This note is submitted to the Steering Group on Revenue Statistics to Working Party No.2 FOR DISCUSSION AND DECISION under Item VI of the agenda for their meeting to be held on 14 November 2000.

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THE REPORTING OF CHURCH TAXES FOR DENMARK

I. Introduction

1. Delegates are requested to consider the argument provided by Denmark (see Annex I), which seeks to justify the reporting of Danish Church Tax revenue in Revenue Statistics. This argument is based on the fact that the Danish State Church is included as part of general government in the national accounts. It is argued in Annex I that this inclusion of the church in general government is appropriate because of the high degree of control that the government exercises over the church.

II. Background

2. At the 6th Meeting of the Steering Group on Revenue Statistics, Delegates reviewed a note by the Secretariat (DAFFE/CFA/WP2(99)13) which argued that church taxes should not be reported in Revenue Statistics. Subsequently, a special feature on Church Taxes was prepared for publication in the 2000 edition of Revenue Statistics (reproduced as Annex II). This reported that Switzerland and Denmark were the only two countries that were continuing to include church tax revenue in their tax revenue statistics submitted to OECD.

3. In an attempt to improve the international comparability of the data reported in Revenue Statistics, the Secretariat wrote to the Delegates for Denmark and Switzerland, asking them to reconsider their current practice. The Delegate for Switzerland replied by agreeing to the suggestion that church tax revenue would no longer be included. However, the Delegate for Denmark indicated an unwillingness to accept the suggestion and provided the text of Annex I to support the Danish position.

4. The Secretariat note (DAFFE/CFA/WP2(99)13) argued that the church tax is unrequited and compulsory (by an analogy with vehicle tax, reproduced in Annex II). The minutes of the 6th Meeting (DAFFE/CFA/WP2/M(99)4/REV1) do not indicate that there was any disagreement with this position. This implies that the church tax should be regarded as a tax if it is also a payment to general government. However, the Secretariat note argued that SNA93 classifies churches as non-profit institutions serving households (NPISH), rather than part of general government. The implication is that church taxes are not paid to general government and should not be regarded as a tax.

5. However, clarification by Denmark suggests that this position be reconsidered. The Danish view, stated in Annex I, disagrees with the classification of the Danish State Church as an NPISH. It agrees that it is a non-profit institution (NPI) but argues that the high degree of control exercised by the Danish government over the Danish State Church is sufficient to classify it as part of general government. Consultations with the Statistics Directorate of the OECD indicated that it is reasonable for Denmark to include the Danish State Church in general government, as it is a case that is not explicitly covered by SNA93. If this is accepted, together with the Secretariat position that the payments are compulsory and unrequited, then the Danish church tax counts as a tax according to the Interpretative guide.
6. The only remaining consideration is international comparability. If the argument above leads to an agreement that Denmark should continue to report its church tax revenues in *Revenue Statistics* while other countries do not, it could be argued that this would introduce a problem of non-comparability. On the other hand, it could be argued that the degree of control exerted by the Danish government over the Danish State Church is so much greater than that exerted by the governments of other countries with church taxes that the situation is genuinely different. This would imply that the comparability issue does not arise: as the situation is different it is appropriate that the tax classification should be different.

III. The Decision

7. Delegates are asked to decide whether it is appropriate for Denmark to include the revenue from its church tax in the tax revenue reported to *Revenue Statistics*.
Annex I

Classification of the Danish State Church and the Danish Church Tax in the national accounts

1. **Membership of the Danish State Church.** Almost 86% of the Danish population are members of the Danish State Church. Membership is voluntary, but the vast majority of the Danes are actually "born" as members. You have to make an effort yourself, if you want to leave. Members are obliged to pay contributions to the State Church and are thereby entitled to claim services from the church.

2. **According to SNA93 and ESA95 Danish State Church is an institutional unit.** According to SNA93 (art. 4.1-12) and ESA95 (art. 2.17-2.20 and 2.74) the Danish State Church complies with the conditions in the national accounts of being defined as an institutional unit. The Danish State Church including the local parishes has independent accounting and has autonomous administration and a non-profit purpose (NPI).

3. **Government controls general policy.** However the general government appoints the priests and all high rank clergy and they are civil servants. The government checks the accounts and balance sheets of the "Central Fund" of the "Church" and the Ministry of Ecclesiastical Affairs has the authority to run the local parish economy (if it is found needed). The government pays for almost half of the wages and the entire civil servant pension; member contributions pay for the rest.

