



Pocket Guide on Tax Expenditures for Parliamentarians

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Imprint

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Introduction

What are tax expenditures?

- Tax expenditures (TEs) – also known as tax benefits, tax breaks, tax holidays, etc. – are special provisions of the tax code that deviate from the country’s benchmark tax system and provide preferential treatment to specific groups of taxpayers, activities, economic sectors, or regions.
- TEs can take various forms and are found across the whole tax system.

Type of TE ¹	Description
Allowance	Reduction of the tax base
Credit	Reduction of the tax liability
Deferral	Postponement of the tax liability
Exemption	Monetary exemption of persons, firms, property, income, or transactions from taxes that would otherwise be levied on them
Reduced rate	Reduction of the tax rate

- TEs are widely used by governments to pursue policy goals such as attracting investment, boosting innovation, incentivise pension savings, reduce poverty, or greening the economy.

For more information about TEs, see this [3-minute explanatory video](#).

Why is transparency in the TE field important?

- **Costs:** TEs result in a direct revenue loss for the government. On average, the Global Tax Expenditure Database (GTED) shows that the average revenue forgone from TEs lies at 3.8% of GDP and 23% of tax revenue, globally (Redonda et al., 2023).
- **Scrutiny:** While governments use TEs as an alternative to direct spending, the level of scrutiny is often significantly lower compared to budgetary provisions. At present, 113 out of 218 jurisdictions have never issued an official TE report disclosing the revenue forgone stemming from TEs (von Haldenwang et al., 2023). Equally worrisome is the lack of detail of most existing reports, illustrated by the fact that all jurisdictions covered by the Global Tax Expenditure Transparency Index (GTETI) achieve an average score of only 47.5 out of a maximum of 100 (Redonda et al., 2023). Many TE reports do not disclose the policy objectives, legal basis or targeted beneficiaries of individual TE provisions, or provide only aggregate revenue forgone data, most often by type of tax.
- **Effectiveness:** Ill-designed TEs can be highly ineffective and trigger unwanted side effects independent of their stated policy goals. Reliable and accessible data on TEs is crucial to increase the scope and quality of evaluations that include impact assessments, costbenefit analyses, and the use of more complex statistical methods. Comprehensive evaluations can serve as a key input to a more effective use of TEs in the context of evidence-based policymaking.

¹ Author’s own elaborations based on GAO (2012).

Setting the stage - The TE Policy Cycle²

Policymaking in the TE field can be visualised as a “policy cycle”, combining five interlinked stages (Figure 1). **Setting up** TEs includes decisions on public policy objectives and the design of individual provisions. It also involves carrying out ex-ante assessments, which are essential to justify the implementation of new TEs, assessing the potential impact and externalities they might trigger. **Operating** concerns the administration, estimation, and monitoring of TEs. Regular and comprehensive **reporting** is key for a well-informed and evidence-based policymaking process. **Evaluating** refers to in-depth assessments of TEs, weighting costs versus benefits and exploring positive or negative side effects. The results of such evaluations should then lead to **Reforming TE policy**, if needed.

The cycle is interlinked such that the design of a TE has direct implications for the management of the provision, once implemented. In later stages, the design and estimation of a TE affect the possibility to evaluate its effectiveness and efficiency through an ex-post evaluation. The conclusions of TE evaluations should then inform the policy making process, which should lead to reform, if deemed necessary. Rationalising the use of TEs to better align the tax system with governments’ growth and development strategies is essential for the sustainable use of TEs as a policy mechanism.

