GTED Global Tax Expenditures Database

THE GLOBAL TAX EXPENDITURES DATABASE (GTED)

PROGRESS REPORT (Preliminary)

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CONTENT TABLE

LIST OF ABBREVIATIONS

CIT	Corporate Income Tax
GDP	Gross Domestic Product
GST	Goods and Services Taxes
GTECR	Global Tax Expenditures Country Reports
GTED	Global Tax Expenditures Database
GTEL	Global Tax Expenditures Lab
GTETI	Global Tax Expenditures Transparency Index
HICs	High-Income Countries
KES	Kenyan Shilling
LCU	Local Currency Unit
LICs	Low-Income Countries
LMICs	Lower Middle-Income Countries

MKD	Macedonian Denar
MNT	Mongolian Tögrög
NGN	Nigerian Naira
OECD	Organisation for Economic Co-operation and Development
PIT	Personal Income Tax
RF	Revenue Forgone
TE	Tax Expenditure
UMICs	Upper Middle-Income Countries
UGX	Ugandan Shilling
USD	United States Dollar
VAT	Value-Added Tax

1 INTRODUCTION

When CEP and DIE joined forces a few years ago to shed light on global tax expenditures (TEs), we assumed that most governments around the world forgo significant amounts of fiscal revenues each year to a myriad of tax exemptions, deductions, credits and further tax breaks that are meant to benefit particular segments of society and the economy. We also suspected that transparency in the field was limited.

Both suspicions were confirmed when we released the first version of the Global Tax Expenditures Database (GTED) in June 2021. Over the last 30 years, the global average of reported revenue forgone from TEs was close to 4 per cent of GDP and more than 24 per cent of tax revenues. Yet, real numbers are probably significantly higher, since one of the main issues we encountered when building up the GTED was widespread underreporting.

In June 2021, of the worldwide 218 countries and jurisdictions, only 97 had published at least some data on TEs since 1990. But the lack of transparency is not only about reporting or non-reporting on TEs. Building up the first database that documents TE reporting by governments worldwide and using a common set of criteria and indicators also revealed huge variation in the quality of TE reporting. When we released the first version of the GTED, only a minority of 41 countries published reports with provision-level data on a regular basis. Also, 26.1 per cent of the more than 20,800 TE provision-level data entries did not contain information on revenue forgone, and more than two thirds (69.1 per cent) did not combine revenue forgone estimates with information on the policy objective of the measure.

The main goal of this progress report is to give an overview of the progress made in TE reporting since the release of the GTED. Are there any new reporting countries? Have reporting countries released new data? Are there any improvements (or setbacks) in the quality of the information provided in the reports? Section 2 addresses these questions and provides some additional analysis on the use of TEs. Section 3 provides an outlook of the upcoming projects that the GTED team will be tackling in the months and years to come.

2 THE GLOBAL STATE OF TAX EXPENDITURES: MAIN CHANGES SINCE JUNE 2021

Since the launch of the GTED in June 2021, our team has collected new data for 75 countries, added 5 new reporting countries (Kenya, Mongolia, Nigeria, North Macedonia, and Uganda) to the database, and found additional historical data for 6 countries (Belgium, Finland, France, Germany, Italy, and the United Kingdom).[1] On top of updating existing information, this new wave of data added 99 additional country-years to the database (60 per cent of which for the 2017-2020 period). The maximum number of countries reporting in a single year increased to 92 from previously 85 (in 2017), and the total number of reporting countries went from 97 to 102 (Figure 2.1). The time-series dimension of the database also improved, with five more countries now providing TE data for 3 or more years.

This progress is encouraging since it not only increases the usefulness of the GTED data, but also highlights an increase in transparency in the TE field. Nonetheless, much work remains to be done. For instance, 22 countries did not report new or updated TE data in 2021 and 116 jurisdictions are still classified as non-reporting, i.e. they have never released any TE information.

