



INTER-AMERICAN CENTER OF TAX ADMINISTRATIONS

# CIAT Working Group on Tax Expenditure Measurements

An Iberoamerican experience

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Directorate of Studies and Training  
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# CIAT



Servicio de Administración Tributaria  
SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO



Kenya Revenue Authority



# Objectives

- Main
  - Assist member countries who do not yet have significant experience in the measurement of tax expenditures.
- Secondary
  - Standardization of what constitutes a tax expenditure.
- Indirect
  - Facilitate the preparation of tax expenditure cost-benefit analysis that are produced by Ministries or Secretariats, and therefore support tax reform efforts with the goal of eliminating tax expenditures that have proven ineffective.

# Members and expected products

- Members
  - Brazil: Secretariat of Federal Revenues (RFB, in Spanish)
  - Chile: Internal Revenue Service (SII, in Spanish)
  - Ecuador: Internal Revenue Service (SRI, in Spanish)
  - Spain: State Agency of Tax Administration (AEAT, in Spanish)
  - Guatemala: Superintendency of Tax Administration (SAT, in Spanish)
  - Mexico: Tax Administration Service (SAT, in Spanish)
- Expected products
  - Handbook of Best Practices
  - Tax expenditures database
  - Online course

# Activities

- A Questionnaire
- Three (3) meetings
- Virtual platform
  - Bibliography and exchange of “non public” documents
  - Inquiries, chats, etc.
- [Review of legislation](#)
  - Becomes a difficulty when tax expenditures are included in nontax legislation.

# Coverage

- Eleven (11) countries from Iberoamerica
- Taxes on Income, Profits and Capital Gains (mainly PIT and CIT) and General Consumption Taxes (mainly VAT)
- Central, National or Federal Government
  - Brazilian ICMS or Argentine Gross Income Tax not included
- Focused on resident taxpayers
  - A problem: mix of source and resident principles
- Fiscal years considered: 2009 and 2010

# Tax expenditures considered

- Exemptions
- Situations out of the scope of taxes
  - Useful to identify disguised exemptions
- Deductions
- Reduced rates
- Credits
- Simplified, special, or promotional tax regimes
- Refunds or Reimbursements
- Deferrals

# Analytical framework

- Tax expenditures: incentives or benefits?
- Pros and cons of tax expenditures
- The importance of tax expenditure measurements
- Objectives of tax expenditure measurements
  - Revenue losses
  - Revenue gains (changes in taxpayer behaviour)
  - Outlay equivalent
- Reference tax system



# Identification of tax expenditures

- Does it reduce collection?
- Is it of general or particular application?
- Does it adhere to tax doctrine?
- Is it meant to achieve economic or social objectives?
- Does it increase the economic capacity of the beneficiaries?
- How long has it been applied?

# Some cases discussed - VAT

- Exemptions or reduced rates for basic goods basket
- Exemptions for intermediate goods
- Increased rates for certain goods and services
- Refunds for exporters
- Refunds for nonexporter producers of exempt goods or services
- Installment sales

# Some cases discussed - PIT

- Minimum nontaxable income
- Allowances for dependents
- Socioeconomic transfers “paid” through PIT
- Exemption of dividends
- Lock-in effect and non distributed profits
- Structure of marginal rates
  - Scenarios for PIT and dual or flat tax schemes
- Credits for VAT paid on purchases

# Some cases discussed - CIT

- Alternative taxation based on gross income
- Minimum income taxation
- Loss carry-forward
- Accelerated depreciation
- Reinvestment profits exemption
- Simplified tax regimes
- Double Taxation Treaties and Tax Stability Agreements

# Experience

	Starting date	Years of experience
Argentina	1999	12
Brazil	1989	22
Chile	2001	10
Colombia	2004	7
Ecuador	2008	3
Spain	1980	31
Guatemala	2002	9
Mexico	2002	9
Peru	2002	9
Dominican Republic	2008	3
Uruguay	2008	3

# Legal obligation to measure

	It exists	Doesn't exist
Argentina		x
Brazil	x	
Chile	x	
Colombia		x
Ecuador		x
Spain	x	
Guatemala		x
Mexico	x	
Peru	x	
Dominican Republic	x	
Uruguay		x

# Responsibilities

	Tax Administrations	Ministries or Secretariats	Joint Commissions
Argentina		x	
Brazil	x		
Chile	x		
Colombia	x		
Ecuador	x		
Spain			x
Guatemala	x		
Mexico (1)	x	x	
Peru	x		
Dominican Republic			x
Uruguay	x		

(1) SAT through the universities also carries out measurements of tax expenditure as part of its evasion estimates. In this case it is considered SAT and Secretariat's responsibilities.

# Reference tax system

	Legislation	Benchmark
Argentina	x	
Brazil	x	
Chile	x	x
Colombia	x	
Ecuador	x	
Spain	x	
Guatemala	x	
Mexico	x	
Peru	x	
Dominican Republic	x	x
Uruguay	x	



# Definition of tax expenditure

	Generates revenue losses	Implies a deviation from a reference tax system	Pursues economic or social policy objectives	Increases taxpayer's economic capability
Argentina	x	x		
Brazil	x	x	x	x
Chile	x	x	x	
Colombia	x	x		
Ecuador	x	x	x	
Spain	x	x	x	
Guatemala	x	x		
Mexico	x	x		
Peru	x	x	x	x
Dominican Rep.	x	x	x	
Uruguay	x	x		

# Type of measurements

	Projections for a fiscal year	Ex-post evaluation of a fiscal year
Argentina	X	
Brazil	X	
Chile	X	
Colombia		X
Ecuador		X
Spain	X	
Guatemala		X
Mexico (1)	X	X
Peru	X	
Dominican Republic	X	
Uruguay		X

