Driving tax expenditure reform

- Five recommendations for TE reforms that strengthen the social contract

Session 6, Regional workshop on tax expenditures, July 27-28, 2022

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Christian Barrie Hallum
Tax Justice lead for Oxfam

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Choose the right approach to TE reform

	Unclear policy aims and/or low efficiency of TE	Popular policy aims and/or high efficiency of TE
Use revenue from TE reform to support citizens	Remove investment incentives, especially in extractives industries and profit-based incentives	
Use TE reform to reduce budget deficit		Remove of VAT zero rating of essential foodstuffs

- When done well, TE reform strengthen the social contract by improving the progressivity of the tax system *and* ensuring new funding for essential social services

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Make transparency effective

- Our experience: Transparency can drive TE reform
- BUT: Information does not change policies alone

Implications:

- Dissemination: Share TE reports broadly in the same way that budget information is shared
- Simplify: TE reporting should be simple and relatable
- Relatable: Not just revenue forgone, but development forgone

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Strengthen accountability stakeholders

- Transparency without accountability does not work
- Wasteful TE’s exists in part because of political capture by powerful interests

Implications:

- Build capacity <u>and</u> space of accountability stakeholders to understand and use TE information
- Institutionalise the role of accountability stakeholders: Ad-hoc involvement is not sustainable

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Strengthen regional and international coordination

- Regional coordination can make TE reform more likely. By:
  - Banning certain forms of tax incentives
  - Agreeing minimum levels of taxation
  - Agreeing on best-practices for TE governance

- International rules can limit use of TE's.
  - Minimum effective taxation
  - Ending tax havens
  - But: Vital that developing country interests are well represented when international rules are agreed

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The five recommendations

1. Target removal of TE's that are unpopular/inefficient

- *Make the rich and corporations pay their fair share – increase tax progressivity*
- *Profit based incentives and extractive industries incentives*

2. Tie the removal of TE's to increasing support for citizens

- *Use revenue from the removal of TE's to pursue popular policies that reduce poverty and inequality, address gender inequality*
- *Consider ring-fencing revenue*

3. Make TE information useable and relatable

- *Illustrate the impact on national development, disseminate*

4. Strengthen capacity and space of accountability stakeholders

- *Institutionalise the involvement of accountability stakeholders*

5. Use regional and international coordination

- *But ensure that rules are representative and fair to developing countries*

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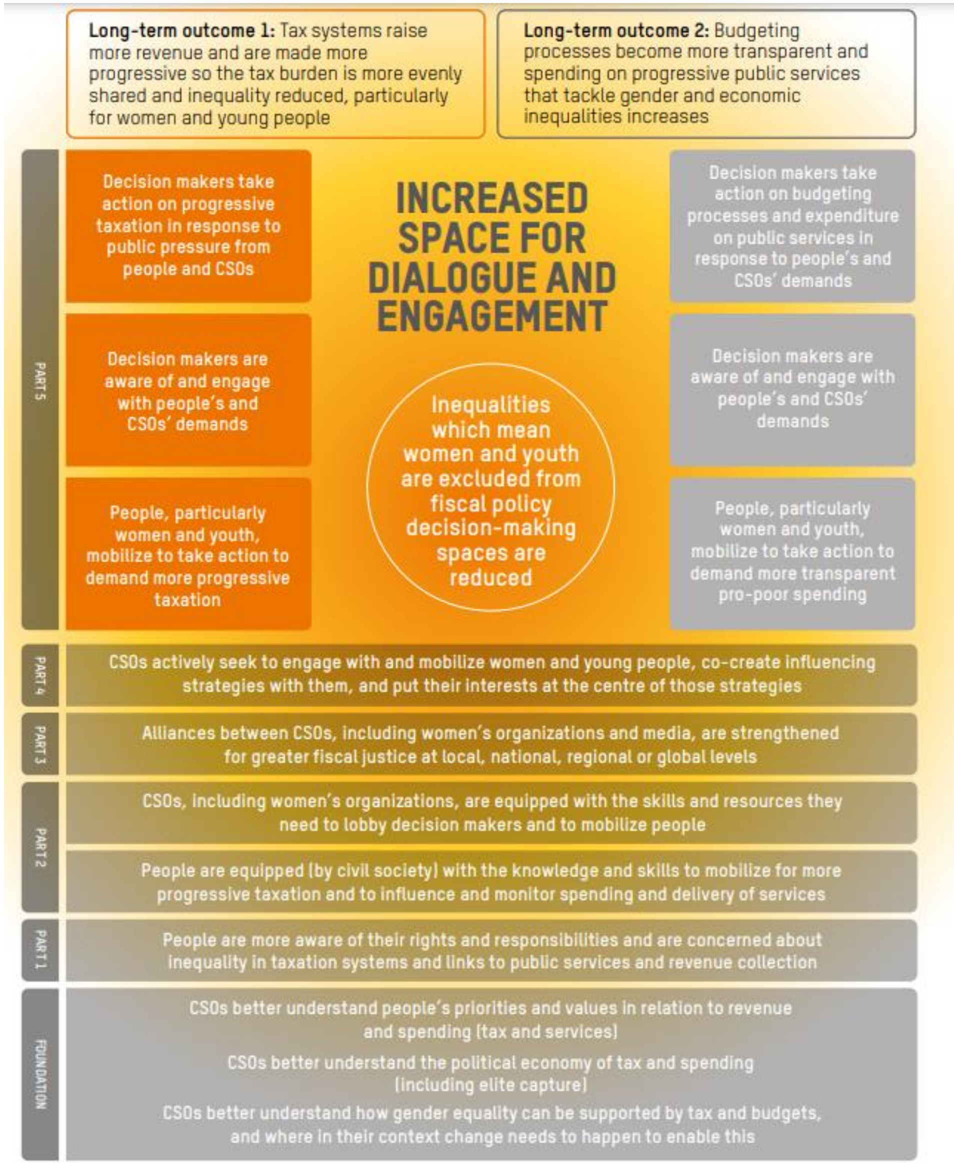
Appendix: Oxfam's theory of change for citizen-led fiscal justice reforms



Appendix: Oxfam and allies reports on tax expenditures

- Oxfam & CEPAL (2019): ‘Tax Incentives for Businesses in Latin America and the Caribbean’
- Oxfam (2020): ‘Towards Sustainable Tax Policies in the ASEAN Region: The Case of Corporate Tax Incentives’
- Oxfam, ActionAid, Christian Aid, CBI (2018): ‘Tax Incentives in the Global South: A Business and Civil Society Briefing’
- Tax Justice Network Africa & ActionAid (2015): ‘The West Africa Giveaway: The Use & Abuse of Corporate Tax Incentives in West Africa’
- Tax Justice Network Africa & ActionAid (2016): ‘Still Raising Towards the Bottom? Corporate Tax Incentives in East Africa’
- Economic Governance Platform (2018): ‘Review Of Tax Incentive Policy In Ghana That Gives Rise To High Tax Expenditures’
- CERA-FP (2021): ‘POSITION DE LA SOCIÉTÉ CIVILE SUR LES DÉPENSES FISCALES DE L’ÉTAT BURKINABÉ PÉRIODE : 2016 À 2020’
- BAN & NACE (2014): ‘Losing Out: Sierra Leone’s Massive Revenue Loss from Tax Incentives’

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Thank you!

Questions and comments:

Kwesi Obeng, West Africa Inequality Advisor
Email: KObeng@oxfam.org.uk

Christian Barrie Hallum, Tax Justice Lead
Email: cha@oxfamibis.dk

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