Figure 2.1 Number of Countries Reporting per Year and Number of Reports by Country Groupings
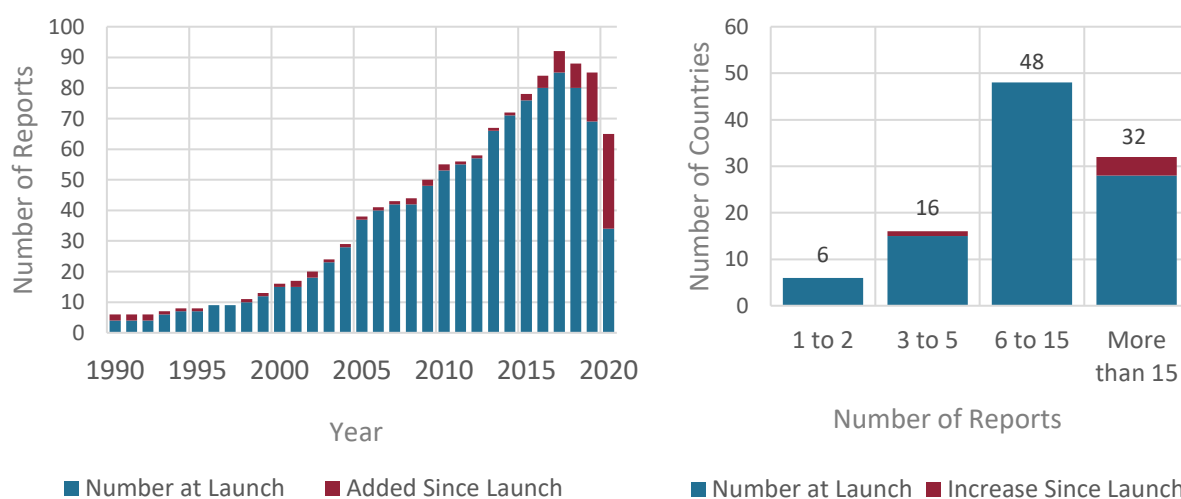
Source: www.GTED.net

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[1] Whereas Kenya, Nigeria, North Macedonia, and Uganda have indeed released their first TE reports after the cut-off date (February 2021) defined to gather data before the launch of the GTED, the case of Mongolia is different. The country was classified as non-reporting upon confirmation by a government official, which is the last stage of our search process, as outlined in Redonda et al. (2021). More recently we learned that Mongolia had in fact issued TE reports.

2.1 Reporting countries with updates in 2021

The 75 countries that did release new or updated TE data in 2021 largely followed their previous reporting structure. Only one country (Chile) released a report that provides more detailed data than in previous years. Chile had published provision-level data in the past. Yet, with the exception of 2015, its reports between 2005-2018 only provided overall revenue forgone estimates. In contrast, the latest TE report contains provision-level data, an important improvement that is worth mentioning. One other country (Senegal) made a backward step by switching from reporting provision-level data in earlier reports to only offering aggregated estimates in the reports published in 2021.

When it comes to the remaining countries, 45 of them still only report aggregated revenue forgone data, mostly by tax base. Most countries continue to refrain from detailing the policy objectives and the legal reference of their TE provisions. Many countries do not provide information on the type of TE their revenue forgone stems from, or the group of taxpayers it benefits (Figure 2.2).

The key global statistics also remain similar to those reported in the 2021 Flagship Report, with small differences. The average global revenue forgone as a percentage of GDP is 3.7% (down from 3.8%) and as a percentage of tax revenue is 23.5% (down from 24.2%). The small changes can be attributed to most of the newly added countries reporting revenue forgone figures below the global average (see section 2.2 for more detail).