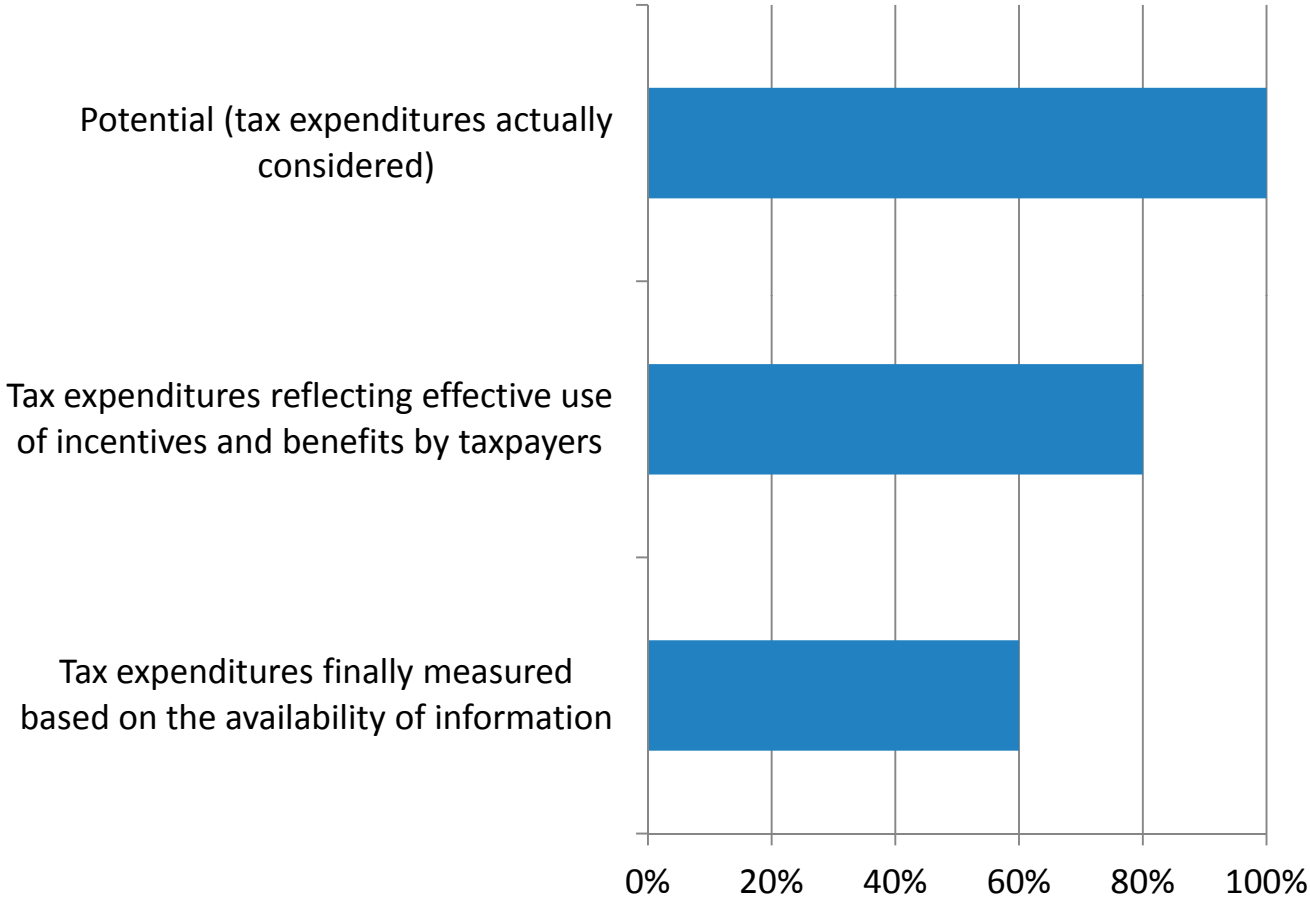
(1) Because of the conflict of responsibilities referred previously, both SAT and Secretariat's type of measurement are presented.

# Time horizon of the measurements

	Annual	Multiannual
Argentina		2008-2010
Brazil	2010	
Chile		2008-2010
Colombia		2008-2009
Ecuador	2009	
Spain	2010	
Guatemala	2009	
Mexico (1)	2009	2009-2010
Peru	2010	
Dominican Republic	2010	
Uruguay		2005-2009

