ATRN Congress
Kigali, 22-24 September 2026

TAX EXPENDITURES LAB

ATRN Masterclass on Tax Expenditures: The Urgent Need for Tax Expenditure Reform

Agustin Redonda

CEP council on economic policies

IDOS German Institute of Development and Sustainability

Rationale for Tax Expenditure (TE) Reform

1. **Significant fiscal cost**
2. **Potential (in)effectiveness**: TEs can be effective policy instruments. Yet, when ill designed, they can be ineffective, redundant and, sometimes, even harmful
   → **Evaluation** is key
3. And also… i) transparency & scrutiny, ii) complexity, and iii) prone to lobbying, rent seeking and, in some cases, even corruption

Hence, **reforming TEs** should be seen as an avenue to

1. increase **domestic revenue mobilization (DRM),** and
2. better **align** their **tax systems with governments' economic and development goals**

TEs are costly, as shown by the Global Tax Expenditures Database (GTED)

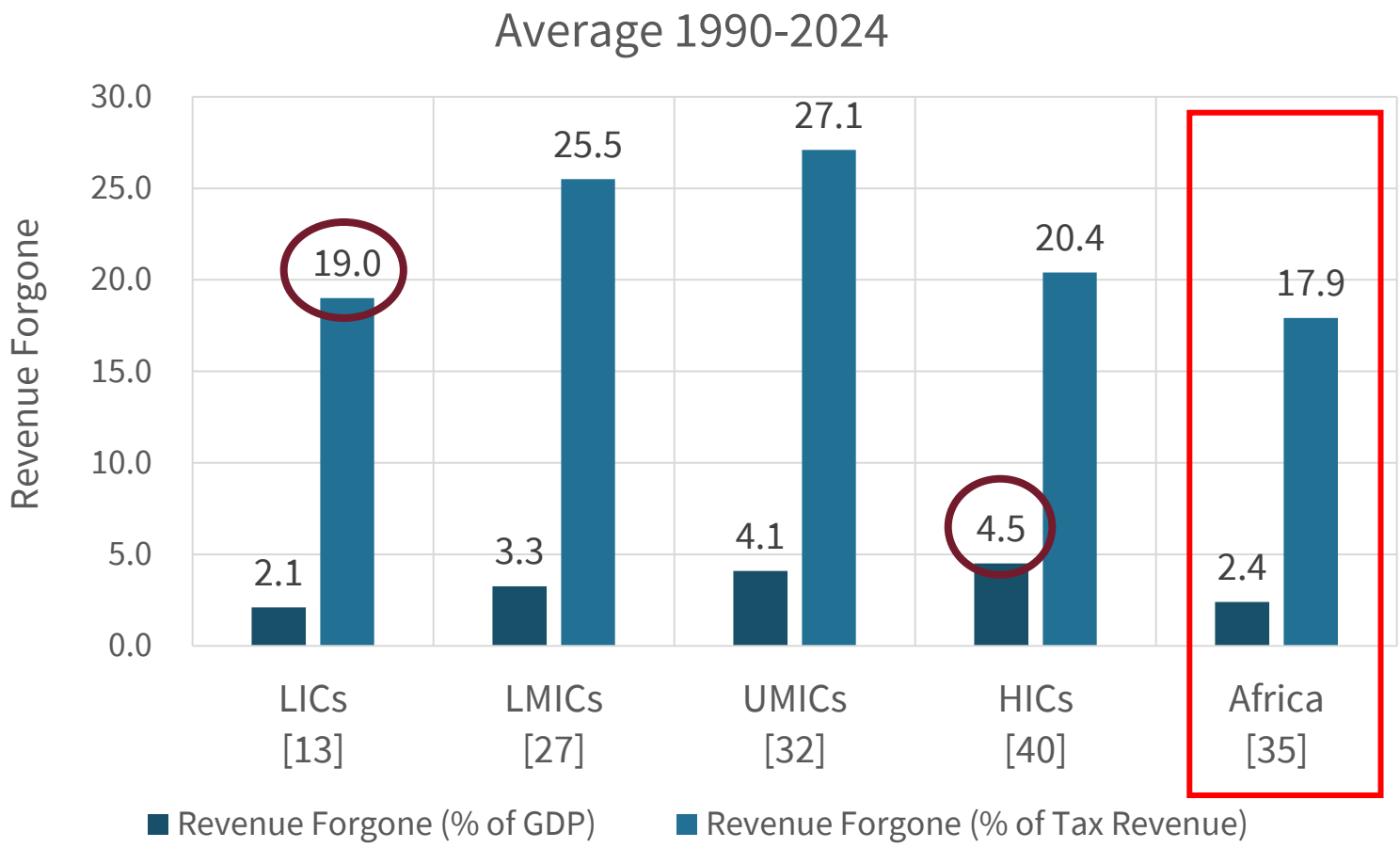
Reported revenue forgone
Globa averages*

3.8%

of GDP

23.2%

of tax revenue



NOTE: Numbers in brackets indicate the **number of countries in each income group** with available TE data. Country classifications are based on the latest data by the World Bank. Revenue forgone estimates are ***not fully comparable** across countries due to differences in benchmark tax systems.

The Coalition on Tax Expenditure Reform (COATE)

Growing political momentum and global consensus on the urgency of TE reform, e.g. FFD4 Compromiso de Sevilla, ATI Seville Declaration on DRM

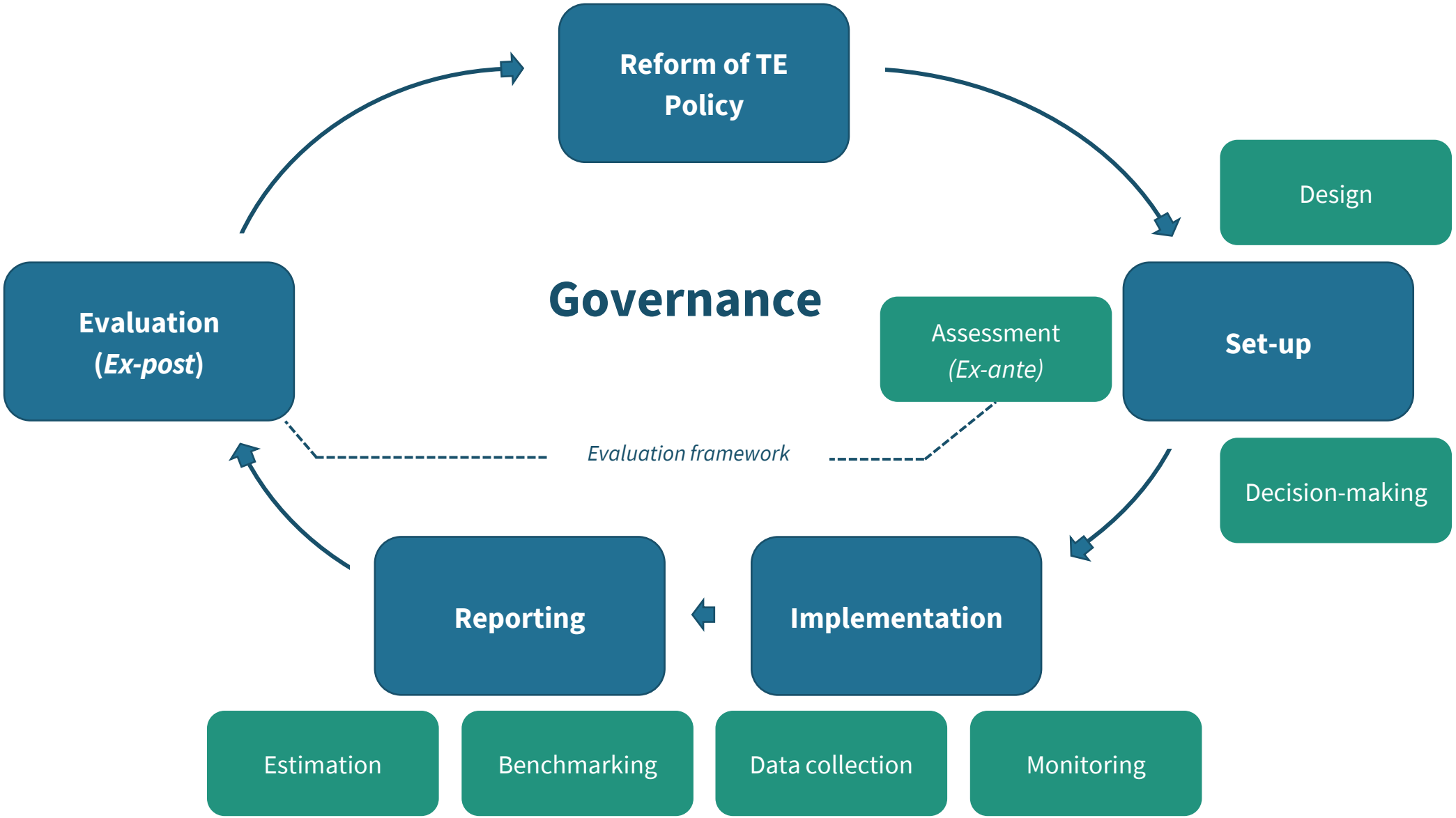
COATE seeks to translate these commitments into practical action

- Launched under Sevilla Platform for Action
- Led by 5 think tanks & research institutions
- Endorsed by UNDP, and 7 governments: Brazil, France, Guinea, Nigeria, Rwanda, Senegal, Spain, and the UK

3 general principles:

Making the invisible visible | Building capacity to act | Creating political will to reform

The TE Policy Cycle & The Theory for TE Rationalization



Source: von Haldenwang et al. (2025), GTED Flagship Report 2025

TE Trends and Statistics

The GTED is the first global repository of all reported TEs

What data does the GTED gather?

1. **Official**
2. **Publicly-Available**
3. **Following Country-Specific Benchmarks**

Scope of collected data:

Types of Info: TE Provisions, Revenue Forgone, Tax, TE Type, Beneficiaries, Policy Objective, Legal Reference, etc.