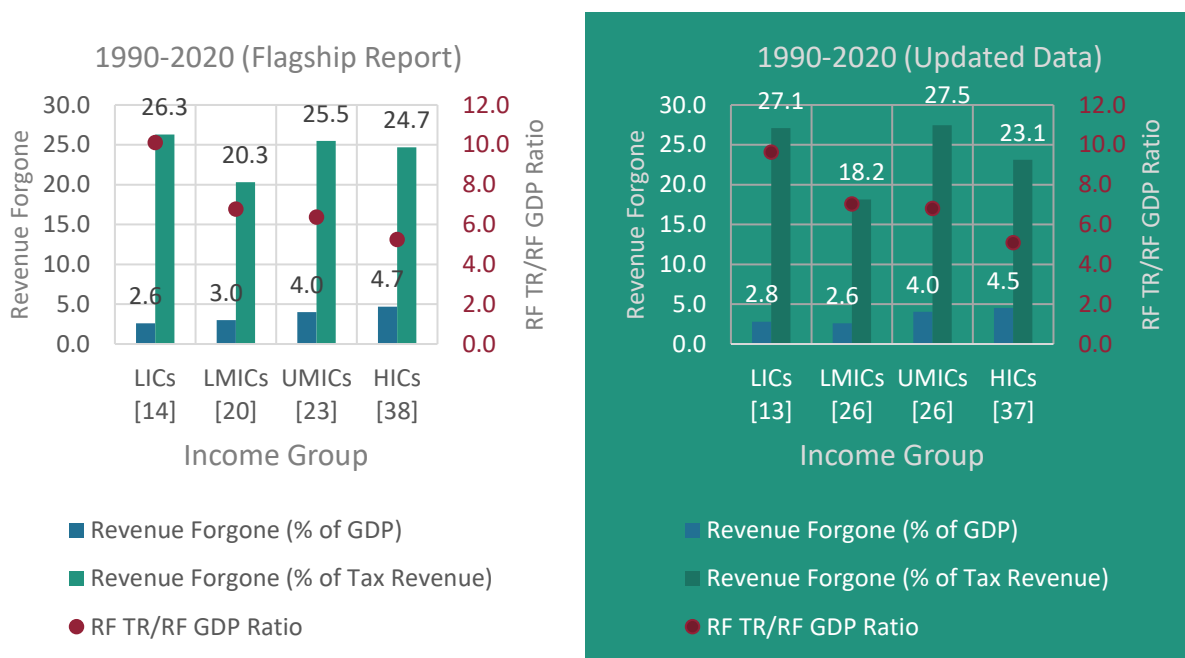**Figure 2.2 Number of Countries Reporting Detailed Tax Expenditure Information**
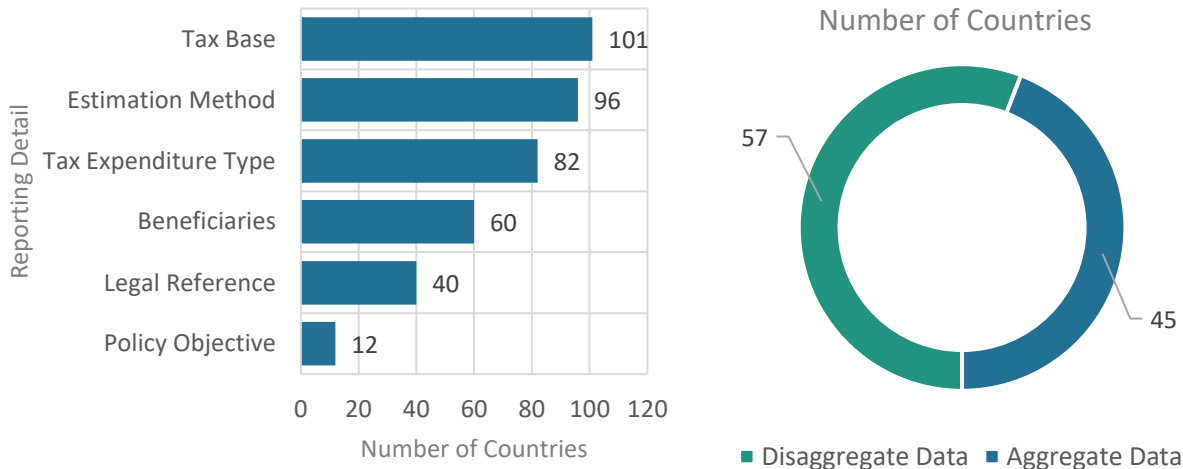
Source: www.GTED.net

Similarly, the country income group averages shifted slightly. Whereas in the 2021 Flagship Report, low income countries were reported to have the highest revenue forgone as a percentage of tax revenue (26.3 per cent), the new wave of data pushed them down to second place, behind upper-middle income countries (Figure 2.3). This variation is partly due to one of the new reporting countries (Uganda) affecting the average for that income group, but also due to the updated country classifications by the World Bank, which saw some movement of reporting countries from one income group to another.[2]

Despite these shifts, the core message remains the same: even though the revenue forgone as per cent of tax revenue is slightly lower for low income countries than for upper-middle income countries, that ratio is coming from a much lower revenue forgone as percentage of GDP. Revenue forgone averaging only 2.8 per cent of GDP in low income countries amounts to 27.1 per cent of tax revenue (a ten-fold difference), while revenue forgone averaging 27.5 per cent of tax revenue in upper-middle income countries amounts to 4 per cent of GDP (only a seven-fold difference).

Figure 2.3 TE Reporting and Revenue Forgone Trends, by Country Income Group

Source: www.GTED.net

2.2 Reporting countries that did not release updates in 2021

The group of 22 countries that did not release a new report in 2021 includes 10 countries that previously reported regularly, 3 that have only released one or two reports, and 9 that published multiple TE reports, albeit not regularly. The first group includes Costa Rica, Mexico, and Sri Lanka (among others), whereas the second group includes Niger, Paraguay, and Switzerland.

