax credit was granted for activity and income in 2017). Assistance to vulnerable individuals (the elderly, disabled) now occupies a significant part of home services (Dares Résultats n°2020-11). The benchmark 2020 therefore recognizes that this tax credit partly has a social protection nature, accounted for in the benchmark 2020 as a market social transfer in kind.

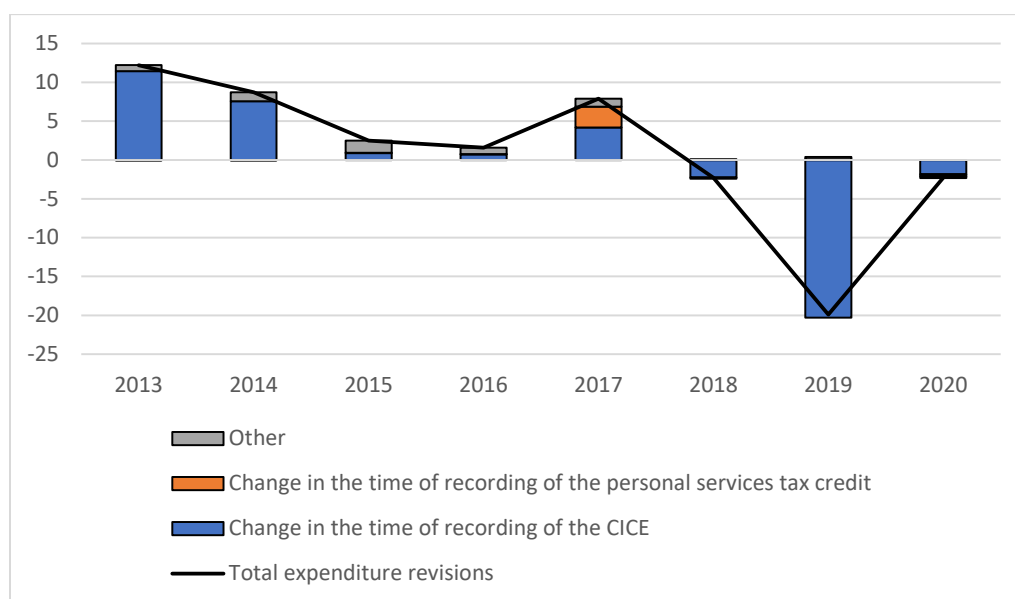
4. The public administration financing balance is increased by €20.2 billion in 2019, mainly due to the change in recording of the CICE

The time of expense recording no longer coincides with the moment when budget revenues are reduced by the granted credits. Thus, the recording of tax credits (TC) affects the balance of administrations. This effect is maximal in the year of their implementation (recording an expense without an upward correction of revenues) and in the year of their discontinuation (upward correction of revenues and absence of expenses). However, it is weak under a steady state.

Therefore, for the CICE, the effect on the deficit is maximal in 2019 at the time of the discontinuation of the scheme: in the benchmark 2014, the CICE for wages paid in 2018, the last year of the scheme, were mostly made known to the administration, and thus recorded as expenses, in 2019 (Figure 4-1). In the benchmark 2020, these expenses are recorded as early as 2018. This results in a very large decrease in expenses in 2019 (-€20.3 billion), and more marginally in 2020 for €1.8 billion (late declarations of CICE). Conversely, expenses are revised upwards in 2013, the creation year of the scheme, for which no subsidy under the CICE had been recorded in the benchmark 2014, against +€11.4 billion in the benchmark 2020. Expenses are also revised upwards in 2014, with the ramp-up of the scheme (increase from 4% to 6% of wages below 2.5 times the minimum wage), then in 2017 (increase from 6% to 7%), and downwards in 2018 (decrease from 7% to 6%).

The advancement of tax credits also has a significant effect in 2017, with the extension of the benefit of the tax credit for personal services (rather than a tax reduction) to non-active individuals, recorded as expenses in 2018 in the benchmark 2014, and therefore in 2017 in the benchmark 2020.

Figure 4-1 : Revision of tax credit expenses from 2013 to 2022, in billion euros



Conversely, public revenues from tax credits are little revised, as they are not affected by the change in method regarding the timing of expense recording. However, they are slightly revised upwards with the recording as payable tax credits of mechanisms that had not been identified as such in previous bases (mainly investment tax credits in the French overseas departments and regions).

Ultimately, the balance of General government is significantly revised upwards in 2019 (+€20.2 billion), and still substantially in 2020 (+€2.7 billion). Conversely, it is significantly worsened in 2013, 2014, and 2017.

Table 4-1 : Summary of revisions to General government expenditure and revenue linked to tax credits, in billion euros

	2013	2014	2015	2016	2017	2018	2019	2020
Expenditure benchmark 2014	15.9	25.4	32.4	31.7	31.8	39.6	38.2	18.8
Expenditure benchmark 2020	28.1	34.1	34.8	33.3	39.8	37.3	18.3	16.5
Revised expenditure	12.2	8.7	2.5	1.6	7.9	-2.3	-19.9	-2.3
Revenues benchmark 2014	13.7	21.3	26.7	25.9	29.0	36.5	35.9	26.1
Revenues benchmark 2020	14.0	21.7	27.0	26.3	29.1	36.7	36.2	26.4
Revised revenues	0.4	0.4	0.4	0.4	0.1	0.2	0.2	0.4
Balance effect benchmark 2014	-2.2	-4.1	-5.7	-5.8	-2.9	-3.1	-2.3	7.2
Balance effect benchmark 2020	-14.1	-12.5	-7.8	-7.0	-10.7	-0.6	17.8	9.9
Revision of General government financing balance	-11.8	-8.4	-2.1	-1.2	-7.9	2.5	20.2	2.7

Source : Insee, national accounts

Links

Kulanthaivelu E., 2020, *Les services à la personne en 2018 ; légère baisse de l'activité, hausse du recours aux organismes prestataires*, Dares Résultats n°2020-11

MGDD, 2023, [Manual on Government Deficit and Debt – Implementation of ESA 2010 – 2022 edition](#)