Centro Interamericano de Administraciones Tributarias - CIAT

Tax Studies and Research Directorate
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Tax Expenditures in Latin America: 2008–2012

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Introduction

The concept of tax expenditures originated in the United States and Germany in the 1960s. Stanley Surrey, then US Assistant Secretary of the Treasury, is attributed with including a chapter on tax expenditures in the US budget for the first time in 1968. Germany's 1967 Report on Tax Subsidies and Expenditures (the first *Subventionsbericht*) is regarded as the starting point of efforts to measure tax expenditures in Latin America. Two renowned organizations, the International Fiscal Association and the International Institute of Public Finance, helped spread the concept internationally through two annual meetings in 1976 and 1977, respectively. Hence in 1978 Austria published its first report on tax expenditures. Canada and the United Kingdom did the same in 1979, and Spain and France did so a year later. By the end of the 1980s, measuring tax expenditures was a widespread practice in the countries of the Organization for Economic Cooperation and Development (OECD).

Brazil was one of the first Latin American countries to do so when it published its first report on tax expenditures in 1989. Argentina followed in 1999. It was not until the start of the twenty-first century, however, that the practice became widespread and perfected in the region. Between 2000 and 2005, Chile, Colombia, Guatemala, Mexico and Peru embarked on systematic measurements of tax expenditures. This development was closely related to the IMF's 1998 publication of the first Fiscal Transparency Manual, which offered recommendations on the matter. Between 2006 and 2010, tax expenditure began to be measured in Ecuador, Nicaragua, the Dominican Republic and Uruguay. Finally, from 2011 onwards reports were produced in Costa Rica, El Salvador, Honduras, Panama and Paraguay.

Tax expenditures

CIAT (2011) defines tax expenditures as the revenue that the State foregoes as a result of incentives and benefits that lower the tax burden of certain taxpayers in relation to a reference tax system. The word “expenditures” emphasizes the fact that the foregone resources could have financed particular public spending programs favoring those whose tax burden has been lowered, as well as favoring others.

The economic and social policy goals most often cited to justify the introduction or retention of tax benefits and incentives include the need for more efficient and progressive tax systems, improving social wellbeing, promoting regional or sectoral development by means of greater investment, human capital accumulation and, more recently, environmental protection. Tax expenditures stem from provisions such as exclusions (untaxed or unaffected activities), exemptions, deductions, credits, lower rates, deferrals, special or promotional regimes (in free zones, for example), and drawbacks (including some refunds).

The main interest in measuring tax expenditures springs from the potential mobilization of new resources that governments in developing countries could realize if such expenditures were eliminated or rationalized, especially given the ever more limited possibility of raising the rates of existing taxes or introducing new ones. But measuring tax expenditures helps in particular to improve public-finance management by taking a broader view of public spending. Such efforts promote fiscal policy transparency, thereby reducing the risks of corruption and improving the business climate. It is a valuable input to cost-benefit assessments of tax benefits and incentives. It makes plain the constraints on tax administrations in their efforts to reach revenue targets.

The measurement of tax expenditures can have three purposes: to quantify revenue losses, to gauge revenue gains in the event of their elimination, and to determine the resources needed to replace tax expenditures with equivalent direct spending— that is, measures that would not change the level of wellbeing of the taxpayer whose tax burden the expenditures sought to lower. In practice, in preparing their reports the countries seek to quantify the revenue losses. Measuring tax expenditures requires an accurate identification of the tax benefits and incentives that gave rise to them, which in turn demands first that a reference tax system be defined. Without question, this is the most complicated step in the process and the one that prompts the most debate. The reference tax system can emerge from a reading of legislation that has tax implications, from considering a conceptual framework (a normative definition of the tax base), or from considering those tax benefits and incentives that are analogous to a direct subsidy.