Period Covered: 1990-Present

Countries Covered:
All reporting countries

NOTE: The GTED is currently limited to central/federal government reports.
Source: www.GTED.net

Key GTED figures

+22 since GTED launch

+10 since GTED launch

119 (35)

Reporting jurisdictions

99 (19)

Non-reporting jurisdictions

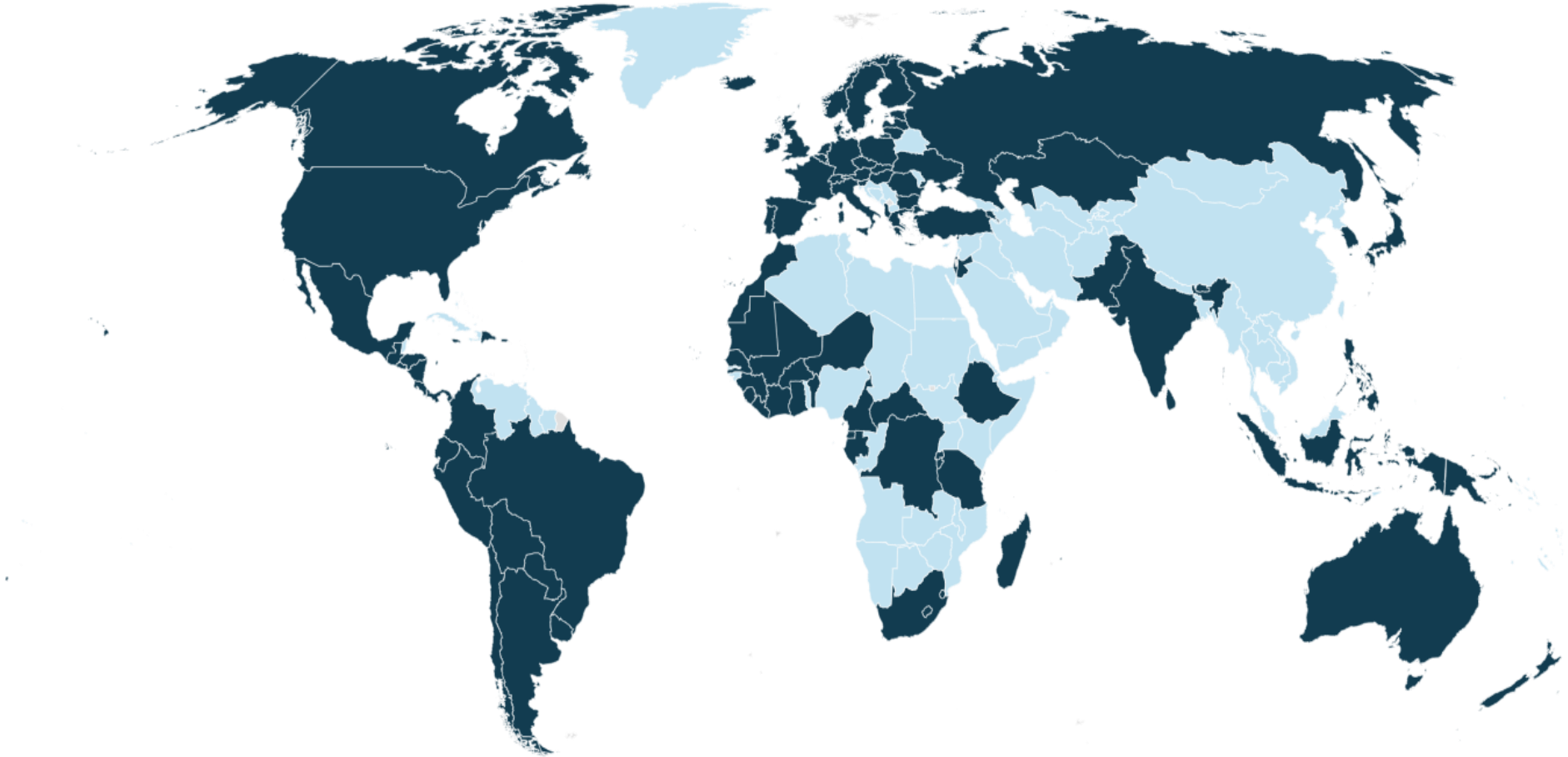
35,211

TE provisions

173,951

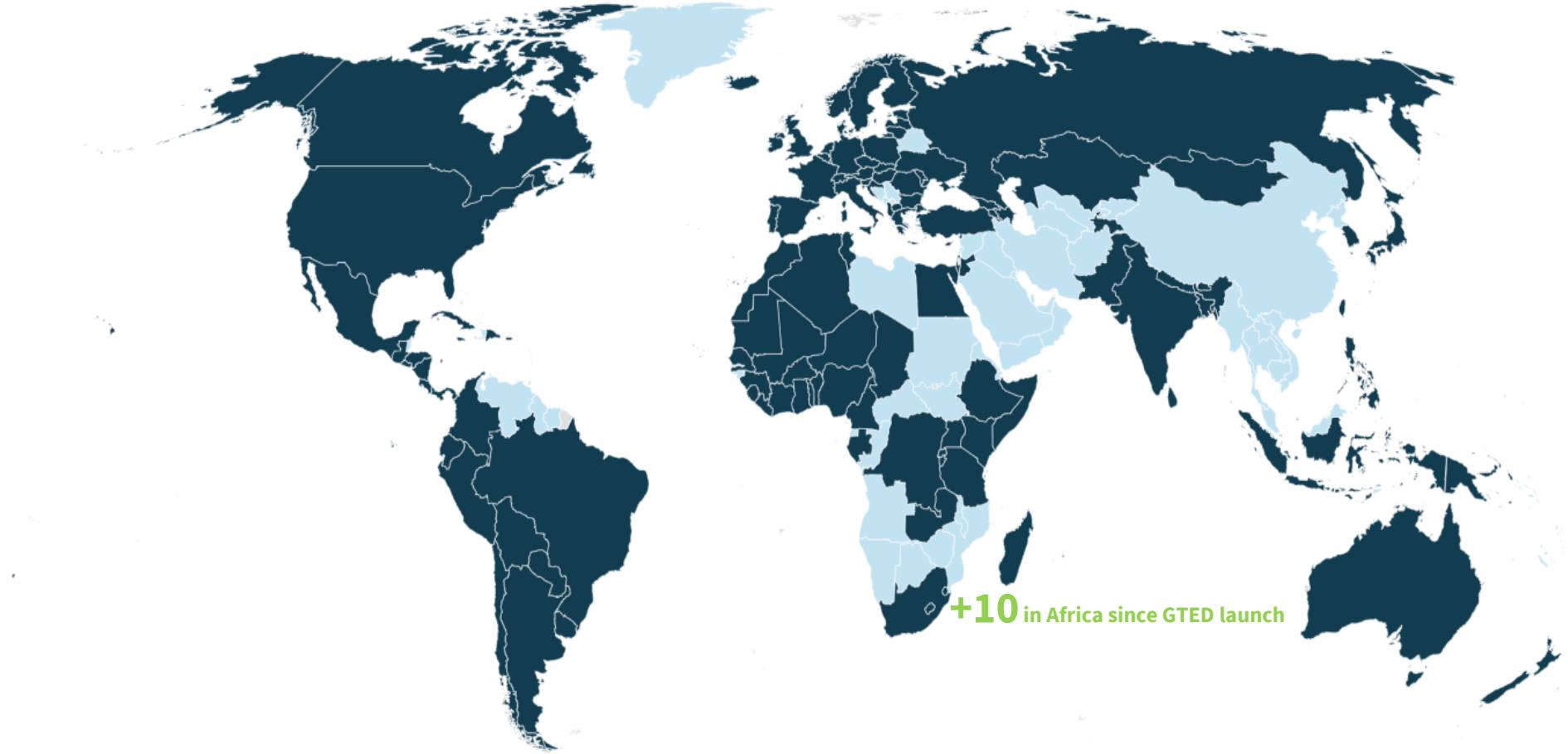
Revenue forgone estimates

Reporting countries in 2021



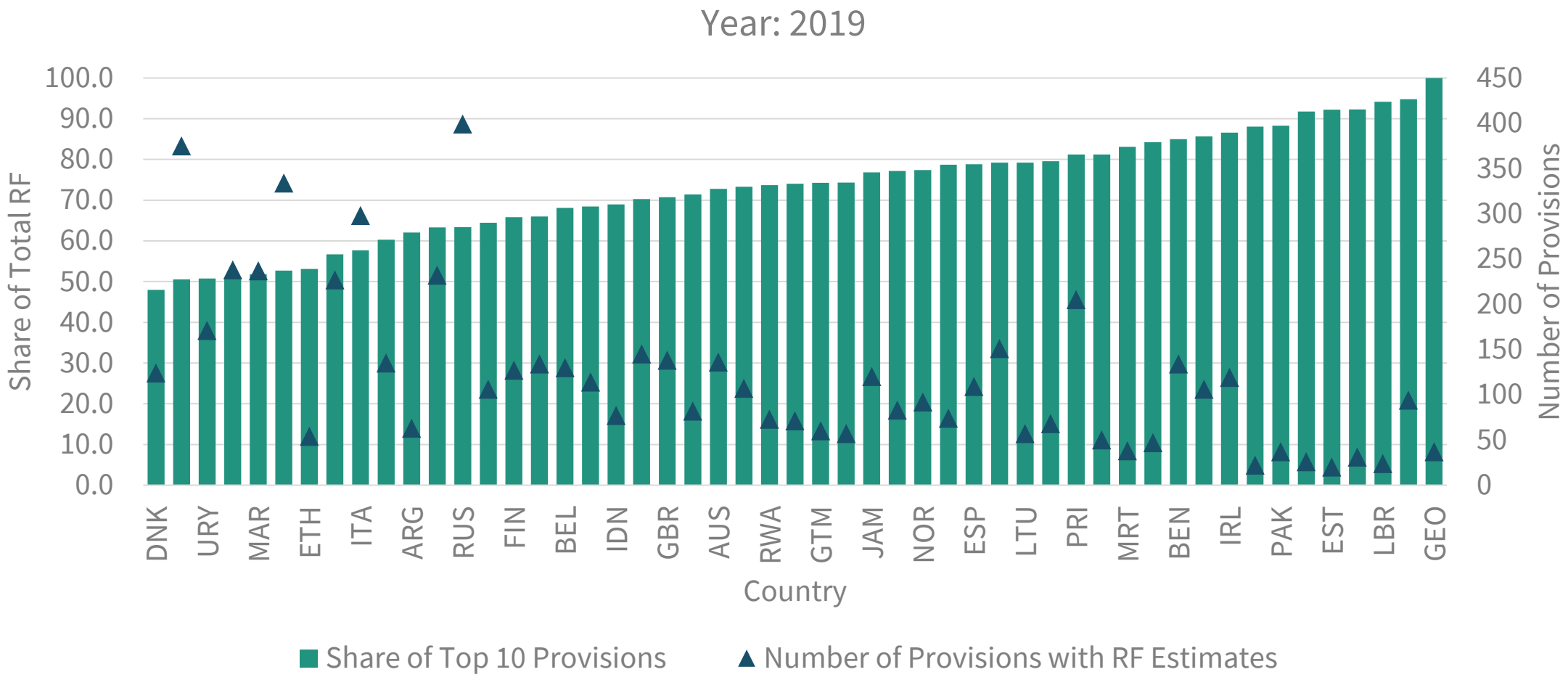
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Reporting countries now



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Revenue forgone is highly concentrated



IFS

TaxDev

ODI Global

Tax Expenditure Estimation

Harshil Parekh, Rwanda Senior Adviser

UK Government Centres of Expertise

Public Finance

How is a tax expenditure calculated?

Benchmark tax	−	Actual tax	=	Tax expenditure
What the system would collect without preferential treatment		What is actually collected		Revenue forgone

- Exemptions, reduced rates and credits are all deviations from the benchmark
- We estimate static revenue forgone: no behavioural response is assumed
- The arithmetic is easy; the real work is defining the benchmark and structuring the data

What is the Benchmark Tax System (BTS)?

