Tax Expenditures in OECD Countries

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Foreword

In all OECD member countries, governments collect revenues through taxes and redistribute this public money, often by obligatory spending on social programmes such as education or health care. Their tax systems usually include "tax expenditures" – provisions that allow certain groups of people, such as small businessmen, retired people or working mothers, or those who have undertaken certain activities, such as charitable donations, to pay less in taxes.

The use of tax expenditures by governments is pervasive and growing. At a time when many government budgets are threatened by population ageing and adverse cyclical developments, there is a pressing need to avoid inefficient government programmes, some of which may utilise tax expenditures.

This book sheds light on the use of tax expenditures, mainly through a study of ten OECD countries: Canada, France, Germany, Japan, Korea, the Netherlands, Spain, Sweden, the United Kingdom and the United States. This book will help government officials and the public better understand some of the technical and policy issues behind the use of tax expenditures. It highlights key trends and successful practices, and addresses a broad range of government finance issues, including tax policy making, tax and budget efficiency, fiscal responsibility and rule making.

The book is the result of a project led by the Budgeting and Public Expenditures Division (BUD) of the OECD Public Governance and Territorial Development Directorate (GOV), under the auspices of the OECD Working Party of Senior Budget Officials. The project was co-ordinated by Barry Anderson, Head of Division (GOV/BUD). The author of the report is Joseph J. Minarik, a consultant to the OECD who works for the Committee for Economic Development, an NGO located in Washington DC. Stephen Matthews and Jens Lundsgaard of the OECD Centre for Tax Policy and Administration (CTP) and Chris Heady, formerly of CTP, provided valuable input for the report.

The book has benefited from meetings and seminars organised in 2008 and 2009 by both the Working Party of Senior Budget Officials and Working Party No. 2 on Tax Policy Analysis and Tax Statistics. It includes results from a questionnaire that was sent to a selection of OECD member countries. The author is grateful for the participation and discussion at meetings and for the responses to the questionnaire. Any misinterpretations from these sources of information are the responsibility of the author.

The OECD Working Party of Senior Budget Officials aims to improve the effectiveness and efficiency of resource allocation and management in the public sector. Every year the Working Party organises a number of meetings on topics of interest to budget officials. Some are organised on a regular basis – for example, the meetings of the network on financial management (accrual accounting) and the network on performance and results. In addition to those meetings, other topics are discussed on an *ad hoc* basis, as requested by the Working Party. Such is the case for this project on tax expenditures.

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Part I

A look at tax expenditures

Chapter 1
Introduction

This chapter gives a brief introduction and history of tax expenditures. It begins by attempting to define tax expenditures then proceeds to discuss the different types of tax expenditures. There is a short discussion on the different ways to measure them. It then gives several concrete examples of tax expenditures in different countries. It concludes by discussing some of the controversy concerning tax expenditures.

What are tax expenditures?

Tax expenditures are "provisions of tax law, regulation or practices that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to a benchmark tax" (Anderson, 2008). For government, a tax expenditure is a loss in revenue; for a taxpayer, it is a reduction in tax liability. Tax expenditures are better known in many OECD countries as tax reliefs, tax subsidies and tax aids (Schick, 2007).

In practice, defining tax expenditures is difficult because "some tax measures may not be readily classified as part of the benchmark or an exception to it" (Whitehouse, 1999). The problem begins with defining the "basic tax structure". Most experts would agree that structural elements of a tax system should not be recorded as tax expenditures, while "programmatic" features should be.

According to Kraan (2004), the "benchmark tax includes: the rate structure, accounting conventions, the deductibility of compulsory payments, provisions to facilitate administration, and provisions relating to international fiscal obligations".

Since tax expenditures are not actual outlays, the amounts "spent" are notional; that is, they are based on assumptions and estimates as to how taxpayers would behave under particular conditions.

What are the different types of tax expenditures?

Tax expenditures may take a number of different forms:

- **allowances**: amounts deducted from the benchmark to arrive at the tax base;
- **exemptions**: amounts excluded from the tax base;
- **rate relief**: a reduced rate of tax applied to a class of taxpayer or taxable transactions;
- **tax deferral**: a delay in paying tax;
- **credits**: amounts deducted from tax liability (Anderson, 2008).

Box 1.1. Examples of tax expenditures

- Professional expenses: meals and entertainment expenses, commuting expenses, etc.;
- Interest deduction (housing): tax credit for repayment of mortgage loans and a special deduction for interest;
- Interest on saving accounts (up to a certain ceiling);
- Corporate investments;
- Tax assistance for childcare expenses;
- Reduced tax rate for small and medium-sized enterprises (SMEs);
- Pension income tax credit;
- Charitable donations tax credit;
- Deductions for energy saving measures (alternative energy, etc.);
- Employer funded health benefits.

How are tax expenditures measured?

Tax expenditures are calculated using the "revenue forgone method which calculates the tax that would have been payable if the tax concession were removed, and economic behaviour remained unchanged" (Whitehouse, 1999). As Anderson explains (2008), there are alternative ways to measure tax expenditures:

- **Initial revenue loss (gain):** the amount by which tax revenue is reduced (increased) as a consequence of the introduction (abolition) of a tax expenditure, based upon the assumption of unchanged behaviour and unchanged revenues from other taxes.
- **Final revenue loss (gain):** the amount by which tax revenue is reduced (increased) as a consequence of the introduction (abolition) of a tax expenditure, taking into account the change in behaviour and the effects on revenues from other taxes as a consequence of the introduction (abolition).

- **Outlay equivalence:** the direct expenditure that would be required in pre-tax terms to achieve the same after-tax effect on taxpayers' incomes as the tax expenditure if the direct expenditure is accorded the tax treatment appropriate to that type of subsidy or transfer in the hands of the recipient.

Trends in tax expenditures

Tax expenditures – defined as "a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax, rather than by a direct expenditure" (Kraan, 2004) – have been a serious concern of budget and tax analysts for almost half a century.[1] The concern is that tax expenditures may have ill effects on both budget and tax policy, and that both political and policy-making considerations may make tax expenditures easier to enact, and less likely to undergo rigorous review and repeal, than equivalent but more straightforward spending programmes. At the same time, tax expenditures are a part of the tax systems of every developed country around the world. Particular tax expenditures are defended as sound tax policy instruments, and there is no visible, serious proposal that tax expenditures be eradicated anywhere. In the interests of both tax and fiscal policy, tax expenditures would seem to be a fitting topic of inquiry today.

Though the concept of tax expenditures was first identified and analysed in the United States, the concern about the issue now extends across countries. Accounting in many countries suggests that the use of tax expenditures is pervasive and growing (Polockova Brixi, Valenduc, and Swift, 2004). At any time, the possibility that a back channel for resource allocation could lead to inefficient government "spending" would be troubling. When many government budgets are threatened by population ageing and adverse cyclical developments, the concern is only greater.