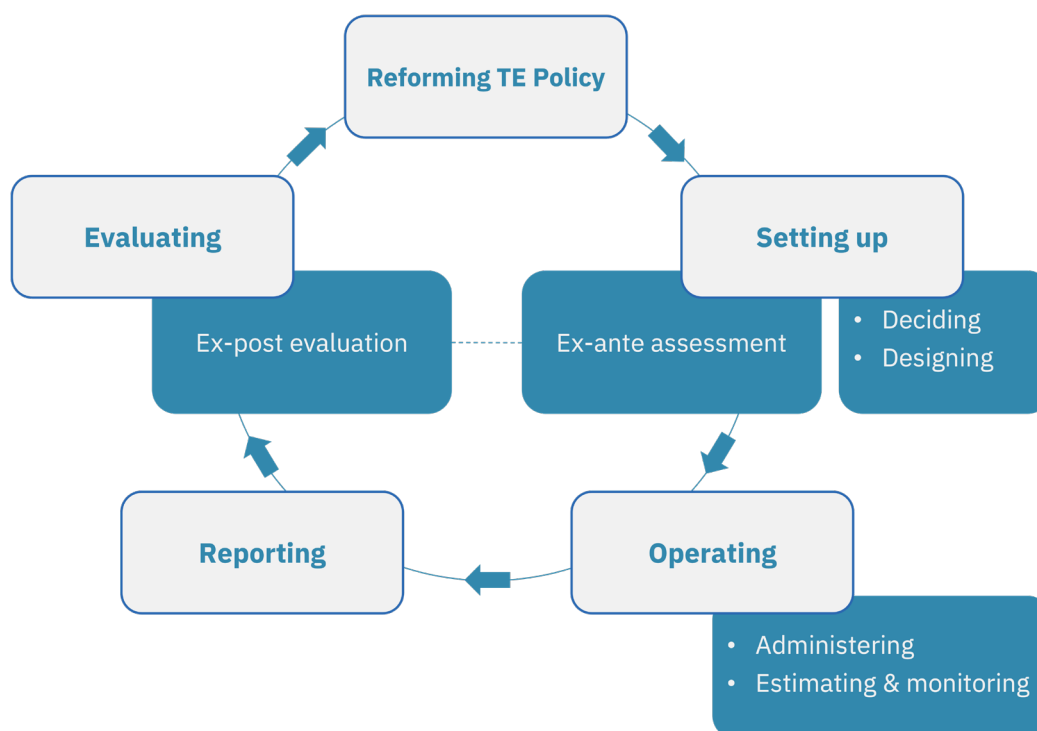


Figure 1. The TE Policy Cycle

² The policy cycle as well as other aspects of TE evaluations are discussed in more detail in Redonda et al., 2023.

Setting up Tax Expenditures

Setting up TEs is a process involving **ex-ante assessment**, **deciding**, and **designing**. Deciding on TEs involves decisions on public policy objectives, whether the provision is suitable for pursuing such objectives and if it is consistent with the government’s overall economic and development strategies, including spending programs and commitments. As shown by Figure 2, deciding on TEs can be summarised by four key questions. In the process, parliaments play a key role in creating a sound and transparent framework for TEs where the legal basis and responsibility of each institution is clearly defined. The authority to establish new TEs and reform (modify or dismantle) existing ones should be reserved to the parliament as best practice. If the parliament decides to delegate this authority to other bodies within the executive, it should be done with appropriate checks and balances.