4. **Classification of the Danish State Church.** In the context of the national accounts, Denmark has decided to classify the Danish State Church as an NPI to the sector general government. The main reasons are the high level of integration in and control by the government.

5. **Classification of Churches in SNA93 and ESA95.** The SNA93 states that (art. 4.65): NPISHs include among others "churches or religious societies". "They do not include bodies serving similar functions that are controlled and mainly financed by government units, except that churches are always treated as serving households even when mainly financed by government units". However, the SNA does not explicitly mention the control aspect, when churches are excluded from general government sector. ESA95 gives a clear interpretation of SNA93, when ESA95 states that (art. 2.88): "The NPISHs sector includes... …churches or religious societies (including those financed but not controlled by governments)...".

6. **Church Tax.** Members of the Danish State Church are forced to make a contribution to the church, which is incorporated in the Danish income tax system. The taxpaying member pays a fixed percentage of his income as church tax. The payment gives a right to receive the services of the church, but is as such unrequited. But it is only members, who are forced to pay and no law makes contribution compulsory. Although in a strictly legal sense the contributions are not compulsory, the "economic reality" is more like an obligatory scheme.

7. **Conclusion.** The high membership rate (86%), the fact, that you are automatically a born member unless you do something actively to quit and the integration of church taxes within the income tax system are the reasons for treating church taxes as taxes.
Sources:


Bekendtgørelse af lov om folkekirkens økonomi (Act on the National Church Economy) LBK no. 627 af 4.07.1994

Lov om ansættelse i stillinger i folkekirken m.v. (Act on Appointment and Jobs in the National Church) Lov no. 310 af 16.5.1990


European System of Accounts (abbreviated ESA95) Eurostat 1996
Annex II

Special feature S.2

CHURCH TAX

Introduction

In 1998, six OECD countries imposed a levy known as ‘church tax’. Currently, some of those countries report all or part of the revenues of the church tax in Revenue Statistics, other countries do not. The Interpretative guide (Annex 1) lays down the ground rules for deciding whether or not any particular levy or fee, including church taxes, should count as a tax. However, the different institutional setting of church taxes imposed in various countries proves to produce complicated borderline cases. This special feature outlines the main properties of these levies and discusses arguments for and against treating them as taxes.

Following the Interpretative guide, to count as a tax a levy (a) must be paid to general government, and (b) must be compulsory. A third requirement, i.e. that the payment must be unrequited, is satisfied in the case of church taxes since – generally speaking – the amount of the levy is unrelated to the use of services provided by the church.

Payment to general government?

The 1993 System of National Accounts (SNA) classifies churches as non-profit institutions – even if they are controlled and mainly financed by general government. Once it is accepted that churches are by definition excluded from the general government sector, levies paid to churches can in principle no longer qualify as taxes within the 1993 SNA framework. Generally speaking, the statistical framework used for Revenue Statistics is intended to conform as far as possible to the 1993 SNA conventions. However, there are some major exceptions. Similarly, the reporting mode of church tax revenues could deviate from the SNA classification, if pressing arguments suggest a specific treatment of the levies involved.

Irrespective of whether churches are considered to be a part of general government, two separate cases can be distinguished. In some cases the church tax is imposed by the central or a sub-central level of government that determines revenue needs and sets the rates accordingly, with revenues thus collected transferred as a grant to qualifying churches following a key determined by the legislature. Under these circumstances, the levy may be assumed to constitute an earmarked tax paid to general government. In other cases, however, it is the church that determines the rates of the levy, while the role of the central or sub-central government is limited to simply collecting the levy. In such cases, it would seem that the levy should not count as a tax, since it is predominantly a membership fee, collected by the government apparatus under some particular arrangement with the church organisations concerned.

The Interpretative guide is silent on whether it is a condition that rates and the base of the levy should be fixed by general government (and not by the church) for it to be considered a tax.
Compulsory payment?

