



EVALUATION OF TAX EXPENDITURES – THE EXPERIENCE OF MADAGASCAR

COMMUNITY OF PRACTICE ON TAX EXPENDITURES | FEBRUARY 6, 2025

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PLAN

I – EVALUATION OF TAX EXPENDITURES (OBJECTIVES, FREQUENCY, SCOPE, ETC.)

II – BUDGETARY ASSESSMENT OF TAX EXPENDITURES

- ✓ **EVALUATION METHODOLOGY**
- ✓ **CLASSIFICATION OF ASSESSMENTS**
- ✓ **MAIN RESULTS**

III – ECONOMIC EVALUATION OF TAX EXPENDITURES

- ✓ **EVALUATION METHODOLOGY**
- ✓ **MAIN RESULTS**

IV – OTHERS

- ✓ **PUBLICATION OF RESULTS**
- ✓ **ISSUES AND CHALLENGES OF EVALUATION**

I – EVALUATION OF TAX EXPENDITURES

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- **OBJECTIVES: TO ASSESS THE APPLICATION OF TAX EXPENDITURES IN TERMS OF REVENUE FOREGONE (HOW MUCH IT COSTS) AND EFFECTIVENESS (ACHIEVEMENT OF INITIAL OBJECTIVES, POSSIBLE CONSEQUENCES, POSSIBLE IMPACTS)**
- **FREQUENCY: ANNUAL**
- **ASSESSMENT FIELDS: INCOME TAXES, VAT, EXCISE DUTIES, PERSONAL INCOME TAXES, CUSTOMS DUTIES**
- **INSTITUTIONAL ENTITY: TAX POLICY UNIT**

II – BUDGETARY EVALUATION OF TAX EXPENDITURES

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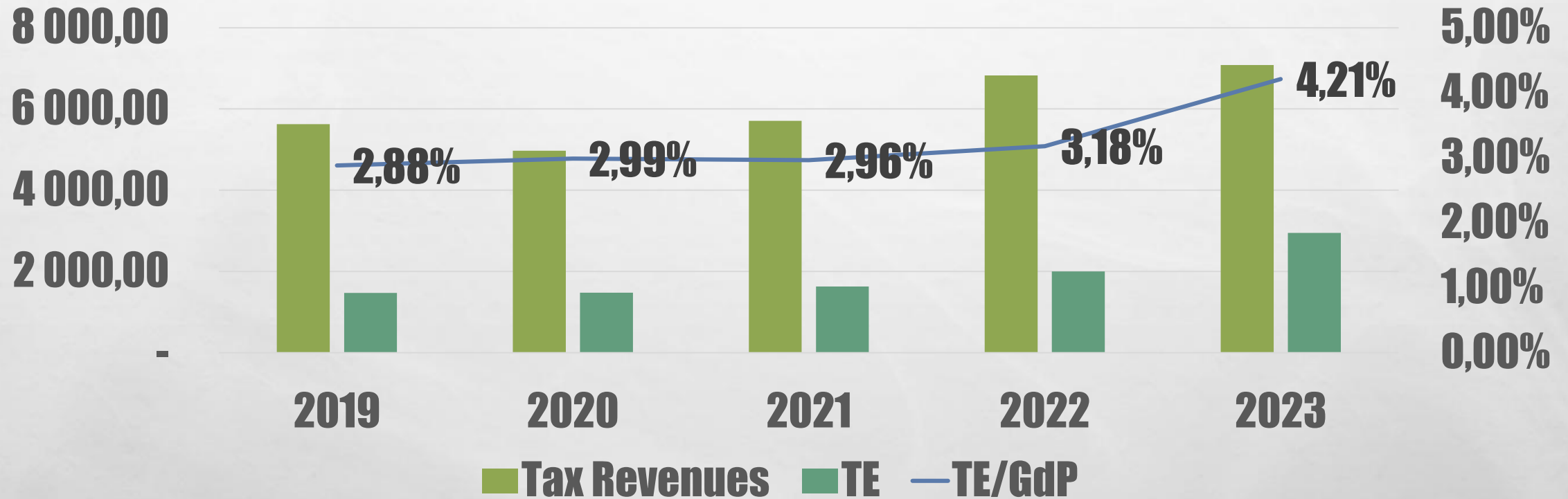
FISCAL EVALUATION (OF THE COSTS OF TAX EXPENDITURES) AND ECONOMIC EVALUATION (COST-BENEFIT ANALYSIS OR DISTRIBUTIONAL ANALYSIS)

BUDGET EVALUATION METHODOLOGY:

- *REVENUE FOREGONE METHOD* , AMOUNT OF REVENUE LOSSES DUE TO TAX EXPENDITURES , I.E. REVENUES GRANTED BY THE STATE FOLLOWING THE GRANTING OF INCENTIVES ASSUMING THAT THE BEHAVIOR OF THE AGENTS WHO BENEFIT FROM THEM REMAINS UNCHANGED .
- EVALUATION BASED ON DATA FROM TAX AND CUSTOMS DECLARATIONS, HOUSEHOLD CONSUMPTION AND NATIONAL ACCOUNTING DATA.
- FERDI METHODOLOGY AND FOLLOWING THE CREDAF GUIDE

II- BUDGETARY EVALUATION OF TAX EXPENDITURES (2)

Evolution of Tax Revenues, Tax Expenditures and Ratio
TE/GdP - Madagascar



II- BUDGETARY EVALUATION OF TAX EXPENDITURES (3)

- **CLASSIFICATION OF TAX EXPENDITURES BY**

- ✓ **TAX ITEMS**
- ✓ **BY OBJECTIVE**
- ✓ **BY SECTOR OF ACTIVITY**
- ✓ **BY TYPE OF INCENTIVE**
- ✓ **BY BENEFICIARY**
- ✓ **BY LEGAL SOURCE**

II- FISCAL EVALUATION OF TAX EXPENDITURES 2023 (4)

Sector of activity	Number of unassessed Tax Expenditures	Number of Tax Expenditures assessed	Amount TE 2023 (Billions Ar)	Equivalent in Millions of US dollars	TE to Tax Revenues Ratio	TE to GDP Ratio	Percentage on Total TE
PRIMARY	4	146	643.96	145,363	9.09%	0.92%	21.84%
SECONDARY	133	143	1,276.73	288,201	18.03%	1.82%	43.30%
TERTIARY	36	206	871.00	196,613	12.30%	1.24%	29.54%
OTHERS	58	63	157.20	35,485	2.22%	0.22%	5.33%
TOTAL	231	558	2,948.88	665,662	41.64%	4.21%	100.00%

II - BUDGETARY ASSESSMENT OF TAX EXPENDITURES 2023 (4)

Objective	Number of unassessed Tax Expenditures	Number of Tax Expenditures assessed	Amount of Tax Expenditure 2023 (Billions of Ar)	Equivalent in Millions of US dollars	TE to Tax Revenues Ratio	TE to GDP Ratio	Percentage on Total TE
Cultural	11	55	133.53	30,141	1.89%	0.19%	4.53%
Economic	205	318	2,267.18	511,778	32.02%	3.4 %	76.88%
Environmental	1	25	7.37	1,664	0.10%	0.0 1 %	0.51%
Health	2	29	7.64	1,724	0.11%	0.0 1 %	
Social	8	131	533.17	120,355	7.53%	0.76 %	18.08%
Others	4	0	-				
tOTal	231	558	2,948.88	665,662	41.64%	4.21%	100.00%

III – ECONOMIC EVALUATION OF TAX EXPENDITURES

III - ECONOMIC EVALUATION OF TAX EXPENDITURES (1)

- **ECONOMIC ASSESSMENT CARRIED OUT ANNUALLY IN EACH REPORT COVERING IN PARTICULAR CONSUMPTION (FOR INDIRECT TAXES) AND INVESTMENT (FOR DIRECT TAXES).**
- **FOR EXAMPLE, IN TERMS OF CONSUMPTION, ANALYSIS OF TAX EQUITY ON SOME FLAGSHIP PRODUCTS EXEMPT OR TAXED AT REDUCED RATES (WHO BENEFITS THE MOST, WHICH PRODUCTS ARE CONCERNED)**

III - ECONOMIC EVALUATION OF TAX EXPENDITURES (3)

EVALUATION METHODOLOGY:

- **QUINTILE DISTRIBUTION OF CONSUMPTION EXPENDITURE IN THE SAMPLE OF 20,000 HOUSEHOLDS**
- **DETERMINATION OF TAX EXPENDITURES BY CONSUMPTION BY GOODS AND SERVICES**
- **DISTRIBUTION OF TAX EXPENDITURES BY CONSUMPTION QUINTILE AND BY GOODS AND SERVICES (WHO BENEFITS MOST FROM WHAT?)**
- **EVALUATION OF EARNINGS BY QUINTILE AND POTENTIAL REVENUES IF TAX INCENTIVES ARE NOT APPLIED**

III - ECONOMIC EVALUATION OF TAX EXPENDITURES (2)