The information available to a country determines the methods that can be used to measure tax expenditures. It is clear that the greater capacity a country has in developing statistics, the better chance it has of using more sophisticated methods. The information generally used to measure tax expenditures consists of filed tax returns or registrations that taxpayers or third parties submit to tax and statistical authorities, or other information managed by public or private institutions. The measurement methods range from simple aggregations of the information contained in the tax returns or registration documents submitted by taxpayers or third parties, on the one hand, to sophisticated general equilibrium models on the other. Only three approaches, however, stand out: aggregations or simulated aggregations; indirect calculations; and microsimulation models or something similar.

The outlook in Latin America

CIAT constantly monitors trends in tax expenditures in Latin America. A great deal of information is available on the institutional websites of the national tax administrations and/or the finance ministries. Other information can only be obtained through links with the responsible authorities. By accessing this information, CIAT's Directorate of Tax Studies and Research has created a database of the most significant tax benefits and incentives in 18 countries of Latin America. This database reveals trends in their fiscal cost over time, both in the aggregate and by tax, as well as their composition by tax break or incentive, and by budgetary or economic sector. Note that the database covers only those tax expenditures under the remit of central, national or federal governments.[1, 2] Below, we make some comments in that regard.

The following reports were used. Argentina: reports prepared by the National Directorate of Tax Research and Analysis, an agency of the Treasury Secretariat of the Ministry of Economy and Public Finance. Brazil: the Reports on Tax Expenditures drawn up by the General Coordination of Studies, Foresight and Analysis of the Federal Revenue Service. Chile: the Tax Expenditures Reports prepared by the Studies Subdirectorate of the Internal Revenue Service. Colombia: the Medium-Term Fiscal Frameworks drawn up by the Ministry of Finance and Public Credit. Costa Rica: the Tax Expenditures Reports drawn up by the Fiscal Policy Division of the Ministry of Finance's General Treasury Directorate. Ecuador: the Tax Expenditures Handbooks prepared by the Tax Studies Department of the Internal Revenue's Fiscal Studies Center. El Salvador: the Tax Expenditures Report drawn up by the finance ministry's tax studies unit. Guatemala: the Tax Expenditures Reports prepared by the Tax Studies, Analysis and Statistics Department of the Superintendency of Tax Administration. Honduras: the Tax Expenditures Report produced by Juan Carlos Gómez-Sabaíni, Miguel Pecho Trigueros and Dalmiro Morán. Mexico: the Tax Expenditures Budgets of the Treasury and Public Credit Secretariat. Panama: the Tax Expenditures Report produced by Michael Jorrat. Paraguay: the Tax Expenditures Report written by José A. Salim. Peru: the Tax Expenditures Reports produced by the National Intendancy for Tax Studies and Planning of the National Superintendency of Customs and Tax Administration. Dominican Republic: the Tax Expenditures Reports drawn up by the Inter-Institutional Committee coordinated by the Finance Ministry's General Directorate of Tax Policy and Legislation. Uruguay: the Tax Expenditures Reports prepared by the Economic Advisory Body of the Directorate General of Taxes.

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[1] The author is grateful for the contribution of the economists Fernando Peláez and Gaspar Maldonado in collecting information and setting up the database. Thanks are also due to the members of CIAT's Studies Network for their contributions.

[2] The database can be consulted upon a request to CIAT's Tax Studies and Research Directorate.

Table 1

Tax Expenditures in Latin America: 1/

(% of GDP)

	2008	2009	2010	2011	2012
Argentina 2/	2.11	1.98	2.33	2.46	2.59
Bolivia	-	-	-	-	-
Brazil 3/	2.51	3.15	3.02	2.80	3.32
Chile 4/	5.00	4.83	4.69	5.04	4.46
Colombia	3.12	3.20	3.25	n.a.	n.a.
Costa Rica	-	-	5.54	5.52	5.62
Ecuador	n.a.	4.22	4.17	4.67	4.86
El Salvador	-	n.a.	3.40	n.a.	n.a.
Guatemala	8.01	7.87	7.81	7.54	8.39
Honduras	-	-	-	6.18	6.45
Mexico 5/	4.71	3.80	3.60	3.87	3.82
Nicaragua	n.a.	n.a.	n.a.	n.a.	n.a.
Panama 6/	-	-	-	-	2.27
Paraguay	1.94	1.82	1.90	n.a.	n.a.
Peru	1.96	1.95	2.08	1.84	1.91
Dominican Republic	6.41	6.24	5.50	5.11	5.13
Uruguay	5.67	5.74	6.31	6.31	6.40
Venezuela	-	-	-	-	-
Simple average	4.14	4.07	4.12	4.67	4.60