Accordingly, the Organisation for Economic Co-operation and Development (OECD) has decided to devote its attention to this issue, along with associated and similar budgetary questions. The Working Party of Senior Budget Officials discussed a report on Off-budget and Tax Expenditures at its 2004 meeting in Madrid (Kraan, 2004), following previous work on tax expenditures by the OECD Centre for Tax Policy and Administration (OECD, 1984; OECD, 1996; OECD, 2003). The *OECD Best Practices for Budget Transparency* (OECD, 2002) contain some basic guidelines for the treatment of tax expenditures. The World Bank has evidenced similar concern in *Tax Expenditures – Shedding Light on Government Spending through the Tax System* (Polockova Brixi, Valenduc, Swift, 2004). Such concern and attention has contributed to some improved

and extended procedures of tax expenditure reporting, review and control by OECD member countries (Koiwa, 2006). Still, there is considerable room for improvement. There is a perceived need for greater understanding of the issue, of the trend in tax expenditures, and of successful practices with respect to their enactment, budgetary reporting, and review.

An important and timely associated issue is that some OECD member countries have enacted, or are considering, fiscal rules that make use of expenditure ceilings. The handling of tax expenditures under such rules is critical because a systematically lesser degree of budgetary control on tax expenditures, as opposed to spending narrowly defined, could direct increasing flows of what would – and often should – be "spending" through the tax systems of the affected countries.

All of these considerations suggest that continued and even greater attention to the use of tax expenditures would be timely and worthwhile. This report will address the issue from several directions. A key part will be a survey of the level, and change, of the number and revenue effect of tax expenditures across several OECD member countries. An analysis of these data will suggest the underlying forces that have led to the prevalence of tax expenditures, as well as the tax, efficiency, and fiscal implications of these trends.

Further discussion will identify successful practices regarding the reporting of tax expenditures. Questions regarding the review (such as it is) of tax expenditures in the policy process will be explored, including some ideas that have been proposed but not implemented. Finally, additional analysis will put these successful practices into the particular context of budget rules, especially spending-based rules. In combination, these discussions should address a broad range of issues of government finance, from policy making to tax and budget efficiency, and on to fiscal responsibility and rulemaking.

Defining tax expenditures

Identification of any particular tax provision as a tax expenditure requires more than a broad and general definition. Different countries have identified different specific criteria. In 1987, a working group in the Netherlands tasked with this mission, compared practice in other countries, identified five criteria, and in the end rejected three and accepted the other two. In their particular instance, the group rejected the pursuit of a non-fiscal policy goal, convertibility of the provision into a direct expenditure, and the benefit of a limited group of taxpayers, even though those criteria were used elsewhere. They retained for future analysis the reduction of revenue and the

deviation from a benchmark tax structure (van den Ende, Haberham, and den Boogert, 2004). One might conclude that there is significant diversity in working definitions of tax expenditures across countries, but that a frequent common element is some notion of departure from a tax system benchmark. In practice, some of the other criteria – particularly the loss of revenue, the convertibility into a spending programme, and the limited group of beneficiaries – might be thought to be objective to some degree. In contrast, the conception of a benchmark tax system might provide the greatest degree of room for difference of judgment.

In fact, conceptions of the benchmark tax differ from analyst to analyst and country to country. The World Bank compendium cited above says that the benchmark or "norm includes the rate structure, accounting conventions, deductibility of compulsory payments, provisions to facilitate tax administration, and international fiscal obligations" (Swift, Polockova Brixi, and Valenduc, 2004), which echoes earlier OECD work (Kraan, 2004). However, each of these items provides considerable judgmental leeway, and when examining country practice, each application is in some way unique.

Canada's benchmark is articulated to a considerable degree of detail: "the benchmark for the personal and corporate income tax systems includes the existing tax rates and brackets, the unit of taxation, the time frame of taxation, the treatment of inflation in calculating income, and those measures designed to reduce or eliminate double taxation [of corporate profits]" (Seguin and Gurr, 2004). Particular decisions such as the choice of the individual rather than the family as the unit of taxation, and the inclusion of Canada's particular method of relief for double taxation of dividends, lead to differences in the identification of tax expenditures relative to other countries. In contrast to this specificity, Japan and Korea do not yet identify any specific benchmark tax system, rather identifying tax expenditures (or in the case of Japan, what are called "special tax measures") by reference to deviation from principles which are not so explicitly articulated. Other countries state their own methods with varying degrees of specificity, and with unique choices of policy standards.

Because the choice of a benchmark or other measurement yardstick varies substantially from country to country, identifications of tax expenditures in any given country can be quite different from those in other countries. Polackova Brixi, Valenduc, and Swift (2004) believe that the differences in benchmarks are so severe that they choose not to provide comparative data in their cross-country survey.

Kraan (2004) says that the problem of disagreement in the choice of a benchmark tax…

> …is rooted in different views of the normative tax base. The normative tax base is the monetary sum in the hands of private households to which the tax ought to be applied, for instance: income, value added, profit, sales… [T]he definition of the normative tax base is a very political exercise. For this reason, attempts in the past to define tax expenditures in terms of the normative tax base…have not been very successful. They have led to neither international nor domestic agreement about the concept of tax expenditure. Thus an alternative definition of a tax expenditure abstracts from the normative tax base. The definition uses rather the more neutral yardstick of the "benchmark tax". Tax expenditures in this sense are deviations from the benchmark tax. The benchmark has no normative significance. Deviations from it in order to arrive at the normative tax base may be perfectly appropriate. Tax expenditures may thus also be appropriate.[2]

Kraan thus defines more specifically the term "benchmark" to provide that it has no normative content. Presumably, if closer agreement on the nature of the benchmark did not require equivalent agreement on what the correct or best tax system is, different observers could come closer to common ground, but such progress is not yet forthcoming.

Tax expenditure controversy

The concept of tax expenditures has been controversial since its inception, with much of that criticism following upon Kraan's concern about the choice of the benchmark tax. A report by the US Joint Committee on Taxation (2008) summarises and revises the criticisms, and offers an alternative framework along the general lines that Kraan has proposed in an attempt to develop agreement on the usefulness of the concept (Joint Committee on Taxation, 2008).[3] The Joint Committee approach is too new to evaluate, but the criticisms of current methodology that they glean from the literature should be understood in considering this report. To paraphrase some of the key points, in particular:

- Some US critics believe that the normal tax system was not developed from first principles with sufficient rigour to serve as such a standard, resulting in errors in the identification of tax expenditures.[4] Some would suggest, along the lines of Kraan, that the differences in values among analysts are so strong that consensus on the nature of the benchmark would be impossible to achieve (Burman, 2003).