Positive approach	Normative approach
• The tax system without preferential treatments • Grounded in a country's tax legislation • Identify any deviations from 'general' system as tax expenditures • Often easier to define TEs this way	• Comparing a tax system to some 'ideal' • Tricky to define what a country's optimal tax system looks like • (e.g. alcohol)

Important caveat:

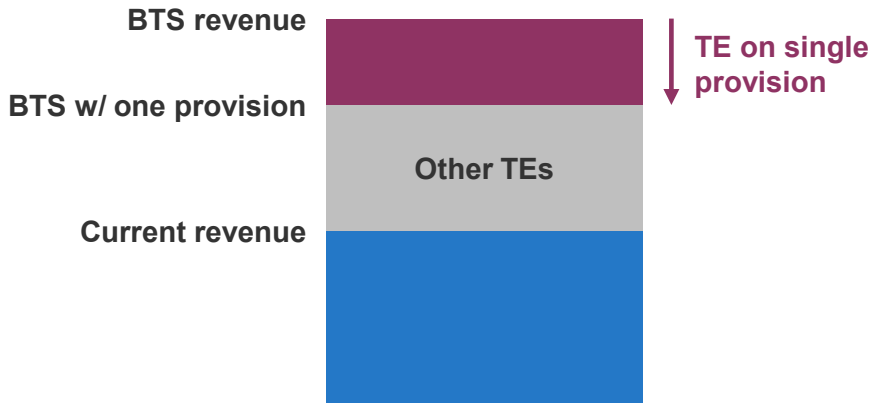
There is no single universal benchmark tax system.

Each country defines its own, limiting international comparability.

Most countries use a mixture of the two across the tax system.

TaxDev

How is an individual TE measured?

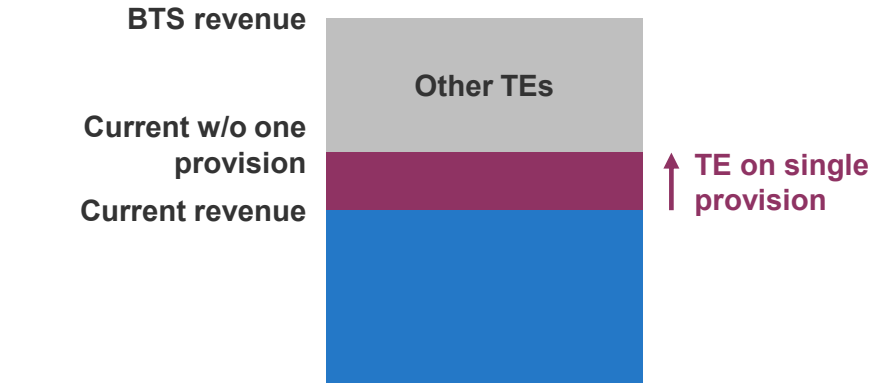


Option 1: add TE to BTS

"Purer" estimate of TE

Excludes interaction effects with other TEs

But arguably more abstract



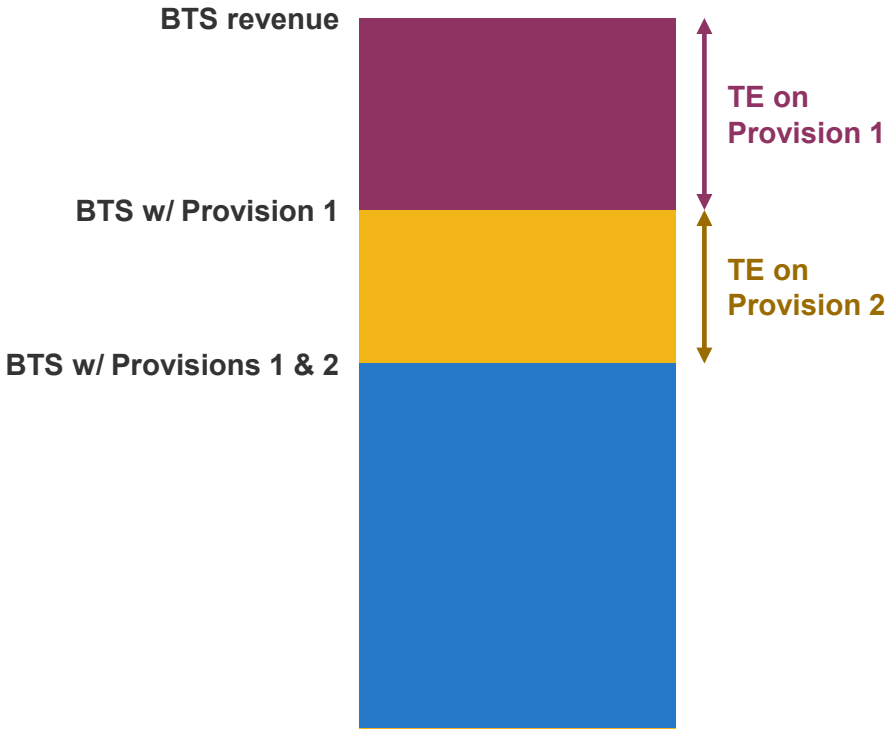
Option 2: remove TE from current tax system

Includes interaction effects with other TEs

More relatable estimate for a change to the current tax system

Options 1 and 2 give different estimates, and adding individual TEs ≠ total TE

How is an individual TE measured?



Option 3: sequentially

Adding individual TEs = total TE

But each estimate depends on order of adding them to BTS (or removing from current tax system)

First provision in the order gets its Option 1 value, the last gets its Option 2 value (see Example 3 later)

Customs data: one row per import

Importer ID	Importer	Origin	Customs Procedure Code (CPC)	HS code	Description	CIF
9999982	Mehret	BE	0	870323	Toyota RAV4 2016	200

What each field gives us

- **Importer:** final consumer or business?
- **Origin:** Customs Union membership
- **CPC:** the reason for a relief
- **HS code and description:** setting benchmark rate
- **CIF and taxes paid:** actual revenue by tax

Benchmark: no relief applied

Tax	Rate	Base	Tax due
Import duty	25%	200	50
Excise duty	10%	250	25
VAT	20%	275	55
Total			**130**

Each tax is charged on the value plus the taxes before it:

CIF, then import duty, then excise, then VAT

TaxDev

Example 1: Import duty exemption

Importer ID	Importer	Origin	CPC	HS code	Description	CIF
9999947	Ibrahim	ZA	E001	870323	Toyota RAV4 2016	200

Tax	Actual	Benchmark	Tax expenditure	Reason
Import duty	0	50 (25%)	50	Customs union
Excise duty	20	25	5	Knock-on of import duty
VAT	44	55	11	Knock-on of import duty
Total	**64**	**130**	**66**	

Should the benchmark import duty be 25% for imports from a Customs Union member?

If the benchmark is defined as 0%, this tax expenditure is zero: no import duty, excise or VAT effect.

Example 2: Is the VAT really TE?

Importer ID	Importer	Origin	CPC	HS code	Description	CIF
1000001	Car Distributor Ltd	ZA	E001	870323	Toyota RAV4 2016	200

Tax	Actual	Benchmark	Tax expenditure	Reason
Import duty	0	50 (25%)	50	Customs union
Excise duty	20	25	5	Knock-on of import duty
VAT	44	55	11	Knock-on of import duty
Total	**64**	**130**	**66**	

Compared to Example 1, Taxi Ltd is a business. Can it claim this VAT back as input tax?

If yes, the 11 is not revenue forgone: report VAT tax expenditure on final consumption only.

Total tax expenditure would then be 55, not 66.

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Example 3: Two TE provisions, one import

Importer ID	Importer	Origin	CPC	HS code	Description	CIF
9999913	Chisomo	ZA	E012	870380	BYD Atto 2023	200

Tax	Actual	Benchmark	Total TE	1. Customs union	2. EV excise rate
Import duty	0	50	50	50	0
Excise duty	10	25	15	5	10
VAT	42	55	13	11	2
Total	**52**	**130**	**78**	**66**	**12**

Cost provisions sequentially

- Import duty relief first, then ED
- Knock-on effects stay with the provision that causes them
- Order changes the split, not the total (EV first: 15 and 63).
  - Option 1: 66 + 15 = 81
  - Option 2: 63 + 12 = 75
  - Sequential: 66 + 12 = 78, the true total

Should the benchmark excise rate be 10% on an electric vehicle?

This is a benchmark choice, and it changes how much is reported as tax expenditure.

TaxDev

Key lessons

- **Define your benchmark first:** especially whether customs unions count as TE (more often, they do not)
- **Set up your calculation framework well**
- **Less obvious fields help a lot:** customs procedure code (reasons), origin country (Customs Union), description (setting benchmark rates)
- **Cascading effects:** cost sequentially and report by provision
- **Be careful with Customs VAT TE:** it depends on onward use in the supply chain

Calculations are not hard: start simple, improve every year

Key resources

Published guidance

- ADB tax expenditure estimation toolkit: worked examples for various tax types
- Ferdi TE assessment guide: identifying and defining tax expenditures
- TaxDev TE reporting hub: workshop materials and exercises
- Tax expenditure reporting in Rwanda and Uganda: challenges, practical guidance and lessons
- Tax Expenditure Lab: country reports, global database and transparency index

Who can help

- Peer governments that have done well in tax expenditure reporting
- Coalition on Tax Expenditure Reform (COATE): CEP, ICTD, IDOS, IISD, ODI Global
- TaxDev: support with TE estimation and reporting

Thank you for listening

IFS Institute for Fiscal Studies

ODI Global

UK Government Centres of Expertise
Public Finance

TE Evaluation: The Largest Gap in TE Policy Making

Overview

TE reporting is a necessary (although not sufficient) step towards evidence-based policy making

- Enhances transparency / accountability ✓
- Not enough for decision-making ✗
  - Does not evaluate effectiveness / efficiency of TE
  - Does not evaluate vs. alternatives



- To identify TEs that are value for money and cost-effective from those that need to be reformed or simply phased out, governments need to move beyond TE reporting → **TE evaluation**

What we know about evaluations (from UNDP Tax for SDGs Initiative)

Creating a repository:

- **Official evaluations** from governments
- Evaluations from **peer-reviewed academic publications**
- Publications from **regional and international organizations**
- **Focused specifically on TEs**, rather than broader tax policy evaluations

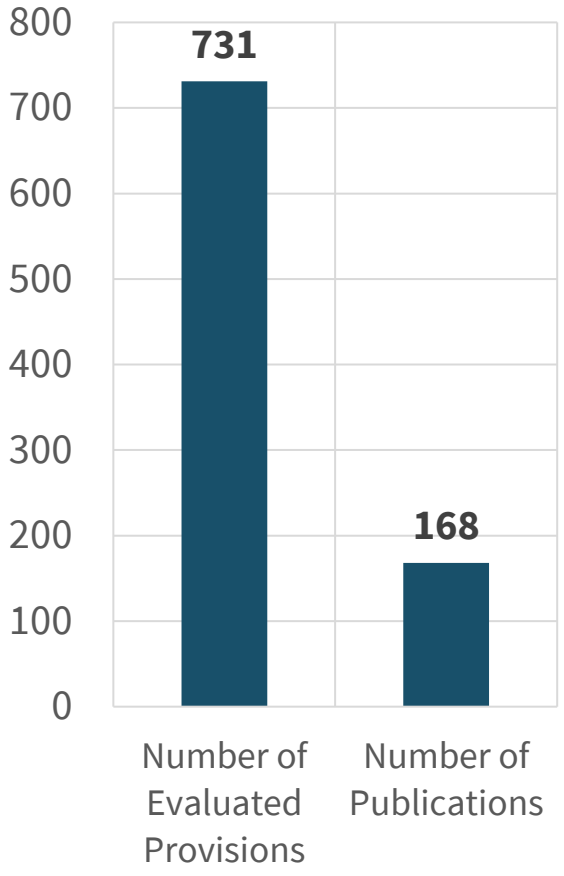
Three main categories of information:

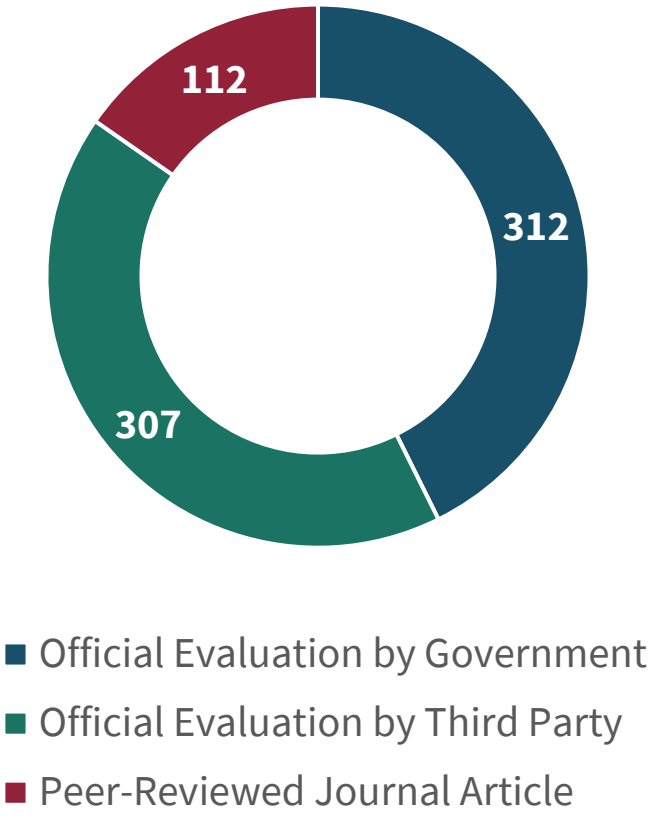
- Publication details, information on the evaluated TE provision(s), and evaluation results.

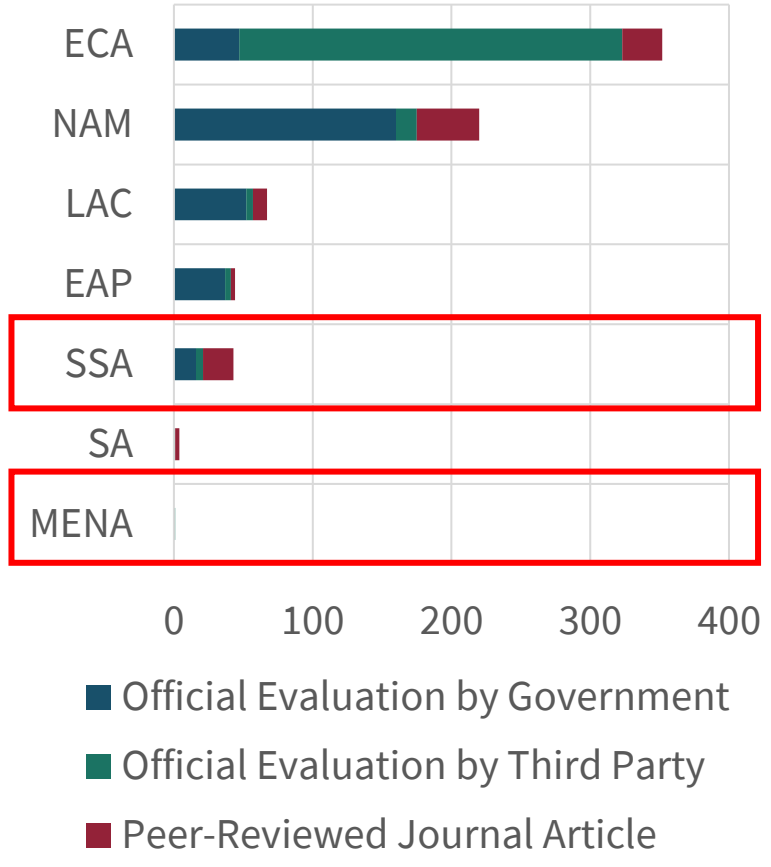
Classifying evaluation results:

- **Effectiveness:** Likert scale from “Very weak” to “Very strong”
- **Externalities:** “Positive”, “Negative”, or “Not mentioned”

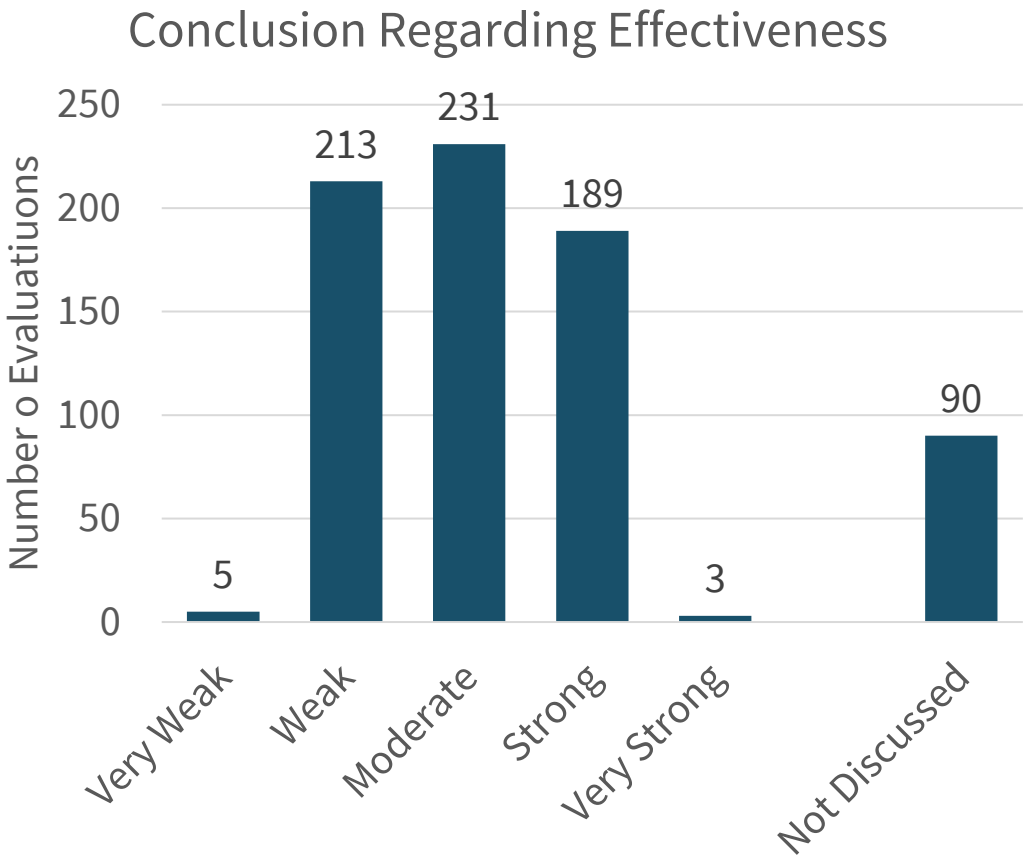
LICs countries are underrepresented in the existing evidence base

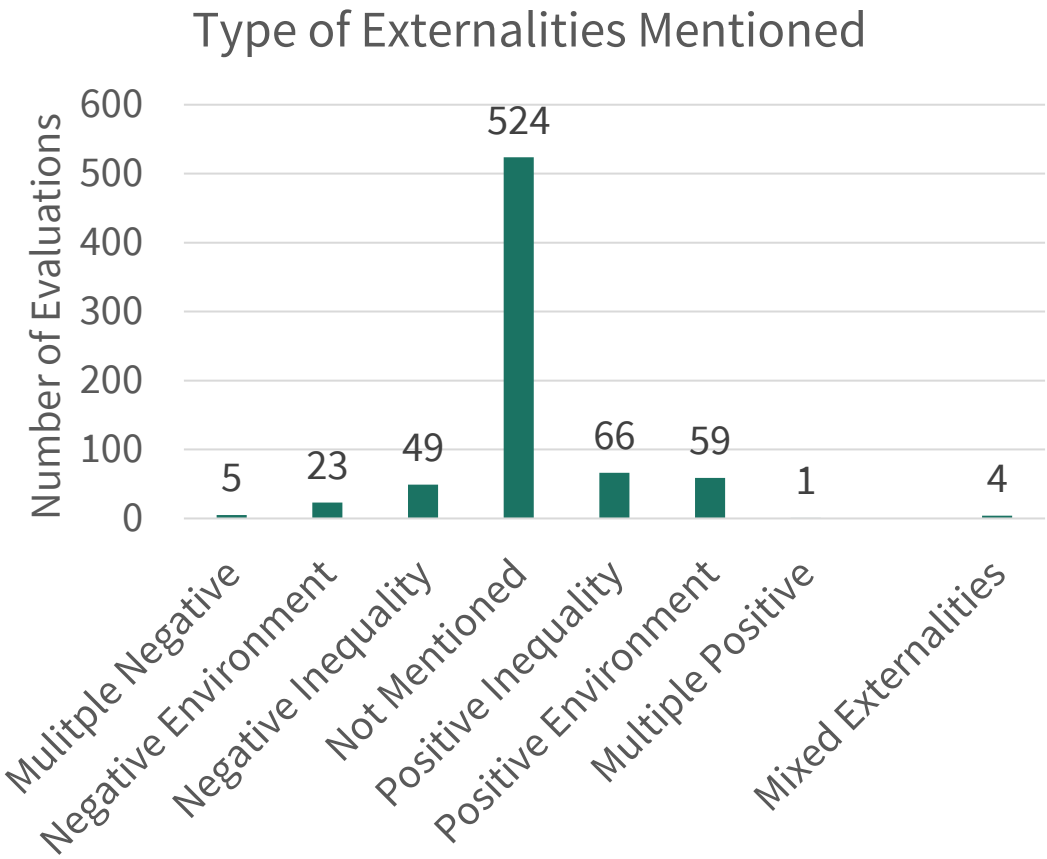






The wider evidence base on TE effectiveness remains mixed





Lessons across evaluations

Performance	What Worked (or did not)	Core Takeaway
Positive	Targeted, visible, well-calibrated incentives with strong behavioural links e.g., EV credits, SME simplification, organic farming deductions.	Align design with actual cost barriers, pair with complementary policies, and monitor distributional or environmental spillovers.
Mixed	Partial positive impact but undermined by deadweight, access issues, or insufficient scale, uneven distribution of benefits e.g., home energy credits, general R&D allowances.	Retarget and scale interventions to reduce free-riding, address access constraints; consider re-designing if possible.
Negative	Low additionality, weak targeting, indirect logic, high admin burden e.g., regional holidays, broad VAT cuts, training deductions.	Avoid symbolic or blunt tax relief; think of alternatives (e.g. direct spending) if TEs cannot be tightly targeted.