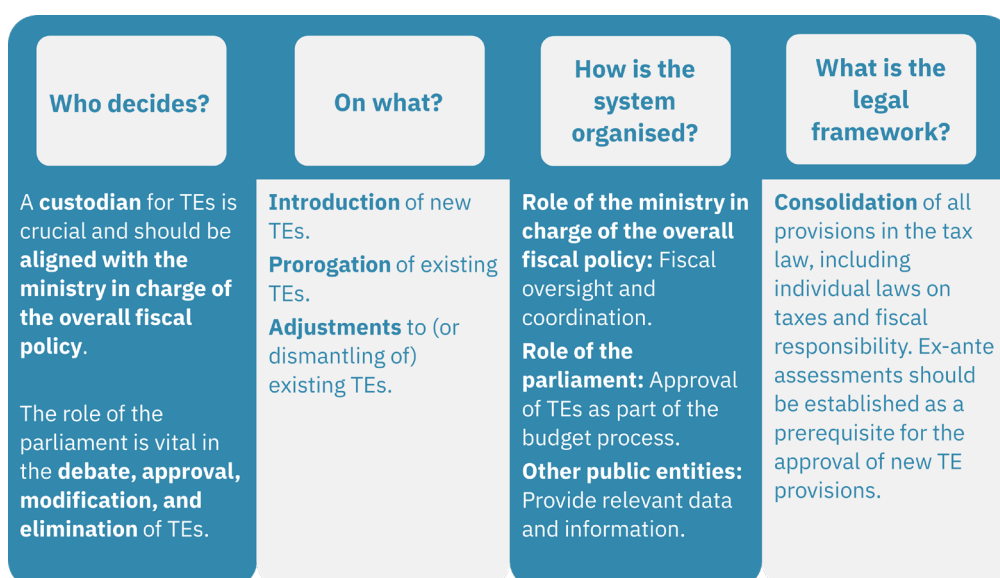


Figure 2. Deciding on TEs - Four key questions

Features such as type of TE, eligibility criteria, threshold values, reporting requirements for beneficiaries, and the intended timeframe (e.g., if a sunset clause³ or degressive scale are applicable or not) are important to consider when designing a TE. Further, it is critical that the intention behind the introduction of a TE is disclosed by a clear and detailed definition of the policy objective and the intended target beneficiaries since this information later has implications for the assessment of goal attainment and effectiveness. The design of a new TE provision should, in addition, consider the fiscal, administrative, and compliance costs linked to its application. All these considerations should be taken into account in an ex-ante assessment, which is performed prior to the implementation of a new TE with the purpose to inform the policymaking process.

³ A sunset clause within the realm of TE refers to a stipulated expiration date for a specific provision.

Operating Tax Expenditures

Operating TEs refers to the regular management of TEs, with **administration, estimation and monitoring** as the main tasks. Governments should estimate the fiscal cost or revenue forgone of all TE provisions in use. While such estimations are typically prepared at regular intervals, ideally linked to the budget cycle, a sound monitoring system of TEs may sometimes require additional efforts, for example, during crises, pandemics, or other shocks.

The administration of TEs involves various government agencies and powers, including the parliament. Whereas policy decisions are usually made by the Ministry of Finance (ideally, the tax policy unit (TPU) or similar), revenue authorities also play a vital role. They provide information to taxpayers, detect and sanction abusive behaviour, and are the main data providers for the estimation of revenue forgone and for any TE evaluation. Other public entities, such as line ministries and investment promotion agencies, can also have relevant functions, but involving many different authorities might lead to higher transaction costs. Clear rules of cooperation and exchange of information, explicitly stated in the legal framework, are necessary for sound TE management. The parliament has a key role in the elaboration of such a governance framework and assumes important functions with regard to monitoring and control of TE use, both ad hoc (if required) and as part of the regular budgeting and reporting cycle.



Figure 3. Actors within the TE Policy Cycle

The role of audit offices is also worth mentioning. They play a vital role in examining the effectiveness and efficiency of TE management. The audit office's function is to review government accounts, financial operations, and overall performance, ensuring the proper use of public funds. TEs fall under this umbrella since they result in a revenue loss for the government and are managed by public entities. Regular audits of the TE management are important. The value lies in informing policy makers on how effective the system is, what needs to be optimised, and what the recommended amendments are.

At the other end of the process, it is the prerogative of the parliament to take such recommendations into account and lead the political debate on the implications they might have. This is why the operating stage of the TE policy cycle should foresee direct communication and flows of information between the responsible authorities and the parliament, ideally embedded in the budget process.

Reporting on Tax Expenditures

The aim of TE reporting is to increase transparency and accountability by informing the TE policymaking process. Therefore, TE reports should provide the necessary level of detail to facilitate such functions⁴.

Given the fiscal and policy relevance of TEs, the parliament should be one of the main scrutinisers of TE information. To fulfil this basic function, it should have access to comprehensive and detailed information about TE regimes, including revenue forgone, policy goals and beneficiaries of TEs, all of which should be disclosed at the individual TE provision level. The parliament should also receive complementary information whenever necessary, including a discussion of the benchmarking decisions underlying the determination of TEs and, at least, a summary of the results and main takeaways of TE evaluations. It is, however, necessary, that any ad-hoc information requests are sent from the parliament to the responsible authorities with sufficiently long timelines to enable the preparation of meaningful reports.

The structure and granularity of the TE information presented is also crucial. As the primary legislative body in a country, the parliament should be able to establish a clear connection between TEs and the laws and decrees from which they originate, as well as with direct spending. Classifying TE provisions according to the functions of government (COFOG, or similar) is highly recommended⁵