1/ Projected, estimated or actual figures, depending on the availability of information.

2/ Includes the costs of tax benefits and incentives in economic promotion regimes.

3/ Only federal-level tax expenditures. Hence, includes PIS-PASEP and COFINS but not ICMS. Includes CSLL.

4/ From 2011 onwards an alternative measure has been published using Net Present Value (VPN) to estimate income tax expenditures. This has not been taken into account.

5/ Not including the negative tax expenditure from revenue derived from the repealed IETU. Not including IEPS fuels tax expenditure because of its volatility. Includes the employment subsidy.

6/ Only ITBMS.

After being at 4.11 percent of GDP between 2008 and 2010, Latin America's average tax expenditure increased in 2011 and 2012 to 4.64 percent of GDP (see Table 1).[3] The countries that experienced the highest increases in those years were Argentina, Brazil, Ecuador and Uruguay. That circumstance reflects the impact of various incentives introduced to promote industries in Argentina and Ecuador, Brazilian incentives introduced for the World Cup and the Olympics, and the benefits offered in Uruguay with the introduction of income tax.

The situation varies by country. Historically, tax expenditures in Guatemala, Honduras and Uruguay have surpassed 6 percent of GDP. Those countries are followed by Chile, Costa Rica, Ecuador and the Dominican Republic, where the rate is 4–6 percent of GDP. In Argentina, Brazil, Colombia, El Salvador, Mexico and Panama the rate is 2–4 percent of GDP. Finally, the rate is below 2 percent in Peru and Paraguay.

The importance of the benefits and incentives is made evident by comparing the fiscal cost with actual revenue. Table 2 shows that average tax expenditures in Latin America rose from 31.3 percent of central government tax revenues in 2008–2010 to 33.8 percent between 2011 and 2012. The scale evidences the importance of tax benefits and incentives.

Again, the situation varies by country. For countries with low levels of tax collection such as Mexico and Guatemala, the fiscal cost is equivalent to 40 percent of tax revenues (more than 70 percent in Guatemala). Similar levels are evident in Costa Rica and Honduras. In most countries the fiscal cost is equivalent to between 20 percent and 40 percent of central government tax revenues: Brazil, Chile, Colombia, Ecuador, El Salvador, the Dominican Republic and Uruguay. In Argentina, Panama, Paraguay and Peru the cost is less than 20 percent.

[3] The averages can be affected by the inclusion or exclusion of the countries' measurements.

Table 2

Tax Expenditures in Latin America: 1/

(% of central government tax revenues)

	2008	2009	2010	2011	2012
Argentina 2/	10.0	9.9	10.9	11.2	11.1
Bolivia	-	-	-	-	-
Brazil 3/	16.3	22.3	21.4	18.5	22.5
Chile 4/	26.3	33.3	27.7	26.6	24.5
Colombia	23.2	24.7	26.5	n.a.	n.a.
Costa Rica	-	-	42.7	41.5	42.6
Ecuador	n.a.	32.6	30.4	36.3	33.1
El Salvador	-	n.a.	25.1	n.a.	n.a.
Guatemala	73.8	77.7	76.4	71.5	79.3
Honduras	-	-	-	41.7	43.4
Mexico 5/	57.7	40.6	37.8	43.4	45.2
Nicaragua	n.a.	n.a.	n.a.	n.a.	n.a.
Panama 6/	-	-	-	-	17.4
Paraguay	18.5	15.7	15.9	n.a.	n.a.
Peru	12.5	14.1	14.0	11.9	11.9
Dominican Republic	43.0	47.8	43.3	39.9	38.3
Uruguay	29.6	29.6	32.4	32.4	33.3
Venezuela	-	-	-	-	-
Simple average	31.1	31.7	31.1	34.0	33.6

1/ Projected, estimated or actual figures, depending on the availability of information.