Drilling Down on TE Evaluation

TE Evaluation frameworks should codify ex-ante and ex-post assessments

Evaluation framework

Ex-ante

An ex-ante assessment framework should require the following for each provision:

1. Establish **policy objectives**
2. Identify **performance indicator(s)** and quantify expected benefits in relation to its expected costs (revenue forgone forecasts)
3. Discuss potential **externalities**
4. Set up protocols to collect necessary **data** for ex-post evaluation
5. Set **timeframe** e.g., phasing out period, sunset clause
6. Explain why a TE is **preferred** to other alternatives e.g., regulatory measures, direct spending, or other tax measures

Ex-post

An ex-post evaluation framework should:

1. Evaluate **benefits in relation to the costs**
2. Estimate relevant **externalities** e.g., distributional and environmental effects, economic spillovers
3. Determine **criteria for evaluations** including scope (e.g., all TE provisions or top 10, how ambitious evaluations should be) and frequency (e.g., every 3 or 5 years)
4. Define process to **follow up on evaluation results**

Countries take different approaches in implementing their evaluation frameworks

Korea Approach:

- 3-stage control mechanism:
  - Ex-ante – operational – ex-post
- Administration:
  - MOEF and executing ministries + two governmental think tanks
- Timeline:
  - Annual TE plan in motion way before submission of budget to parliament



FiFo-Berichte
Nr. 28-A Oktober 2019

FiFo-Reports
No. 28-A October 2019

In Kooperation mit

ZEW – Leibniz-Zentrum für Europäische Wirtschaftsforschung

ifo INSTITUT

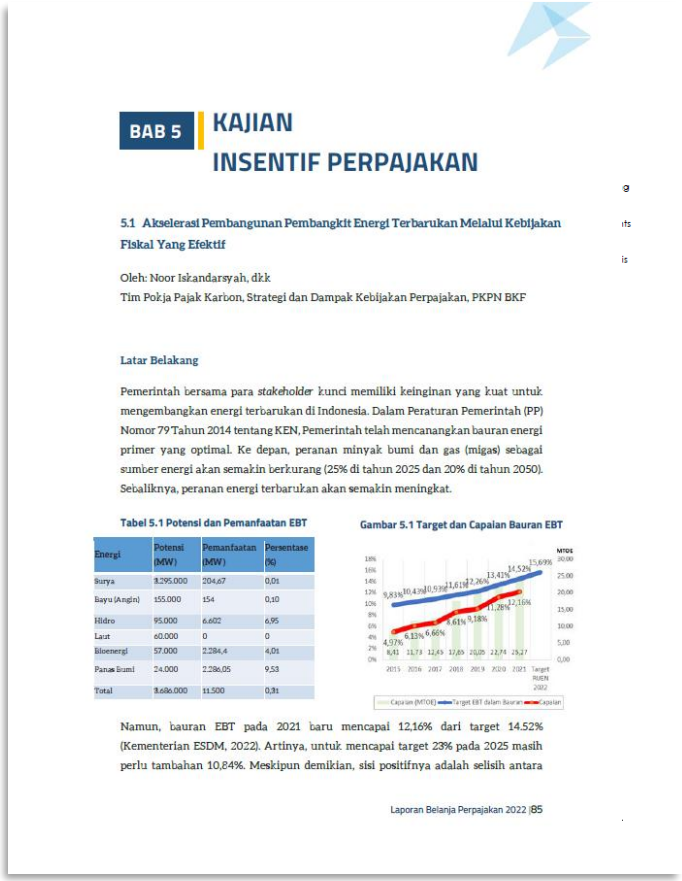
Fraunhofer FIT Fraunhofer-Institut für Angewandte Informationstechnik

Evaluierung von Steuervergünstigungen

Evaluierungsgruppe A: Energie- und Stromsteuer

Herausgeber
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FiFo Institute for Public Economics, University of Cologne fifo-koeln.de



BAB 5 KAJIAN INSENTIF PERPAJAKAN

5.1 Akselerasi Pembangunan Pembangkit Energi Terbarukan Melalui Kebijakan Fiskal Yang Efektif

Oleh: Noor Iskandarsyah, dkk
Tim Pokja Pajak Karbon, Strategi dan Dampak Kebijakan Perpajakan, PKPN BKF

Latar Belakang

Pemerintah bersama para *stakeholder* kunci memiliki keinginan yang kuat untuk mengembangkan energi terbarukan di Indonesia. Dalam Peraturan Pemerintah (PP) Nomor 79 Tahun 2014 tentang KEN, Pemerintah telah mencanangkan bauran energi primer yang optimal. Ke depan, peranan minyak bumi dan gas (migas) sebagai sumber energi akan semakin berkurang (25% di tahun 2025 dan 20% di tahun 2050). Sebaliknya, peranan energi terbarukan akan semakin meningkat.

Tabel 5.1 Potensi dan Pemanfaatan EBT

Energi	Potensi (MW)	Pemanfaatan (MW)	Persentase (%)
Surya	8.295.000	204,67	0,01
Bayu (Angin)	155.000	154	0,10
Hidro	95.000	6.602	6,95
Laut	60.000	0	0
Bioenergi	57.000	2.284,4	4,01
Panas Bumi	24.000	2.286,05	9,53
Total	8.686.000	11.500	0,31

Gambar 5.1 Target dan Capaian Bauran EBT

Namun, bauran EBT pada 2021 baru mencapai 12,16% dari target 14.52% (Kementerian ESDM, 2022). Artinya, untuk mencapai target 23% pada 2025 masih perlu tambahan 10,84%. Meskipun demikian, sisi positifnya adalah selisih antara

Laporan Belanja Perpajakan 2022 |85

Simple evaluation framework questions (Ireland)

Table 1: Key Evaluation Questions	
***Ex ante* evaluation**	***Ex post* evaluation**
What is the **objective** of the tax expenditure?	Is the tax expenditure still **relevant**?
What **market failure** is being addressed?	How much did the tax expenditure **cost**?
Is a tax expenditure the **best approach** to address the market failure?	What was the **impact** of the tax expenditure?
What **economic impact** is the measure likely to have?	What was the impact of the tax expenditure from an **equality perspective?***
How much is it expected to **cost**?[1]	What was the impact of the tax expenditure from an **environmental perspective?***
What impact is the tax expenditure likely to have from an **equality perspective?***	Was it **cost efficient**?
What impact is the tax expenditure likely to have from an **environmental perspective?***	What **additional data** would be necessary to improve future reviews?
Are the **data** collected sufficient for the purpose of reviews?*	

* These evaluation questions have been added to the guidelines.
Source: Department of Finance.

Ex-post evaluations typically treat questions of effectiveness, cost-benefit ratios, and efficiency

Impact/effectiveness: *Does the TE meet stated objectives?*

- Are these objectives stated anywhere?
- Ideally, identifies **causal effect** of the TE on some pre-determined outcome [difficult!]

Cost-benefit analysis: *If the objective is met, at what cost?*

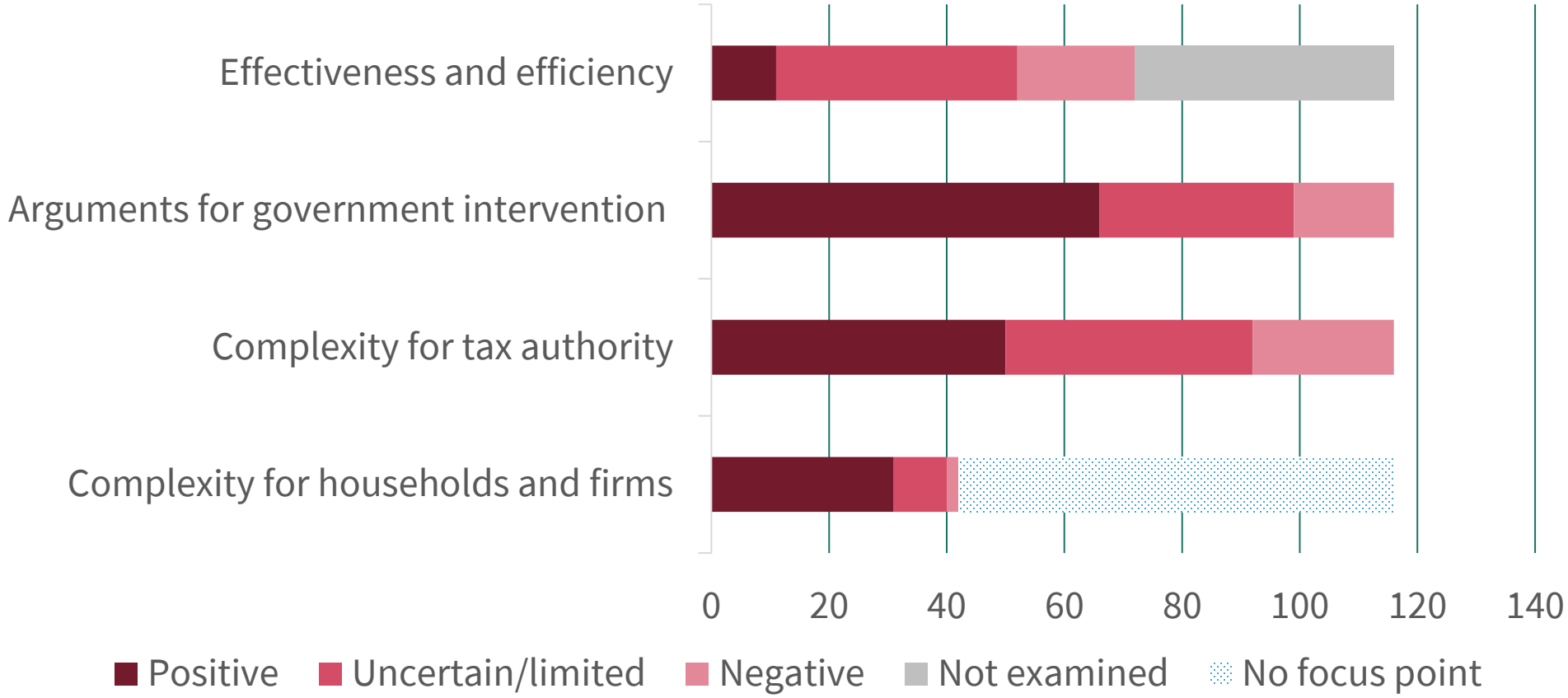
- *Are there **net** benefits to society?*

Efficiency | Relevance *vis-à-vis* alternatives: *Is this TE the best policy instrument?*

