



ECOWAS COMMISSION
COMMISSION DE LA CEDEAO
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Follow-up Technical Meeting on Tax Expenditures Session 9B “TE Evaluations for Parliamentarians”

Tax Expenditures Evaluation for Parliamentarians

17 – 20 SEPTEMBER 2023; ACCRA, GHANA

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Agenda



**SYNOPSIS OF TE
EVALUATION**



**ROLES OF
PARLIAMENTARIANS**



**TE EVALUATIONS
PROCESS**



**CHALLENGES
&
CONSIDERATIONS**



CASES STUDIES



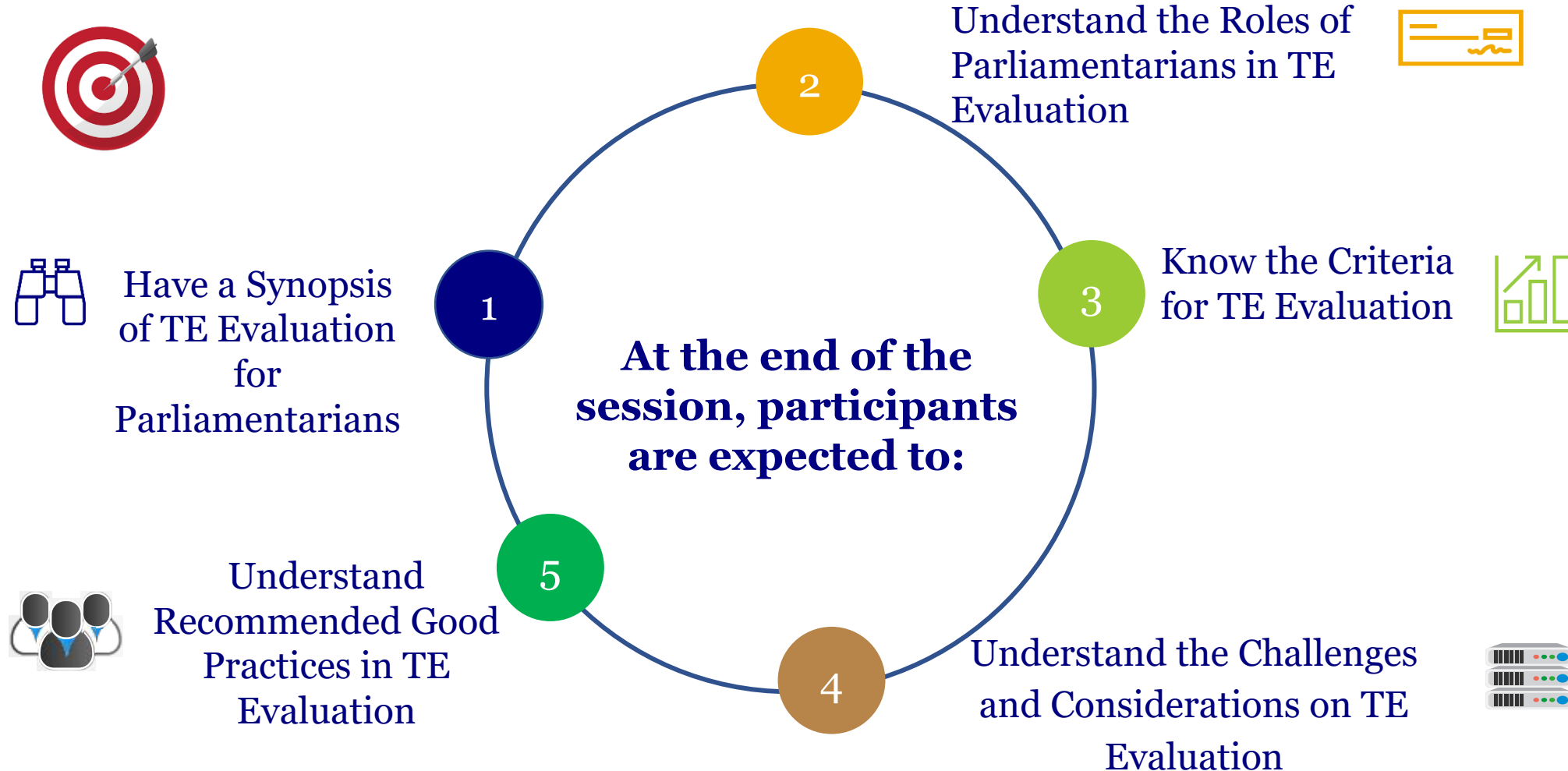
GOOD PRACTICES



**RECOMMENDATION
& CLOSING**



Learning Objectives





Synopsis of Tax Expenditures

A tax expenditure is a revenue foregone resulting from a reduction in tax liability relative to a benchmark tax system. It is an alternative to a direct budgetary expenditure. The tax expenditure results from a *derogatory fiscal measure* to reduce the tax burden borne by a taxpayer, a group of taxpayers, or a sector of activities.

A tax measure used in substitution for a direct spending program

“Investment incentives are measurable economic advantages that governments *provide to specific enterprises or groups of enterprises* **to steer investment into favoured sectors or regions or to influence the character of such investments**. These benefits can be *fiscal* (as with tax concessions) or *non-fiscal* (as with grants, loans, or rebates to support business development or enhance competitiveness).”



Why Evaluate TE & Roles MP

- **Ensuring transparency and accountability** - Holds governments accountable for the use of public resources and ensures that tax breaks are not granted arbitrarily
- **Aligning with policy objective** - Ensures that tax provisions remain aligned with evolving policy objectives and priorities
- **Evidence-Based Decision-Making** - Enhances the quality of policymaking and reduces the likelihood of decisions driven by political considerations alone