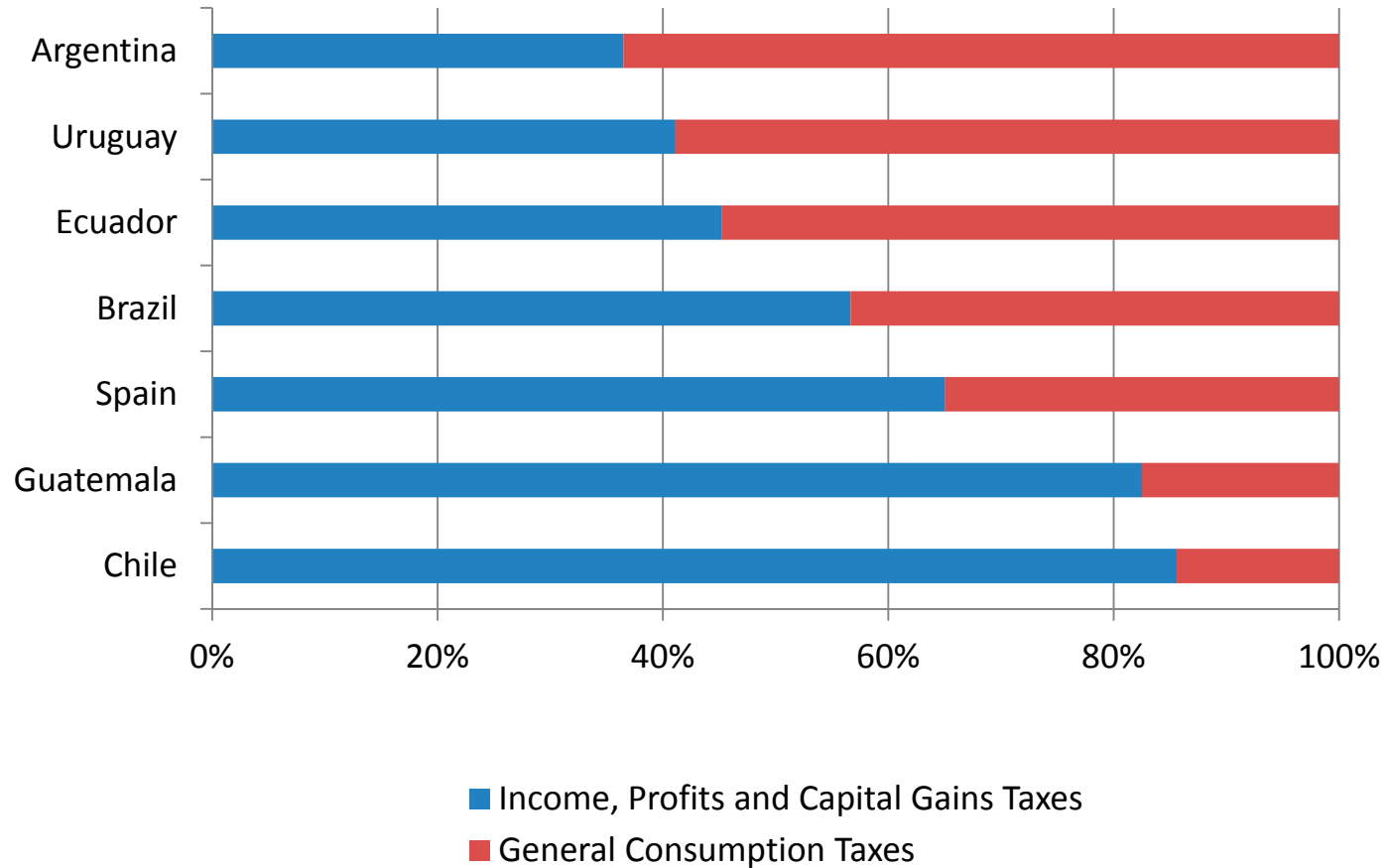
(1) Because of the conflict of responsibilities referred previously, both SAT and Secretariat's time horizons are presented.

