

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

Tax Expenditure

Data accuracy

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	Internation al company	A virtual zone person	A Free Industrial Zone Enterprise	The date of receipt of the return
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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
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Revenue Service provides data of:

- Gross income
- The value of fully deducted assets
- Taxable income

Ministry of Finance: Tax revenue

Income tax revenue

National Bank: Interest rates

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
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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



- 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 2022 and make estimation for SUT 2023



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



Thank You!

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Questions?