Some ambiguity also exists as to when levies should count as being compulsory. In fact, in all countries that impose a church tax, individuals can avoid paying the levy, although in Finland and a number of cantons in Switzerland corporations can not. In practice, the formalities for individuals who want to opt out differ considerably from one country to the next. In some cases a simple notification of the government or the church that one does not want to pay the levy suffices to be exempted. Some would take the view that in such a case the levy can hardly be deemed ‘compulsory’. However, if the law – explicitly, or indirectly – stipulates that church members in that quality must pay the levy, the payment might be considered compulsory as is suggested by the following analogy. Only a part of the population drives a car (is a member of the church). The decision to purchase a car (to be a member of the church) is a voluntary decision. But this does not mean that the motor vehicle tax (church tax) is not a tax.

Description of church tax by country

Austria

The churches (mostly the Roman Catholic church, plus various protestant denominations) are not considered a part of general government. The ‘Kirchensteuer’ is a fee, due only by members of the church. The levy is imposed by the fiscal office of the church, on the basis of annual income of households. In practice, income estimated by the fiscal office of the church is often lower than actual income. If church members do not pay the assessed levy, the church may collect the ‘Kirchensteuer’ with some assistance from the government as laid down in the Concordat. According to the most recent population census (held in 1991) about 88 per cent of the population was a member of a church. In 1998, revenue amounted to 0.16 per cent of GDP.

In the case of Austria, the levy is not reported in Revenue Statistics as a tax, since it is not paid to general government.

Denmark

The State Church (protestant) is considered to be a part of the general government sector and is treated as such in the National Accounts. In this respect, Denmark does not follow the 1993 SNA. The church is partly financed by the central government and partly out of church tax revenues. Only church members are obliged to pay the tax. After churches (at regional level) have prepared estimates of next year’s outlays, a note is sent to the relevant local government, asking it to collect the tax needed to cover estimated expenses. The tax base is annual income. Collection of the tax is an integrated part of the collection of all personal income taxes.

If an individual does not want to pay the levy (any longer), he or she has to go to the church office in person and ask to be taken off the register of members. The levy is paid by 86-87 per cent of all income earners. Aggregate revenue amounts to 0.31 per cent of GDP.

In the case of Denmark, the church being considered as a part of general government, revenues from the church tax are reported in Revenue Statistics.
Finland

The Lutheran National Church (the State Church) and the Greek Orthodox Church are not considered to be a part of general government. The levy is only due by church members. Individuals who do not want to pay the levy (any longer) can indicate they want to end their membership. The annual levy is imposed and collected from 83 per cent of all income earners by the municipalities on the basis of taxable income as defined under the municipal income tax. In addition, all corporations contribute to financing the churches. To this end, part of the revenue of the corporation income tax is earmarked for the Lutheran National Church and the Greek Orthodox Church. In 1998, aggregate amount of the levy amounted to 0.65 per cent of GDP.

Finland used to include receipts from its church tax in the data submitted for Revenue Statistics. This practice was discontinued after 1993, the main argument being that starting from this year companies were no longer obliged to pay the levy. However, corporations are (still) obliged to pay the church tax. In the case of Finland, the church tax paid by individuals is not a tax, because the church is not a part of general government and membership of the church is not compulsory. In contrast, the church tax paid by corporations – now cloaked as corporate income tax – should be reported as a tax. It is a compulsory payment to general government, with revenue earmarked for the church. Starting with next year’s edition, the revenues concerned will be reported in Revenue Statistics [this has to be confirmed by the Delegate for Finland]

Germany

The churches (Roman-Catholic, protestant) are not considered a part of general government. The ‘Kirchensteuer’ is due only by church members. Individuals who refuse to pay the levy must leave the church by sending a letter to the local registrar, or the district court, or – in the Land of Bremen – by addressing the church itself. About two-thirds of all households pay ‘Kirchensteuer’. This is a national average. The part of the population paying the levy varies from about 10 per cent in former East Germany to 70-80 per cent in Saarland. The annual levy is calculated as a surcharge on wage tax and income tax due and is imposed and collected by the sixteen Länder (States) which together constitute the Federal State of Germany. Formally, the legislature of the Länder decides on the rate. Revenue collected is remitted by local financial offices to the church branches concerned. In 1997, aggregate revenue amounted to 0.43 per cent of GDP.

In the case of Germany, the levy is not a tax because the church is not considered a part of general government and the role of general government is mainly to collect the levy. Consequently, revenues from the ‘Kirchensteuer’ are not reported in Revenue Statistics.