Coverage	
<input type="checkbox"/>	Report covers all available TEs
<input type="checkbox"/>	The benchmark tax system employed to prepare the report is introduced
<input type="checkbox"/>	Structural reliefs are disclosed ⁶
Granularity and Comprehensiveness	
<input type="checkbox"/>	Report provides information on individual TE provisions
<input type="checkbox"/>	The revenue forgone from each TE provision is reported individually
<input type="checkbox"/>	The tax type of each TE provision is disclosed
<input type="checkbox"/>	The type of TE mechanism for each TE provision is disclosed
<input type="checkbox"/>	The beneficiaries of each TE provision are disclosed. When possible, the number of claimants of the TE provision is provided
<input type="checkbox"/>	The policy objective of each TE provision is disclosed
<input type="checkbox"/>	The timeframe of each TE provision is disclosed
<input type="checkbox"/>	The legal reference of each TE provision is disclosed
Timeline	
<input type="checkbox"/>	The parliament receives the TE report yearly, together with the budget proposal

Figure 4. Content checklist for TE reports

⁴ Based on the GTETI methodology, Redonda et al. (2023) provide a detailed discussion of how an ideal TE report should look like. [Benin](#) and [Canada](#) are two examples of detailed and comprehensive TE reports.

⁵ For more details about the COFOG, see OECD (2023).

⁶ Structural reliefs are tax measures whose main objective is internal to the tax system and are hence not classified as TEs. The criteria used by governments is often based on different grounds. E.g., France and Germany consider lower VAT rates for food to be part of the benchmark because they are seen as key features of the tax system, based on a redistributive logic.

Evaluating Tax Expenditures

Evaluating TEs covers the introduction of new provisions (ex-ante) as well as the goal attainment and potential spillovers of TEs already in place (ex-post). Whereas the two kinds of evaluations are different in spirit and substance and take place at different stages of the TE policy cycle, they are clearly interconnected. Ideally, the parliament is involved in setting up or reviewing an evaluation framework covering both dimensions, but also in reviewing and debating evaluation results and, not least, in reforming TE provisions based on the lessons derived from such evaluations. Figure 5 summarises the key aspects of an evaluation framework, covering both dimensions.

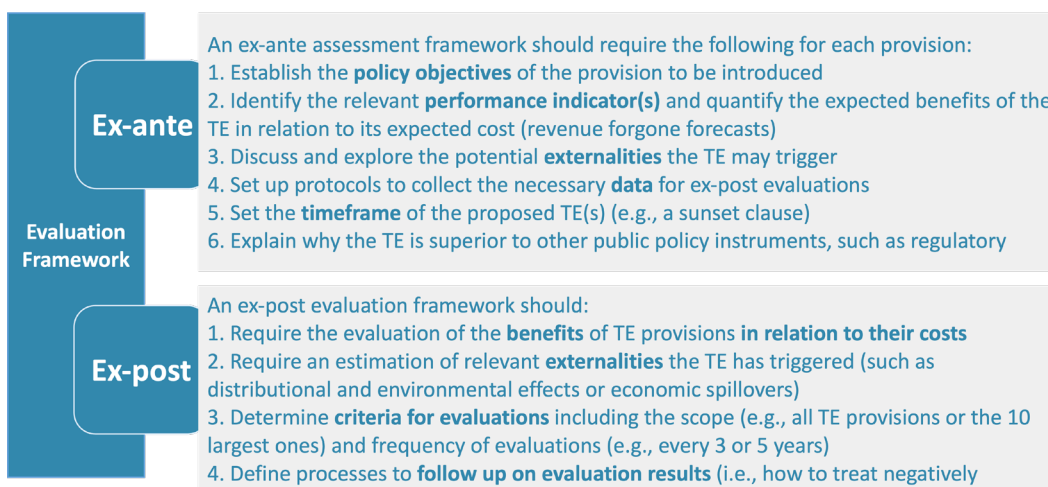


Figure 5. The TE Evaluation Framework

Ex-ante assessments

Given the sizeable fiscal impact of TEs, any introduction of a new TE should be preceded by an ex-ante assessment. It is the task of the parliament to create or review an institutional framework for that purpose. The TE evaluation framework should require the responsible authority to inform the parliament about the rationale for the implementation of a new TE, its potential impact (both regarding direct budgetary effect in terms of revenue forgone forecasts and potential spillover effects it might trigger) and relative performance compared to other alternative policy tools. Indeed, any new TE must have a clear and transparent policy objective – a key piece of information for any debate on the cost and benefits of the measure. Likewise, ex-ante assessments should set the criteria for the monitoring of TEs, for instance by defining performance indicators and data requirements for ex-post evaluations. In fact, ex-ante assessments may be important sources of baseline data for subsequent evaluations. Other factors to consider regard the applicability of sunset clauses or budget ceilings for individual TEs, or aggregate revenue forgone ceilings for all TEs (Redonda et al., 2023). In concrete terms, an ex-ante assessment framework can be based on answering a few guiding questions⁷, such as:

- What is the policy objective of the intended TE?
- Is the problem the policy aims to address clearly stated?
- Is a TE the best approach to address the problem?