SOME EXAMPLES OF PRODUCTS AND SERVICES EXEMPT FROM TAXES OR AT REDUCED RATES

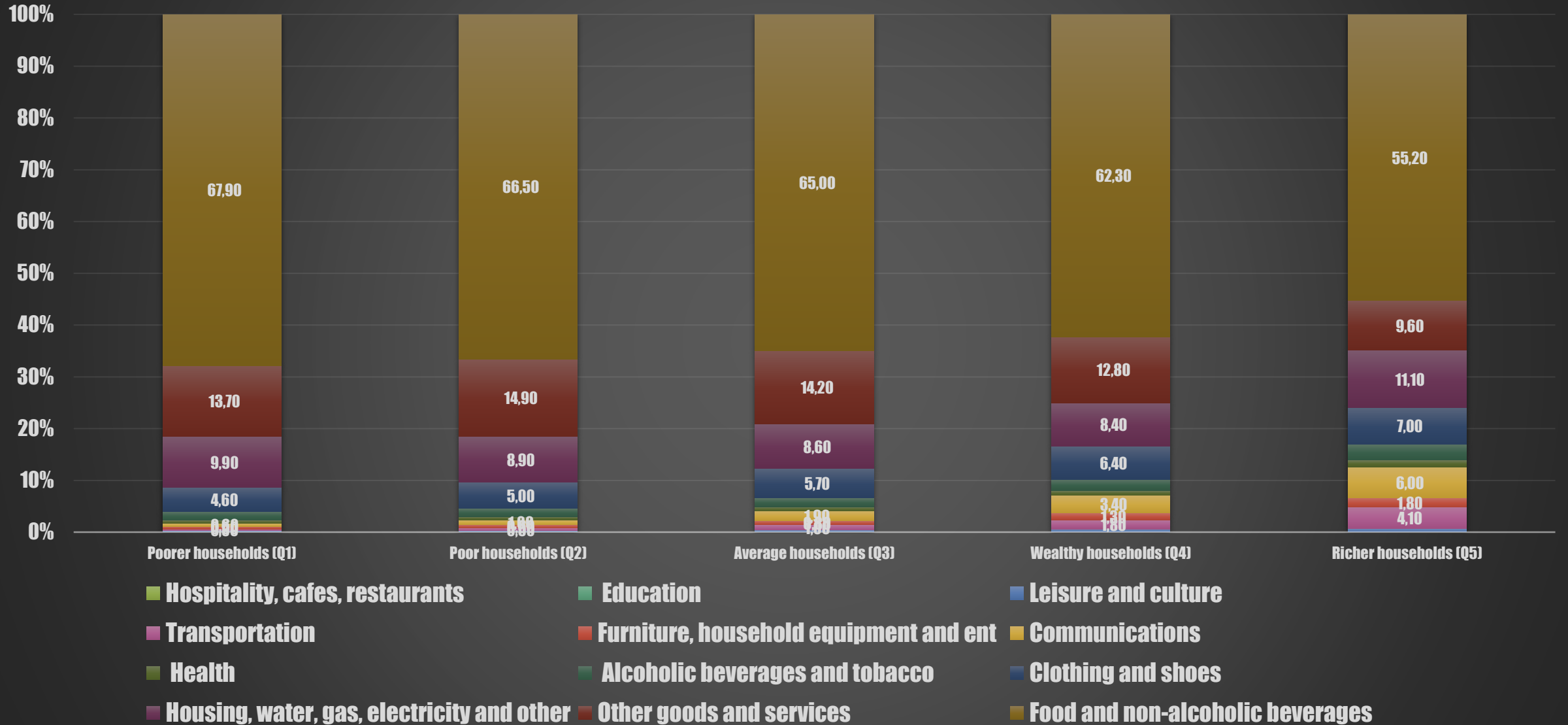
- **RICE, COOKING OILS, CEREALS (CORN, WHEAT, ETC.)**
- **MEDICINES AND MEDICAL EQUIPMENT, WATER AND ELECTRICITY (SOCIAL TRANCHE)**
- **BUTANE GAS, PASTA**

III- ECONOMIC EVALUATION OF TAX EXPENDITURES (3)

- **DISTRIBUTION OF CONSUMPTION EXPENDITURE OF THE SAMPLE OF 20,000 HOUSEHOLDS IN QUINTILE WITH:**
 - **Q1 = POORER HOUSEHOLDS**
 - **Q2 = POOR HOUSEHOLDS**
 - **Q3 = AVERAGE HOUSEHOLDS**
 - **Q4 = RICH HOUSEHOLDS**
 - **Q5 = RICHEST HOUSEHOLDS**

III - ECONOMIC EVALUATION OF TAX EXPENDITURES (4)

Share of consumption expenditure by product for households



III - ECONOMIC EVALUATION OF TAX EXPENDITURES (5)

DISTRIBUTION OF TAX EXPENDITURES BY CONSUMPTION QUINTILE (IN % OF TOTAL TAX EXPENDITURES):