Methodology (IMF How to Note 22/05 "How to Evaluate Tax Expenditures")

- Varies widely, from qualitative to strong empirical methods
- Trade offs data, resources, timing,

A review of Dutch evaluation reports found only 11 (out of 73) to be effective and efficient



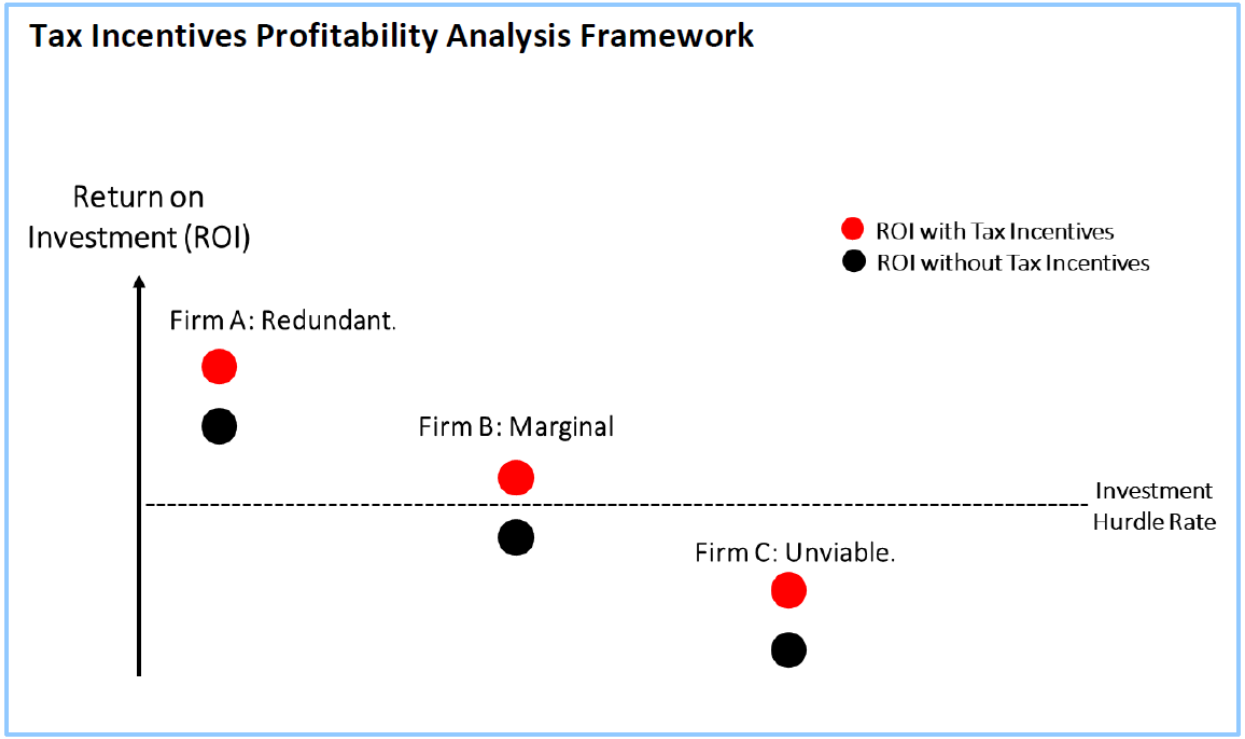
Source: Ministerie van Financiën (2023)

Example of ex-post evaluation: North Macedonia

WB (2022): Trade Competitiveness Diagnostic and State Aid Effectiveness Report

3-step approach:

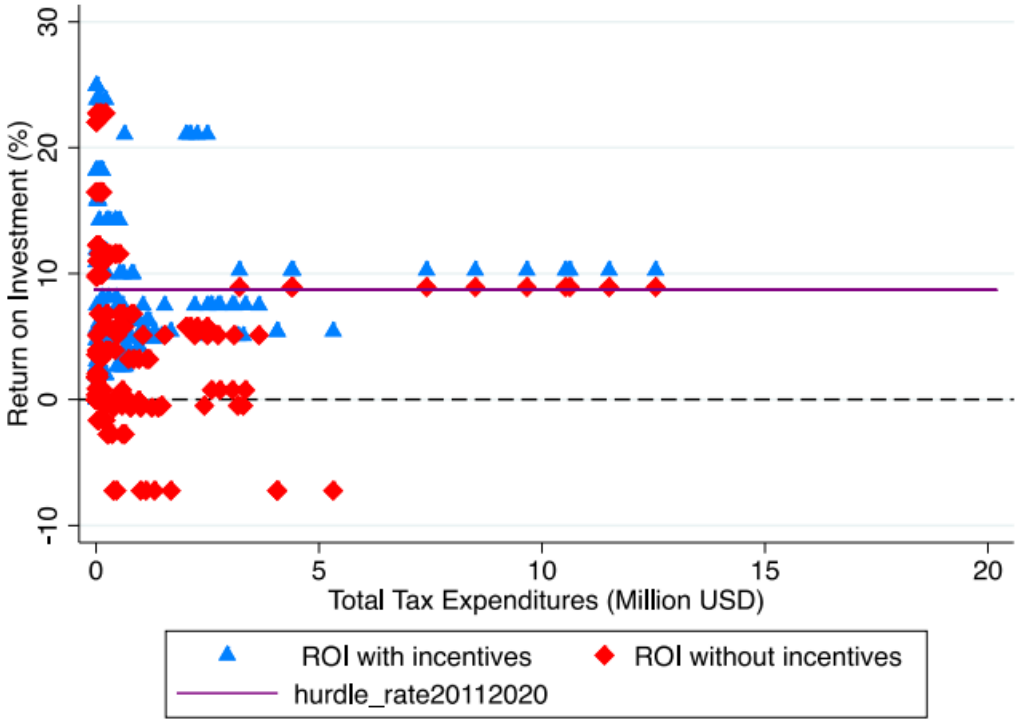
1. Micro-simulation to estimate effect of incentives on firms' tax liability over time
2. Linked info on TEs directly to firm performance (jobs, exports, investment)
   - Only firms that are profitable **with** incentives, but **would not** be profitable without incentives are considered as "**marginal**"
3. Cost assessment (TE per job)



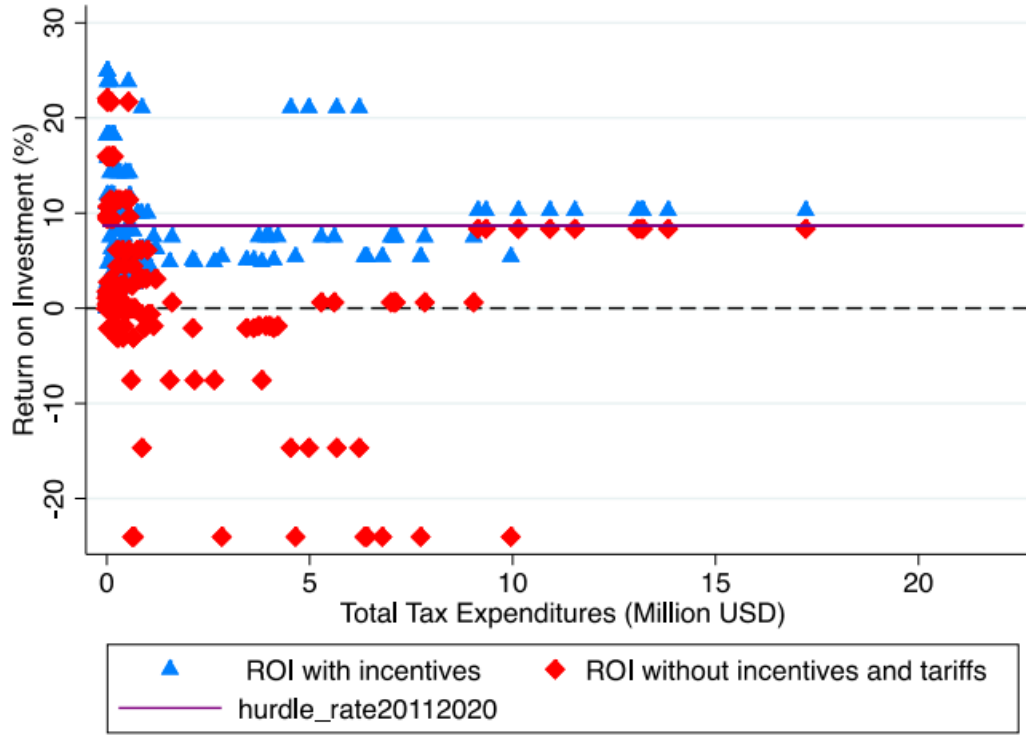
Tax incentives impact firms' ROI, but only a few firms reached a return above what the market is offering…