- Some critics see the normal tax system as a hidden agenda or target for a particular brand of tax "reform," such that, for example, an income tax benchmark would be a roadblock to the development of a consumption-based tax (Bartlett, 2001).
- The tax expenditure concept's recent focus on tax policy issues can be seen as an abdication of its original self-avowed motivation to compare tax provisions to spending programmes with similar objectives (Shaviro, 2004).
- Yet another line of argument is that the concept of tax expenditures implies a sense of "exceptionalism" for tax policy – that is, a conviction that tax policy should remain surgically clean and efficient, while all messy political compromises go back to the spending side of the budget where they belong (Logue, 2000).

Relative to these criticisms, the intent of the current report is quite pragmatic. The aspirational goal is better policy. To this end, differences between various countries' tax expenditure methodologies in general, and their benchmark tax systems in particular, should not prohibit analysis. Although such differences may prevent a cardinal ranking of the various tax systems according to the criterion of tax expenditure avoidance, such a ranking would serve little useful purpose. Because as Kraan suggests, there is not and should not be any presumption that all tax expenditures are bad, the counts of tax expenditures in different countries cannot be a measure of the relative merits of their tax systems.

In this report, there is no implication that the benchmark or normal tax system in any one country should serve as a model for the benchmark for tax expenditure analysis for all countries, or as the actual tax system for the country in question or for any other country. Rather, the motivation is that, given the possible policy problems that could be caused by tax expenditures as described below, a provision so identified in any given country bears examination, which may or may not suggest its modification or repeal. The budget and tax policy processes that yield more or fewer identified tax expenditures might bear consideration as well. For that matter, some tax expenditure measurement systems might, upon discussion, seem more conducive to this kind of analysis, and thus be worthy of consideration.

With respect to the criticisms expressed above, other than those that relate to the choice of the benchmark, there is no intended implication that tax policy making should be devoid of politics, and that spending policy making should be mired in it. With budgetary resources scarce, all government allocation decisions should be as efficient as possible. There is a presumption that tax expenditures with valid policy objectives should be

compared with possible spending policies that would achieve the same objective. Tax expenditures that fit the negative profile of the policy type – those that benefit small and less worthy groups, are non-transparent, etc. – should be considered for repeal, reduction, or replacement by better targeted, more open spending policies. Realistically, those decisions will be made in a political environment that may not be friendly for what could be characterised as a tax increase to finance a larger government with no change in policy mission – which is indicative of why the earliest contributors to this field believed that tax expenditures needed special attention in the first place.

Notes

1. See Surrey (1973), based on work done by the author in government service in the late 1960s, may have been the earliest full explication of this concept.
2. See page 131.
3. The new framework proposed bears some resemblance to the methodologies used in Japan and Korea, in that rather than identifying a "normal tax system," the JCT would choose exceptions to "congressional intent" as revealed in part in the tax law itself. The Joint Committee paper notes, however, that the list of provisions that would result, some of which would be called "tax subsidies" and others "tax-induced structural distortions" rather than "tax expenditures", would contain virtually the same items; more than anything else, the derivation would change, in the hopes of the authors to a more defensible process.
4. An early articulation of this argument was Boris I. Bittker (1969).

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Chapter 2
Policy background and practices

This chapter explains why tax expenditures are adopted and when they might work well. It then discusses the different theoretical allegations of negative effects of tax expenditures. Next, it explains the multiplication and growth of tax expenditures. It continues by discussing the special case of "make work pay" tax expenditures. Finally, it discusses policy making processes involved in implementing tax expenditures, such as reporting, review and oversight, and legislative process and enactment.

Policy background

The very earliest analyses carried a strong sense that tax expenditures were an inferior form of budget policy. Tax expenditures were said to be unfair, distortionary and costly, but also to be prone to rapid growth in both number and size, and resistant to eradication: in effect, to be a non-native plant in the garden of government-programme alternatives. And yet, tax expenditures remain a feature of all tax systems, and many are widely believed to be effective and efficient as well as politically unassailable. Tax expenditures must be considered realistically relative to alternative policy tools – spending programmes and perhaps regulation – which have their own process deficiencies in enactment and review, and introduce their own economic and political distortions. Logically, and for purposes of discussion, it is worth separating the ill effects of existing tax expenditures from their tendency to multiply and grow regardless of those flaws and failings. But first, it is important to understand why tax expenditures remain a fixture of tax systems worldwide.

Why are tax expenditures adopted and when might they work well?

Tax expenditures are enacted because there are perceived legitimate reasons for their use. Tax expenditures have a role to play; they are employed widely, and there are few, if any, suggestions that all tax expenditures should be repealed.[1] Assuming in the first instance that there are valid reasons for government involvement (such as market failures or merit goods), there are conditions under which tax expenditures are most likely to be successful, or even the best, policy tools to achieve their objectives.

Administrative economies of scale and scope

The pursuit of some public objectives might be administratively costly through conventional government spending programmes. Because tax expenditures usually deliver their reward through a reduction of tax that would be paid in any event, government spending agencies need not engage in the administrative effort to manage a programme and deliver payments. In instances where relevant information is already reported by the taxpayer through the tax system, that information can be used at lower marginal administrative cost than through duplicated reporting to a spending agency. Alternatively, where the tax expenditure involves not reporting some forms of income for tax purposes, there are consequent economies of administration.

Limited probability of abuse or fraud

Spending programme grants to individuals typically involve prior reporting by individuals and verification by a spending agency before the grant is paid. Where detailed verification is not necessary, a tax benefit that is paid solely on the ground of the taxpayer's filing can be cost-effective. Such situations may obtain where tax-preferred income or expense is delivered or paid by an employer, such as in employer benefits for insurance, child care, or education, or employer withholding of tax paid to provincial or local levels of government. The employer may report those payments to the tax authorities along with the information on the employee's taxable wages. The availability of employer information serves as a check on the reporting of the employee, much like the parallel reporting of expenditures by purchaser and seller under a value-added tax. In other instances, ready availability of verifying data from a separate entity, such as for interest or retirement payments to a financial institution, can effectively deter false reporting without prior verification by a spending agency.

A proper wide range of taxpayer choice

In subsidies for purposes such as retirement saving or health care, there may be wide ranges of private preferences. In those and other instances, the distinctions among different activities that properly qualify for governmental support may not be considered important. The involvement of a spending agency in such choices might be considered inappropriate or unnecessary, and a simpler reporting and verification process through the tax system might be thought to be more efficient.

Measurement of taxpaying capacity

Deductions or exclusions from income can be justified as proper measurements of the ability to pay tax, or as essential to measure income accurately. Under many applications of the tax expenditure concept, however, such deductions or exclusions would be considered structural features of the tax system rather than tax expenditures.

Theoretical allegations: When and why are tax expenditures bad?

It is alleged that many tax expenditures are not justified by the administrative advantages above, and have proved to be less than optimal tools for their designated objectives. One categorisation of the long-alleged flaws of tax expenditures is the equally long-lived taxonomy of the objectives of tax policy: fairness, efficiency and effectiveness, simplicity, and fiscal responsibility.