- **Identification of Unintended Consequences** – Tax evasion, rent-seeking behavior, or market distortions.
- **Cost and Budgetary Impact** - Helps policymakers understand the budgetary cost of these provisions, allowing for better fiscal planning and resource allocation

Steps in Tax Expenditures Evaluation

Identifying Tax Expenditures

- How to identify tax expenditure programmes?
 - The benchmark tax system serves as a basis for identifying tax expenditures
 - ✓ Tax Base; Tax entity - the unit (individual or company) liable to pay tax
 - ✓ Tax rate - the different rates applied to the tax base
 - ✓ Time frame - The period of which the above three apply, whether it is permanent or temporary, i.e., with a sunset clause
- Using official budget documents and reports

Defining Evaluation Criteria

- Impacts on various economic and social indicators, e.g., employment
- Equity and Fairness – Ensure it aligns with the principles of fairness and equity
 - Are similarly situated taxpayers treated equally?
 - Does the program achieve progressivity or regressivity as intended?
- Alignment with Policy Goals

Collecting Data and Evidence

It enables policymakers and analysts to make informed decisions, enhance transparency, and ensure that tax expenditures align with their intended goals and objectives.

- ✓ Data Sources for Evaluation
- ✓ Importance of Reliable Data
- ✓ Engaging with Experts and Stakeholders



Steps in TE Evaluation ⁽²⁾

Analysing Impacts

The choice of method should align with the specific goals of the tax expenditure evaluation and the data and resources available.

- ✓ Comparative Analysis (Insight into good practices)
- ✓ Static (Used to estimate revenue loss) and Dynamic Analysis (Used to estimate effects on employment and economic growth); and
- ✓ Cost-Benefit Analysis (CBA), etc.