# The fiscal cost



# Overview

## Relative fiscal costs (1)

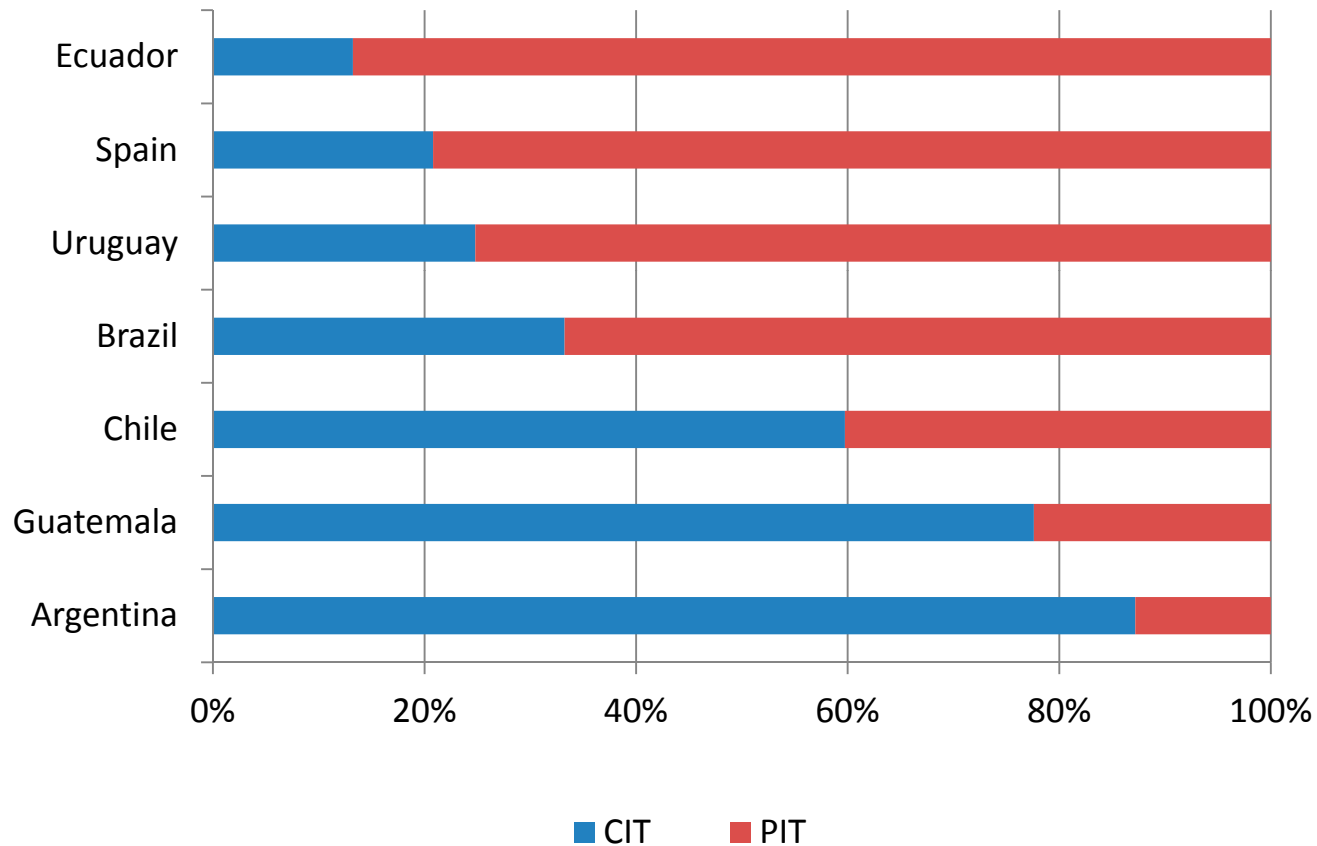


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(1) 2010 projection for Argentina, Brazil, Chile and Spain. 2009 accrual for Uruguay, Ecuador and Guatemala.

# Income, profits and capital gains taxes

Relative fiscal costs (1)

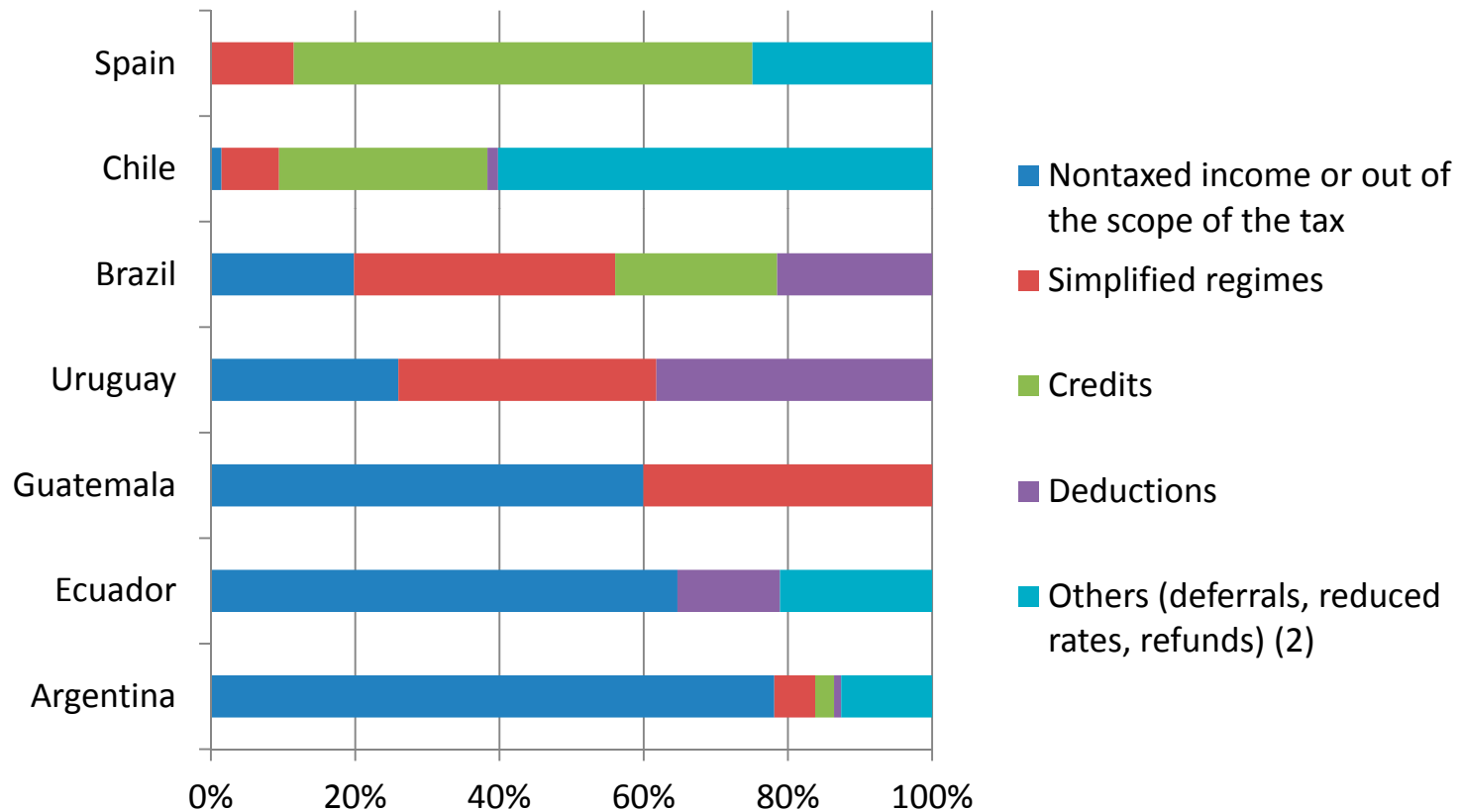


(1) 2010 projection for Argentina, Brazil, Chile and Spain. 2009 accrual for Uruguay, Ecuador and Guatemala.