2/ Includes the costs of tax benefits and incentives in economic promotion regimes.

3/ Only federal-level tax expenditures. Hence, includes PIS-PASEP and COFINS but not ICMS. Includes CSLL.

4/ From 2011 onwards an alternative measure has been published using Net Present Value (VPN) to estimate income tax expenditures. This has not been taken into account.

5/ Not including the negative tax expenditure from revenue derived from the repealed IETU. Not including IEPS fuels tax expenditure because of its volatility. Includes the employment subsidy.

6/ Only ITBMS.

Care must be taken in making inter-country comparisons because of differences in the coverage of the taxes under consideration and the reference tax systems.

As regards the taxes, measurements in all countries take account of the tax expenditures of VAT and income tax. Most countries also measure the tax expenditures of excise taxes and/or import duties: Argentina, Brazil, Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, Peru, the Dominican Republic and Uruguay. Equity tax expenditures are measured in Argentina, Brazil, Guatemala, the Dominican Republic and Uruguay. Only Argentina and Brazil measure expenditures attendant on social security contributions.

The reference tax systems that the countries use also vary. As regards VAT, all the countries with reduced rates on certain goods and services regard them as a tax expenditure. The same applies to most exemptions to the goods in the family shopping basket. Ecuador and Mexico regard as tax expenditures the drawbacks on taxes paid on the production of exempt final goods or services sold in the domestic market. Although the exclusion or exemption of housing leases or rents could be a technical adjustment to a VAT on real estate, El Salvador regards it as a tax expenditure. As to income tax, most countries do not regard the non-taxable minimum or the exempt portion as a tax expenditure. Guatemala, however, does so. On the other hand, in most countries personal deductions (medical expenses, education or dependents) are tax expenditures, though not in Argentina and El Salvador. The exemption of social security contributions are expenditures in Ecuador and Guatemala, though the appropriateness or otherwise of that decision depends on the yields of the pension funds and the pensions themselves. Ecuador is notable in the case of income tax, since it regards loss carryforwards and the exemption of personal dividends as tax expenditures, even though they are taxed for the partners or shareholders. This latter is also a tax expenditure in El Salvador. Ecuador is the only country to regard preferential treatment specified in double taxation agreements as a tax expenditure. Finally, note that deferrals are not viewed as tax expenditures in Argentina, Brazil, Colombia and Uruguay, and that Brazil alone treats simplified tax regimes for small-scale taxpayers as tax expenditures.

Table 3

Tax Expenditures by Tax, 2012 or most recent available year 1/

(% of GDP)

	VAT	Income tax			Others
		Company tax	Other	Total	
Argentina 2/	1.19	0.08	0.52	0.61	0.80
Bolivia	-	-	-	-	-
Brazil 3/	1.12	0.86	0.73	1.59	0.60
Chile 4/	0.88	0.86	2.73	3.58	-
Colombia (2010) 5/	1.68	1.24	0.32	1.56	-
Costa Rica 6/	3.54	0.80	1.02	1.82	0.26
Ecuador	2.09	2.31	0.46	2.77	-
El Salvador (2010)	1.97	n.a.	n.a.	1.42	-
Guatemala	1.96	n.a.	n.a.	5.90	0.54
Honduras	3.63	1.08	0.27	1.35	1.48
Mexico 7/	1.51	0.92	0.83	1.75	0.56
Nicaragua	n.a.	n.a.	n.a.	n.a.	n.a.
Panama 8/	2.27	-	-	-	-
Paraguay (2010)	1.48	0.23	0.20	0.43	-
Peru	1.30	0.21	0.15	0.37	0.24
Dominican Republic	3.23	0.42	0.10	0.52	1.37
Uruguay	2.95	1.66	0.63	2.29	1.16
Venezuela	-	-	-	-	-
Simple average	2.05	0.89	0.66	1.85	0.78

1/ Projected, estimated or actual figures, depending on the availability of information.