⁷ For instance, see Department of Finance of Ireland (2014).

- What is the expected fiscal cost?
- Are the conditions for an ex-post evaluation adequately established?
- Is a sunset clause applicable or necessary?

Ex-post evaluation

Ex-post evaluations are performed to evaluate the effectiveness, impact, and goal attainment of TEs already in place. Evaluations can cover one single provision, but also a group of TEs. The scope and complexity of ex-post evaluations differ depending on factors such as the evaluation criteria, the design of the assessed TE(s), data availability, and the choice of models and methods. The minimum requirement for ex-post evaluations is to assess the cost and benefits of an individual (or group of) TE(s). Ideally, this should include both direct and indirect costs and benefits. The direct effect can be assessed in terms of direct benefits received by target groups and direct costs measured as revenue forgone. Indirect effects are externalities triggered by the TE or costs and benefits generated as a result of behavioural changes due to the use of the respective TE.

It is usually not feasible or necessary to evaluate all TEs on an annual basis. A multiyear evaluation framework of three to five years can be more efficient but should be established as a binding rule. Such a multiyear framework could consider the size of TEs (e.g., the amount of estimated revenue forgone), resulting in larger TEs being evaluated more frequently than smaller ones (Beer et al., 2022 and Redonda et al., 2023).

It is the role of the parliament to set up a legally binding framework that describes what should be evaluated, by whom, when, and how the results of evaluations are fed back into policymaking. The results of evaluations should be reported to the parliament in a timely manner to make sure enough time is provided for parliamentarians to process the information and incorporate it into the policy-making process. For that purpose, parliaments should also be endowed with technical staff to support parliamentarians in their functions. As a rule, evaluations, or at least summaries of the main results, should also be published to facilitate public debate on the topic.

Reforming Tax Expenditure Policy

There is a broad consensus about the urgent need to rationalise the use of TEs that reduce the fiscal space of governments without clear proof of their effectiveness (Dressler et al., 2022 and Benitez et al., 2023). Parliaments play a key role in the reform process since, as any other tax or expenditure policy, TE reforms do not occur in a political vacuum. Rather, they are an outcome of political deliberations which take place in public as well as behind closed doors.

As a necessary prerequisite, parliaments should be properly informed about the use of TEs. They should be provided with regular and comprehensive data and detailed information in the context of annual TE reports that are linked to the budget process, as outlined above. The TE policy cycle aims to establish an evidence-based approach to TE policymaking by clearly identifying the different steps needed to rationalise the use of TEs. Along the policy cycle, cooperation, transparency, and accountability are key factors for scrutinising TEs in a similar way as other policy tools with a budgetary impact. The parliament is the main place where scrutiny, political debate and policy reform should take place.

On top of regular and comprehensive reports, ex-post evaluations are key sources of evidence to inform parliamentary debates on the modification or removal of individual provisions. To maintain an efficient, effective, and fair tax system, those provisions that are negatively evaluated and shown to be more costly in relation to the benefits they provide, should be subjected to reform. Parliaments may face pressure from specific groups or powerful economic actors in this process. This is all the more true as dismantling TEs will in most cases affect a specific group of beneficiaries, even though the general public may gain from the reform. In this context, it is particularly important to understand the long-term effects for society as a whole and use evidence as guidance in the policy debate. When making decisions on individual provisions it is also important to consider the entire tax code and the policy context within which the respective TE was initially implemented. Sometimes TE provisions interact with each other, or they have been implemented to compensate negative effects of other measures. These are necessary aspects to consider before initiating TE policy reforms.

Related to TE governance, it is important that parliaments enjoy adequate access to key budget documents such as contracts, bilateral agreements, and other budgetary documents. Budgetary processes should be organised in a way to provide the necessary time and space for parliamentary intervention. Integrative efforts seeking to promote contract disclosure and improve public participation processes related to the budget, along with strengthening the capacities of the technical staff in the parliament, have proven to be helpful in this regard.