# CIT

## Types of tax expenditures

Relative fiscal costs (1)



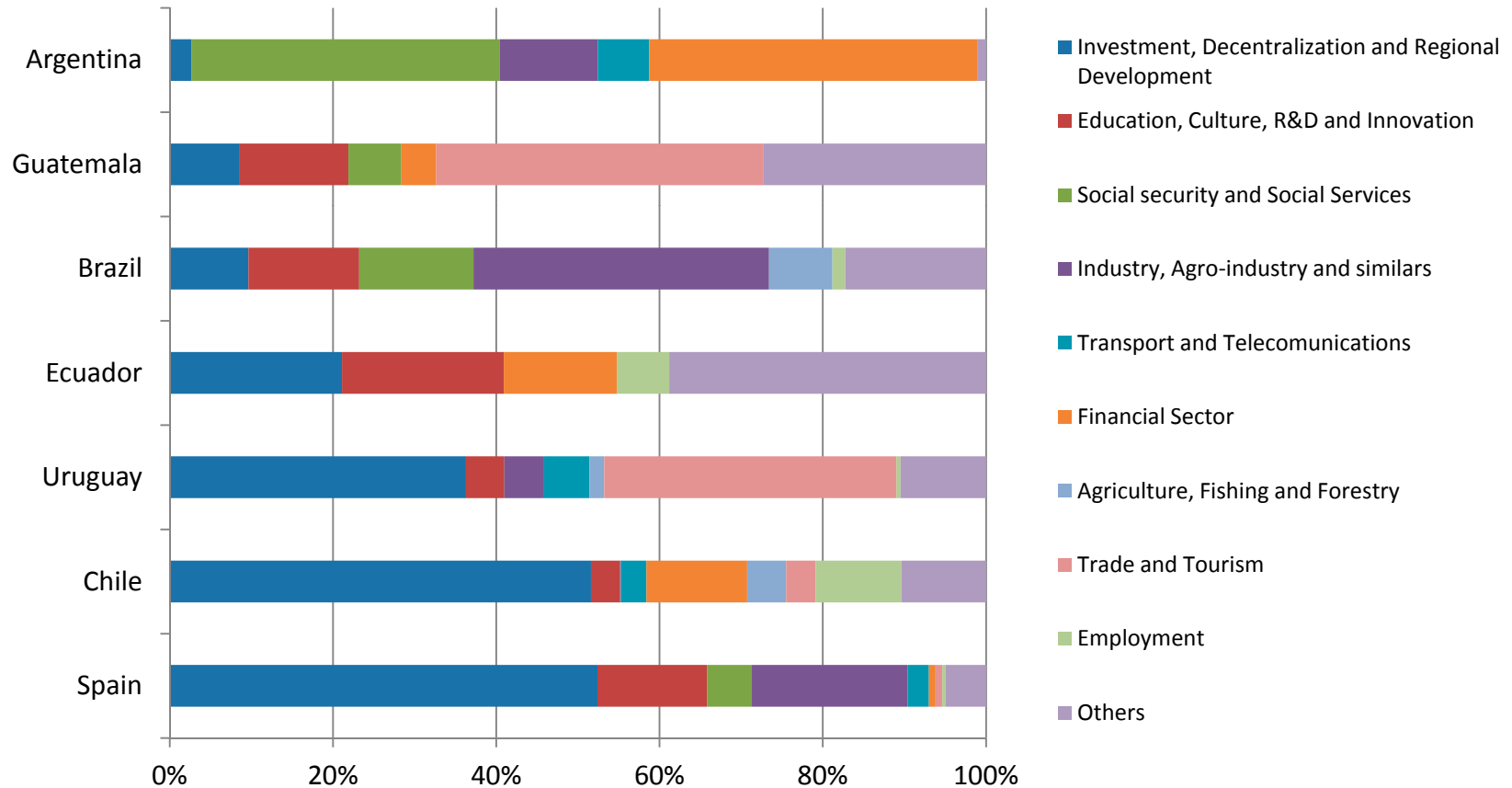
(1) 2010 projection for Argentina, Brazil, Chile and Spain. 2009 accrual for Uruguay, Ecuador and Guatemala.

(2) Deferrals are not considered tax expenditures by Brazil, Uruguay, Argentina and Guatemala.

# CIT

## Most benefited sectors

Relative fiscal costs (1)



