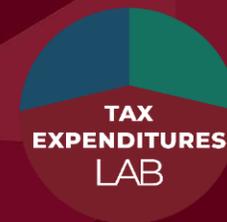


International Tax Forum
Bali, 24-26 September 2024



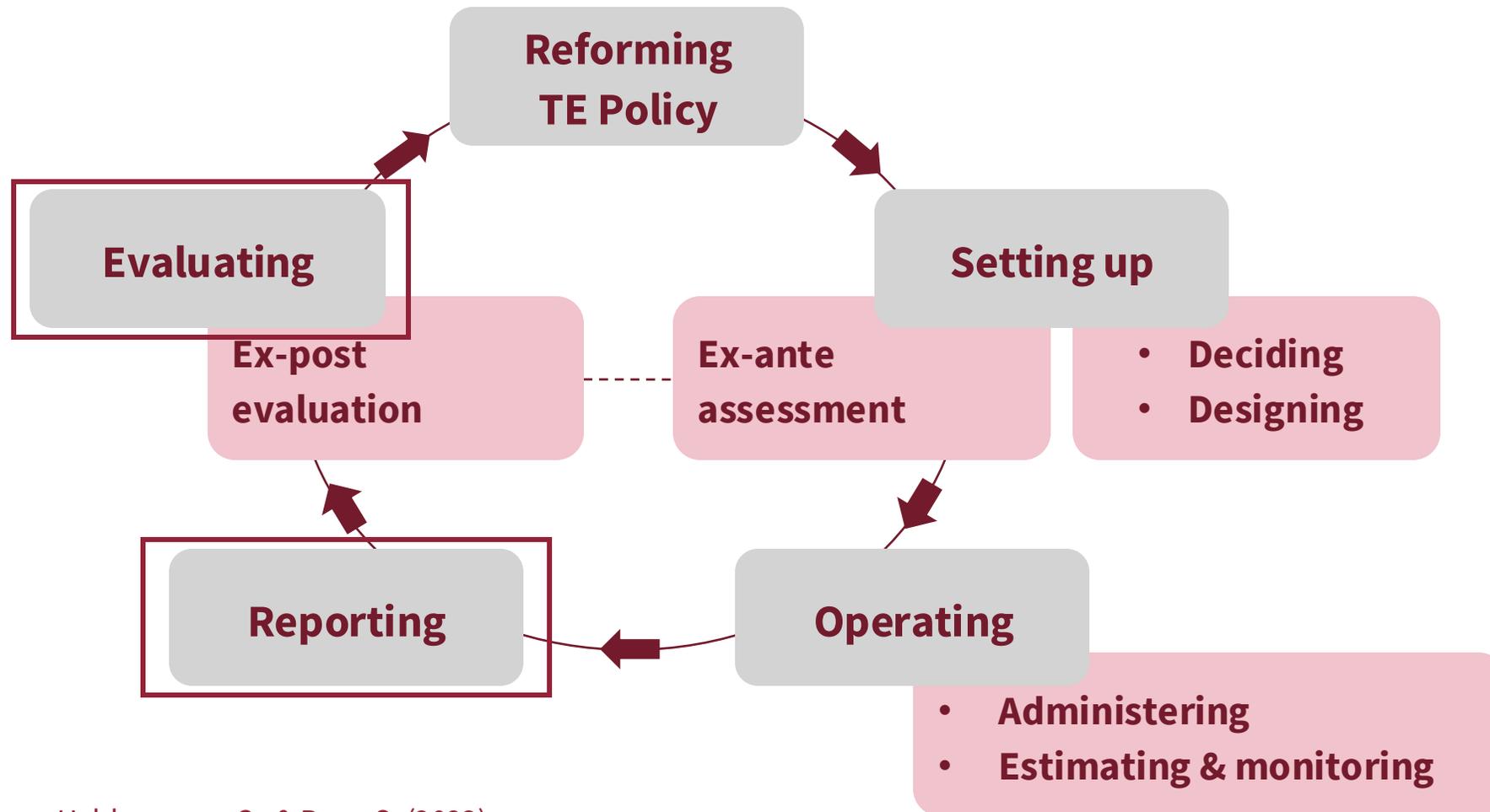
Governance & Communication as Determinants of Tax Expenditure Reform

Agustin Redonda (CEP)



The Governance of Tax Expenditures

The Tax Expenditure Policy Cycle

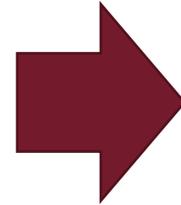


Source: Redonda, A., von Haldenwang, C., & Berg, S. (2023)

Communication of the Tax Expenditure Report

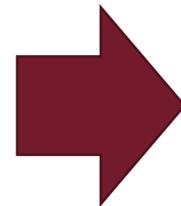
Role of TE report & important communication considerations

Transparency / Accountability to public (taxpayers) on how public money is spent



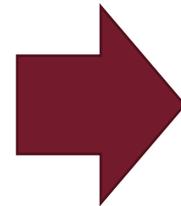
Accessible & understandable to taxpayers

Informing more efficient budget allocations between policy or development objectives



In terms that relate to other public spending (e.g. budget sectors/recipients)

Basis for evaluation of effectiveness, an input to better policymaking



Detailed costing by provision, tax type, beneficiary etc.