2/ Includes the costs of tax benefits and incentives in economic promotion regimes.

3/ Only federal-level tax expenditures. Hence, includes PIS-PASEP and COFINS but not ICMS. Includes CSLL.

4/ From 2011 onwards an alternative measure has been published using Net Present Value (VPN) to estimate IRPF tax expenditures. This has not been taken into account.

5/ Company tax does not include individuals engaged in economic activities.

6/ Company tax includes the profits tax levied on businesses and individuals engaged in business activity.

7/ Not including the negative tax expenditure derived from revenue from the repealed IETU. Not including IEPS fuels tax expenditure because of its volatility. Includes the employment subsidy.

8/ Only ITBMS.

At the level of taxes, VAT benefits and incentives account for the highest fiscal cost. Although summing up individual tax expenditures is not recommended, this poor practice has been followed to facilitate international comparison. Table 3 shows the composition of tax expenditures by type of tax in 2012. VAT benefits and incentives cost on average 2.05 percent of GDP. The fiscal cost of VAT benefits and incentives exceeds 3 percent of GDP in Costa Rica, Honduras and the Dominican Republic. Those countries are followed by Ecuador, Panama and Uruguay, where the fiscal cost is 2–3 percent of GDP. In most countries the cost is between 1 percent and 2 percent of GDP: Argentina, Brazil, Colombia, El Salvador, Guatemala, Mexico, Paraguay and Peru. Chile is the only country where the fiscal cost of VAT benefits and incentives is less than 1 percent of GDP.

After VAT expenditures, the benefits and incentives with the highest fiscal cost are those related to income tax. On average, these are equivalent to 1.85 percent of GDP. In Chile, Ecuador, Guatemala and Uruguay the fiscal cost is more than 2 percent of GDP. In Brazil, Colombia, Costa Rica, El Salvador, Honduras and Mexico the cost is between 1 percent and 2 percent of GDP. The fiscal cost is below 1 percent of GDP in Argentina, Paraguay, Peru and the Dominican Republic. Only in Argentina, Chile, Guatemala and Costa Rica are the benefits and incentives of company tax those that have the highest fiscal cost in income tax. It is important to note that in Guatemala this situation stems from the inclusion of the non-taxable minimum or exempt portion of personal income tax as a tax expenditure. In Chile it stems from the inclusion of financial losses brought about by deferral of the distribution of profits as stipulated by the Taxable Profits Fund (FUT), a mechanism that integrates personal and business income in Chilean income tax.[4]

As mentioned earlier, care must be taken in making inter-country comparisons because of differences in the reference tax systems. It should also be kept in mind that not all types of tax expenditures are always present in national legislation. Even when they are applicable, often their fiscal cost is not measured because of the scarcity of data. Table 4 shows the fiscal cost by type of tax expenditure.

[4] A tax reform is considering modification of this mechanism.

Table 4

Types of Tax Expenditure, 2012

(% of total)