Figure 50: ROI for Firms in TIDZs—with and without tax incentives

A. Scenario 1 (CIT, PIT and SSC Exemptions)

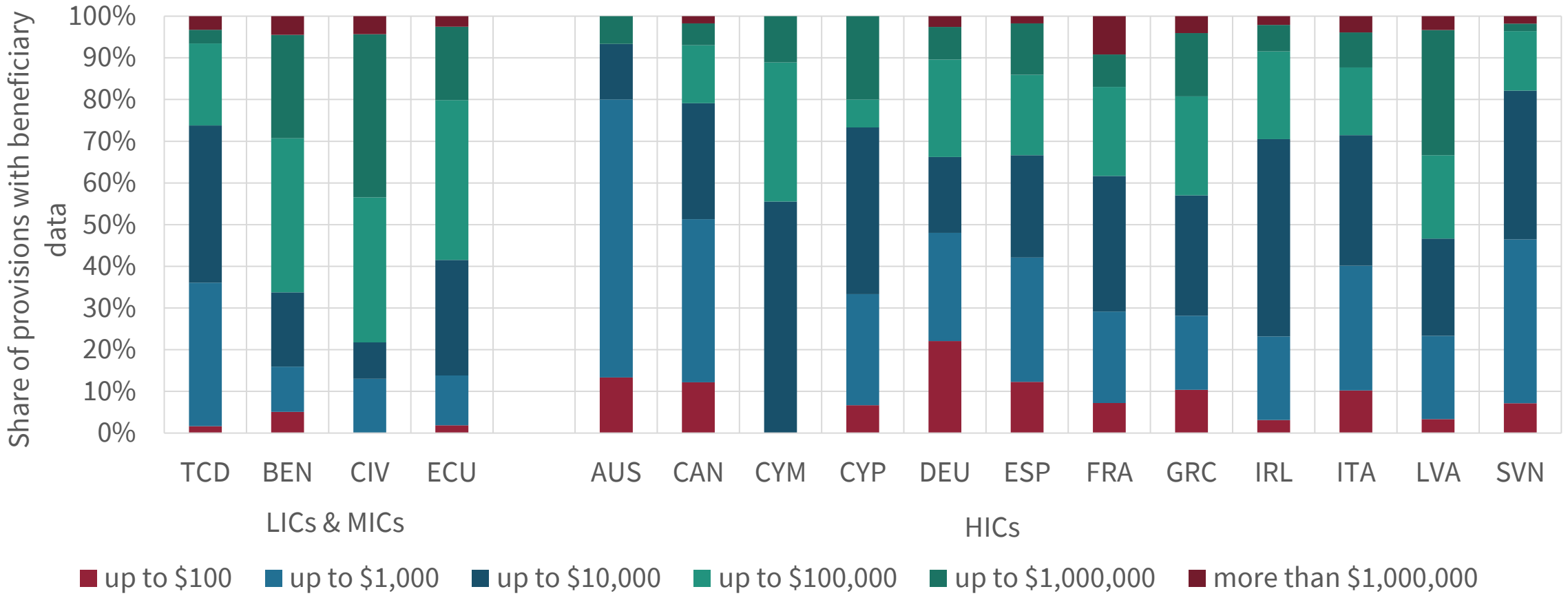


B. Scenario 2 (CIT, PIT, SSC and CD Exemptions)



Incidence analysis

Benefits of TEs are often concentrated on a small number of taxpayers

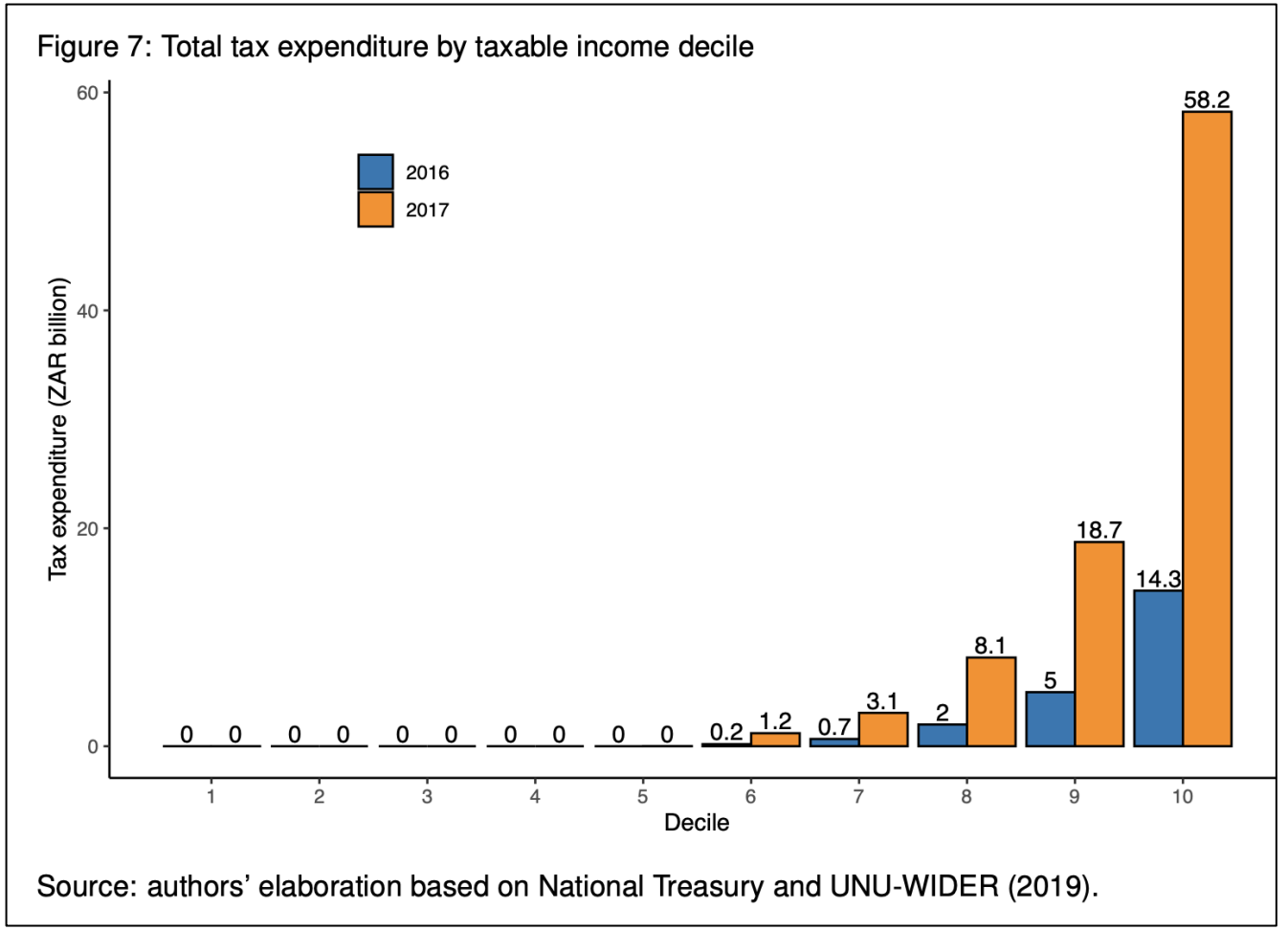


NOTE: Only includes countries with number of beneficiary data for 50 percent or more of their revenue forgone. For each provision, the revenue forgone by beneficiary was calculated by averaging the five last years of data or fewer (if data was not available for five years).

Distributional Analysis: Examples

Axelson & Redonda (2021): Examine distributional effects of pension-related TEs in South Africa.

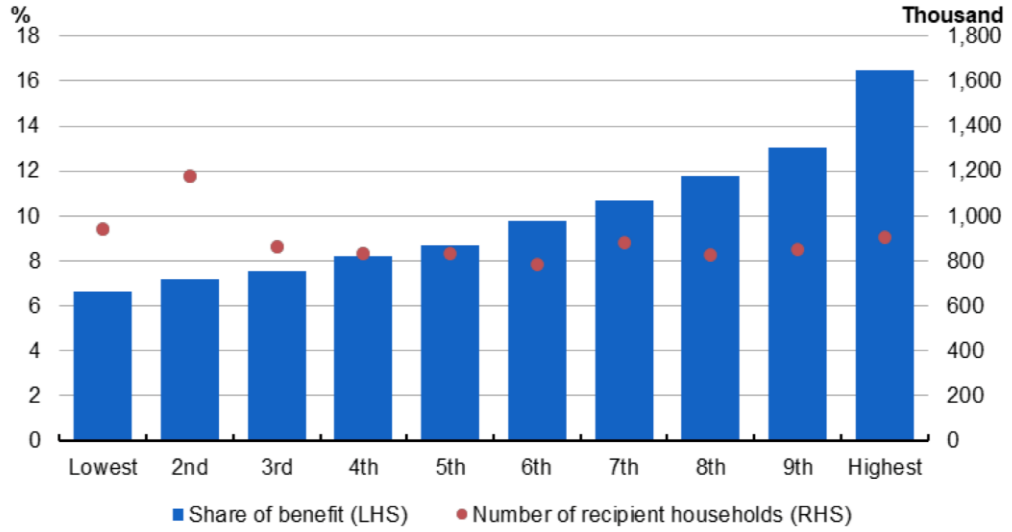
- The 2016 reform exacerbated the regressive impact of one of the most expensive TEs in South Africa



In some cases, distributional analyses are included in TE reports

Australia

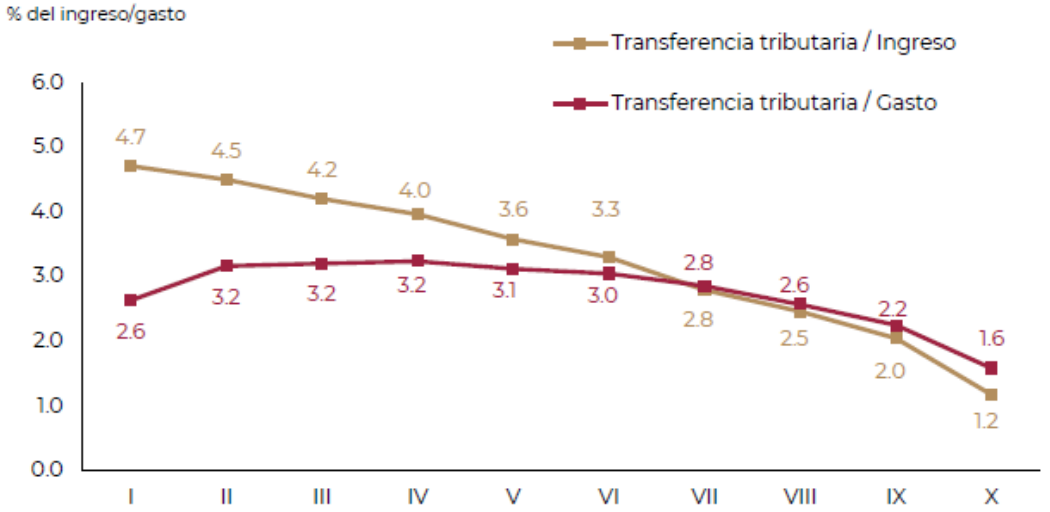
Chart 2.8 Share of benefit and recipients by EDHI decile, 2015–16*



* Distributional analyses of tax expenditures affecting the Goods and Services Tax (GST) paid are based on data from the Household Expenditure Survey, last conducted in 2015–16.
Source: Treasury

Mexico

Gráfica 17. Incidencia de la tasa 0% a los alimentos en el IVA por decil de ingresos respecto del ingreso y del gasto (%)



Fuente: Elaborado por la SHCP con datos de la ENIGH 2022.

Thank you!

Contact details:

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

CEP council on economic policies

IDOS German Institute of Development and Sustainability



The Governance of Tax Expenditures

Presented by: Kudzai Mataba
African Tax Research Network

IISD
International Institute for Sustainable Development

What is governance and what should it achieve?

Governance connects rules and institutions to accountable public choices

GOVERNANCE IS

The rules, roles and processes that guide how tax expenditures are designed, authorised, administered, monitored, evaluated and reformed.

WHAT IT REQUIRES

1	**CLEAR AUTHORITY**	Defined roles and responsibility for decisions.
2	**TRANSPARENCY**	A clear legal basis, public information and scrutiny.
3	**EVIDENCE**	Data and capacity to cost, monitor and evaluate.

→

WHAT IT ACHIEVES

1	**ACCOUNTABILITY**	Decision-makers can explain and defend public support.
2	**PERFORMANCE**	Resources can be tested against policy objectives.
3	**ADAPTATION**	Evidence informs retention, redesign or removal.

Good governance turns tax expenditures from hidden commitments into deliberate, reviewable policy choices.

Key governance challenges

Five recurring weaknesses limit accountability across the tax expenditure lifecycle

1 **Limited visibility and scrutiny**

Tax expenditures can sit outside normal expenditure processes and receive less scrutiny than direct spending.

2 **Divergent mandates, fragmentation and weak coordination**

Tax administrations and investment agencies pursue different mandates; Parliament and audit offices provide oversight.

3 **Weak and uneven reporting**

Of 218 jurisdictions, 119 have reported tax expenditures at least once, while 99 have not. Reporting also varies in coverage, benchmark definitions and costing methodologies, limiting comparability. Sources: GTED v1.4.0 (September 2026); GTETI v2.1 (May 2026).