Fairness

It is alleged that the tax expenditure tool tends toward unfair results, both in the likelihood that undeserving groups of taxpayers obtain them, and in the operation of the tax expenditures once they have been enacted.

Selective and lucrative tax expenditures are most usually those that provide advantages for income from capital[2] or for self-employment, rather than labour. Those who own wealth, including businesses, tend to be those with higher incomes.[3] Upper-income taxpayers are more likely to take advantage of tax benefits for retirement saving and housing that are available in many countries.

There is the superficially reasonable argument that the well-to-do are the most capable of influencing the legislative process, though it is difficult to judge whether this bias would be more likely to affect the enactment of tax provisions than spending programmes. Reinforcing this point, there is the recognition that tax expenditures can be established by practice or in regulation, as well as by law. It would not be surprising if those most equipped to look beyond the relatively (though usually not absolutely) straightforward tax instructions into the detail of regulations and practice would be those with the most resources.

Once tax expenditures are in place, they are likely to benefit well-off taxpayers more than the rank and file. The well-to-do simply have more tax liability in the first instance, and so have more to gain from tax expenditures. To the extent that tax expenditures are complex and confront those who wish to claim the tax benefits with complex tasks, the most well-to-do are most likely to have the financial and technical knowledge, or the hired assistance, to take advantage of those opportunities.

Also, under a progressive system, any tax expenditure that reduces taxable income or postpones the recognition of taxable income, will most benefit those taxpayers who are in the highest tax-rate brackets. Those who are not taxable do not benefit at all from tax expenditures structured in that way.[4] This effect has been labelled an "upside-down subsidy," and has been considered a disadvantage of tax expenditures as a policy tool (Surrey and McDaniel, 1980; Gravelle, 2005). This upside-down effect can be defeated by using non-wastable tax credits – that is, tax credits in amounts that are fixed regardless of income, and that are payable in full to taxpayers even if the credits exceed the amount of tax liability – at the cost of additional complexity. For some purposes, this issue can be extremely important, and it will be close to the heart of later discussions of tax expenditures designed to "make work pay".

Empirical estimation of the distributional effects of tax expenditures is a large and complex undertaking. The quantitative estimates of the revenue effects of tax expenditures are typically of little help because they are undertaken one by one; and because they rely on the revenue forgone method, they incorporate no behavioural response on the part of taxpayers. The US Joint Committee on Taxation (2007) has periodically provided distributional estimates for selected individual income tax expenditures, and in its most recent annual report included estimates for 11 provisions. Burman, Geissler and Toder (2008) provided joint estimates for "non-business tax expenditures" which they define as "all tax expenditures reported on individual income tax returns, with the exception of those that affect taxes paid by business, such as depreciation allowances and business tax credits." Their estimates account for roughly 90% of the revenue loss from those tax expenditures. They find that "tax expenditures in the individual income tax benefit taxpayers in all income groups. They benefit high-income taxpayers more than low-income taxpayers in absolute terms and relative to their income, but less relative to the taxes they pay. The distributional effect of eliminating tax expenditures depends on how the budgetary savings are distributed." In other words, there are two key points. First, any distributional assessment of tax expenditures, like for any structural tax changes, can appear different depending upon the choice of prism between changes relative to tax liability and changes relative to after-tax income. Second, the ultimate distributional effects of tax expenditures are highly dependent on the behavioural responses of **both** taxpayers **and** government policy makers, who could substitute spending programmes for tax expenditures, distribute revenue raised by cutting tax expenditures through structural tax cuts, or use the revenue to reduce fiscal deficits.

Efficiency and effectiveness

Existing tax expenditures are difficult to evaluate and trade off with realistic alternative spending programmes – if any – that could pursue similar objectives. This is in part due to the customary division of labour in legislative bodies, where tax policies and spending programmes are often considered by different committees. It is also true because of the nature of tax expenditures, with benefits flowing to individuals and corporations through reduced tax liabilities. The effects of tax expenditures in terms of induced individual and business behaviour can be difficult to measure and difficult to compare with the outputs of government spending programmes. Finally, tax expenditures and spending for an identical purpose are rarely truly equivalent programmes. Because tax expenditures function through the tax system, they can have different effects on different taxpayers based upon their differing marginal tax rates, or the status of the taxpayers as taxable or

non-taxable based on their level of income. Spending programmes rarely would be designed to rely so explicitly on tax status, and so likely would function differently.

Similarly, the core competencies of revenue authorities generally do not include programme management, as opposed to straightforward revenue collection. There can be administrative efficiencies or economies of scale and scope in the use of tax expenditures, because relevant data are already collected on tax forms, and the existing tax-filing process can therefore fulfil an additional function. However, these efficiencies can result merely from the absence of truly necessary programme administration. Tax authorities may lack the programmatic expertise necessary to determine eligibility, and the premium on quick processing of tax returns may conflict with sufficient oversight. In this respect, there is an inherent difference between the administration of a tax expenditure and, for example, a government grant. The grant, typically, would be based on applications that would be accepted or rejected before checks are cut and the grant proceeds are used. In contrast, the beneficiary of a functionally equivalent tax expenditure usually would make a financial commitment and then claim a tax reduction on the basis of it. Thus, unlike the spending grant, the taxpayer's financial commitment could already be made before his or her claim could ever be contested – which arguably makes the government's task to revoke the claimed tax benefit somewhat more difficult, or in some instances even impossible. The need for additional data to judge eligibility can conflict with the value of limiting the number of tax forms and the amount of information on them. Beyond outright undetected fraud, this can mean that the objectives of tax expenditure programmes are not truly met, or are met at higher net cost than would be the case under spending programme administration.

Both the efficiency of the achievement of the objectives of tax expenditures and the ease of evaluation of their relative success, are reduced by the upside-down subsidy effect. Perhaps the simplest way to implement a tax expenditure may be to exclude or deduct from income an item of income or expenditure. In some instances, it might be appropriate that an item of income simply not be reported. However, under a progressive income tax with some unconditional amount of tax relief, the behavioural incentive of such an exclusion or deduction to earn such excluded income or undertake such expenditure would be greater for higher income persons, less for moderate-income persons, and perhaps nil for those with the lowest incomes. In instances such as a policy inducement to save for retirement or to purchase medical insurance, this incentive pattern might be judged absolutely perverse – giving the most inducement to those who need the inducement least – and yet it is the common practice in at least some countries.

Though evaluation of tax expenditures may be difficult, a more serious problem may be the failure to try. Tax expenditures typically are written into permanent law, in contrast with annual appropriated spending and with mandatory or entitlement programmes that are sometimes required to be reauthorised every few years. Thus, there is a perceived opportunity for potential beneficiaries who approach the political and policy making process to obtain a long-term, or even a perpetual, benefit by achieving the enactment of a tax expenditure rather than a spending programme. In fairness, it should be noted that review and oversight of spending programmes, especially mandatory programmes, often falls short of the ideal.

