

# The Tax Expenditures Governance Framework

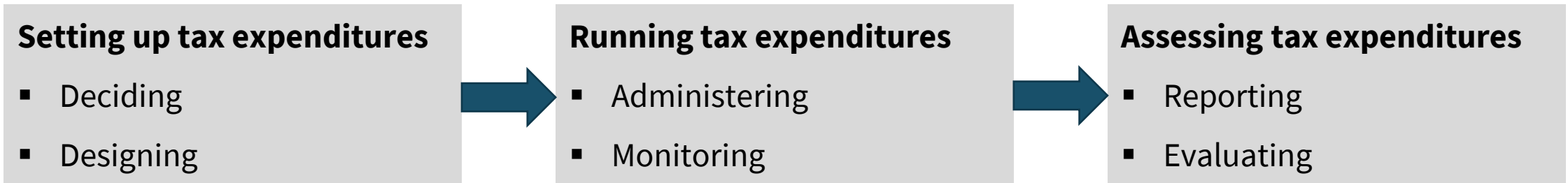
ATI Tax Expenditures Workshop

Manila, 01-03 March 2023

Christian von Haldenwang

# The Tax Expenditures “Value Chain”

- No codified knowledge on how a **good TE governance regime** should look like
- Little research on the impact of specific institutional solutions on the use of TEs
- But **good practices** can be identified



**Setting up tax expenditures**

- Deciding
- Designing

**Running tax expenditures**

- Administering
- Monitoring

**Assessing tax expenditures**

- Reporting
- Evaluating

**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 (or dismantling) of existing TEs

**How is the decision process organised?**

- Formal procedural aspects
  - Role of MoF: → **ideally**, oversight & coordination, not just technical approval of proposals
  - Role of Parliament: → **ideally**, approval of TEs as part of the budget process, including prorogation or modification of existing TEs
  - Other government agencies & ministries: → **ideally**, part of structures coordinated by MoF
- Other aspects: → **ideally**, consultations with relevant stakeholders & lobby groups

**Setting up tax expenditures**

- Deciding
- Designing

**Running tax expenditures**

- Administering
- Monitoring

**Assessing tax expenditures**

- Reporting
- Evaluating

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

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

**What are the formal requirements?**

- **Ideally, common guidelines** regarding
  - 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
  - Embedded in medium-term fiscal frameworks (MTFF)

**Setting up tax expenditures**

- Deciding
- Designing

**Running tax expenditures**

- Administering
- Monitoring

**Assessing tax expenditures**

- Reporting
- Evaluating

**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

**Setting up tax expenditures**

- Deciding
- Designing

**Running tax expenditures**

- Administering
- Monitoring

**Assessing tax expenditures**

- Reporting
- Evaluating

**Running tax expenditures: Administering & 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.

**Setting up tax expenditures**

- Deciding
- Designing

**Running tax expenditures**

- Administering
- Monitoring

**Assessing tax expenditures**

- Reporting
- Evaluating

## Running tax expenditures: Administering

### 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 → Min. of Trade, Mining, etc.

**Setting up tax expenditures**

- Deciding
- Designing

**Running tax expenditures**

- Administering
- Monitoring

**Assessing tax expenditures**

- Reporting
- Evaluating

## 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



**Setting up tax expenditures**

- Deciding
- Designing

**Running tax expenditures**

- Administering
- Monitoring

**Assessing tax expenditures**

- Reporting
- Evaluating

## Assessing tax expenditures: Reporting

### → **Ideally, required by law**

- **Who reports?** MoF, RA – other government agencies (e.g. statistical office, other ministries)
- **To whom?** → **ideally**, Parliament (budget commission), but also President, general public
- **How often?** → **ideally**, annually (we also observe biennially, longer periods, irregularly)
- **How detailed?** → **ideally**, 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?** → **ideally**, integral part of reporting on the budget / budget proposal