The majority of the countries that did not release a new report during 2021 are middle income countries (8 lower-middle and 8 upper-middle). Yet, 3 high income countries (Denmark, Switzerland, and Slovenia) also did not publish any new reports in 2021.

Table 2.1 Reporting Countries Which Did Not Release New or Updated Data in 2021

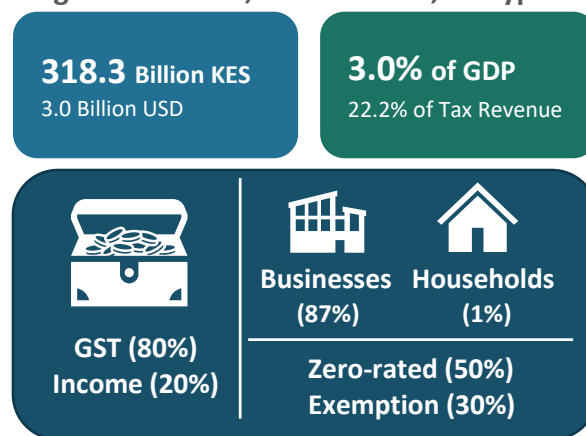| High Income Countries		
Israel	Switzerland	Slovenia
Upper Middle Income Countries		
Costa Rica	Dominican Rep.	Eq. Guinea
Gabon	Mexico	Paraguay
Tonga	Turkey	
Lower Middle Income Countries		
Bolivia	Cameroon	Côte d'Ivoire
El Salvador	Lesotho	Nicaragua
Sri Lanka	Tanzania	
Low Income Countries		
Ethiopia	Guina	Niger

■ Previously regular reporters

■ Irregular reporters with multiple reports

■ One-off reporters

Source: www.GTED.net

2.3 Newly reporting countries

2.3.1 Kenya

Figure 2.4 Kenya: Revenue Forgone & Two Largest Tax Bases, Beneficiaries, TE Types

318.3 Billion KES
3.0 Billion USD

3.0% of GDP
22.2% of Tax Revenue

GST (80%) Income (20%)

Businesses (87%)   Households (1%)

Zero-rated (50%) Exemption (30%)

Kenya published its first TE report in September 2021. The report offers data for four years (2017-2020) and provides a somewhat disaggregated breakdown of revenue forgone estimates for the latest year. Yet, it still does not provide information at the individual provision level. For the previous years, the report offers a breakdown of PIT and CIT revenue forgone only, while providing overall estimates for VAT and excise taxes.
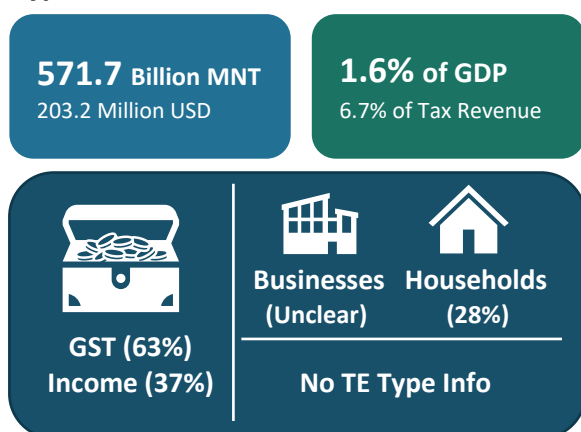
The total revenue forgone from TEs in Kenya has been decreasing steadily from KES 437 billion (USD 4.2 billion) in 2017 to KES 318 billion (USD 3.0 billion) in 2020. The revenue forgone in 2020 accounted for more than 3 per cent of GDP and 22.2 per cent of tax revenue. The drop in revenue forgone mainly comes from VAT-exempted and zero-rated goods.

The somewhat disaggregated revenue forgone estimates in Kenya are reported together with information allowing a certain classification by tax base, beneficiaries and type of TE. In contrast, it is not possible to extract information on the policy goals of the TEs from the report. When

it comes to the tax base, taxes on goods and services (slightly above 2.4 per cent of GDP in 2020) and taxes on income (roughly 0.6 per cent of GDP) account for all the revenue forgone, with VAT accounting for almost all revenue foregne from taxes on goods and services, and CIT accounting for almost all revenue forgone from taxes on income. The largest beneficiaries of the revenue forgone in 2020 are businesses (slightly above 2.6 per cent of GDP) with the remaining portion (0.4 per cent of GDP) being shared between businesses and households or being classified as "not stated". Zero-rated goods were the highest contributors to total revenue foregone (just above 1.4 per cent of GDP) followed by exemptions (0.9 per cent of GDP), and the remaining revenue forgone (0.7 per cent of GDP) coming either in the form of deductions or a combination of multiple TE types.

