Presentation 19

Misreporting

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Misreporting

- Registered producers intentionally conceal their economic activities by misreporting their revenues and expenditures. Misreporting is usually associated with under-reporting of sales/revenues and wages costs and over-reporting of material and service cost.

- Why do enterprises misreport:
  - To avoid payment of income, value added and other taxes;
  - To avoid payment of social security contributions;
  - To conceal their financial situation or having reached a certain threshold;
  - To avoid complying with legal and administrative standards.

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Characteristics

- Misreporting is the most wide-spread non-exhaustiveness type. Almost all countries that replied to the UNECE 2005 survey include estimates for misreporting;
- It is the most important source of non-exhaustiveness. In the countries that participated in the Eurostat and OECD projects, adjustments for misreporting have been the largest and account for nearly half of all exhaustiveness adjustments.

Non-exhaustiveness type	N1	N2	N3	N4	N5	N6	N7	Total
New EU members, 2000 (%)	15.5	6.4	7.9	7.5	5.8	48.6	8.2	100.0
Western Balkan, 2003 (%)	7.9	1.3	16.8	4.4	3.2	59.7	6.7	100.0

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Characteristics

- Unlike the other N types, the adjustments for misreporting affect GO and IC in opposite directions so the total impact on GVA is higher;
- Misreporting typically occurs in activities with large number of small units and self-employed, where the fiscal control is not very strict;
- Misreporting is also associated with activities where cash payments prevail.

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Methods used by countries

Special surveys: conducted on ad hoc basis, provide estimates and ratios that countries incorporate in their regular NA.

- Surveys of respondents: anonymity should be guaranteed, selective non-response;
- Surveys of research institutes or specialised agencies (e.g. survey of freelance workers in Austria): the methods used should be reviewed;
- Surveys of experts e.g. Czech Republic conducted a survey among accountants, tax and financial auditors, asking generalised information about their clients by NACE and size categories; Lithuania assessed under-reporting of income enterprises on the basis of opinion survey of experts from the tax inspectorate.

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Methods used by countries

Tax audits data

- Advantages: non-response is avoided, the full accounts are provided for audit;
- Disadvantages: different definitions, audits are focused on specific activity, companies are not selected on probability basis, results are not suitably presented;
- In some countries tax audits provide useful information on misreporting (e.g. adjustment coefficients based on audits are used in France and the US). Other countries use audits as additional tool or to produce only broad estimates and cross-checks e.g. Finland, Kazakhstan.

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Methods used by countries

Comparison of GO, IC and GVA ratios and average incomes: the most wide-spread method used by countries.

Examples are:

- Comparisons of IC/GO ratios for small and big units, public and private enterprises (distinction between fixed and variable IC);
- Comparisons of selected input/output and supply/use ratios (e.g. Azerbaijan) and GO and GVA per unit of labour input;
- Comparison of average wages within certain professions and qualification degrees or with the legal norms (minimum wages);

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Methods used by countries

Comparison of GO, IC and GVA ratios and average incomes (cont'd)

- Comparisons of incomes of self-employed with average wages (e.g in Austria key assumption is that a self-employed will aim at minimum the same income per unit as his qualified employees);
- The analysis should always be carried out at the most disaggregated possible level to ensure that homogenous units are compared.

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Methods used by countries

Labour input method: LFS data on people working without labour contracts or at minimum salaries are widely used to detect under-reporting of wages and salaries (e.g. Uzbekistan);

Demand side data, commodity flow method: data from the HBS is used to evaluate under-reporting of output (usually in retail and wholesale trade e.g Kazakhstan, Kyrgyzstan);

Other reconciliation methods: VAT test (comparison of theoretical VAT and actual VAT). The method is largely applied by EU countries to detect potential VAT fraud.

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Conclusions

- Regular analysis (ratios, average incomes) of the data collected by surveys provides very important information for misreporting adjustments. Detailed analysis is preferable to aggregated one;
- Cooperation with tax authorities is very helpful and can provide information on misreported activities. The limitations of tax audits data should be taken into account;
- The experience of other countries can provide useful ideas. However, the national specifics should be kept in mind;
- Regular consultation with experts and updating of the assumptions built in the adjustments is very important.

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