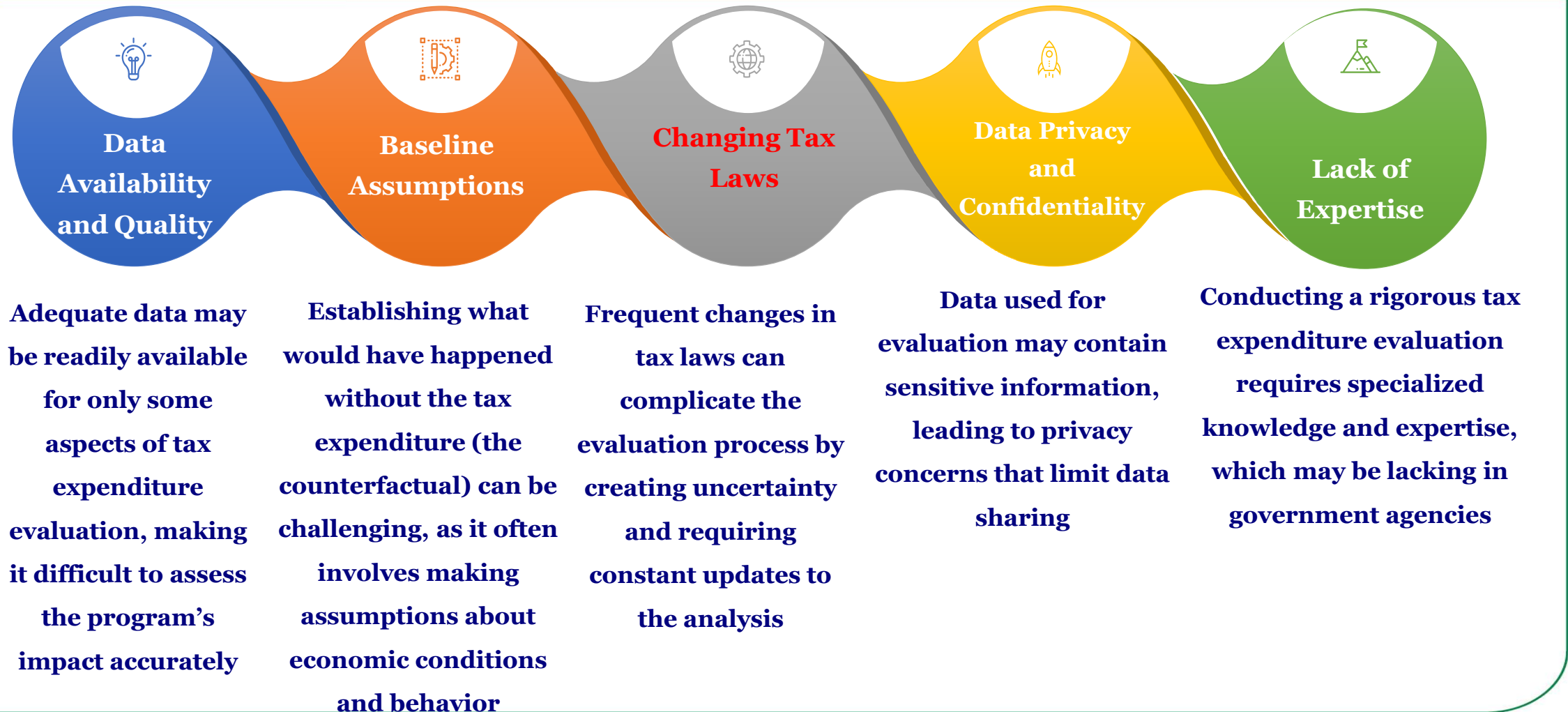
Reporting Findings

The reporting phase involves:

- ✓ Communicating Findings to the Public
- ✓ Transparency in the Evaluation Process
- ✓ Recommendations for Improvements

