

Follow-up Technical Meeting on Tax Expenditures
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Ex-Ante Assessment of Tax Expenditures

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Typical Design of Evaluation Frameworks



Ex-Ante Assessment
Before Introduction of TE



Institutional Setup



Frequency & Timeline

Ex-Post Evaluation
After Implementation of TE



Data Requirements



Methodology Discussions

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

National Treasury [of South Africa] (2011). “Confronting youth unemployment: policy options for South Africa”

- Deep analysis of a policy proposal to tackle youth unemployment
 - Rationale
 - Beneficiaries
 - Alternatives
 - Estimated cost
 - Ex-post evaluation
 - ...

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.

Case 3. Ireland



| 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 4. The Netherlands



| Dutch Ex ante Evaluation Framework | Central Questions in Dutch Ex post Evaluation |
|--|--|
| <ol style="list-style-type: none">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? and6) Is the evaluation of the provision sufficiently safeguarded? | <ol style="list-style-type: none">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 5. 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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