

Ex-Ante Assessment of Tax Expenditures

Follow-up Technical Meeting on Tax Expenditures

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Ex-Ante Assessment
Before Introduction of TE



Institutional Setup



Frequency & Timeline



Data Requirements



Methodology Discussions

Ex-Post Evaluation
After Implementation of TE

Ex-Ante Assessment

- Usually designed as a qualitative/descriptive analysis tool
- Should contribute to set the scene for the monitoring and ex-post evaluation of TEs:
 - Concrete performance indicators,
 - Data requirements
- Ideally done in the context of an ex-ante assessment framework
- When not possible – for instance, if TEs are part of short-term crisis response packages – the framework may foresee introduction of TEs as temporary measures, ideally subject to review in the future

Criteria to be included:

1. Relevance & Rationale: Is the TE justified from an economic and social perspective?

- Clear description of the stated policy goal and the rationale to introduce the TE

2. Cost: What is the estimated revenue forgone?

- If computing a precise estimate is not feasible, a range (e.g. based on different scenarios) could be helpful

3. Efficiency: How efficient is the TE compared to other public policy measures?

- Particularly relevant is the comparison with respect to direct spending programs
- Take administrative & compliance costs into account

4. Impact & Evidence: What are the expected changes triggered by the TE? Is (are) the stated policy objective(s) achieved?

- Overview of available relevant evidence allowing to shed light on its potential effectiveness
- Description of the affected groups: economic sectors, types of firms, income deciles

5. Side effects or Externalities: What are the potential side effects or externalities triggered by the TE?

- **Knowledge or Economic Spillovers:** Knowledge or economic (e.g. employment creation) spillovers triggered in other sectors or regions?
- **Sustainability:** Expected impact of on environmental, economic and social sustainability?
- **Distributional Impact:** Which taxpayers are capturing the largest share of the benefit?

6. Monitoring & Evaluation: Is there a monitoring and evaluation framework?

- Governance: Which institution in charge of the evaluation (e.g. Ministry of Finance, outsourcing)? What is the role of other institutions such as the Parliament, the tax authority, line ministries
- Timeline: When will the TE be evaluated and how will the results be included in the policy making flow (e.g. shared with the Parliament)?
- Methods & data availability: What are the methods that will be used for the evaluation? Is the required data available? Are there data sharing protocols in place?

7. Policy Coherence: Is the TE aligned with broader fiscal policy and international commitments of the country?

- Particularly relevant is the linkage of the TE with the Budget and Medium Term Revenue Strategy

Examples of Ex-Ante Assessments

Comprehensive TE Management System

- 3-stage control mechanism: **Pre-feasibility study** → Operational evaluation → Comprehensive study
- Administration:
 - MOEF: Pre-feasibility study, Comprehensive study
 - Executing ministries: Operational evaluation (report to MOEF)
- Timeline:
 - Annual TE plan (MOEF, March) → Submit new TE proposals and Operational evaluations of existing TEs (Ministries, April) → TE budget (MOEF, September)
 - Prefeasibility study & Comprehensive study are carried out during Q1 & Q2

Pre-feasibility study (PFS) & Comprehensive study (CS)

- Coverage: TEs with revenue forgone > 30 bil. KRW (23 mil. USD)
 - Comprehensive study would be done before a TE expires.
 - Most TEs are subject to a sunset clause (3 years)
- Policy flow:
 - Selecting TEs to be analyzed (MOEF) → Research proposal competitions (KIPF, KDI) → Data supports (NTS) → Study Report → MOEF → National Assembly (reviewed in the next year budget session)
- Contents of the study
 - **PFS**: necessity and timeliness of a TE, expected effects, potential issues, etc.
 - **CS**: contribution to policy objectives, economic impact, redistribution effect, revenue effect, etc.

Ex Ante Evaluations	Ex Post Evaluations
1. What objective does the tax expenditure aim to achieve?	1. Is the tax expenditure still relevant ?
2. What market failure is being addressed?	2. How much did the tax expenditure cost ?
3. Is a tax expenditure the best approach to address the market failure?	3. What was the impact of the tax expenditure?
4. What economic impact is the tax expenditure likely to have?	4. Was it efficient ?
5. How much is it expected to cost ?	

Case 3. The Netherlands

Dutch Ex ante Evaluation Framework	Central Questions in Dutch Ex post Evaluation
1) Is the problem clear? 2) Is the object stated clearly and unambiguously? 3) Can it be proven why financial intervention is necessary? 4) Can it be proven why a subsidy is preferred over a levy? 5) Can it be proven why a tax incentive is preferred over a direct subsidy? and 6) Is the evaluation of the provision sufficiently safeguarded?	1) Is there goal achievement and to what extent? (Requires SMART goals) 2) Is it an effective tool: To what extent is the realization of the objectives of policy due to the instrument? (Causation) 3) Is the instrument efficient (or cost effective)? What are the associated costs & benefits and how do they compare to alternative instruments? 4) Is the instrument executed efficiently?

Case 4. 3-stage approach in Uzbekistan (project)

- I. Application form: High-level questions seeking detailed answers, including:
 - A. What is the rationale (why to implement the TE)?
 - B. What is the policy goal? Clear, concrete and detailed answered needed
 - C. What is the expected impact, i.e. how would the initiator measure success in, e.g. 3 years?
- II. Technical questions to be answered by the MoF (upon reception of the application form):
 - A. What is the estimated cost?
 - B. Are there other alternatives to the TE?
 - a. Not only direct spending or regulatory interventions, but even other TEs, e.g. deductions vs refundable tax credits
 - C. How will the ex-post evaluation be conducted (which method), by whom and when?
 - a. Is all data needed available?
 - D. What should be the time span (sunset clause)?
- III. Decision made by the MoEF (based on I and II)
 - A. For TEs granted by presidential decree, this is the end of the process
 - B. For TEs granted by the Parliament, the decision should be communicated to the parliament

Thank you!

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