There are also weaknesses in tax expenditure reporting in the budget. Tax expenditures are seldom presented together with equivalent spending programmes. Seeing these costs together could make it easier to weigh cost amounts and consider tradeoffs.[5] Especially when combined with the legislative stovepipe structure of responsibility between outlay and tax policy, an out-of-sight, out-of-mind attitude can arise and continue to insulate inefficiencies from scrutiny for periods of years.

Complexity

Tax expenditures, like tax systems themselves, can be complex. Still, aspects of tax expenditures can cause the resulting complexity of the whole to exceed the sum of the complexity of the parts, in public perception as well as reality. As legal provisions, regulations, instructions and forms are piled upon one another, the body of tax wisdom needed to navigate the system can grow beyond the capacity of many non-experts. The marginal added provisions, even if they do not apply to a particular taxpayer, obscure that taxpayer's field of vision of what he or she needs to know. From a simple systems perspective, the potential interactions among additional tax expenditures could grow geometrically as more are added.[6]

To the typical taxpayer, as the mass of the tax system's processes becomes increasingly forbidding, the perception of unfairness and of being left out from unknown but assumed benefits for others could be demoralising. Likewise, the manipulation of unintended interactions among tax expenditures could reduce the efficiency of the allocation of resources, and reduce revenue relative to what was intended or needed, as well as reducing real and perceived fairness. Thus, the lack of transparency of tax expenditures can have a real cost in the effectiveness of government.

Revenue sufficiency

Though tax expenditures may be judged in some instances to be optimal uses of public resources, they always reduce revenue,[7] and thus always present a trade-off with general rate reduction. To the extent that tax expenditures or interactions among them are used opportunistically, or that the revenue costs of tax expenditures are simply underestimated at their creation, revenues will fall short of what was intended or needed.

The revenue cost of tax expenditures can be more difficult to estimate than the cost of government spending programmes. To be sure, the costs of even annually appropriated spending programmes can be unpredictable. Take a conspicuous example: large-scale, long-term construction programmes can experience cost overruns, and delays can add costs due to cumulative general inflation. However, tax expenditures can confront unanticipated levels of taxpayer take-up. Mis-estimations of revenue cost can lead to unanticipated fiscal deficits.

Tax expenditures can also confront cost uncertainties simply because of measurement difficulties involving changes in utilisation across the progressive marginal tax rate schedules that are typical of individual income taxes. A tax expenditure delivered through a deduction or exclusion, and even some tax credits that are phased out as income increases, can fluctuate in cost as taxpayers move between tax rate brackets. This phenomenon can be driven by unexpected changes in inflation as well as by real economic growth, because adjustments in tax parameters for inflation typically are made only with a lag. Such measurement unpredictability renders the measured "cost" of a tax expenditure(s) much less useful as a budgetary target.

By this same token, however, the case against tax expenditures on fiscal grounds must be fair. The cost of existing unchanged tax expenditures can increase because of real economic growth or inflation, in fashions that might arouse undue concern. For example, accelerated real economic growth could push taxpayers into higher progressive tax rate brackets, even if those tax brackets are indexed, thereby increasing the measured cost of tax expenditures that operate by deduction or exclusion from income – while increasing net revenues and decreasing fiscal deficits at the same time. And given the typical nature of tax expenditure cost estimates, which are undertaken for each tax expenditure separately, income growth pushing a taxpayer into a higher marginal rate bracket can increase the measured cost of multiple tax expenditures that operate through exclusion or deduction. Slower real economic growth might have a disproportionate slowing effect on tax expenditure growth, as this same mechanism operates in reverse. Or slower growth might make more taxpayers eligible for wage-supplement or

wage-replacement tax expenditures, thereby increasing the measured cost. In addition, in the United States, even the number of tax expenditures as well as their estimated cost, can change from year to year without legislative action. Some tax expenditures are not specifically created in law, but rather arise over time through practice as justified by interpretations of regulations. Thus, there have been occasions in which tax expenditures have been "discovered" by the analysts who prepare the lists, and so the numbers of tax expenditures have changed without legislative action. For these reasons, the measured revenue cost and the number of tax expenditures should be used only with analysis of the sources of the changes and how they relate to the underlying policy issues.

A question of definition

Some might consider designation of a revenue provision or practice as a "tax expenditure" to presume that this provision or practice is bad – and that this presumption is either wise or unwise. To some degree and in some instances, such a presumption would depend on the definition used by a particular country, or by a particular policy analyst. For example, some might argue that a particular tax expenditure is justified because it adjusts for the taxpayer's ability to pay – as would an allowance for disabled taxpayers. Yet under some definitions, a tax provision that defines ability to pay would not be considered a tax expenditure. Similarly, a tax provision that simplifies and facilitates the administration of the tax system – such as using a fixed-currency amount for an allowance, rather than requiring precise accounting – would not be considered a tax expenditure in some countries.[8] Such a definition, in effect excluding from the tax expenditure designation any tax provision that had merit, might be seen by some as tendentious. However, such examples do highlight that the definition that any particular policy analyst brings to the subject of tax expenditures might influence the implicit tone of any discussion. To be explicit, this report will not presume that designation as a tax expenditure is an implied badge of demerit, but rather that every tax provision or practice, designated tax expenditure or not, should be evaluated individually, on its own merit – as should every spending programme, in a world of scarce resources.

Practical allegations: Why do tax expenditures multiply and grow?

The number of tax expenditures

Tax expenditures arguably can be less difficult to shepherd into law than spending programmes. This could be true for several reasons. As noted

earlier, tax laws follow their own stovepipe through the legislative process, using committees with tax rather than substantive programme expertise. Thus, merit relative to alternative spending programmes to pursue the same objective might not be well evaluated. It may be easier to add generally unrelated provisions to a tax bill than to a spending bill that could be focused on a single programme or objective, thus allowing the number of tax expenditures included in a single tax bill to grow.

There may be opportunities to create marginally justifiable tax expenditures where no such opportunities would exist for programmes of similar merit and purpose on the spending side of the budget. There is probably a lower perceptual hurdle to surmount to justify a tax cut than a new spending programme. It may also be easier to advocate reducing the taxes of someone who engages in a particular meritorious behaviour than it would be to argue for printing a physical government cheque to the same individual. Thus, tax expenditures may sometimes be the most attractive option available to private interests who seek government support for their chosen activities. Perception of such a double standard could contribute to a popular sense of unfairness and reduced taxpayer morale. Specific industry subsidies might be taken to be particularly subject to this criticism. At the same time, counter-arguments to repeal of such targeted tax expenditures would be raised on the ground that the value of the subsidies had been capitalised into the market prices of the assets, and that recent purchasers would in effect lose part of their investments should the tax benefits be eliminated. (The same arguments could be made with respect to industry subsidies in the spending budget, of course.)