	VAT				Income tax			
	Exclusions or exemptions	**Credits**	**Reduced rates**	**Other 2/**	**Exclusions or exemptions**	**Deductions and credits**	**Reduced rates**	**Other 2/**
Argentina	57.48	-	33.10	9.42	99.19	0.81	-	-
Bolivia	-	-	-	-	-	-	-	-
Brazil	35.82	1.23	62.95	-	41.75	35.45	22.79	-
Chile (2008)	46.74	53.26	-	-	7.00	11.21	0.08	81.71
Colombia (2010, 2012) 3/	n.a.	n.a.	n.a.	n.a.	78.66	21.34	-	-
Costa Rica	n.a.	n.a.	n.a.	n.a.	79.74	3.95	16.31	-
Ecuador	96.26	-	-	3.74	61.14	25.31	2.76	10.79
El Salvador (2010)	100.00	-	-	-	71.06	28.94	-	-
Guatemala (2009)	100.00	-	-	-	20.22	79.78	-	-
Honduras	100.00	-	-	-	n.a.	n.a.	n.a.	n.a.
Mexico	18.82	-	6.27	74.92	62.15	25.58	-	12.27
Nicaragua	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Panama	100.00	-	-	-	-	-	-	-
Paraguay (2010)	42.99	-	57.01	-	96.57	3.43	-	-
Peru	92.31	0.13	-	7.57	59.97	17.49	15.10	7.43
Dominican Republic	100.00	-	-	-	77.00	23.00	-	-
Uruguay	68.75	6.35	24.90	-	59.94	35.45	3.07	1.54
Venezuela	-	-	-	-	-	-	-	-
Simple average	73.78	15.24	36.85	23.91	62.65	23.98	10.02	22.75

1/ Includes special or promotional regimes.

2/ Includes deferrals and/or drawbacks.

3/ For VAT 2010 and for income 2012.

In the case of VAT, it is evident that the highest fiscal cost derives from exclusions and exemptions (including those stemming from special and promotional regimes), as well as reduced rates. Note that Chile, Ecuador, El Salvador, Guatemala, Honduras, Panama, Peru and the Dominican Republic do not present data on reduced rates because their VAT is levied at a general rate.[5] No country records fiscal costs for VAT deductions. Peculiarly, in Chile a significant fiscal cost derives from the VAT credit offered to construction contractors, and in Mexico a substantial cost stems from the drawback for producers of exempt zero-rated goods (which receive the same treatment as exports). Note also that the tax expenditure reports in Colombia, Costa Rica and Nicaragua do not allow full identification of the types of tax expenditures.

In the case of income tax, the highest cost derives from exclusions and exemptions, deductions, and credits. In Brazil, Costa Rica and Peru a significant fiscal cost stems from reduced rates. In Chile the tax expenditure with the highest fiscal cost is deferral of the distribution of profits caused by the Taxable Profits Fund (FUT), a mechanism that integrates personal and business income in Chilean income tax. As mentioned earlier, Chile is one of the countries that regards revenue losses as a tax expenditure

[5] Apart from the single general rate, VAT in Honduras and Panama have higher rates for certain goods and services that are not regarded as tax expenditures.

Facilitating the assessment of tax expenditures

While periodic monitoring of the fiscal cost of tax benefits and incentives is important, it is much more important to know if those benefits and incentives are effective—that is, if they are meeting the economic and social goals for which they were devised. In Latin America it is not particularly clear if such assessments are an active part of the countries' fiscal policies. Governments must regard cost-benefit analyses as routine. Such analyses would underpin reforms geared to eliminating or rationalizing tax expenditures that have little effect, and would facilitate greater efficiency, transparency and fairness in tax systems.

Tax incentives to promote investment have been subject to a great deal of attention. For a long time, studies have examined their impact in promoting domestic or transborder investments. The widespread conclusion of many studies is that such incentives have a limited effect on investment decisions. At best, they have affected the decisions of some investors in particular moments. Other factors seem to be more important than taxes, such as the quantity, quality and cost of production factors, the availability of certain natural resources, and an appropriate business climate. Perhaps these are more important in multinationals' decisions about location.[6]

The effectiveness of VAT expenditures should also be assessed. It is a given, for example, that VAT is regressive. Nonetheless, when consumption is used instead of revenue, the findings change significantly because of exclusions, exemptions and reduced rates. Nonetheless, marked revenue regressivity indicates that these tax expenditures—which have a substantial fiscal cost—are not effective, generally because of targeting problems or "inclusion errors."

