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Kathmandu

#TaxDev

Session 6: Communication of TEs

Follow-up Technical Meeting on
Tax Expenditures

Communication of TE

- **Role of TE Report**
- **How is it communicated**
- **Avoiding Common Misconceptions**

Communication of TE is an important step.

It forms the key linkage between the technical exercise of estimating revenue foregone and the TE report's objectives around greater transparency and informing policy.

In this process, careful communication can prevent certain misconceptions.

Role of TE Report

Transparency / Accountability to public (taxpayers) on how public money is spent



Important comms considerations

Accessible & understandable to taxpayers

Informing more efficient budget allocations between policy or development objectives



In terms that relate to other public spending (e.g. budget sectors/recipients)

Basis for evaluation of effectiveness, an input to better policymaking



Detailed costing by provision, tax type, beneficiary etc

How TE is communicated and to whom



- Internal report



- Speech / account to Parliament



- Report publication (with budget or separate)



- Public announcements, media engagement, presentation to stakeholders etc.

Interested Parties:

- MoF and RA (technical)
- Ministers (political)
- Legislature/Parliament
- Development partners
- Civil society
- Private sector
- Public

3 Common Misconceptions

1. *Tax Expenditure = Tax Exemption*

- Tax 'expenditure' comes in many forms and serves a variety of purposes.
- The intended beneficiaries of some expenditures *may* be foreign investors, but many could also be targeted at domestic businesses, SMEs, low-income households, disabled individuals or targeted emerging sectors, for example
- In many jurisdictions, the phrase 'tax exemption' is – probably rightly – associated with negative connotations and the authors of a TE report must meet the challenge to carefully communicate that not all TEs meet the definition of a tax exemption.



3 Common Misconceptions

2. *Tax expenditures are wasteful*



- Research has provided a strong challenge to the need for investment tax incentives (such as investor motivation surveys), e.g., **simply stating the estimated revenue foregone from TEs in a report does not imply that this revenue represents a net loss.**
 - Only an evaluation of costs and benefits of each TE measure would provide that evidence.
 - The TE Report can be viewed as the first part of a Cost-Benefit-Analysis
- Tax Expenditures form a key part of government's expenditure strategies



3 Common Misconceptions

3. *“Revenue foregone” is equal to “revenue gain”*

- A common misconception is that the estimated revenue foregone can be read as the amount that government would receive if the tax reliefs were removed.
 - Particularly pertinent when governments are under pressure to mobilise revenue.
 - **But revenue gained from removing an expenditure does not equal revenue foregone**
 - **Behavioural factors**
 - **Limitations on govt's ability to remove provisions (e.g. some are structural)**
 - May be cases where a tax expenditure is in place as it provides support to a key sector, industry or group of taxpayers in the least administratively costly manner.
 - If TE removed, maybe government continues to provide support (e.g. subsidy).

Common misconceptions:

From govt perspective – challenge to overcome these misconceptions!

"Over the last 40 years, tax incentives, although a deviation from the tax system, have since doubled from 40 to 80 per cent, despite their relevance coming under intense scrutiny."

...the design of Uganda's tax incentive regime impacts overall effectiveness, which in the end might force government to put in place regressive tax measures "to make ends meet".

Framing / Language can also be key!

1. "Expenditure"
2. "Provision"
3. "Relief"
4. "Support"
5. "Concession"



Further Considerations

- Explain what report does and does not measure (e.g. not effectiveness)
- Proactive engagement & education to explain what the results mean, avoid misinterpretation & misconceptions
 - Press Release?
- Be prepared for scrutiny and demand for further analysis...

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Example of a Press Release from Canada

Few African countries currently do such a press release, a handful (Guinea, Mauritania) do mention the TE report in other communication

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Department of Finance releases Annual Report on Federal Tax Expenditures

From: [Department of Finance Canada](#)

News release

March 1, 2022 - Ottawa, Ontario - Department of Finance Canada

Today, the Department of Finance Canada released its annual estimates of the fiscal cost of federal tax measures in the *2022 Report on Federal Tax Expenditures—Concepts, Estimates and Evaluations*. In addition to providing transparency as to Canada's tax system, this year's report contains four analytical papers, including an economic evaluation of the government's emergency wage subsidy programs, which have protected over 5.3 million Canadian jobs through the worst of the pandemic.

The release of today's report coincides with the tabling of the Main Estimates in the House of Commons by the President of the Treasury Board.

Quick facts

- This report has been made available to Canadians, on an annual basis, since 1994.
- Studies published by international organizations – including the Organisation for Economic Co-operation and Development in 2010 and the International Monetary Fund in 2011 – have recognized the quality of Canada's reporting on federal tax expenditures, noting the broad range of measures tracked and details provided.
- Tax expenditures can be described as tax measures that depart from the benchmark tax system and include preferential tax rates, exemptions, deductions, deferrals and tax credits.