In some countries, tax revenues might be perceived to run at some customary level, in terms of the share of GDP. Such a sense of regularity may obtain in a country with a relatively high ratio of tax receipts to GDP, just as easily as in a country with a lower customary ratio. In good times, when receipts rise and deficits fall, it can easily be perceived that it is time for a tax cut. At such times, the enactment of a tax bill is more likely, and given this underlying motivation to cut taxes, the opportunity to enact additional tax expenditures could be great.[9] Such an occasion might be an opportunity to repeal or reduce some tax expenditures and use the revenue raised to provide an even greater structural rate cut. But the ease of mobilising the constituencies that would lose relative advantages in the repeal of tax expenditures might suggest the simpler road of avoiding those tough choices and enjoying a smaller structural tax cut that would challenge no one. Such reasoning suggests that a more far-reaching reduction of multiple tax expenditures would be more likely as part of a budget consolidation. There is no firm rule to favour one type of opportunity over the other.

Both the complexity and the perceived unfairness of the tax code could be driven as much by the number of tax expenditures as by the size of their revenue loss. The volume of paperwork in law, regulations, instructions and forms is not necessarily proportional to the revenue cost of a tax expenditure. Thus, in the dimensions of administration, complexity and unfairness, the harm due to several small tax expenditures could be greater than that from one larger provision.

The growth of tax expenditures

Tax expenditures tend to evade systematic and critical review. As a result, they can grow over time and avoid reform, reduction or repeal.

Common practice is that the tax law is permanent, and not subject to regular legislative reauthorisation or review.[10] In contrast with appropriated spending, which must be re-enacted annually, or even those entitlement programmes that are subject to periodic reauthorisation, this puts tax expenditures in a much less vulnerable position. To be fair, of course, budget analysts routinely decry the quality of review of spending programmes as well – particularly mandatory or entitlement programmes in permanent law, which are sometimes called "uncontrollable" in policy discussions. Even oversight of annually appropriated spending is often considered deficient.

Similarly, tax expenditures tend to be less transparent than spending programmes. Tax expenditures are typically not displayed side-by-side with spending programmes with similar objectives. This weakness of presentation fails to call attention to the inevitable trade-offs between similar tax and expenditure programmes, reducing the probability that tax expenditures might be reformed, trimmed back or eliminated to pursue the same objectives in alternative ways. In fact, in many countries it has required considerable effort to ensure that tax expenditures are reported at all, or are reported anywhere in the governments' budget documents.

The nature of tax expenditures is also different in important respects than that of spending programmes. A US policy maker once described the difference by referring to the vernacular reference to budget analysts as "bean counters," counting the "beans" that are spent under outlay programmes. He then drew a contrast between the spending "beans" and the "might-have-beans" that are not collected by the revenue system because of tax expenditures, with the important difference being the behavioural responses to tax expenditures that are fundamentally uncertain and cannot be accounted for. This different nature has made analysis more difficult, thereby inhibiting comparative analysis of tax expenditures and outlay programmes, and making reductions or eliminations of tax expenditures

harder to justify. It also makes it more difficult to design capping mechanisms for tax expenditures than for appropriated spending programmes, or even perhaps for mandatory spending programmes.

To the extent that tax expenditures evade review, they contribute to longer-term budgetary problems – just as do any spending programmes that are similarly neglected. Any changes in circumstances over time most likely would render those tax expenditures less, rather than more, efficient and effective, thereby with progressively lesser returns for the continuing (perhaps even growing) reduction of government revenue. Tax rates would have to be higher, or government deficits and debt would be greater, and other more important priorities would be neglected.

Furthermore, even with a strong efficiency, effectiveness, or equity case against a tax expenditure, repeal or reform of that provision might need to surmount an additional hurdle, in that it would be a tax increase – an option that is anathema in many political quarters. Schick (2007) hints at the interesting observation that, if the repeal of tax expenditures and the use of the resulting revenue to fund spending programmes is not politically feasible because of a terminal aversion to tax increases, then existing tax expenditures and alternative spending programmes are not really practical alternatives after all.[11]

Are "make work pay" tax expenditures an important special case?

To summarise the arguments to this point: Tax expenditures can be inferior policy instruments, degrading the efficiency and effectiveness, fairness, and simplicity of the tax system and of government operations generally, threatening fiscal sufficiency as well. Tax expenditures may under important circumstances be easier to enact than spending programmes, and not always because of underlying policy merit. Tax expenditures are also generally less transparent, and less subject to review and remedial action despite any policy deficiency. Recent anecdotal evidence, to be examined in greater depth later in this report, suggests that in keeping with this analysis, the incidence and magnitude of tax expenditures has been growing. All of this justifies significant attention to tax expenditures, including analysis of successful practices on reporting and review.

With that said and acknowledged, the so-called "make work pay" tax incentives, which are designed to increase the attractiveness of participation in the labour force for those who have comparatively low potential wages, are one class that might require a separate and somewhat different evaluation.[12] This fairly narrow class of tax expenditures anecdotally represents a significant share of growth over the last 20 years. If that

anecdotal account should prove accurate, it could alter the sense of the growth of the number and revenue cost of tax expenditures as a problem – depending upon the assessment of the merit of the non-wastable "make work pay" tax credit model. It would not reduce the importance of careful management of all tax expenditures, including the "make work pay" provisions.

The goal of making work pay has been widely accepted. Concerns that benefits for non-working adults have deterred labour-market effort, both because of the generosity of the benefits for the non-working and because of the high marginal tax rates required to claw them back, have been widespread. Given an arguable conviction that cutting such benefits would be inhumane, the only remaining options would be for public policy to increase the reward for work.

The menu of non-governmental initiatives is very short and arguably unsatisfying. Increasing statutory minimum wages can be a positive step from the point of view of equity. However, it also increases business costs. In some circumstances, that may be an acceptable trade-off. In others, it may threaten job creation, price stability, or both.

Government may choose to cut income tax liabilities for those earning low wages, through increased tax-exempt levels or reductions in the lowest bracket tax rates. That would increase the reward for those workers who do reach the lowest tax thresholds. However, for those below the thresholds, there would be no effect; and for those above but close to the thresholds, positive tax liabilities would be small, and the potential effect on the worker's reward would be small.

So at the lowest wage levels, where income tax liabilities are at or near zero, that leaves some form of publicly financed cash wage supplement – hence the interest in the kind of "make work pay" policies that we have seen in recent years. One argument against public wage supplements, which would apply to either tax or spending vehicles, would be that any such programme would serve as a subsidy to employers who create low-wage jobs, and thus result in more low-wage jobs, and fewer better-wage jobs, than would otherwise occur. However, that argument would seem to suggest that the marginal product of the worker is determined by the "marginal product" of the job. If skilled workers somehow found themselves in low-wage jobs receiving public wage subsidies, and unless the wage supplements were phased out unwisely in a cliff fashion rather than marginally, entrepreneurs would find ways to earn larger returns by putting those persons to work in settings that made full use of their skills. Countries that have gone the route of "make work pay" programmes have concluded that their populations of potential workers who would not be attractive

employees at a minimal socially acceptable wage level are large enough that those subsidies are not disruptive or counterproductive to the labour market. Thus, in some developed countries, though admittedly not all, the perceived question is not whether there should be a cash-transfer policy to make work pay, but rather what form that policy should take.