4 **Limited systematic evaluation**

84 % of reporting jurisdictions do not include or reference recent tax expenditure evaluations in their reports, limiting scrutiny of effectiveness, value for money and decisions on retention or reform

5 **Political economy constraints**

Tax expenditures may be concentrated in a few provisions benefiting influential firms or sectors, such as mining, tourism or manufacturing. These beneficiaries may resist reform, while the fiscal costs are dispersed across the wider population..

Strong governance coordinates institutions with different objectives and mandates

Tax, investment, sector and oversight institutions need a shared framework for decisions, information and accountability

1 CENTRALISE FISCAL AUTHORITY

Give the Ministry of Finance a leading role in costing, technical assessment and approval so revenue implications are considered before incentives are granted.

2 COORDINATE DIFFERENT MANDATES

Tax administrations protect revenue; investment-promotion agencies seek investment; sector ministries pursue policy goals. Define joint assessment, decision rights, information-sharing and escalation.

3 CONSOLIDATE THE LEGAL BASIS

Authorise incentives through transparent tax and budget rules, with clear eligibility criteria and limits on discretionary or contractual concessions.

4 INTEGRATE REPORTING, REVIEW AND TRANSITION

Record fiscal costs in tax expenditure and budget reporting, evaluate outcomes, use sunset clauses and manage the phase-out of legacy incentives.

Coordination does not erase institutional mandates, it makes trade-offs explicit, assigns authority and creates shared accountability for results.

Investment Laws Add Another Layer to the Governance Challenge

Zooming in on Tax Incentives for Investment as a subset of Tax Expenditures

- Investment laws are an important legal entry point: 38 of 51 African countries with national investment laws reviewed by IISD provide investment tax incentives.
- Investment incentives in particular may be provided through investment laws alongside tax laws, SEZ regimes and sector-specific legislation, complicating policy coherence and oversight.
- Investment and fiscal mandates can diverge: Investment authorities are focused on attracting and facilitating investment, while Ministries of Finance and revenue authorities are responsible for protecting the revenue base, creating a need for strong institutional coordination.
- Investment authorities and Ministries of Finance can also converge around attracting high-quality, fiscally sustainable investment through joint incentive design, coordinated approval and regular evaluation of economic benefits against revenue forgone.



Strengthening Tax Expenditure Governance

Governance reforms should strengthen controls across the full tax expenditure lifecycle

1. **Centralise fiscal oversight**
   Give the Ministry of Finance a central technical assessment and approval role.

2. **Reduce discretion**
   Use clear legal rules, eligibility criteria and legislative approval.

3. **Clarify institutional roles**
   Define responsibilities across finance, revenue, investment and sector institutions.

4. **Build review into design**
   Set policy objectives, sunset clauses and periodic review requirements.

5. **Strengthen data and monitoring**
   Set data requirements upfront and legislate systematic information-sharing.

6. **Institutionalise evaluation**
   Combine ex-ante assessment with periodic ex-post evaluation.

7. **Strengthen scrutiny**
   Ensure Parliament and oversight institutions receive information needed for review.

Effective governance combines clear authority, limited discretion, coordination, review and accountability.

From broad investment incentives to more targeted and accountable investment support

Lao PDR: A package of governance reforms

1	**LEGAL REFORM**	Narrower incentive eligibility, defined incentive periods and stronger reporting and monitoring requirements.
2	**INSTITUTIONAL RESTRUCTURING**	Establishment of a central Investment Promotion and Management Committee reporting directly to the Prime Minister, supported by a dedicated office.
3	**INTER-AGENCY COORDINATION**	A central mechanism for coordinating investment promotion, approvals and oversight across relevant government institutions.

Reporting turns invisible support into accountable choices

A credible report answers five questions and exposes three common blind spots

1. **What is it?**
2. **Why does it exist?**
3. **Who benefits?**
4. **What does it cost?**
5. **How was cost calculated?**

THREE BLIND SPOTS THAT WEAKEN ACCOUNTABILITY

COVERAGE

Missing taxes or measures
Irregular publication

COSTING

Unclear benchmarks or estimates
Weak methods, assumptions or data

GOVERNANCE

Unclear objectives or beneficiaries
Weak links to evaluation and decisions

REPORTING IS **evidence infrastructure : not the end point.**

COATE Minimum Standards as a Governance Tool

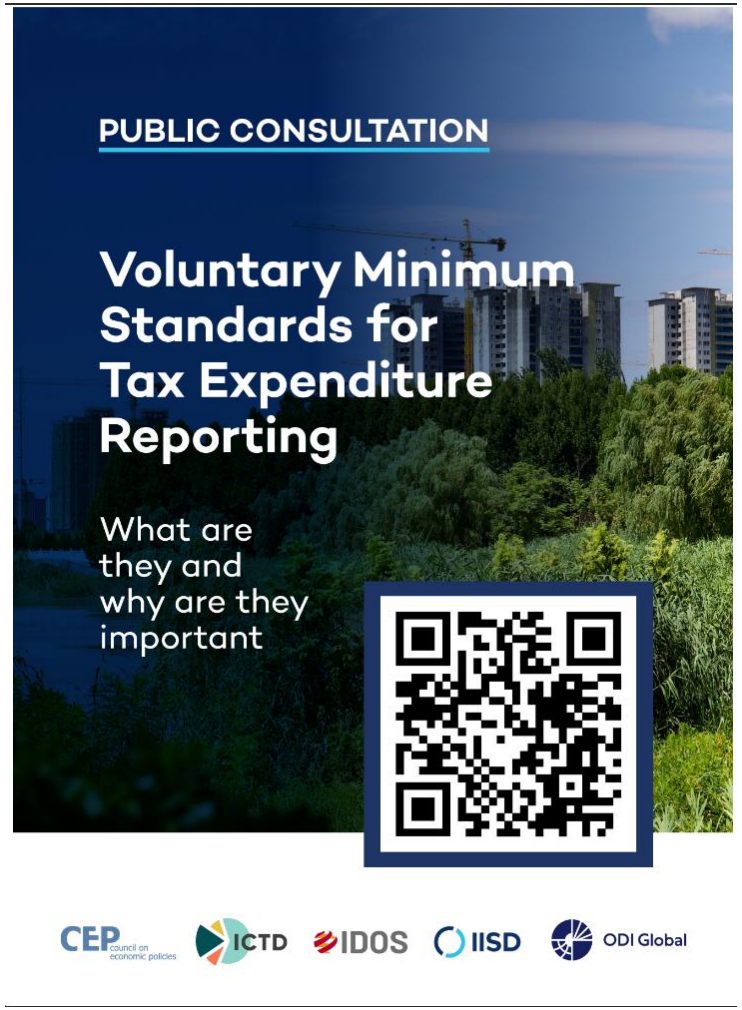
Four principles connect reporting practice to governance outcomes

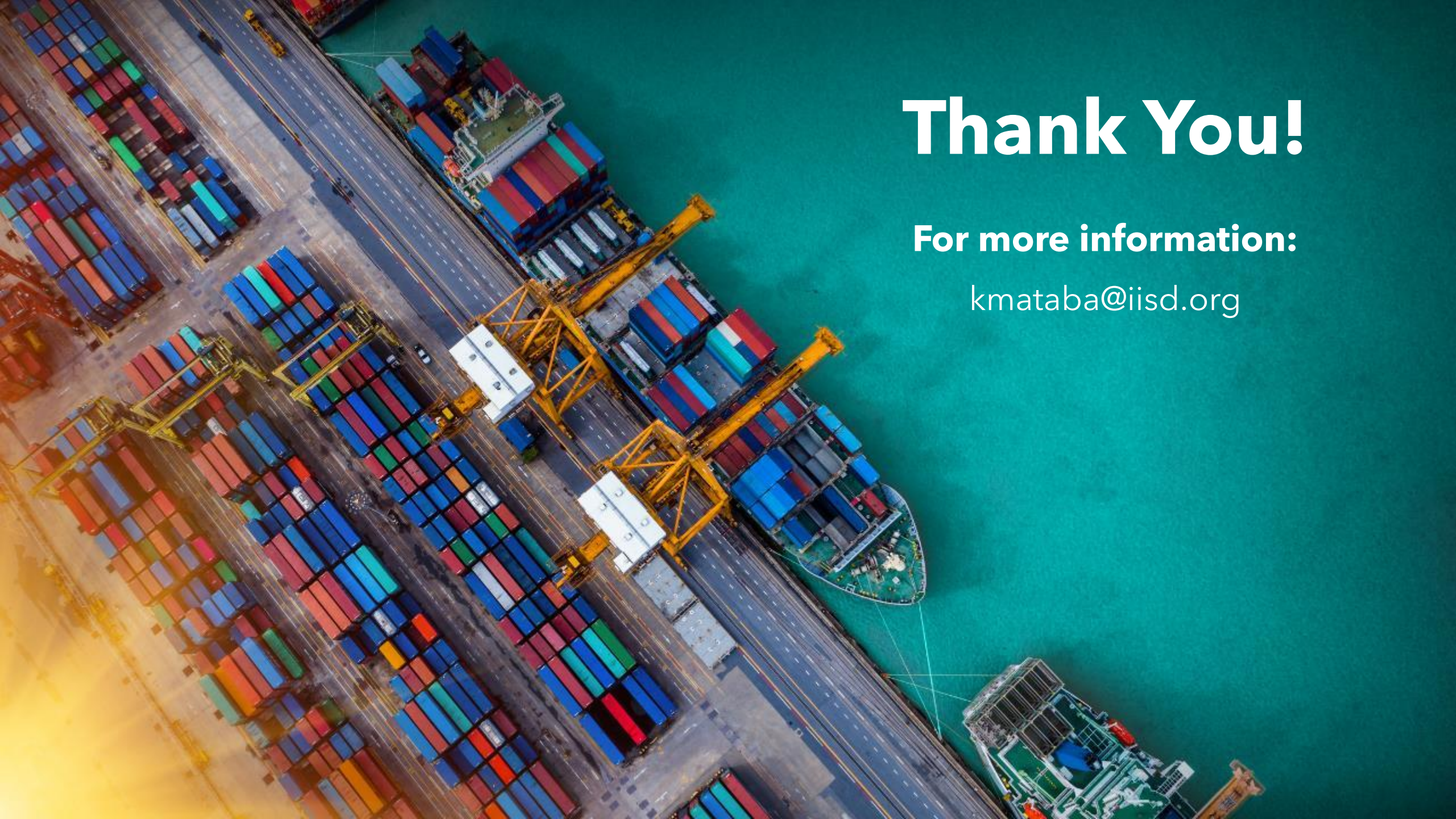
REGULARITY	Ensures information is produced consistently and in time to inform decision-making.
SPECIFICITY	Makes individual tax expenditures, their costs, objectives, beneficiaries and legal basis visible.
TRANSPARENCY	Enables parliamentary and public scrutiny and makes clear how tax expenditures are identified.
BUDGET INTEGRATION	Brings tax expenditures into fiscal decision-making alongside direct expenditure.

12 indicators translate these principles into concrete reporting practices.

There is still time to Engage!

Scan the QR Code Below





Thank You!

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