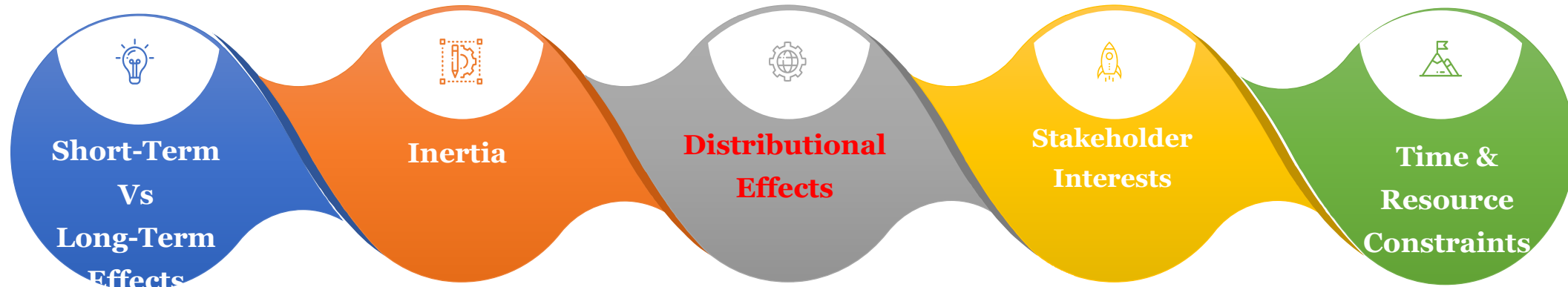


Challenges and Considerations





Challenges and Considerations



Evaluations often prioritize short-term economic impacts, while tax expenditures can have longer-term effects that are more challenging to measure

Resistance to Change:
Established tax expenditures may be difficult to modify or eliminate despite evidence suggesting their ineffectiveness

Equity Concerns: Tax expenditures may disproportionately benefit certain income groups or industries, leading to equity concerns

Lobbying and Advocacy:
Powerful interest groups may advocate for continuing specific tax expenditures, making it challenging to evaluate their effectiveness objectively

Resource Limitations: Tax expenditure evaluations can be resource-intensive, requiring time, funding, and personnel



Evaluation Practices for MP in ECOWAS Countries ⁽¹⁾

- By 2021, all WAEMU countries (except Ghana, Cape Verde, Guinea Bissau, Liberia, Gambia, and Niger) have complied with the provisions of Article 11 on the publication of annual TE reports to Parliament.
- **Communication actions:** For countries that carry out a tax expenditure assessment, communication is limited to appending the tax expenditure assessment to the Finance Act. This procedure is essential for all the budgetary documents for government decision-making and parliamentary consultation procedures. However, due to its specific construction, this annexed document is not easily accessible to a non-specialist. Furthermore, in some countries (Burkina Faso, Côte d'Ivoire, Niger), the evaluation of tax expenditure is not made public or even attached to the Finance Act. These restrictions counter the need to inform the various entities (parliamentarians, civil society, public opinion, private and public companies) concerned by evaluating tax expenditure.



Evaluation Practices for MP in ECOWAS Countries ⁽²⁾

- ***Evaluation content:*** Tax expenditure must be evaluated regarding its economic and social impact. Evaluations tend to focus on tax revenue foregone. Evaluations rarely include the economic and/or social effects of tax exemptions. The lack of funding or difficulty accessing data are cited as reasons for the lack of analysis of effects other than budgetary ones. However, this shortcoming is damaging insofar as the decision-making of national authorities tends to be based solely on the effect of tax exemptions on revenue losses and, at the same time, to pay attention to their economic and social effects.
- ***Enhancing the value of tax expenditure evaluations:*** A greater emphasis on economic and social effects would strengthen the weight of tax expenditure evaluations in the budgetary decision-making process. Often, due to a lack of reliable information, decision-makers (government authorities, members of parliament) need help to grasp the extent of the economic and social consequences of derogatory tax measures, in which case they may be inclined to embark on extensive exemption policies.

Good TE Framework

Carry out a cost-benefit analysis of the potential impact of incentives

The incentives must have eligibility criteria (what qualifies the investor/project)

The choice of tax instrument needs to be clear (Corporate taxes, Value Added Taxes (VAT) or any type of tax)

Cost-based incentives over profit-based incentives.