Although the "make work pay" class of tax expenditures might well be defined to include provisions that relieve working parents of some of the costs of childcare of pre-school aged children, and of older children before and after school hours, those provisions might be argued by some to provide merely a more accurate measurement of the cost of earning wage income. The same might be said of policies to relieve the routine costs associated with work, such as commuting expenses. More prominent among this class of tax expenditures are wage supplements, generally delivered as a percentage of wage income phased down once earnings pass a particular amount.

Origin and policy issues

The pioneer among tax expenditure policies of this type was the earned income tax credit (EITC) in the United States. That provision was enacted in 1974 and has been increased in stages ever since. It is controversial on both policy and administrative grounds, but appears secure within the American system. Its initial history might shed some useful light on the broader issue of the role of tax expenditures in today's tax systems, and the helpful practices for managing those provisions elsewhere.

In 1974, the United States was in recession, in no small part owing to the disruption of the world petroleum market at the time. The US income tax was not yet indexed for inflation, and despite the weakness of the economy, individual income tax receipts remained above their historical average as a percentage of GDP. There was a broad consensus that the economy needed a tax cut for macroeconomic stimulus, inflation notwithstanding, and the taxpayers demanded relief from the effect of high oil prices and rising taxes on living standards. At the same time, those hardships on low-wage workers created pressure to increase the federal statutory minimum wage.[13] There was interest in a policy to "make work pay", although that phrase had not yet attained the identity that it has today.

A spending programme to the same effect as the EITC would have been theoretically feasible, but not institutionally acceptable. Existing cash transfer programmes, notably the Aid to Families with Dependent Children (AFDC) Programme, were partly federally funded but were managed by the states. Those state programmes generally did not cover working people (except in a few states, and then only for those with extremely low wages),

and a federal government mandate to expand existing programmes or create a new programme, at least to this degree and with this cost, would have been perceived as overbearing. The alternative, to create a new federal spending programme and the proportionate bureaucracy, would also have been thought excessive. In the case of the United States, the additional administrative burden of either a new federal or an expanded state programme would have been massive. As of 2004, more than 22 million tax returns claimed the EITC (Internal Revenue Service, 2004). Fewer than two million families benefit from the successor to the AFDC programme, called Temporary Assistance to Needy Families, TANF (Acs and Loprest, 2007). Even allowing for the decline in the transfer programme caseload and the increased generosity of the EITC since the 1970s, and for duplication of participation between the two programmes, it is clear that implementation of the EITC as an outlay programme would have increased the administrative workload of the existing transfer programmes by orders of magnitude.

One advantage of the tax expenditure alternative was that it would enlist the existing tax administrative apparatus, including the reporting obligations of employers, possibly making efficient double use of those resources rather than in effect duplicating that effort (as described earlier in this report). The availability of tax data might assist in compliance monitoring and enforcement. Furthermore, existing federal programmes, which subsidised purchases of food (Food Stamps) and housing (public housing and rent subsidies), could not logically be expanded to the extent desired. Because these programmes were already intended to provide adequate access to the "necessities of life," it might not be deemed appropriate to provide additional allocations of those goods and services as a reward for work, and in the latter instance might merely bid up the price of a relatively fixed supply of housing.

The desire to "make work pay" could not have been fulfilled by an increase in the minimum wage alone. Given that inflation was already accelerating, there was risk associated with adding to employer costs. Also, the minimum wage benefited not only adult workers, but also teenagers with part-time jobs. There was strong sentiment for targeting the relief more narrowly, even so far as to restrict it to families with children.

Although anti-tax ideology was not as well developed at that time as it became several years later, there was a political preference for delivering relief in the form of a tax cut. And there were preferences for a total tax cut package that could be demonstrated to give a "fair share" to low-income taxpayers – even though many low-income families paid no income taxes, given the relatively significant low-income relief provisions already in the tax structure.

The sum of this combination of circumstances leaned heavily in the direction of a non-wastable income tax credit based on wage income. This combination of circumstances, though obviously different in the particulars, has persisted in the following years and apparently has been duplicated in other countries. It appears that these policy imperatives have made the "make work pay" non-wastable tax credit a standard and enduring item in the policy arsenals of some, but not all, OECD member countries, at least in light of the apparent absence of a viable alternative.

Advantages relative to mandatory spending programmes

Given the need for any wage supplement for low-income families to be a reliable source of income, a spending programme to fulfil the "make work pay" function would likely be a mandatory or entitlement programme, rather than an annually appropriated programme.[14] Typically, when tax analysts engage in a hypothetical comparison of the administrative, legislative and transparency pros and cons of a tax expenditure and a spending programme, they assume an annually appropriated spending programme. However, in the instance of a "make work pay" tax expenditure, the more relevant comparison is to a mandatory spending programme. Upon consideration, the latter comparison arguably yields different conclusions.

Any operational differences between such a tax expenditure programme and a mandatory spending programme would be of degree rather than of kind. So, for example, a mandatory spending programme might or might not be subject to greater periodic legislative review and oversight than a tax expenditure. Mandatory spending programmes receive perhaps as much criticism for lack of transparency, review, oversight, and legislative action as do tax expenditures. How a non-wastable tax credit is counted in the budget – as a spending programme, a tax reduction, or a combination of the two – might have some impact on the degree of oversight, as well as transparency.

Another concern about tax expenditures is that they can grow excessively, and are not cut back in times of fiscal stress. On the first count, it is not clear that a "make work pay" tax expenditure would grow any more than an equivalent "make work pay" entitlement. If the tax expenditure were to grow more rapidly because it was more effective in reaching eligible beneficiaries, that would most likely be considered an advantage, both for helping deserving families and for increasing the likelihood of the success of the programme in encouraging work. On the second point, reducing a low-income support programme in hard times could be both inhumane and counterproductive from a macroeconomic standpoint, and so that concern would seem no better placed in the context of "make work pay" tax

expenditures than with respect to the alternative of mandatory spending programmes.

Because "make work pay" provisions are linked to labour income, and labour income is reported to tax authorities as a matter of course, choosing a tax expenditure vehicle might cut out an additional round of processing wage and employment records by government outlay offices, at least in some instances. Tax authorities, after the initial investment is made, can compute the amount of the benefit and the phase out of that benefit, if applicable, from employer information that they already have. Pulling low-wage workers into the tax system to obtain a benefit might be thought to increase the probability of later tax compliance if and when their wage incomes increase.

