Follow-up Technical Meeting on Tax Expenditures
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TAX EXPENDITURES LAB

# Governing TE regimes – some takeaways from the workshop

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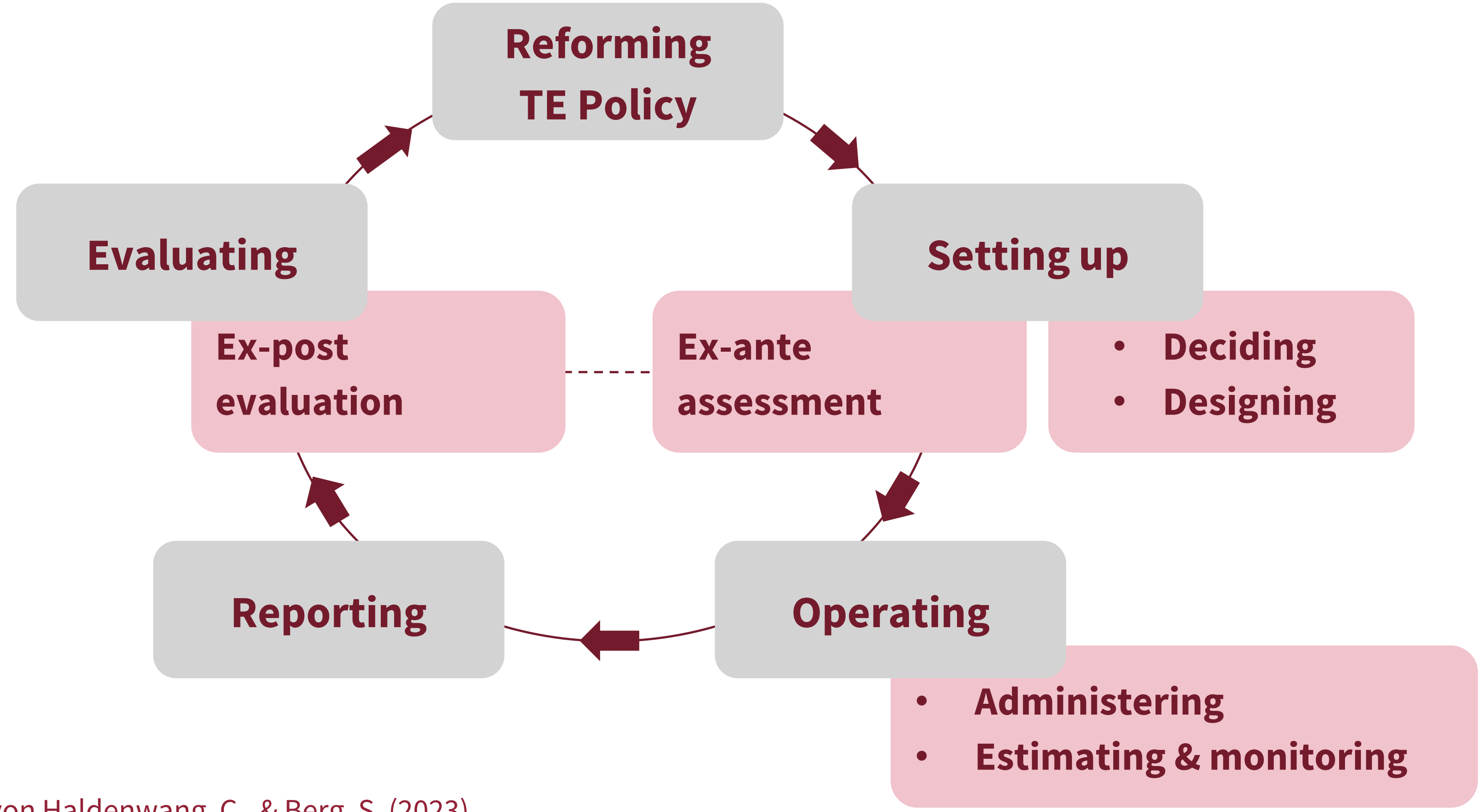
# The Tax Expenditure Policy Cycle




Source: Redonda, A., von Haldenwang, C., & Berg, S. (2023)

# Challenges encountered and solutions found

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## Setting up TEs

- Conflicting interests in creating or maintaining TEs → Can TE ceilings be an answer?
- Discretionary TEs, multiple actors → give MoF responsibility to technically assess and approve new TEs (or modifications of existing TEs); strengthen the role of parliament in the process
- No clear benchmark system in place upon which TEs are granted → work on benchmark definition based on clear criteria
- Timing of TEs: often "last forever" → sunset clause & evaluation requirement as default option
- Design of TEs: Documentation requirements (by taxpayers) in line with data requirements

# Challenges encountered and solutions found

## Operating TEs

- Complexity and frequent changes of tax and TE regimes increase work load of tax administrations
- Estimation of revenue forgone → support from external actors (IMF, World Bank, ADB, GIZ, etc.)
- Monitor the take-up of TEs and manage data → role of MoF and revenue authority, collaborative relationship between both
- Digitalisation to facilitate administration, monitoring and compliance, e.g. risk-based auditing; pre-filling of forms

# Challenges encountered and solutions found

## Reporting on TEs

- No reporting to parliament, or report not made public → requirement by law
- Benchmarking determines the scope of reporting: For instance, provisions contained in bilateral tax agreements? Structural reliefs?
- Limited data availability can be a real issue – or an excuse, sometimes!

# Challenges encountered and solutions found

## Evaluating TEs

- TEs implemented without ex-ante assessment, due to time pressure or political interference
  → technical approval of proposal as a requirement, including GLOBE assessment (capacity?)
- No (or incomplete) reporting leads to more challenges with regard to TE evaluation
  → joint evaluation framework (integrating ex-ante assesments and ex-post evaluations)
- Pressure on governments to "rationalise" the use of TEs, but insufficient data for evaluation
  → data requirements when setting up TEs; data sharing between different government bodies; start with "lean" evaluations; start with few (big) TEs; medium-term evaluation schedule
- Academic timelines may differ from political timelines

# Challenges encountered and solutions found

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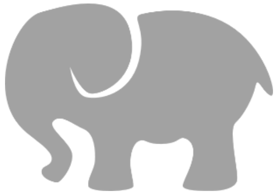
## Reforming TEs

- Resistance by parliament & other powerful actors to dismantle individual TEs, but growing awareness of the relevance to push reforms → continuous flow of information between MoF / RA and parliament, strengthen oversight capacities of parliament. Impose TE ceilings?
- Strategic partnerships with domestic and international actors to overcome deadlocks; reach out to stakeholders early on in the process, e.g. through public consultations, expert hearings
- Big push or piecemeal (incremental) approach? Are there "low-hanging fruits"?

# Challenges encountered and solutions found

**Overarching issues**

- **Data** lacking, incomplete or not reliable → national strategy to strengthen statistics offices; organise data sharing between authorities (also internationally!); revise tax return forms; monitor data quality (under- & misreporting); use advanced data analytics
- **Capacity** limitations & brain drain → improve employment conditions to keep capacity; ensure knowledge transfer when colleagues leave or change positions; partner with academia and private sector; contract out
- **Communication** → establish continuous and fluid communication channels with other governmental agencies and parliament; public disclosure of TE reports



# Buzz groups

- What are your main takeaways from the workshop regarding improving the institutional set-up and the governance of TEs? Any important lessons learned from the experiences of other countries?
- Where do you see opportunities for improvement in your own country, given the existing institutional framework?

***Buzz groups:***

*2-3 persons*

*Exchange on your views and ideas*

***→ Take 10 minutes!***

# Thank you!

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