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# Tax Expenditure Rationalisation

Experience from TaxDev and ODI Global  
Country Partnerships

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@TheIFS

Virtual presentation to the Tax Expenditure Community of Practice

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- Pros & Cons
- Country Experience: Rwanda, Uganda, Liberia
- Role of Evidence
- Lessons

# Why 'Rationalise' Tax Expenditure?



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Revenue forgone  
average 3.8 %  
GDP and 23% tax  
revenue globally  
(GTED, 2023)



Unmet potential  
revenue in LMICs  
(9% GDP?)



Fiscal incentives  
ineffective / not  
key deciding factor



Unfair: non-  
transparent,  
regressive,  
discretionary, rent-  
seeking

Low hanging fruit for DRM? But, some caveats...

# Caveats!



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## Rationalisation $\neq$ Removal

- Better policymaking, which may not always be revenue-enhancing

## Revenue forgone $\neq$ revenue gain

- Behaviour effects, difficult to model

## Some TE is useful!

- Importance of evaluation

## Fruit may be harder to pick

- Political, technical challenges, unintended effects

# Rwanda: TE Rationalisation

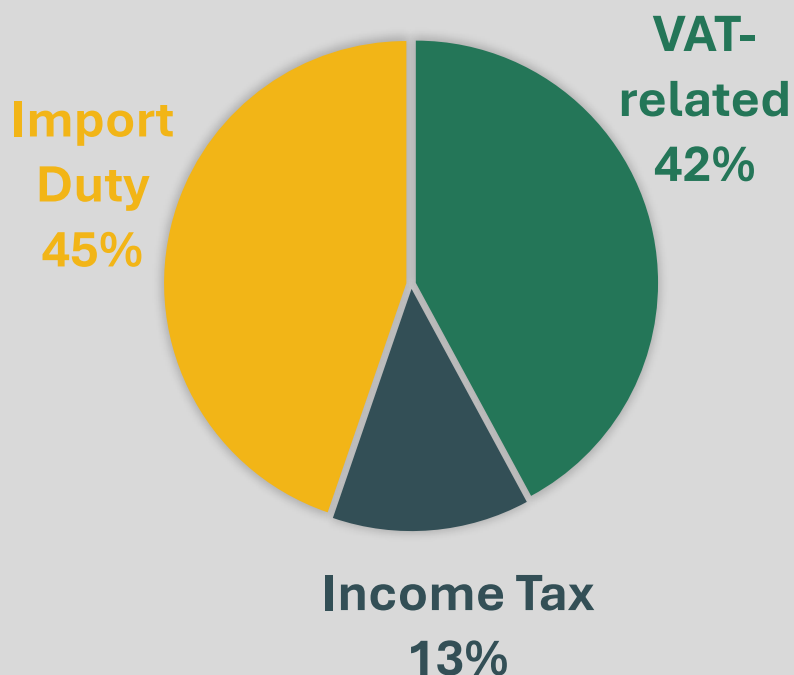


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## Context

TE in FY22/23 approx. **3.8% GDP**  
- of which:



*“In response to revenue underperformance, a comprehensive package, primarily focusing on broadening the tax base by **streamlining tax holidays and tax expenditures.**” (IMF, 2024)*

No specific target for TE, but recommended objectives:



Regressive VAT TE



Income Tax Incentives



Tighten relief for informal



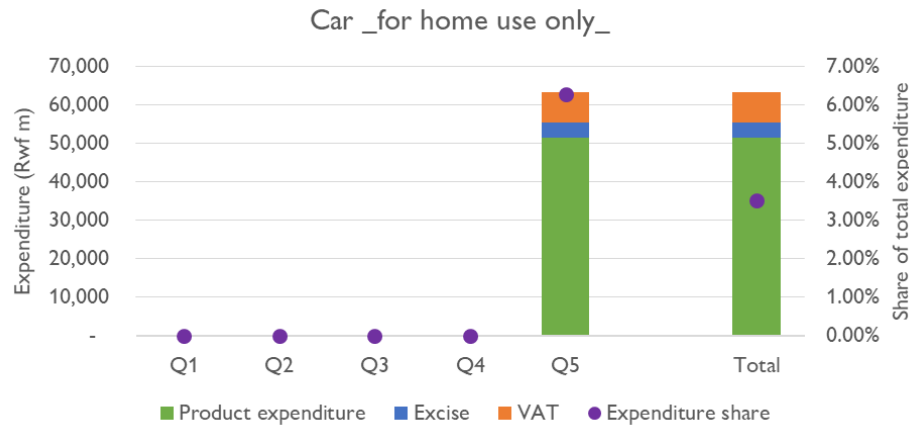
Fossil fuel tax

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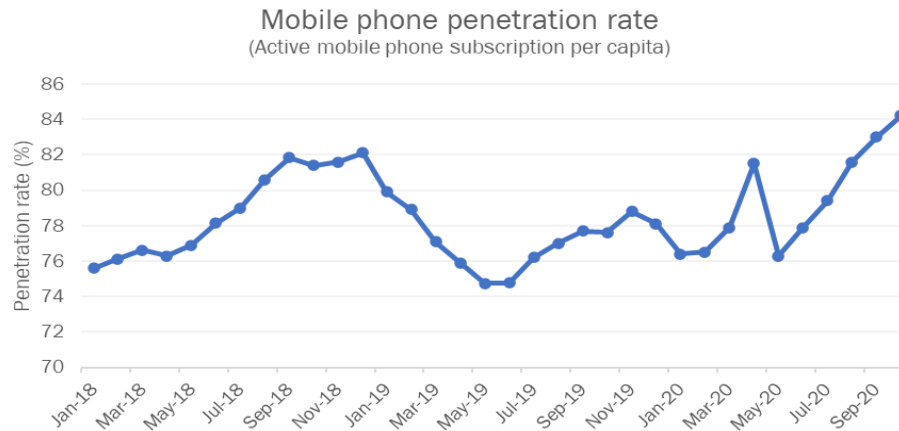
# Rwanda: Legislated Reforms



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- Revenue risk
- Regressive
- Environmental concerns
- Rationalisation
- Revenue positive



- Raised in TE report
- No longer meeting objectives
- Revenue positive

# Uganda: TE and DRM



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## Context

Annual Revenue Target: Increase 0.5 percent GDP

1.5%  
GDP

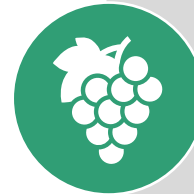
Authorities' estimates

3-4%  
GDP

IMF estimates

*"...reinvigorating reform efforts through a **more forceful rationalization of tax expenditure (TE)**..."* (IMF, 2024)

➡ TE target (structural benchmark) **0.2 percent GDP** annually



## Low-hanging fruit

- Accelerated depreciation (locations outside capital)
- VAT on postage stamps, diapers
- 0% -> exempt



## More difficult

- VAT on fuel
- Rising prices & resistance

## Context

New DRMS 2024-2029: Tax package expected to raise 2.4% GDP by 2027. TE estimated 4.15% GDP in 2021

0.6%  
GDP

TE target for 2024  
(IMF Prior Action)

0.08%  
GDP

Additional measures for  
2025 (+ further beyond)

*“...The authorities are fully committed to addressing **generous tax exemptions** (IMF, 2025)*



Investor / concession incentives as  
Key focus of TE reform

- ❑ Restricting Import Duty and GST waiver to **ONLY** equipment, machinery and capital goods imported (Tax amendment Act 2023)
- ❑ Structured framework for concession agreements

## Key considerations for GoL:



Scaling up of agriculture



Manufacturer pass-through to consumer prices



Regional competitiveness



Elections & business reaction



# Role of Evidence



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COLLAB BETWEEN  
TAX ADMIN, FINANCE,  
ICT

TE REPORT  
MARKET  
ANALYSIS  
DISTRIBUTIONAL  
ANALYSIS  
BEHAVIOUR

RWANDA



DRM TARGET A KEY  
FOCUS

TE REPORTING  
TE UNIT IN URA  
EMERGING  
EVALUATION  
EVIDENCE  
DRM IMPACT  
SIMULATIONS

UGANDA



ESTABLISHING  
ANNUAL PROCESS

TE REPORT  
TE DATABASE  
SECTOR  
ECONOMIC  
IMPACT ANALYSIS

LIBERIA

# Lessons



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**POLITICAL  
ECONOMY VS  
EVIDENCE/  
INSTITUTIONAL  
FACTORS**



**ANALYTICAL  
CAPACITY  
DATA  
TOOLS  
SKILLS**



**TARGETS  
REALISTIC?  
BACKED BY  
FEASIBLE  
MEASURES**



**COMPLEMENTARY  
POLICIES  
ALTERNATIVES  
BASED ON  
PROBLEM  
ANALYSIS**

# References



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# Thank you!

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**Centres of Expertise**

Public Finance