How TE is communicated and to whom



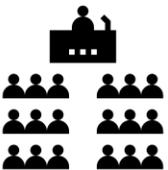
- Internal report



- Speech / account to Parliament



- Report publication (with budget or separate)



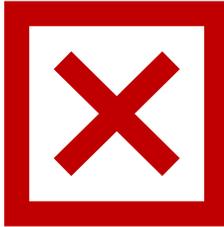
- Public announcements, media engagement, press release, presentation to stakeholders etc.

Interested Parties:

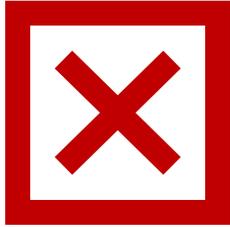
- MoF and RA (technical)
- Ministers (political)
- Legislature/Parliament
- Development partners
- Civil society
- Private sector
- Public

1. Tax Expenditure = Tax Exemption

- Tax 'expenditure' comes in many forms and serves a variety of purposes.
- The intended beneficiaries of some expenditures may be foreign investors, but many could also be targeted at domestic businesses, SMEs, low-income households, disabled individuals or targeted emerging sectors, for example
- In many jurisdictions, the phrase 'tax exemption' is – probably rightly – associated with negative connotations and the authors of a TE report must meet the challenge to carefully communicate that not all TEs meet the definition of a tax exemption.



2. Tax expenditures are wasteful

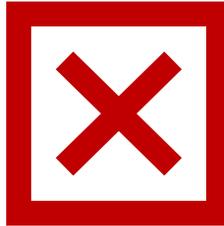


Research has provided a strong challenge to the need for investment tax incentives (such as investor motivation surveys), e.g., **simply stating the estimated revenue foregone from TEs in a report does not imply that this revenue represents a net loss**

- Only an evaluation of costs and benefits of each TE measure would provide that evidence.
- The TE Report can be viewed as the first part of a Cost-Benefit-Analysis

Tax Expenditures form a key part of government's expenditure strategies

3. “Revenue foregone” is equal to “revenue gain”



A common misconception is that the estimated revenue foregone can be read as the amount that government would receive if the tax reliefs were removed

- Particularly pertinent when governments are under pressure to mobilise revenue
- **But revenue gained from removing an expenditure does not equal revenue foregone**
 - Behavioural factors
 - Limitations on govt’s ability to remove provisions (e.g. some are structural)
 - May be cases where a tax expenditure is in place as it provides support to a key sector, industry or group of taxpayers in the least administratively costly manner
 - If TE removed, maybe government continues to provide support (e.g. subsidy)

Common misconceptions:

From govt perspective – challenge to overcome these misconceptions!

“Over the last 40 years, tax incentives, although a deviation from the tax system, have since doubled from 40 to 80 per cent, despite their relevance coming under intense scrutiny.

...the design of Uganda’s tax incentive regime impacts overall effectiveness, which in the end might force government to put in place regressive tax measures “to make ends meet”.

Framing / Language can also be key!

1. “Expenditure”
2. “Provision”
3. “Relief”
4. “Support”
5. “Concession”



- **Explain** what report does and does not measure (e.g. not effectiveness)
- Proactive engagement & education to explain what the results mean, avoid misinterpretation & misconceptions
 - Press Release?
- Be prepared for scrutiny and demand for further analysis → **what about the benefits?**

Communication of Evaluations

Communication of costs...but also of benefits

TE reports provide data on the revenue forgone through TEs...this is key to better understand the cost of TEs, but not sufficient...

- Transparency / Accountability ✓
- Can be thought as half of a Cost-Benefit-Analysis (CBA)
- Does not evaluate effectiveness / efficiency of TE
- Does not evaluate TE vs. alternatives
- Decision-making ✗
- How to communicate the results and takeaways of evaluations is, at least, as important as the comms strategy behind the TE report



What is a TE evaluation?

Not straightforward answer...three distinct questions which can become conflated

- **Effectiveness:** *Does the TE meet stated objectives?*
 - Are these objectives stated anywhere?
 - We would like to know the **causal effect** of offering a TE on some pre-determined outcome [difficult!]
- **Cost-benefit analysis:**
 - *If the objective is met, at what cost?*
 - *Are there **net** benefits to society?*
- **Efficiency | Relevance** *vis-à-vis* alternatives → Is the TE the best way policy instrument?