2.3.2 Mongolia

Figure 2.5 Mongolia: Revenue Forgone & Two Largest Tax Bases, Beneficiaries, TE Types

571.7 Billion MNT
203.2 Million USD

1.6% of GDP
6.7% of Tax Revenue

GST (63%)
Income (37%)

Businesses (Unclear)
Households (28%)

No TE Type Info

Mongolia first started reporting on TEs in October 2015 as part of its budget report and has released 6 reports since then. However, the country only provides aggregate TE figures for five major tax bases and very little explanation on the use of these TEs, hence its classification as reporting only "overall estimates". Every report provides data for the previous year and forecasts for the next 3-4 years. For instance, the most recent report released in September 2021 provides forecasts for 2022, 2023, and 2024.[3] Furthermore, since Mongolia does not provide data at the individual TE provision level, but only reports overall estimates, it is unclear how many TE provisions its report covers.

The total revenue forgone from TEs in Mongolia increased, in current figures, from MNT 359.7 billion in 2013 to MNT 571.7 billion in 2020. Yet, due to the macroeconomic situation of the country, the amount converted to USD shows the opposite trend, i.e. decreasing from USD 236 million in 2013 to USD 203.2 million in 2020 and accounting for 1.9 per cent of GDP and 1.5 per cent of GDP, respectively. Revenue forgone as a share of tax revenue collection remained stable at 7 per cent.
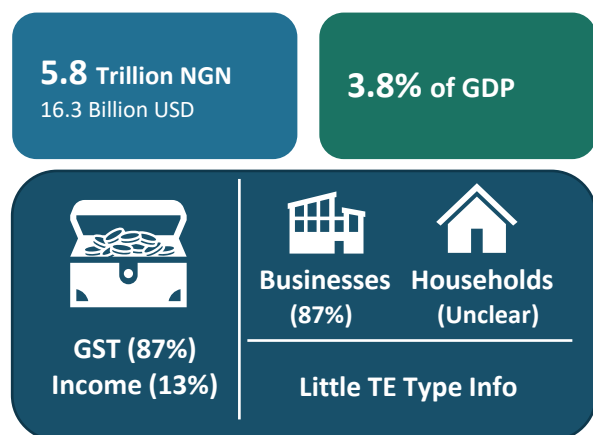
The aggregated revenue forgone estimates in Mongolia are reported together with information allowing a certain classification by tax base and beneficiaries, but not by policy goal and type of TE. When it comes to the tax base, taxes on goods and services (roughly 1 per cent of GDP) and taxes on income (slightly above 0.5 per cent of GDP) account for all the revenue forgone, with VAT accounting for the largest share of GDP (0.61 per cent of GDP) from a single tax base.[4] Regarding the beneficiaries, "not stated/unclear" account for 1 per cent of GDP, households capture 0.44 per cent and businesses 0.13 per cent.

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[3] Forecasts are never inputted into the GTED. Hence these estimates are not included.
[4] Taxes on income include both CIT- and PIT-related TEs.

2.3.3 Nigeria

Figure 2.6 Nigeria: Revenue Forgone & Two Largest Tax Bases, Beneficiaries, TE Types

5.8 Trillion NGN 16.3 Billion USD	3.8% of GDP

GST (87%) Income (13%) | **Businesses (87%)** **Households (Unclear)** — **Little TE Type Info**