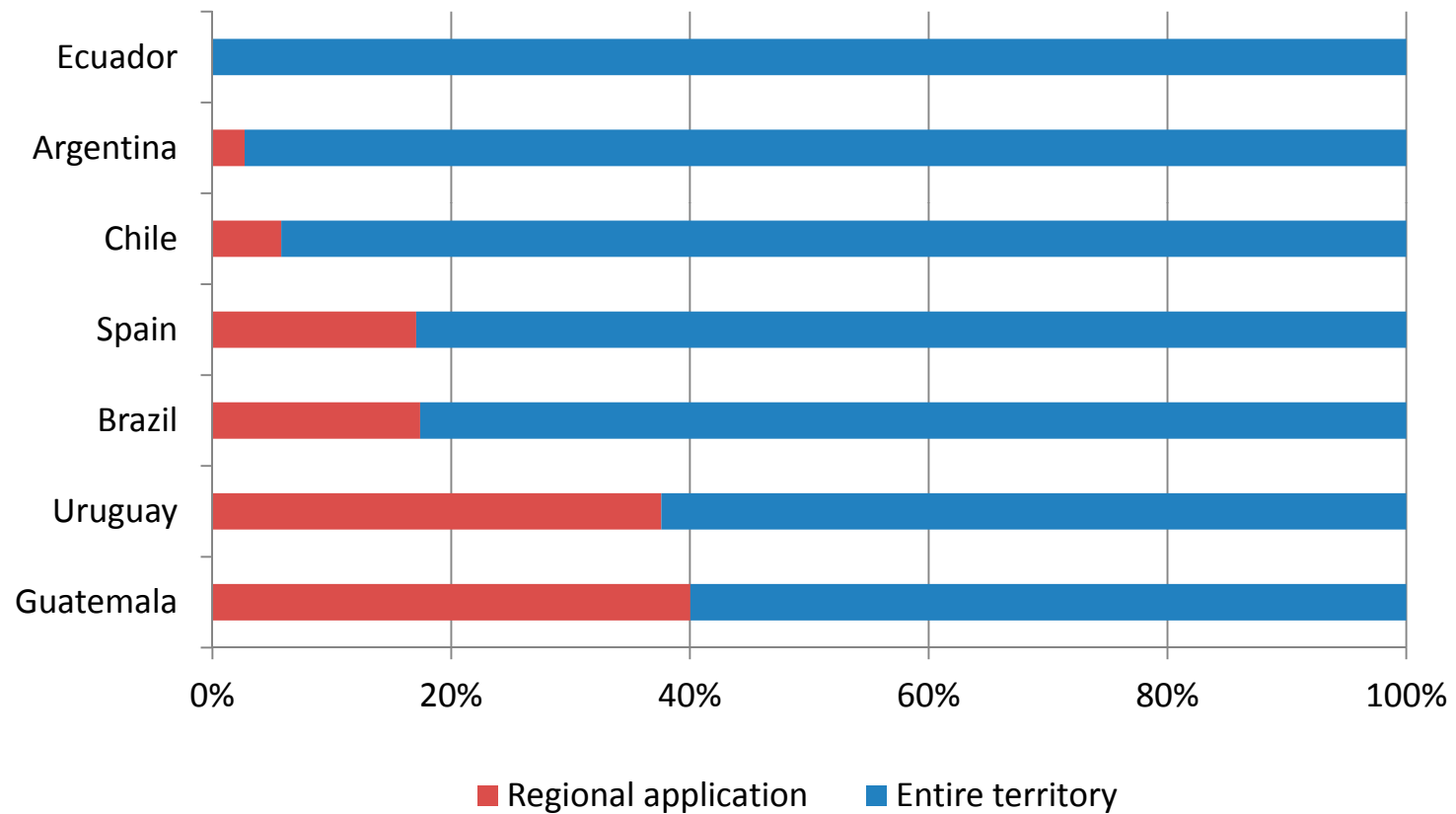
(1) 2010 projection for Argentina, Brazil, Chile and Spain. 2009 accrual for Uruguay, Ecuador and Guatemala.



# CIT

## Regional application

Relative fiscal costs (1)



(1) 2010 projection for Argentina, Brazil, Chile and Spain. 2009 accrual for Uruguay, Ecuador and Guatemala.

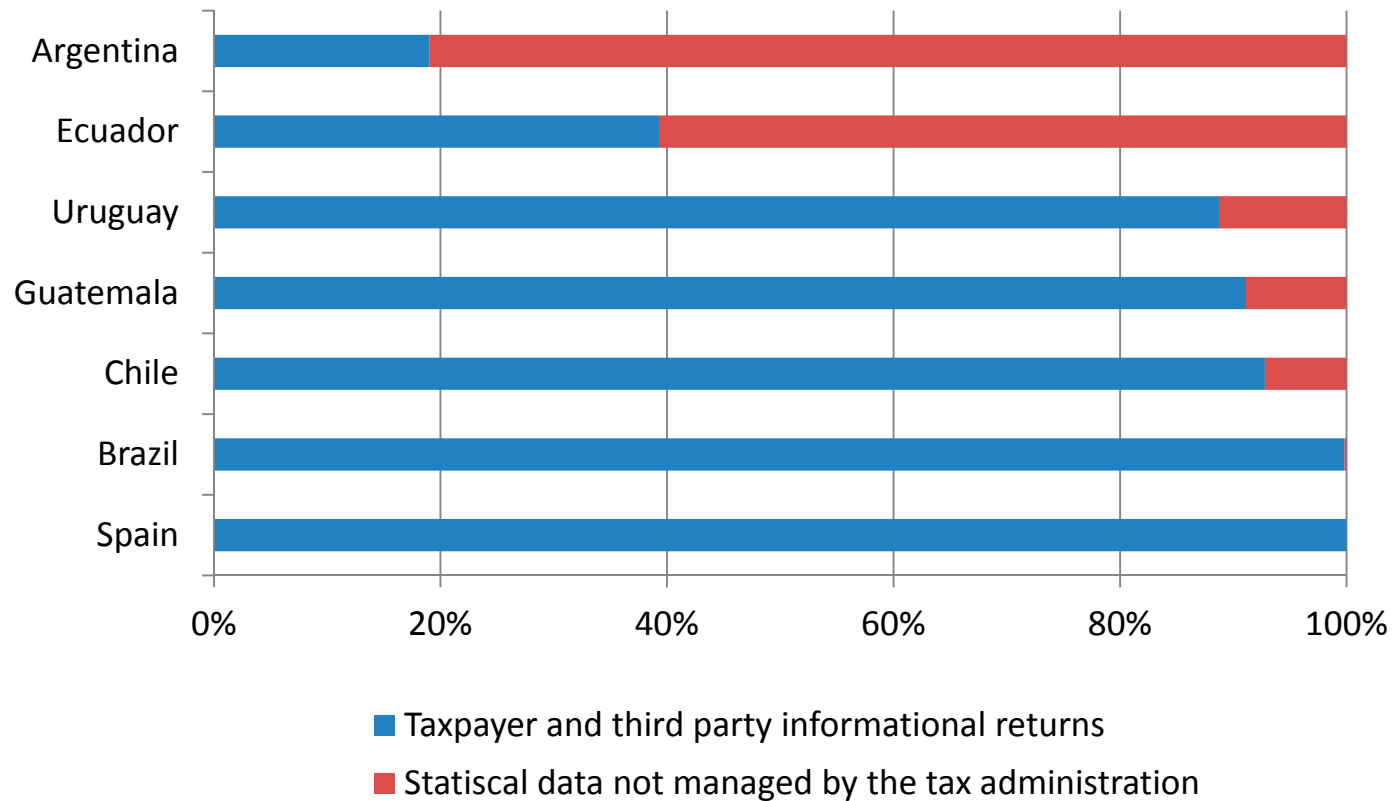
# Sources of information

- Taxpayers returns
- Third party informational returns
- Statistical data not managed by tax administrations (National Accounts, Household Surveys, Ministries and Central Banks statistics, etc.)
- Others

# CIT

## Sources of information

Relative fiscal costs (1) (2)



(1) 2010 projection for Argentina, Brazil, Chile and Spain. 2009 accrual for Uruguay, Ecuador and Guatemala.