Communication of costs...but also of benefits

- **Understand your stakeholders** to tailor your communication strategy and messages so that they can better suit their characteristics and contexts → Minister ≠ MPs ≠ Journalists
- **Define communication goals & objectives** to clarify what you want to achieve...focus your communication efforts, resources, and activities on the most relevant and important aspects
- **Develop key messages & recommendations** to distill your policy evaluation results into concise, clear, and compelling key messages and recommendations

Communication of costs...but also of benefits

- **Choose communication methods & channels** to select the most appropriate and effective ones for your policy evaluation → written (Policy briefs, blogs, press releases), events (roundtables, press conference)
- **Plan and implement communication activities** in a timely, coordinated, and responsive manner to ensure that your communication strategy is efficient and effective

Governance

Challenges encountered and
suggested solutions

- Conflicting interests in creating or maintaining TEs → Can TE ceilings be an answer?
- Discretionary TEs, multiple actors
 - Give MoF responsibility to technically assess and approve new TEs (or modifications of existing TEs)
 - ...but also strengthen the role of parliament
- No clear benchmark system in place upon which TEs are granted → work on benchmark definition based on clear criteria → support from external actors (IMF, World Bank, ADB, GIZ, etc.)
- Timing of TEs: often “last forever” → sunset clause & evaluation requirements

- Complexity and frequent changes of tax and TE regimes increase workload of tax administrations → TEs with tiny take up ratios
- Estimation of revenue forgone → support from external actors (IMF, World Bank, ADB, GIZ, etc.)
- Monitor the take-up of TEs and manage data → role of MoF and revenue authority → collaborative relationship needed
- Digitalisation to facilitate administration, monitoring and compliance, e.g. risk-based auditing; pre-filling of forms

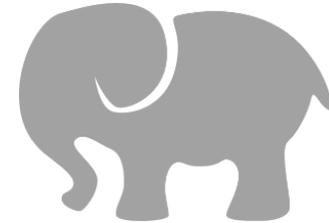
- No reporting to parliament, or report not made public → requirement by law (might not be enough)
- Benchmarking determines the scope of reporting: For instance, provisions contained in bilateral tax agreements & structural reliefs?
- Limited data availability can be a real issue – or an excuse, sometimes!

- TEs implemented without ex-ante assessment (time pressure or political interference)
→ technical approval of proposal as a requirement, including GLOBE assessment (capacity?)
- No (or incomplete) reporting leads to more challenges regarding TE evaluation
→ joint evaluation framework (integrating ex-ante assessments and ex-post evaluations)
- Pressure to “rationalise” the use of TEs, but insufficient data for evaluation
→ data requirements when setting up TEs; data sharing between different government bodies; start with “lean” evaluations; go where the money goes (largest TEs)

- Resistance by parliament & other actors to dismantle individual TEs, but growing awareness of the relevance to push reforms
→ continuous flow of information between MoF / RA and parliament, strengthen oversight capacities of parliament
- Strategic partnerships with domestic and international actors to overcome deadlocks; reach out to stakeholders early on in the process, e.g. through public consultations, expert hearings
- Big push or piecemeal (incremental) approach? Are there “low-hanging fruits”?

Overarching issues

- Data lacking, incomplete or not reliable → national strategy to strengthen statistics offices; organise data sharing between authorities (also internationally!); revise tax return forms; monitor data quality (under- & misreporting); use advanced data analytics
- Capacity limitations & brain drain → improve employment conditions to keep capacity; ensure knowledge transfer when colleagues leave or change positions...also from capacity building; partner with academia and private sector
- Communication → establish continuous and fluid communication channels with other governmental agencies, parliament and other stakeholders; public disclosure of TE reports, make sure not to stop at communicating the cost of TEs



Thank you!

Contact details:

- www.TaxExpenditures.org
- Email: ar@cepweb.org

Example of a Press Release from Canada

MENU ▾

[Canada.ca](#) > [Department of Finance Canada](#) > [News](#)

Department of Finance releases Annual Report on Federal Tax Expenditures

From: [Department of Finance Canada](#)

News release

March 1, 2022 - Ottawa, Ontario - Department of Finance Canada

Today, the Department of Finance Canada released its annual estimates of the fiscal cost of federal tax measures in the *2022 Report on Federal Tax Expenditures—Concepts, Estimates and Evaluations*. In addition to providing transparency as to Canada's tax system, this year's report contains four analytical papers, including an economic evaluation of the government's emergency wage subsidy programs, which have protected over 5.3 million Canadian jobs through the worst of the pandemic.

The release of today's report coincides with the tabling of the Main Estimates in the House of Commons by the President of the Treasury Board.

Quick facts

- This report has been made available to Canadians, on an annual basis, since 1994.
- Studies published by international organizations – including the Organisation for Economic Co-operation and Development in 2010 and the International Monetary Fund in 2011 – have recognized the quality of Canada's reporting on federal tax expenditures, noting the broad range of measures tracked and details provided.
- Tax expenditures can be described as tax measures that depart from the benchmark tax system and include preferential tax rates, exemptions, deductions, deferrals and tax credits.