While the tax administrations—which in most countries are responsible for measuring tax expenditures in Latin America—do not have authority to undertake cost-benefit analyses of the different tax benefits and incentives, such analyses could facilitate the work of those institutions' authorities (mainly finance ministries and secretariats) by providing complementary information as part of the official reports on tax expenditures. Those reports could be strengthened to guide the cost-benefit analyses, presenting the fiscal costs of the incentives and benefits in much greater detail, together with common economic and social indicators that could give legislators an idea of whether the tax expenditures are meeting their objectives.

Always focusing on tax costs, the countries usually first describe their tax systems and then list the prevailing tax expenditures, sometimes grouped by tax, type of benefit or incentive, budget or economic

[6] See Klemm and van Parys (2009), van Parys (2012), and James (2013).

sector, or geographic area. Only a few offer information on the impact of tax expenditures by income or spending decile. Though efforts should be made by organizations bigger than CIAT (such as the IMF and the OECD) to consolidate a single, worldwide report format (as previously proposed for various public finance accounts), it is an opportune moment to consider the Model Tax Expenditures Report proposed by CIAT (2011),which is presented in the annex to this study.

Following an introductory section that reviews the legal provisions requiring tax expenditures to be measured, the definition of such expenditures, and the reference tax system used, among other things, the proposed report calls for an indication of the type of measurement used (projection or ex-post evaluation), and the tax year(s) for which the measurement was undertaken, as well as information on the quality of the tax and non-tax information used. In presenting the fiscal costs of the tax benefits and incentives, together with common economic or social indicators that could explain to legislators whether the tax expenditures are meeting their objectives, the proposed report seeks to link the State's economic and social policy goals behind the expenditures with the sectors through which they operate. Since a tax expenditure replaces explicit direct spending from the national budget, that budget's sectoral classification (the budgetary allocations) can be used to present the information on tax expenditures in the same way. Up to 16 budgetary allocations or economic activities can be identified and then used for these purposes. In some cases it will not be possible to attribute the tax benefits and incentives to a single sector, either because they have a general application or because they operate through economic activities that are not represented in the national budget. Since the sector through which a tax expenditure operates does not necessarily indicate that the sector is the actual beneficiary of the provision, we must also seek to locate the individual or group of individuals that are the targets of the State's economic or social policy goal. For example, a VAT exclusion or exemption operates through those subject to the tax, businesses in a particular economic sector, but the final consumers of the goods or services that receive preferential treatment are always those who are the true beneficiaries of the provision.

In this regard consideration must also be given to true beneficiaries such as the sick, students (at all levels), renters or buyers of homes, the bereaved, disabled and invalids (including people with special skills), consumers in general, workers, seniors (or those who will be), the most vulnerable, minors, members or former members of the military and police force, sports people, tourists, savers, investors, exporters, farmers, small-scale entrepreneurs, and business people in general.

The advantage of presenting information on tax expenditures by sectors and actual beneficiaries is that the effort helps identify the commonly used economic or social indicators mentioned above, which can give legislators an idea of whether the desired goals are being met.

This undertaking necessarily requires the involvement of ministries and secretariats in the executive branch to which the tax expenditures can be imputed, since they manage confidential statistical information for the purpose of monitoring management, and that information would be of the utmost use for the goals of the report presented herein.

Finally, the proposed report requires that respondents indicate tax expenditures that, having been identified, cannot be measured because of a lack of information, as well as an estimate of their impact by income or spending deciles. Moreover, it calls for a separate presentation of those measurements that pursue goals different from the loss of tax revenue and the administrative costs related to the management of tax expenditures.

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Annex

**INTER-AMERICAN CENTER OF
TAX ADMINISTRATIONS**

MODEL REPORT ON TAX EXPENDITURES

Country
Responsible Organization(s)

INTRODUCTION

1. Indicate the legal provision, if such exists, that requires the measurement of tax expenditures.

2. Explain the current tax system in your country.

3. Indicate the definition of tax expenditures used throughout this report.

4. Indicate the reference tax system(s) used to identify the tax expenditures contained in this report.

5. Indicate the taxes for which tax expenditures have been identified.

6. Indicate those cases posing the greatest conceptual problems in determining if a provision is or is not a tax expenditure.

