

The Tax Expenditures Governance Framework

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No codified knowledge on how a good TE governance regime should look like

Setting up tax expenditures

- Deciding
- Designing



Running tax expenditures

- Administring
- Monitoring



Assessing tax expenditures

- Reporting
- Evaluating

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Setting up tax expenditures: Deciding**Who decides?**

→ Ideally, government (ministries) propose to introduce or amend TEs as part of the budget process, Parliament (budget commission) scrutinises, debates and approves

On what?

- Introduction of new TEs
- Prorogation of existing TEs
- Modification of existing TEs

How is the decision process organised?

- Formal procedural aspects
 - Role of MoF: Technical approval of proposals or real oversight & coordination?
 - Role of Parliament: Initiative or approval of TEs as part of the budget process? Involved in the prorogation or modification of existing TEs?
 - Other government agencies (ministries of trade, tourism, mining, energy, etc.)
- Informal aspects (e.g. consultations with relevant stakeholders & lobby groups)

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Setting up tax expenditures: Deciding**What is the legal basis?**

- Individual laws (on taxes, fiscal responsibility, export promotion, sector development, regional development, etc.)
 - Executive decrees (on new TEs, prorogation or extension of existing TEs)
- Consolidation of all provisions in the tax law

What are the formal requirements?

- Statement of motives or policy objective
- Ex-ante assessments (cost-efficiency, necessity, sustainability, revenue forgone forecasts)
- Appraisal of alternative options, potential overlaps with direct spending mechanisms
- Common guidelines
- Embedded in medium-term fiscal frameworks (MTFF)

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Setting up tax expenditures: Designing**Individual TE provisions**

- Rates
- Threshold values
- Allowance & deferral schedules
- Sunset clauses
- Combinations with ordinary (benchmark) tax provisions
- Defining the benchmark

Key role: MoF

- Defining eligibility criteria
 - Economic sector & social group, region
 - Company-specific: investment amounts, firm size, new entrants, ownership, ...
- Application process
 - Data requirements, forms, deadlines...
- Administrative costs
- Control for potential abuse and compliance risks

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Running tax expenditures: Administring & monitoring**TEs differ with regard to administrative burden and monitoring requirements**

- Type of tax expenditure, for instance tax exemptions vs. deferrals
- Tax base, for instance VAT vs. CIT
- Policy objective, for instance investment promotion vs. employment creation

Higher numbers of TE provisions and / or actors involved increase the burden of administration and monitoring

- Government oversight over TEs more difficult if many different TEs are granted ...
- ... or if many different governmental actors have competencies in the granting of TEs.

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Running tax expenditures: Administring**Key role of the revenue agency (RA)**

- Providing information to taxpayers
- Training of revenue agency staff
- Deciding on eligibility, minimising discretion
- Receiving & processing TE-related information
- Detecting and sanctioning abusive behaviour
- Not only domestically, but also with regard to cross-border transactions (transfer pricing regulations, exchange of information)

Other government bodies and powers have relevant functions as well

- Providing information to taxpayers (e.g., incentives inventories) → investment promotion agency
- Deciding on eligibility → sector ministries
- Receiving & processing TE-related information → sector ministries
- Sanctioning abusive behaviour → Judicial system
- Cross-border transactions → MoF, Min. of Trade, Min. of Mining, etc.

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Running tax expenditures: Monitoring**Monitoring of costs: Revenue forgone estimates**

- Different for different kinds of TEs
 - For instance, monitoring of TEs on custom duties and import VAT possible in real time, PIT-related TEs based on annual tax returns
 - For some TEs (e.g. CIT-related allowances) taxpayer data can be sufficient to estimate revenue forgone, for others (e.g. VAT exemptions) additional data from national statistics is required

Performance monitoring

- Monitoring of take-up (number of beneficiaries, amounts claimed, etc.) and achievements (e.g., job creation)

Data collection and storing

- Costs of data collection, prevent data misreporting by taxpayers, tax secrecy issues, data security issues

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Assessing tax expenditures: Reporting

- **Required by law?**
- **Who reports?** MoF, RA – other government agencies (e.g. statistical office, other ministries)
- **To whom?** Parliament (budget commission), President, general public
- **How often?** Annually, biennially, longer periods, irregularly
- **How detailed?** Disaggregated information on individual TE provisions (including information on policy objectives, beneficiaries, revenue forgone, etc.)
- **How is reporting on TEs integrated in the budget process?** Integral part of reporting on the budget / budget proposal?

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Assessing tax expenditures: Evaluating**Evaluations of TEs currently in use or ex-post**

- Regular evaluations of all (major) TEs → required by law? Evaluation schedule?
 - By MoF / RA evaluation units → relying on external consultants?
 - By (independent) commissions of experts
- Additional ad-hoc evaluations
 - By governmental bodies (Auditor-General, etc.)
 - By international organisations

→ Joint framework for ex-ante assessments and ex-post evaluations?