Sweden

The Lutheran church is the official State Church until year 2000. For National Accounts purposes, the State Church was considered as a part of the general government sector, but from year 2000 on it will be included as a non-profit institution serving households. The tax is paid to the central government and is based on taxable income for the local income tax. Local parishes are free to set the rate of the tax. The tax comprises two components: (1) a compulsory levy of on average 0.3 per cent, which is a fee for funeral services and so on, and a voluntary levy of on average 0.9 per cent. Starting in 1952, individuals may claim to be exempted from the voluntary part of the tax. In practice, 85-90 per cent of all taxpayers contribute both components of the tax. Total revenue from the tax amounts to 0.61 per cent of GDP.
Currently, the compulsory portion of the church tax is reported in Revenue Statistics (as a local tax, under heading 1110), whereas the voluntary portion is not. In so far as the compulsory part of the levy is in fact a payment for a service, it should be reported as a non-tax receipt. By excluding revenues of the voluntary part of the levy, reporting by Sweden and by Denmark is not consistent, because Denmark includes revenues from the tax paid by about 85 per cent of the population to its State Church. This discrepancy in reporting practices will disappear after 1999, now that in Sweden the church is no longer treated as part of the general government sector and the church tax has been replaced by a membership fee that will not be reported in Revenue Statistics, whereas Denmark still includes the State Church in general government.

Switzerland

In Switzerland, churches are not considered as a part of the general government sector. Revenues from the church tax are no reported as tax receipts to the International Monetary Fund. Under the Swiss Constitution, fiscal relations between the government and the churches are decided at the cantonal level. In fact, important features of their institutional relations are different in each of the twenty-six cantons. With one exception, church tax is levied in all cantons and the tax base is assessed and/or the tax due is collected alternatively by cantons, ‘communes’ (local government) and ‘paroisses’ (parishes). In principle, only church members are subject to the tax. Individuals are no longer subject to the tax after obtaining a declaration that they do not belong to a church (any longer). In eighteen cantons, corporations are also subject to church tax. The religious authorities determine the tax rate. For individuals, the tax base consists of various taxes due: personal income tax and wealth tax everywhere, and includes capital gains tax and lottery tax in some cantons. In most cases, the tax base for corporations is cantonal or communal corporation income tax due. In 1996, revenue of the church tax amounted to about 0.4 per cent of GDP.

In reporting all revenues of the church tax for Revenue Statistics purposes, Switzerland deviates from the 1993 SNA framework. This approach is based on the view that the goal of Revenue Statistics is to show the total of obligatory payments made by economic subjects. Although fiscal relations between cantons and churches vary from one canton to the next, Switzerland reports for reasons of simplicity all payments of church tax in Revenue Statistics (as obligatory payments to general government).

General comment

Six OECD countries impose a so-called church tax. Generally, payments made directly to churches should not be reported as taxes in Revenue Statistics since churches are no part of general government. On the other hand, compulsory payments made by church members to a unit of general government as defined in the 1993 SNA with revenues being transferred to qualifying church organisations, may – depending on the circumstances – appropriately be counted as taxes.

Denmark and Sweden are the only countries to include the State Church in their general government sector. Consequently, Denmark reports all proceeds of the church tax equal to 0.31 per cent of GDP as tax revenues. Sweden only reports proceeds from the compulsory part of its church tax. This inconsistency will disappear, since Sweden replaces the church tax by a membership fee in year 2000, and will no longer treat the State Church as part of its general government sector.

For various reasons, and mostly consistent with the Interpretative guide, three countries – Austria, Finland and Germany – do not report any revenues of the church tax in Revenue Statistics. However, to improve international comparability, Finland has agreed to one particular adjustment and will in the future report revenues from the church tax paid by corporations [to be confirmed by the Delegate for Finland]
Switzerland does not include churches in general government. The church tax is viewed as an obligatory payment to the government. In Switzerland, the church tax is in most cases paid to general government, but sometimes directly to the church. For practical reasons, total revenues equal to about 0.4 per cent of GDP are reported as taxes.

There remains the case of Spain and Italy, where an (income) tax is paid to general government and where taxpayers may indicate that they want a very limited part of the total amount paid to be remitted to the church or a non-church charitable organisation recognised by the government. In such cases, the full amount paid is correctly reported as tax, because the payment is compulsory, and made to general government that sets both the base and the rate of the tax.