Classification	Poorer households (Q1)	Poor households (Q2)	Average households (Q3)	Wealthy households (Q4)	Richer households (Q5)
Food products and non-alcoholic beverages	14.03	16.29	16.90	19.37	33.42
Other goods and services	14.36	13.13	16.91	21.42	34.19
Clothing and shoes	10.49	14.85	17.91	21.58	35.17
Leisure and culture	2.87	15.73	15.44	26.46	39.51
Alcoholic beverages and tobacco	10.71	13.08	15.44	17.87	42.89
Furnishings, household equipment and routine home maintenance	9.07	12.22	13.08	20.56	45.07
Education	2.53	-	-	48.46	49.02
Housing, water, gas, electricity and other	9.90	10.50	12.65	16.42	50.53
Communications	3.28	5.90	11.16	22.62	57.05
Health	5.66	5.26	12.72	15.95	60.42
Transportation	3.67	6.47	9.96	13.54	66.36
Hospitality, cafes, restaurants	-	1.25	-	2.57	96.18
Total	12.67	14.49	16.13	19.65	37.07

III- ECONOMIC EVALUATION OF TAX EXPENDITURES (6)

DISTRIBUTION OF THE GAIN RELATING TO EXEMPTIONS ACCORDING TO HOUSEHOLD INCOME

- ✓ **RELATIVE GAIN = % VAT NOT PAID BY QUINTILE, IN RELATION TO HOUSEHOLD INCOME**
- ✓ **IN TERMS OF VALUE, THE AMOUNT OF UNPAID VAT (DF) FOR QUINTILE Q5 IS ALMOST TRIPLE OF Q1**

III- ECONOMIC EVALUATION OF TAX EXPENDITURES (7)

Distribution of relative gains by consumption quintile

COICOP	Poorer households (Q1)	Poor households (Q2)	Average households (Q3)	Wealthy households (Q4)	Richer households (Q5)
Furnishings, household equipment and routine home maintenance	0.07	0.09	0.09	0.17	0.24
Other goods and services	2.28	2.48	2.35	2.12	1.58
Alcoholic beverages and tobacco	0.28	0.27	0.28	0.36	0.52
Communications	0.09	0.14	0.22	0.36	0.58
Clothing and shoes	0.74	0.82	0.94	1.03	1.14
Hospitality, cafes, restaurants	-	-	-	-	0.00
Housing, water, gas, electricity and other fuels	1.49	1.34	1.30	1.32	1.78
Leisure and culture	0.05	0.06	0.07	0.10	0.10
Food products and non-alcoholic beverages	3.98	3.63	3.58	3.84	3.97
Health	0.03	0.02	0.04	0.05	0.09
Transportation	0.05	0.09	0.17	0.30	0.69
Education	-	-	-	-	-
Total	9.05	8.93	9.04	9.66	10.70

IV – OTHER POINTS

PUBLICATION OF EVALUATION RESULTS

- THE RESULTS SHOULD BE APPROVED BY HIGHER AUTHORITIES;
- PUBLISHED ANNUALLY IN THE INITIAL FINANCE LAW;
- PUBLISHED ON THE WEBSITE OF THE MINISTRY OF ECONOMY AND FINANCE ([HTTPS://WWW.MEF.GOV.MG/ASSETS/FILE/ACCUEIL/RDF_2023_SWEB.PDF](https://www.mef.gov.mg/assets/file/accueil/rdf_2023_sweb.pdf));
- PUBLISHED IN AN ANNUAL REPORT ON THE EVALUATION OF TAX EXPENDITURES.

ISSUES IN THE EVALUATION OF TAX EXPENDITURES

- EVALUATION, NATIONAL AND REGIONAL INSTRUMENT FOR HARMONIZING THE RATIONALIZATION OF TAX POLICY
- COORDINATED CONTROL OF TAX POLICY, PARTICULARLY IN TERMS OF EXEMPTIONS
- CHALLENGES OF CONTROLLING AND PROPERLY MANAGING INCENTIVES:
SEARCH FOR ALTERNATIVE TAX REVENUES TO TARIFF REVENUES

CHALLENGES ENCOUNTERED

- ✓ **DIFFICULTIES IN PRODUCING PRELIMINARY STUDIES (EX ANTE EVALUATION) WHEN GRANTING CERTAIN TAX INCENTIVES WHICH SHOULD SERVE AS A REFERENCE BASIS FOR THE FOLLOW-UP STUDY AND THE EFFECTIVENESS OF THESE MEASURES (MONITORING);**
- ✓ **UNAVAILABILITY OF ADEQUATE DATA (OBSOLETE, UNUSABLE, INCONSISTENT WITH EXPECTED STUDIES, NOT ACCESSIBLE)**
- ✓ **TAX PROVISIONS VERY DIFFICULT TO ASSESS**
- ✓ **DIFFICULTY OF TRANSPARENCY**