



International
Federation
of Accountants

International Public Sector Accounting Standards Board

Long-Term Fiscal Sustainability
Agenda Item 4

Annette Davis

March 2013 – Abu Dhabi, UAE

Objective

- To obtain directions from the IPSASB on the issue of fiscal drag
- Other topics in AP 4.1 will be considered in the page-by-page review:
 - Definition of “projection” and replacement of the term “supportable assumptions”
 - Names and definitions of the dimensions of long-term fiscal sustainability
- To approve draft RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*

Background

- ED 46 issued in October 2011
- Comments requested by February 29, 2012
- 38 responses received
- Detailed analysis of responses considered at September 2012 meeting
- Draft final pronouncement considered at December 2012 meeting

How the draft RPG will deal with Fiscal Drag (1)

- Respondent raised concern that the concept of current policy needs to address fiscal drag issue
- Fiscal drag refers to the phenomenon that income tax inflows grow faster than the income it is levied on because, as an individual's income grows, an increasing proportion of it is taxed at a higher rate.
- Fiscal drag occurs if the rates and thresholds for the taxation of individuals are not adjusted over time.
- Not addressing fiscal drag has the potential for an entity to overstate revenue inflows from taxation which would not reflect an entity's long-term fiscal sustainability position

How the draft RPG will deal with Fiscal Drag (2)

- Issues paper outlines four options

How the draft RPG will deal with Fiscal Drag (3)

- Task Force considers that:
 - Draft RPG addresses fiscal drag and that this needs to be explained in the Basis for Conclusions
 - Option B is favored by the Task Force subject to an additional requirement

How the draft RPG will deal with Fiscal Drag (4)

- The IPSASB considers that the issue of fiscal drag is addressed in the core text of the draft RPG because it permits current policy assumptions to be applied to the economic and demographic assumptions, including assumptions over inflation. When a flow such as tax is modeled it may be based on a percentage of a variable such as GDP or reflecting the application of current policy assumptions to changing circumstances

How the draft RPG will deal with Fiscal Drag (5)

- Current policy assumptions and economic and demographic assumptions should reflect reasonable (realistic?) assumptions about the future course of inflows and outflows

Page-by-Page by Review