Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

RESEARCH ON MACROECONOMIC AND FISCAL IMPACT OF TAX EXPENDITURES IN AFRICA

PRESENTATION OUTLINE

- Background
- Research Objectives
- Research Approach
- Research Status
- Survey Questions
- Preliminary Observations
- Next Steps and Timelines
- Required Actions

BACKGROUND

- A number of countries do not measure Tax Expenditures and where these are measured, they are rarely published
- Weak frameworks for management of Tax Expenditures (TE) in African countries
- TE measurement approaches remain differentiated making country comparisons difficult
- The level of TE in Africa is unknown let alone a regional comparative analysis for African countries
- The available comparative research on selected countries rarely includes Duties and Customs related taxes, there is a need to considers these as well in line with developments in Trade including the AfCFTA
- International Tax Developments (e.g. Inclusive Framework-Pillar 1 and Pillar 2, GloBE) increase the need to assess the role and impact of TE with the aim of protecting Domestic revenue.
- Absence of uniformity in approach for measuring and reporting on TE, no guidebook/tool or manual
- Attempt to measure TE has been made by several studies, however those that attempt to specifically analyse their macroeconomic and fiscal impact are limited

RESEARCH OBJECTIVES

- To provide an approximation of the level of Tax Expenditures in Africa with a regional comparative analysis
- To conduct a status analysis and identify best practices on the measurement, monitoring, evaluation and reporting of tax expenditures in Africa and Produce an analysis on the macro-economic and fiscal effects of tax expenditures in Africa
- Produce a guideline that will assist in advising and guiding African countries on administrative and policy reforms on the management of tax expenditures.

DISTINCTION BETWEEN THE CURRENT STUDY AND EGRII STUDY

- Covers more tax types (Includes PIT, Customs Duties and any other identified tax expenditures)
- Intends to cover more countries, approximately more than 30 African countries
- Provides summary of TE according to country definition rather than a centrally defined criteria with the aim of using country experiences, challenges and best practise to recommend a relevant recommendation on measurement.
- Uses one comparable year to report on TE as compared to any available year (ease of comparison)
- This study attempts to do a comparative analysis that also assesses the effects of TE and not just their statement or value
- Key analytically defining factor is the Panel data analysis that intends to assess the impact of tax expenditures on Macro-fiscal and Social indicators
- The study combines, survey with quantitative data on TE to make a conclusion and also summarise best practises.

RESEARCH APPROACH

- Document Literature Review
- Conduct country survey (Estimates of TE, Practises and challenges in measurement of TE)
- Collect data on Tax Expenditures for the year 2020 across all African Countries that measure TE
- Select countries that have or can provide at least 5 years of tax expenditure estimates and relevant macro-economic data for panel data analysis and analytics that will enable us to study the causal effects of tax expenditures on macroeconomic, fiscal and social impact of tax expenditures
- Country studies on selected countries (Based on survey) to obtain good practises on the measurement, management and reporting of tax expenditures where this selection to take into account regional representation, size and diversification of economies
- Collect ideas on how to best deal with TE in Africa through ATAF innovate
- Produce research, policy guide and other relevant publications

STATUS

- Research Outline and Objectives Completed
- Literature Review-ongoing
- Data Collection Tools (Survey, Tax Expenditure Data for 2020, Data for panel Analysis- TE and Macro Fiscal Data)
- Data collection- ongoing
- Data collection turning out slower and this is currently the main challenge, however quality of received responses is relatively acceptable to date.

HIGHLIGHT ON QUESTIONS IN CONTAINED IN THE SURVEY

- Provide a definition of tax expenditures (TE) used in your country?
- Does your country estimate tax expenditures?
- Which method do you use to estimate tax expenditures?
- Please select the tax types on which you estimate tax expenditures.
- Who is responsible for the measurement and reporting of Tax Expenditures in your country?
- Is the measurement and reporting of tax expenditures legislated
- Are tax expenditures statements part of your national budget?
- What is the frequency of tax expenditure estimation and reporting?
- Please indicate which data sources are used in the estimation of Tax Expenditures
- What are the challenges you experience in the estimation/measurement and monitoring of tax expenditures?
- What are the main reasons/motivations for tax expenditure implementation in your country?

…HIGHLIGHT ON QUESTIONS IN CONTAINED IN THE SURVEY

- Are all your tax expenditures contained in or granted through your tax laws?
- Are recipients of tax expenditures expected to file tax returns or declare their financial or business dealings to the tax authority or a government entity?
- Who has the final authority in the granting of tax expenditures in your country?
- Does your country undertake a cost-benefit analysis of Tax Expenditures undertaken before they are granted
- Is compliance in the implementation of tax expenditures monitored?
- Who is responsible for monitoring the implementation of Tax Expenditures?
- Does your country evaluate the impact of tax expenditures (fiscal and planned benefits)
- Who is responsible for evaluating the impact of tax expenditures?
- What are the sectors for which you have specific tax expenditure regimes?
- Do you believe that tax expenditures are effective for your country?

PRELIMINARY OBSERVATIONS FROM THE SURVEY

- No uniform definition of TE, most countries use revenue foregone approach to measuring TE
- Most countries measure CIT Expenditures and Customs, measurement of the other TE is limited
- Revenue Administrations are the major players in the measurement and management of TE
- Some granted TE are not legislated (granted outside the tax laws)and estimates of TE are mostly not published
- Measurement of TE is done annually by all countries that measure TE and remains generally consistent with a few exceptions
- The measurement of TE is recent for more countries (i.e. they only started in recent years)
- Data used for TE is mainly tax administration data (returns and customs declarations) and is sometimes affected by low compliance rates
- Key challenges in measuring TE are the lack of data, non-timeliness of receiving data, TE granted through discretion are not recorded, unclean data that consumes time to clean before analysis

...PRELIMINARY OBSERVATIONS FROM THE SURVEY

- Tax expenditures are granted by different government bodies, and this make their recording, management and reporting difficult
- There are lack of controls to prevent abuse of TE and sometimes no returns required from recipients of TEs
- The main motivation for TE in many countries is investment and economic growth. Protection of vulnerable groups and promoting certain kinds of consumption are other important factors in TE. Sectors that receive TE are mostly Agriculture, Manufacturing and Mining
- Cost benefit analysis and monitoring of TE is rarely done and if done it's by the revenue administration
- Perceptions of the effectiveness of TE differs from countries with some believing they are effective and some doubting their effectiveness. The panel analysis will empirically evaluate the macro-fiscal and social impacts.
- Survey and panel data to be combined to connect the quantitative to qualitative aspects of TE

NEXT STEPS AND TIMELINES

Finalise Data Collection: September 2023

Data Analysis and Report Writing: October 2023

Review of Report, Technical Review and Inputs : November 2023

Report Finalisation and dissemination: December 2023


Thank you!