**Setting up tax expenditures**

- Deciding
- Designing

**Running tax expenditures**

- Administering
- Monitoring

**Assessing tax expenditures**

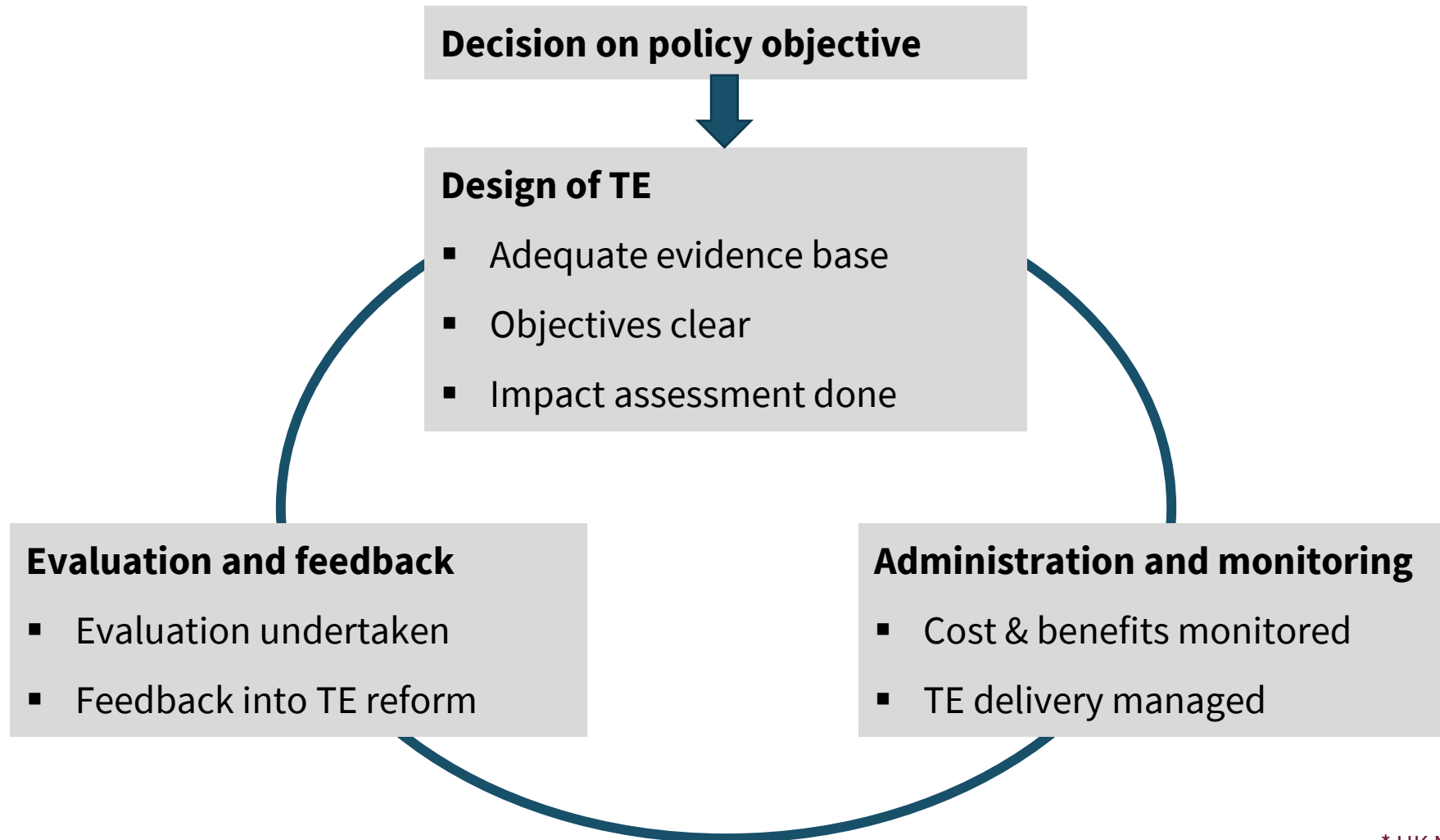
- Reporting
- Evaluating

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

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

→ **Ideally, joint framework** for ex-ante assessments and ex-post evaluations

## From “value chain” to “policy cycle”\*



\* UK National Audit Office (2020)