Nigeria released preliminary revenue forgone estimates from TEs in July 2020 in its Medium Term Expenditure Framework and Fiscal Strategy Paper. However, because those figures were classified as "preliminary", the subsequent report published in July 2021 is considered to be the first official report. The latter report covers the years 2019 and 2020 and provides somewhat disaggregated data – aggregated figures for CIT and VAT and the disaggregated estimates for a few different customs duties exemptions. Since Nigeria does not provide data at the individual TE provision level, the estimated-to-reported ratio cannot be computed.
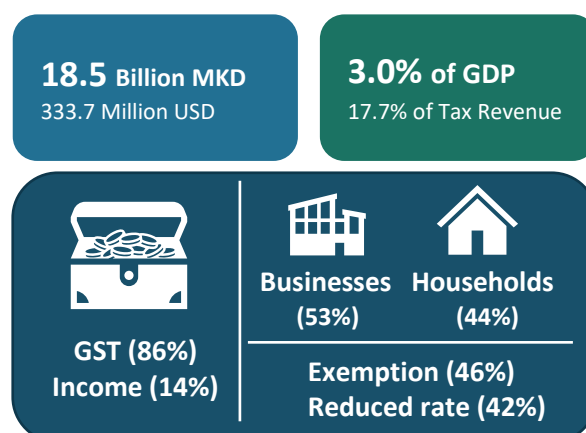
The total revenue forgone from TEs in Nigeria increased from NGN 4.4 trillion (USD 14.4 billion) in 2019 to NGN 5.8 trillion (USD 16.29 billion) in 2020, accounting for 3 per cent of GDP and 3.8 per cent of GDP, respectively.[5]

When it comes to the classification of the aggregated revenue forgone estimates, the report provides some information on the tax base, beneficiaries, policy objective and type of TE. Yet, in most of the cases the information is unclear. For instance, when it comes to the type of TE, most of the revenue foregone has been classified as "not stated/unclear". The second largest component regards exemptions, which accounted for 0.51 per cent of GDP in 2020.

2.3.4 North Macedonia

Figure 2.7 N. Macedonia: Revenue Forgone & Two Largest Tax Bases, Beneficiaries, TE Types

18.5 Billion MKD 333.7 Million USD	3.0% of GDP 17.7% of Tax Revenue

GST (86%) Income (14%) | **Businesses (53%)** **Households (44%)** — **Exemption (46%) Reduced rate (42%)**

North Macedonia released its first report on TEs in September 2021. The report provides data for one year only (2017) at the individual TE provision level.

The total revenue forgone from TEs in North Macedonia (MKD 18.46 billion – USD 337.7 million) accounted for 3 per cent of GDP and more than 17 per cent of tax revenue in 2017. The estimated-to-reported ratio is 100 per cent, i.e. all reported provisions come with a revenue forgone estimate attached. Yet, the number of TEs included in the report (20) seems low and it is likely that other TE provisions exist but have not been reported.
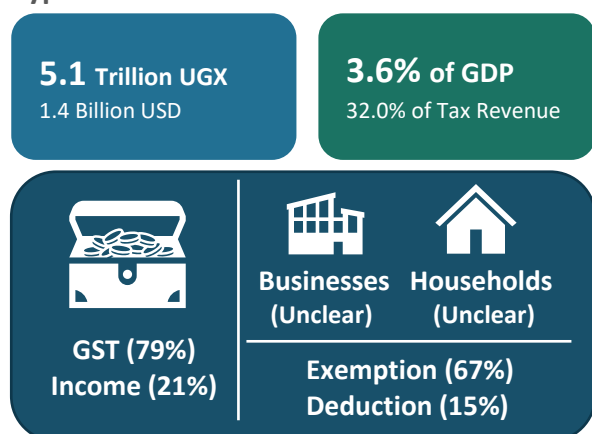
Interestingly, the revenue forgone estimates for each provision are reported with information allowing their classification according to the four categories defined in the GTED. Whereas TEs channeled through taxes on goods and services

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[5] Unfortunately, the UNU-WIDER Government Revenue Dataset used as the source of total tax revenue data for the GTED only provides data for Nigeria up to 2013, hence the ratio of TE-to-tax revenue could not be computed.

account for 2.6 per cent of GDP, taxes on income account for more than 0.4 per cent of GDP (0.3 per cent of GDP being channeled through CIT and 0.1 per cent of GDP through PIT). When it comes to beneficiaries, the revenue forgone as a share of GDP is relatively evenly distributed among businesses (1.6 per cent) and households (1.3 per cent). The data reported by North Macedonia also allows to classify TE provisions according to policy goals. This is a vital piece of information that is nonetheless very often not provided by TE reports. Most of the revenue forgone in North Macedonia seeks to develop a priority sector or activity. Finally, exemption and reduced rates are, by far, the main type of TE accounting for 1.4 per cent and 1.3 per cent of GDP, respectively.

