# Data Requirements for the TE Estimation

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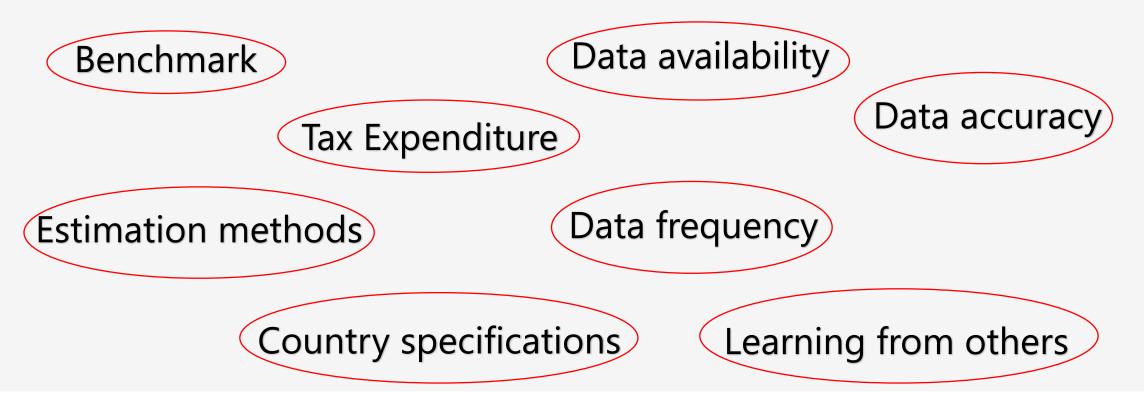
# Outline

➤ **Before Collecting the Data**

➤ **From Benchmark system to TE costing**

➤ **Data sources**

➤ **Required data for TE estimation**

➤ **Challenges**

# Before Collecting the Data

**What are we going to estimate and how?**
**What we need to consider**

Benchmark

Data availability

Data accuracy

Tax Expenditure

Estimation methods

Data frequency

Country specifications

Learning from others

# Before Collecting the Data

- At first, the tax standard or "benchmark" system should be defined;

- Standard tax system - principles recognized by the country Tax Code.

- Regimes deviating from the benchmark can be considered as regimes resulting in TEs;

- Differential or preferential approaches compared to the current general regime of the existing tax legislation are a source of TEs;

- Legal approach – links the benchmark tax system to the applicable legislation, which is the basis for determining the benchmark.

The conceptual approach

**The legal (positive/regulatory) approach**

The cost-subsidy approach

# From Benchmark system to TE costing

Having the agreed benchmark of each taxes;

The list of TE inventory;

Decision about the non-structural TEs;

Which TEs can be costed:

- What is the scope of TE estimation?
- Is the data available?

Require data for TE estimation.

# Data Sources

# Data sources

**National Statistics Office**

- Nominal GDP
- Supply-Use Table (SUT)
- Non-observed output
- Business Output, Profit

**Revenue Service**

- Tax Return data
- Corporate Income Tax (CIT) taxpayers' revenues
- Personal Income Tax (PIT) taxpayers' revenues
- VAT turnover by NACE-2 sectors
- data for small business

**National Bank**

- Deposits
- Interest Rates for Government Bonds
- Exchange rates

**Ministry of Finance**

- Tax Revenues by taxes
  - CIT
  - PIT
  - VAT
  - Others

# Required data for TE estimation

## Data for CIT estimation:

| Modified_ID | NACE_CODE | Category | VAT registration | Tourist enterprise | High-mountain settlement | International company | A virtual zone person | A Free Industrial Zone Enterprise | The date of receipt of the return |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |

**Revenue Service** provides data of:

- Gross income

- The value of assets deducted

- Profit (income) exempted from taxation

**Statistics Office**: GDP

**Ministry of Finance:** Tax revenue

Income tax revenue

# Required data for TE estimation

## Data for PIT estimation:

| Modified_ID | Legal Form | Category | NACE_CODE | High-mountain settlement enterprise | Accounting year | The date of receipt of the return | Cell 15 Gross income Including: | Cell 16 Income taxed under special tax regime | Cell 17 Received beyond the territory of Georgia | Cell 18 Gross income (taking into account the income exempted from Taxation |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |

**Revenue Service** provides data of:            **Ministry of Finance:** Tax revenue

- Gross income                                                       Income tax revenue

- The value of fully deducted assets          **National Bank:**     Interest rates

- Taxable income                                             Commercial bank deposits

**Statistics Office**: GDP

# Required data for TE estimation

## Data for VAT estimation :

**Revenue Service** provides data of:

- VAT turnover by NACE-2 sectors

- Non-observed output

**Ministry of Finance:** Tax revenue

VAT tax revenue

**Statistics Office**: GDP

Supply-Use Tables (SUT)

| Turnover Taxed at VAT benchmark tax rate | Turnover Exempt from VAT (Without the Right to Deduct) | Turnover Taxed at 0% VAT (Exempt with the Right to Deduct) | Total Turnover |
|---|---|---|---|
| | | | |

# Required data for TE estimation

## Data for other TE estimation :

**Statistics Office** provides data of:

- GDP
- Output and profit for businesses
- Data for small business

**Ministry of Finance:**

- Tax revenue

**TEs that are not included in the CIT, PIT or VAT, such as:**

➤ Bookmaker bets in system-electronic form;
➤ Person having the status of small business.

# Working with the data

# Working with the data

- ✓ Once collecting the data, it is crucial to clear it and keep the necessary data (depended on the analysis to do with it)

- ✓ Data classification: data can be provided to show the company size, amount of taxable income, deducted amount, different regimes used, taxpayer type, etc.

- ✓ Data for each taxes should be analyzed separately, depending on its characteristics

  - ✓ PIT has legal regimes of individual entrepreneur and natural person;

  - ✓ CIT has different types of companies: international, tourism, mining lease holder.

# Working with the data

- ✓ Usually, main data about taxpayers taxable income and deductions is provided by the Revenue Service, who has the most updated and revised data available;

- ✓ Ministry of Finance analyses and keeps the data;

- ✓ Data is provided in excel (from ASYCUDA system);

- ✓ For the big databases, using Stata is a common way to make data categorized and more representative.

# Challenges

## Challenges

Obtaining the data in a timely manner and ensuring data availability is one of the main challenges

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- ➢ Non-accurate results
- ➢ Not applicable to policy decisions

- ➢ Lack of coordination between agencies
- ➢ No digitalization during the tax return data reporting

# Challenges

## Example: Supply-Use Tables (SUT)

If TE estimation report is due before the data becomes available (i.e. SUT is published in December and report is due October)

88X88 dimension – more aggregate so cannot go deep into the sector estimation

Informality – high share of informality, questions about the accuracy

➢ Calculate the average of the data for recent years;
  ➢ Average share of each sector
➢ Make some assumptions;
  ➢ The same share for each component as it has before (last year or on average)
➢ Use the estimation numbers and update when data is available.
  ➢ Update SUT 2021 and make estimation for SUT 2022

# Experience + country specifications

- Experience from other countries and organizations is crucial for developing countries

  ✓ What data does the specific TE needs and what are the estimation methods

- Country specifications are important to consider, as gives you the idea what are other tax expenditures that can be estimated and what our data enables us to do

- Provided data from the source organizations might differ in terms of the content and accuracy. Therefore, sometimes assumptions and modifications are needed

# Experience + country specifications

- Be flexible: if your data allows you to do costing of more TEs or improve the estimation methodology, it is more than welcomed (i.e. Georgian experience):

  - ✓ Interest rate ITE – absent of interest rate parity, adjusted by timing and currency (considers deposits at banks and time the tax payments)

  - ✓ Small business status TE – estimated separately, due to high share of small businesses

  - ✓ Distributed Profit Tax – part of the profit tax, which is taxed differently from the CIT regime, need separate tax return data and different TE calculations

# Questions?

# Thank You!

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