(2) Does not include combinations of sources.

# Sources of information

## Best practices

- Obligation to report exempt operations in returns with the same strictness as taxed operations
  - Brazil
- Institutionalized procedure for debugging information from returns
  - Spain
- Expansion of electronic returns
  - Chile
- Enlarge returns

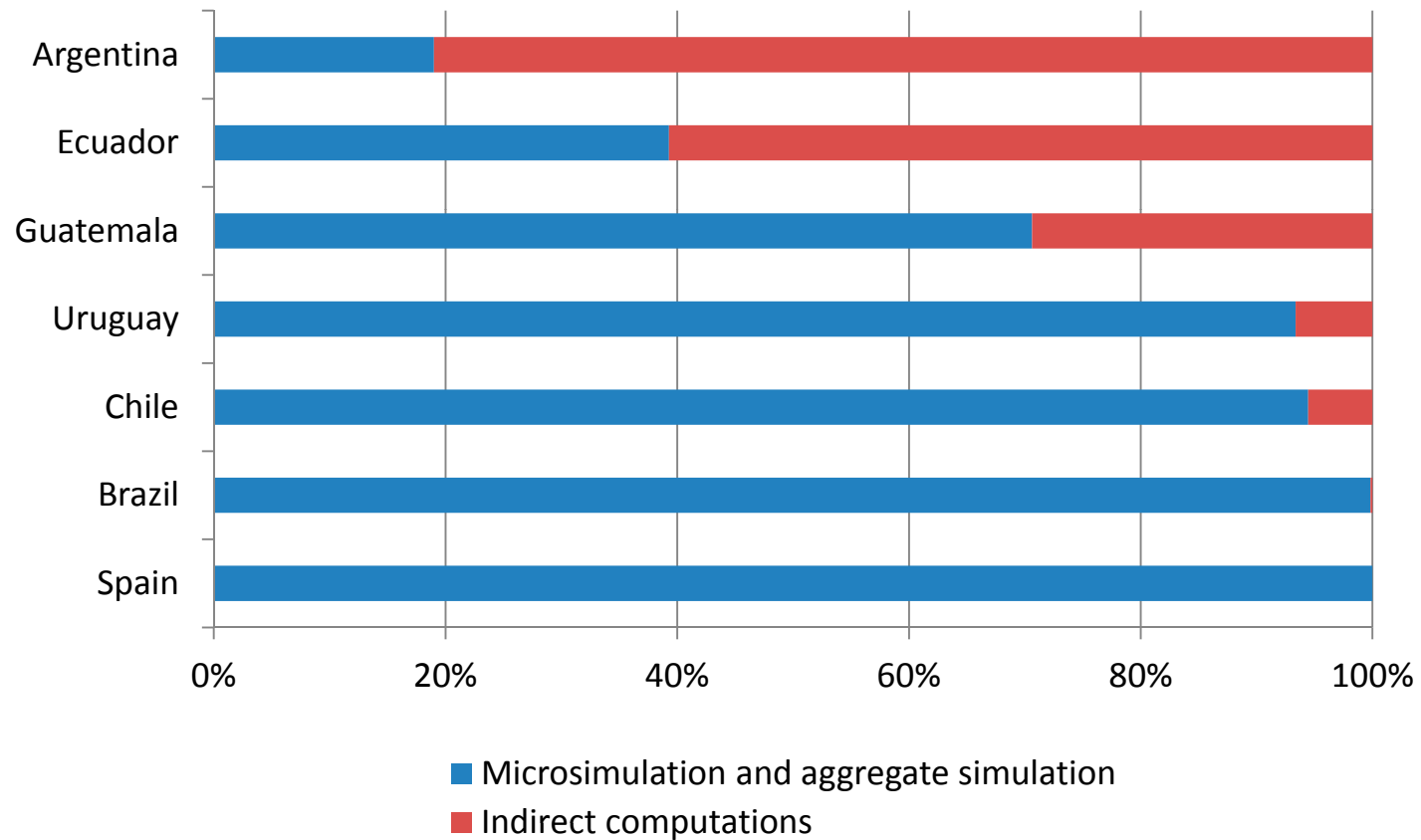
# Methods of measurement

- Microsimulation or similar analysis methods
- Aggregate simulation using tax information
- Indirect calculations using nontax information
- Combinations

# CIT

## Methods of measurement

Relative fiscal costs (1) (2)



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(1) 2010 projection for Argentina, Brazil, Chile and Spain. 2009 accrual for Uruguay, Ecuador and Guatemala.  
(2) Does not include combinations of methods.