Finally, communication is a key element of any TE reform. Parliaments should, as a rule, always strive for transparency and publicity of the processes and issues related to TEs. Transparency does not only strengthen the link between the political debate led in and by the parliament and the public debate that takes place at the societal level, but it is also key to manage the expectations of those groups that will be affected and, hence, to increase the likelihood of success.

Summary: Key Parliamentary Functions

In most of the countries, parliaments play a key role in the TE policy cycle. The functions they fulfil at the various stages of the policy cycle can vary from country to country. A non-exhaustive summary is provided below.

Setting up and operating TEs

- Ensuring that all TEs have a **statutory** basis: The authority to establish new TEs and reform (modify or dismantle) existing ones should be reserved to the parliament, as best practice. If the parliament decides to delegate this task to other authorities, it should do so with appropriate checks and balances.
- **Roles** and **responsibilities** in the management of TEs should be clearly defined at the ‘deciding’ stage. The parliament should include a governance framework to prevent an overlap of functions and foster coordination.
- Also, it is critical that the parliament makes sure that proposals of new TEs meet the following requirements:
 - i. The government demonstrates that the policy objectives of the new TE are in line with national development plans and policies.
 - ii. The government has carried out an ex-ante assessment with favourable results regarding the introduction of the new TE.

Reporting and evaluating TEs

- It is necessary to include the following elements in the legal framework to ensure a high quality of reporting:
 - A clear and detailed **definition of TEs**
 - Reporting should be comprehensive and follow a **regular, annual, and timely** pace. As with other elements of the budget cycle, TE reports should be due at pre-defined dates.
 - Reports should be **publicly accessible**.
 - There should be a **clearly designated authority** responsible for preparing the TE report. Often, this may be a department/unit within the Ministry of Finance (e.g., TPU).
- The legal framework should establish the structure and frequency of TE evaluations, including both **ex-ante assessments** and **ex-post evaluations**. The frequency of ex-post evaluations should be disclosed. Also, the responsibility to carry out evaluations should be clearly established, and the results and main takeaways should be shared with parliaments in a timely manner.

Resources & Partners

There are several organisations and processes that support parliamentarians in their roles as accountability and transparency stakeholders in TE governance.

The [Addis Tax Initiative](#) (ATI) specifically mentions TE transparency in Commitment 3 and the enhancement of space and capacity of accountability stakeholders in Commitment 4 of the [ATI Declaration 2025](#). Under this framework, the ATI has organised a series of regional workshops on TEs together with the [Council on Economic Policies](#) (CEP) and the [German Institute of Development and Sustainability](#) (IDOS) and a range of local partners. Parliamentarians from different ATI member countries attended the different workshops in the series, joining both the plenary sessions as well as ad-hoc sessions such as TE Evaluation for Parliamentarians.

The [African Parliamentary Network on Illicit Financial Flows and Taxation](#) (APNIFFT) is a flagship program coordinated by Tax Justice Network Africa (TJNA) with an overall objective to provide an opportunity for its members, the African legislators, to strategize, learn from each other and build their capacities in tackling Illicit financial flows and tax injustice in the continent. The platform facilitates its members to undertake advocacy-related dialogue and debates in a simplified manner on Illicit Financial Flows (IFFs), tax governance, and domestic resource mobilisation (DRM) in Africa.

The [Tax Expenditures Lab](#) is a hub for expertise, exchange, and peer learning on the topic of TEs. The Tax Expenditures Lab scrutinizes worldwide information on preferential tax treatments such as exemptions, deductions, credits, deferrals, and reduced tax rates. The lab currently hosts two key projects coled by the Council on Economic Policies (CEP) and the German Institute of Development and Sustainability (IDOS): The Global Tax Expenditures Database (GTED) and The Global Tax Expenditures Transparency Index (GTETI).

The [Global Tax Expenditures Database](#) (GTED) provides timely and consistent information on preferential tax treatments such as exemptions, deductions, credits, deferrals and reduced tax rates that are implemented by governments worldwide to promote different policy goals. The GTED aims to improve reporting, enhance scrutiny, and, ultimately, to contribute to the design of effective and fair tax expenditures across the world.

The [Global Tax Expenditures Transparency Index](#) (GTETI) is the first comparative assessment of TE reporting, covering countries worldwide. Building on the data made available through the Global Tax Expenditures Database (GTED), the GTETI provides a systematic framework to rank countries according to the regularity, quality, and scope of their TE reports.

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