2.3.5 Uganda

Figure 2.8 Uganda: Revenue Forgone & Two Largest Tax Bases, Beneficiaries, TE Types

5.1 Trillion UGX 1.4 Billion USD	3.6% of GDP 32.0% of Tax Revenue

GST (79%) Income (21%)	Businesses (Unclear)	Households (Unclear)
	Exemption (67%) Deduction (15%)	

Uganda released its first report on TEs in June 2021. The report provides data for four years (from 2017 until 2020) at the individual TE provision level.

The total revenue forgone from TEs in Uganda has been increasing steadily from UGX 2.64 trillion (USD 731.2 million) in 2017 to UGX 5.07 trillion (USD 1.36 billion) in 2020. Revenue forgone

in 2020 accounted for more than 3.5 per cent of GDP and 32 per cent of tax revenue.

The report contains information, including revenue forgone estimates, on 87 provisions, which seems relatively high compared to the average 129 provisions (76 per cent with estimates) reported by OECD countries.[6]

The revenue forgone estimates for each provision are reported with information allowing to accurately classify them according to the tax base and the type of TE. Yet, the information regarding beneficiaries and policy objectives is not that clear. In 2020, TEs channeled through taxes on goods and services accounted for 2.8 per cent of GDP (out of which 1.5 per cent of GDP is revenue forgone triggered by TEs channeled through customs duties and 1.3 per cent through VAT), compared to 0.7 per cent for income taxes (out of which 0.6 per cent of GDP is revenue foregone triggered by TEs channeled through PIT and only 0.1 per cent through CIT). Almost 2 per cent out of the 3.5 per cent of GDP is revenue foregone for which the beneficiary has been classified as "not stated/unclear". No information on policy objectives can be derived from the report. Finally, revenue forgone through exemptions (1.5 per cent) and deductions (0.5 per cent) account for the largest components as share of GDP.

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[6] The average number of reported provisions is based on the latest reported year for each country.

2.4 Non-reporting countries

Despite the progress outlined above, the hard truth is that still more than half of all jurisdictions worldwide have never published any information on the TEs they use (Figure 2.9).

Given the importance of reporting on TEs as one of the necessary steps towards TE reform, one key question regards the main drivers behind the opacity in the TE field. In some cases – above all, countries affected by war, violent conflict, major

natural disasters or extreme poverty – such lack of transparency can be traced back to limited state capacity. In other cases, however, the key issue is that governments deliberately decide not to collect or reveal such data. In some countries, autocratic rulers shy away from being held accountable by the public and seek to control access to information wherever possible. Other possible drivers include lobbying by pressure groups or lack of capacity at the level of Ministries of Finance and tax administrations to process tax return data and produce TE estimates.[7]

Figure 2.9 Reporting and Non-Reporting Countries, as of January 2022

■ Reporting countries ■ Non-reporting countries
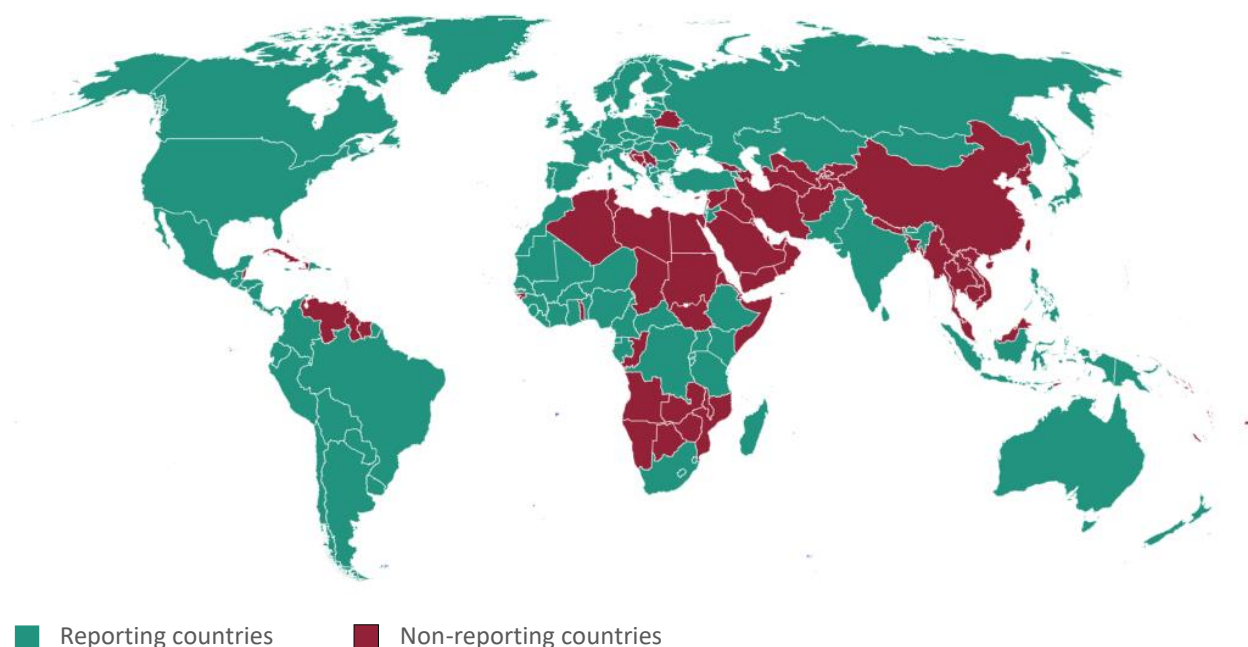
Source: www.GTED.net