# Methods of measurement

## Best practices

- Review of past projections
  - Chile, Spain and Brazil
- Adjustments due to noncompliance
  - Uruguay and Chile
- Calculation of net fiscal costs rather than gross fiscal costs
- Different benefits running together
  - Chile
- Reliability of the measurement: Very good, good, average or poor

# Institutional Aspects

## Best practices

- Human resources
  - At least one IT, one statistician, and one tax official
- Information exchange or interinstitutional cooperation agreements with other state entities.
- Publish an updated list of tax expenditures
- Laws on Transparency and Access to Information



# Proposal of standardization

## Definition of tax expenditure

The CIAT WG proposes that tax expenditure should be defined as ***the revenue forgone by the government due to incentives and benefits which reduce the direct or indirect tax burden of certain taxpayers for the purpose of achieving certain social or economic objectives.***

# Proposal of standardization

## Reference tax system

The CIAT WG proposes that ***the reference tax system should be based on legislation. However, when the legislation deviates considerably from tax doctrine, the reference tax system may be a benchmark.***

# Proposal of standardization

## Objective and type of measurement

The CIAT WG proposes that ***the objective of tax expenditure measurements should be the computation of revenue losses for a future fiscal (budget) year. If detailed information exists to characterize the behaviour of taxpayers, revenue gain computations from possible elimination of tax expenditures may be added separately.***



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# Argentina

- *Fiscal year considered: 2010*
- *Taxes on income, profits and capital gains*
  - Profits tax, included in Profits Tax Law, text ordered in 1997, approved through Decree 649-97 (published in Official Gazette N° 28703 of 08.06.1997) and amendments.
  - Presumptive Minimum Profit Tax, included in Law N° 25063 (published in the Official Gazette of 30.12.1998) and amendments.
  - Tax on Prizes of Lottery Drawings and Sports Bets, included in Law N° 20630 (published in the Official Gazette of 22.01.1974) and amendments.
- *General consumption taxes*
  - Value Added Tax, included in Value Added Tax Law, text ordered in 1997, approved through Decree 280-97 (published in the Official Gazette of 15.04.1997) and amendments.



# Brazil

- *Fiscal year considered: 2010*
- *Taxes on income, profits and capital gains*
  - Income Tax (Imposto sobre a Renda)
  - CSLL – Social Contribution on Net Earnings of Corporations (Contribuição Social sobre o Lucro Líquido)
- *General consumption taxes*
  - COFINS – Contribution for Social Security Financing (Contribuição para Financiamento da Seguridade Social)
  - PIS and PASEP – Contribution for the Social Integration Program and Contribution for the Development of the Public Servant's Net Worth (Contribuição para o Programa de Integração Social y Contribuição para o Programa de Formação do Patrimônio do Servido Público)



# Chile

- *Fiscal year considered: 2010*
- *Taxes on income, profits and capital gains*
  - Income Tax, included in Article N° 1 of Decree-Law N° 824 (published in the Official Gazette on 31.12.1974) and amendments.
- *General consumption taxes*
  - Tax on Sales and Services, included in Decree-Law N° 825 –replaced by Decree-Law N° 1606 (published in the Official Gazette of 03.12.1976) preserving the same number– and amendments.



# Ecuador

- *Fiscal year considered: 2009*
- *Taxes on income, profits and capital gains*
  - Income tax included in Title One of the Internal Tax System Law, whose Codification was approved through Resolution N° 26 (published in the Official Registry's Supplement N° 463 of 17.11.2004) and amendments.
  - Windfall Tax
  - Encumbrance on Oil Activity.
- *General consumption taxes*
  - VAT – Value Added Tax, included in Title Two of the Internal Tax System Law, whose Codification was approved through Resolution N° 26 (published in the Official Registry's Supplement N° 463 of 17.11.2004) and amendments.





# Spain

- *Fiscal year considered: 2010*
- *Taxes on income, profits and capital gains*
  - Individual Income Tax
  - Corporate Income Tax
  - Nonresidents Income Tax
- *General consumption taxes*
  - Value Added Tax



# Guatemala

- *Fiscal year considered: 2009*
- *Taxes on income, profits and capital gains*
  - Income tax included in Decree N° 26-92 and amendments.
  - Tax on Financial Products, included in Decree N° 26-95 and amendments.
  - Tax on Inheritance, Legacies and Donations, included in Decree N° 431 of 1947 and amendments.
  - Extraordinary Solidarity and Temporary Support to Peace Agreements Tax.
  - Solidarity Tax, included in Decree N° 73-08 and amendments.
- *General consumption taxes*
  - Value Added Tax, included in Decree N° 27-92 and amendments.



# Uruguay

- *Fiscal year considered: 2009*
- *Taxes on income, profits and capital gains*
  - IRIC – Industry and Commerce Income Tax (in force until June 2007 but, which may be applicable in 2008, since in Uruguay, different dates for closing periods are allowed).
  - IRAE – Economic Activities Income Tax, included in Title 4 of the Ordered Text of the Competency Rules of the General Directorate of Taxation (DGI), approved through Decree 338/996 and amendments.
  - IRPF – Individual Income Tax, included in Title 7 of the Ordered Text of the Competency Rules of the General Directorate of Taxation (DGI), approved through Decree 338/996 and amendments.
  - IRNR – Nonresident Income Tax, included in Title of the Ordered Text of the Competency Rules of the General Directorate of Taxation (DGI), approved through Decree 338/996 and amendments.
  - IMEBA – Sale of Agricultural Properties, included in Title 9 of the Ordered Text of the Competency Rules of the General Directorate of Taxation (DGI), approved through Decree 338/996 and amendments.



# Uruguay

- IASS – Social Security Assistance Tax, included in Law N° 18314 and amendments.
- Insurance Company Revenue Tax .
- *General consumption taxes*
  - VAT – Value Added Tax, included in Title 10 of the Ordered Text of Competency Rules of the General Directorate of Taxation (DGI), approved through Decree 338/996 and amendments.