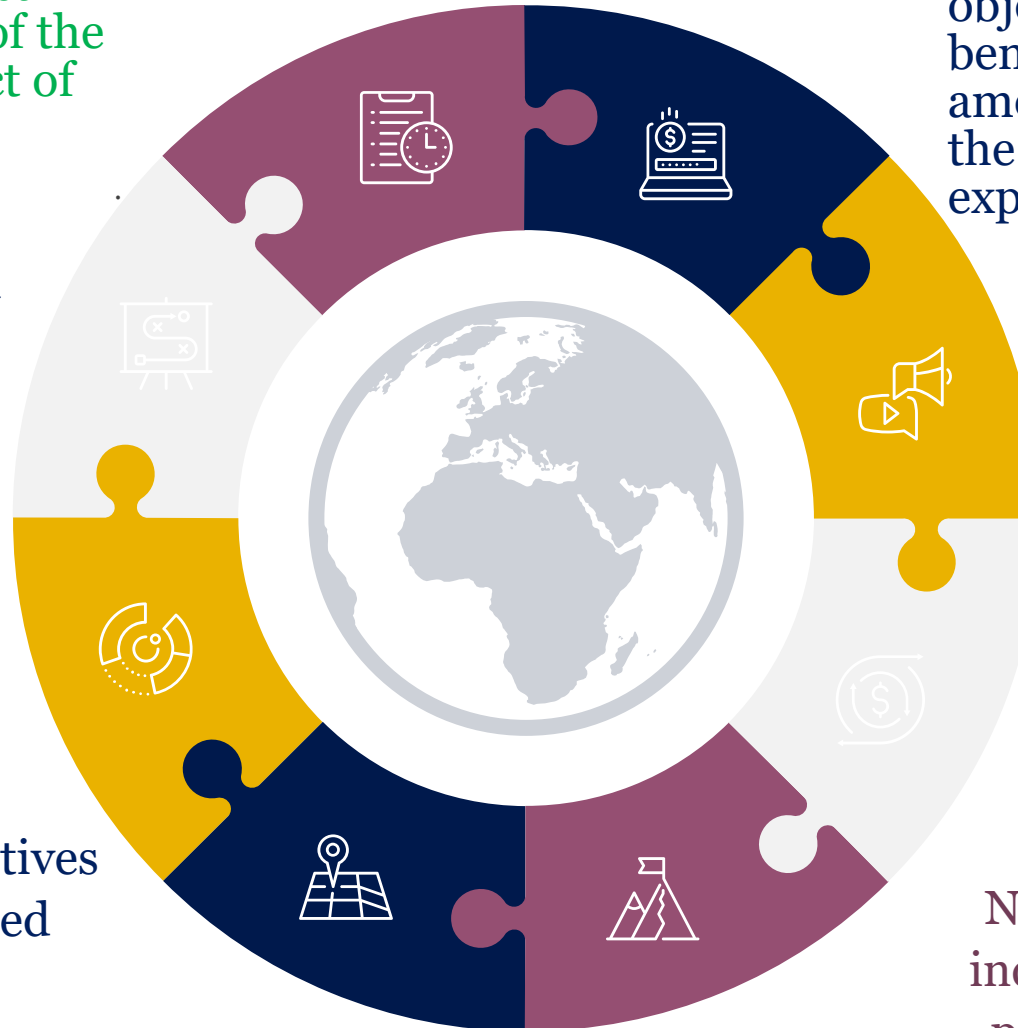
Incentives must have sunsets

Transparency in terms of the objectives of the incentives, the beneficiaries as well as the amount of revenue forgone due to the incentives (publishing tax expenditure report)

Public participation in developing tax incentives (Allow public consultation)

Collection of data for analytical purposes and periodic reviews and monitoring of incentives

No discretionary powers to grant incentives All must go through the parliament before becoming law





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Recommendations for MPs





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Discussion: Questions & Answers





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Closing

THANK YOU!



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