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[7] In a forthcoming paper by the GTED team, we seek to identify the main drivers of this striking lack of transparency in developing economies: *von Haldenwang C., Redonda, A., Aliu, F. & S. Laudage (2022). Tax Expenditures and Development. Forthcoming.*

3 NEW ACTIVITIES

As a core objective, the GTED seeks to drive evidence-based reforms that improve the efficiency and effectiveness of TEs in a context of sustainable and inclusive economic development. A key enabling factor for reform – though certainly not the only one – is informed debate. Over the coming months and years, our work will be guided by the two-fold ambition to generate new knowledge and increase the transparency of TE use. To achieve this, we will broaden the scope of the GTED along three work streams (Figure 3.1).

3.1 Global Tax Expenditures Transparency Index (GTETI)

The GTETI will be the first global assessment of TE reporting. Based on the data collection and classification efforts of the GTED, the GTETI will provide a systematic framework to rank countries according to the regularity, quality and scope of their TE reports. The GTETI aims at increasing the transparency of TEs by promoting public debate and encouraging governments to improve their TE reporting as a first necessary step towards comprehensive TE reforms. The GTETI will be updated on an annual basis.

The GTETI is based on a sequenced and qualitative approach to evaluate TE reports across the reporting countries covered by the GTED – non-reporting jurisdictions receive a GTETI score of 0. This approach involves the elaboration of a template that scores countries on several dimensions. The scores given for each indicator, their aggregation in each of the dimensions and the respective weight each dimension receives in the final score will be determined through an identification process that involves the GTETI core team and an advisory group of experts (including

academics as well as representatives from relevant international and regional organisations). A preliminary version of the GTETI will be tested in a series of calibration exercises that will involve, once again, external experts. The beta version of the GTETI shall be presented to relevant stakeholders in late 2022.

3.2 Global Tax Expenditures Country Reports (GTECR)

The GTECR will consist of a series of country reports that follow a standard structure and go into more depth regarding the assessment of national TE systems. They will build on information from the GTED and the GTETI to offer a detailed overview of TE systems in every country. These reports will focus on topics such as TE transparency, the fiscal cost of TEs, TE benchmarking, TE evaluations and the political economy around TEs. The GTECR will offer country-specific, in-depth TE information to researchers, policy advisers, and advocacy groups that, ideally, will be used as a key determinant of TE reform.

3.3 Global Tax Expenditures Lab (GTEL)

The Global Tax Expenditures Lab (GTEL) will host a global network of researchers, policy advisers, and advocates working on TE evaluations. The GTEL will produce three main outputs: 1) provide an overview of good practices and standards to evaluate the effectiveness and efficiency of TE provisions; 2) create a repository of existing TE evaluations, which can be used as a reference for academic research and policy advice; and 3) organise trainings as well as workshops and other events for stakeholders seeking to build knowledge in the TE evaluation field.

As a first step towards creating the GTEL, we will partner with the Addis Tax Initiative (ATI) to organise a series of regional workshops and subsequent technical meetings on the evaluation of TEs in Africa, Asia and Latin America, starting in 2022. These events will address ATI member countries, other interested governments, regional organisations, and regional research centres. They will not only help to identify options to improve TE estimation and evaluation, but also serve as a start-up for regional TE networks. In addition, our project team will support the elaboration of a pilot evaluation of TEs in the mining sector in Zimbabwe in 2022/23. This activity will produce additional insight on the challenges and opportunities of TE evaluation in Zimbabwe and shall be used as the basis for a systematic review of TEs in the country.

Figure 3.1 Tax Expenditures Engagement Strategy