PART ONE

7. Indicate if the fiscal cost presented in this report is a projection or an ex-post evaluation.

8. Indicate the tax year(s) for which the measurement of tax expenditures was undertaken.

9. Describe the quality of the tax information and what that means for the measurement of tax expenditures.

10. Describe the quality of the non-tax information and what that means for the measurement of tax expenditures.

11. Indicate the main constraints on access to information in measuring tax expenditures, both inside and outside your organization.

12. Indicate the good practices followed in your country during the process of measuring tax expenditures.

PART TWO

13. List the tax expenditures for which the revenue loss to the State has been quantified, taking account of the following:
    a. Tax category
    b. Type of tax expenditure
    c. Description of the provision
    d. The provision's legislative basis
    e. Context that gave rise to the provision
    f. Period in force (from/to)
    g. The State's economic or social policy goal[7]
    h. Sector (budgetary allocation or economic activity)
    i. Actual beneficiary[8]
    j. Geographic area beneficiary
    k. Quantitative indicator(s) used to measure the effectiveness of tax expenditures.
    l. Qualitative indicator(s) used to measure the effectiveness of tax expenditures.
    m. Tax year of the measurement
    n. Fiscal cost (in millions of local currency)
    o. GDP at the time of the measurement
    p. Type of measurement (projection or ex-post evaluation)
    q. Measurement method
    r. Briefly explain the measurement method
    s. Quality of the measurement[9]
    t. Information sources used
    u. Briefly describe the information source

14. In the case of exemptions or exclusions, also give the following information for each tax expenditure:
    a. Exempt or excluded tax base (in millions of local currency)
    b. Undetermined tax (in millions of local currency)

15. In the case of deductions, also give the following information for each tax expenditure:
    a. Tax base before the deduction (in millions of local currency)
    b. Tax base after the deduction (in millions of local currency)
    c. Undetermined tax (in millions of local currency)

16. In the case of credits, also give the following information for each tax expenditure:
    a. Tax liability before the credit (in millions of local currency)
    b. Tax liability after the credit (in millions of local currency)

17. In the case of reduced rates, also give the following information for each tax expenditure:
    a. Tax base to which the reduced rate is applied (in millions of local currency)
    b. General rate (in percentages)
    c. Reduced rate (in percentages)
    d. Undetermined tax (in millions of local currency)

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[7] Need for more efficient and progressive tax systems, to improve social wellbeing, promote regional or sectoral development through greater investment, human capital accumulation and environmental protection.

[8] The sick, students at all levels, renters or buyers of homes, the bereaved, disabled and invalids (including people with special skills), seniors (and those who will be in the future), the most vulnerable, minors, members and former members of the military and the police force, sports people, tourists, savers, investors, exporters, farmers, small-scale entrepreneurs, businesses people in general and others.

[9] Very good, good or satisfactory.

18. In the case of deferrals, also give the following information for each tax expenditure:
    a. Whether the measurement only considers the financial effect of the provision or the total cost
    b. If only the financial effect is considered, indicate the years during which revenue was foregone

PART THREE

19. Indicate the tax expenditures that have been identified but not measured.

20. If applicable, present additional estimates of the impact of tax expenditures by income or spending deciles.

21. Indicate the tax expenditure measurements that do not seek to identify the revenue foregone by the State because of application of the expenditures, but rather the revenue that would be gained by their repeal or the amount of resources that would be needed to replace them with subsidies or transfers.

22. If applicable, present the revenue gained through negative tax expenditures.

23. Indicate the administrative costs related to the management of tax expenditures.

24. Indicate the methods of evasion or avoidance made possible by the existence of tax expenditures, and provide measurements of their fiscal cost.