A potential argument for a "make work pay" tax expenditure against a mandatory spending programme would be on the grounds of inclusion. A humane government that wanted to deliver wage supplements to low-wage workers might believe that those workers would be more willing to accept what was couched as a tax refund than what might be perceived as a welfare payment. On the same grounds, that government might believe that it would be more likely to find workers who were unaware of their deserved benefit through the administration of a tax programme than through an outlay programme. A taxpayer who files a return to claim a refund of wage withholding, and who is apparently eligible for, but does not claim, the non-wastable "make work pay" tax credit, can be pursued by the tax authorities to verify his or her eligibility. It is not clear that there would be such an opportunity for spending programme administrators to pursue a low-wage worker who simply does not come forward to claim an outlay wage supplement.

Potential disadvantages: the growth of "make work pay" non-wastable tax credits

There has been substantial growth in the cost of "make work pay" tax expenditures across countries in recent years. Some consideration yields at least ten possible reasons why the cost of these "make work pay" provisions might have increased in absolute terms, or relative to past projections of costs:

1. Existing spending programmes might have been converted to new "make work pay" tax expenditures.
2. New and additional "make work pay" tax expenditures might have been created.

3. Existing tax expenditures might have been made more generous.
4. Population growth (including immigration) might have increased the population eligible for the tax expenditures.
5. Recession might have pushed workers' incomes down and made them eligible for the tax expenditures.
6. Secular economic decline might have had the same effect.
7. Improved administration and outreach might find more eligible people and encourage them to apply.
8. The tax expenditures might work: because they make work pay, more people may be working more.
9. Manipulation and/or fraud might increase costs.
10. Estimation and projection error might have made the estimates of future costs too low.

Of all of these reasons for growth in revenue forgone, or in non-wastable refund outlays, only the last two present unqualified causes for concern. Obviously, fraud must be combated, certainly involving more intensive oversight; and estimating errors should be resolved. However, the other potential causes are more benign – certainly including programme success, through either greater labour force participation or more successful outreach to beneficiaries.

Other potential sources of growth are at least somewhat ambiguous. If these tax expenditures replaced similar mandatory outlay programmes, then policy observers would want to be sure that these decisions were not made to evade necessary oversight. However, in the absence of such manipulation, policy analysts need a straightforward evaluation of the merits of mandatory spending programmes versus tax expenditures for this particular purpose. The creation of such tax expenditures, or increases in their generosity, could be simple efforts to make work pay, which could in the view of some analysts be commendable. Unexpected population growth, or changes in macroeconomic conditions, either cyclical or secular, should be factored into programme plans, but would not necessarily indicate an advantage of outlay programmes over tax expenditures.

Problems of "make work pay" tax expenditures

Non-wastable tax credits as wage supplements are undeniably complex. In the United States, the Earned Income Tax Credit is thought to be one of the most complex provisions of the tax system. Because the most generous US credit is restricted to workers with children, there are complex

requirements to define families, and to ensure that only one of two separated parents claims the credit. There are provisions to offset income from capital against income from labour, so that wealthy persons with temporary property-income losses and incidental amounts of labour income do not benefit from the credit. Other countries surely have encountered similar complications. To some extent, the involvement of both the tax authorities and employers lifts some of the compliance burden of such non-wastable tax credits from the individual taxpayers and from spending-programme administrators, relative to what would be the case if those programmes were created as spending programmes rather than tax expenditures. However, as in the instance of other tax expenditures, the "make work pay" non-wastable tax credit is arguably under-administered and thus subject to incorrect results and fraud.

"Make work pay" tax expenditures do raise some new and unique issues. Tax authorities normally collect money, not give it away. Their usual task is to ensure that individuals report incomes that might otherwise be concealed. The revenue agencies may not be as well-equipped to deal with people who come forward claiming that they made more income, not less. This leaves open the prospect of a new kind of abuse.[15] Presumably, countries with non-wastable "make work pay" tax expenditures have by now adapted to this new challenge, but with government resources always scarce, it remains a concern.

In broader administrative terms, non-wastable tax credits add a new dimension to the workload of tax agencies, in both the interaction with taxpayers and data demands. Closer working relationships with outlay agencies may be helpful, but given that an important rationale of non-wastable credits is that their administration can double-up on normal tax processes, the potential role of outlay administrators is to some degree contrary to the rationale of the choice of a tax expenditure in the first place.

Non-wastable "make work pay" tax expenditures raise a second unique issue. Almost by definition, most of the beneficiaries of such tax credits live on tight budgets and need the additional cash from the credits day to day. The United States has never been successful at delivering cash from the EITC to its beneficiaries in real time, largely because of the annual accounting basis for income tax. Instead, the credit is delivered as a lump-sum payment after tax returns are settled in the early months of the following year. A mechanism has been created by which firms could give cash to their workers in effect as negative tax withholding, but it is rarely used. Firms find it administratively burdensome. Some formulations of a real-time benefit might leave the employer at financial risk if an employee claim is found to be unjustified. A related complication is that the actual EITC amount is determined on annual tax returns, but providing the benefits

to individuals in real time would require a weekly or monthly estimate starting at the beginning of a year. American tax authorities are always reluctant to pass out tax benefits in advance, for fear that a subsequent change in circumstances could increase the taxpayer's legal liability and that the excessive tax benefits already distributed could never be recovered, or could be recovered only with significant taxpayer hardship.

Other countries have taken different approaches to this issue. Canada and France pay a non-wastable tax credit in periodic instalments in a given year based upon the taxpayer's income and other eligibility attributes the prior year. This certainly simplifies the delivery of the tax credit in real time, but it raises the prospect of tax credits being delivered to a newly comfortable family (say with a student newly graduated from a professional school) one year after it really was needed. Germany simply runs a wage-supplement programme that might have been characterised as a non-wastable tax credit instead through government benefits offices, and does not consider the programme to be a tax expenditure (Koiwa, 2006).

Finally, all non-wastable credits raise transparency issues, in that they confuse measurement of the size of government. If, arguably, there is no substantive difference between a non-wastable tax credit and a mandatory transfer payment that delivers the same benefit, then budget analysts must be concerned that in the former case the government has lower measured outlays and lower measured revenues than in the latter.[16]

With respect to both intergovernmental comparisons and analyses of individual governments, accounting conventions for non-wastable tax credits are important. The total budgetary cost of non-wastable credits might be counted as a reduction of revenues, or as an outlay. Alternatively, the cost might be divided, with the cash refund portion counted as an outlay, and the reduction of tax liability counted in that fashion. There are advocates of each treatment. Some have argued for full outlay accounting, on the grounds that this most accurately reflects the substantive intent of the programme, and most directly encourages analysis of the trade-offs with similar outlay programmes (Koiwa, 2006). Others believe that dividing the cost between tax reduction and outlay cash refunds most accurately measures the impact on the size of government, holding that the non-refundable portion of the credit is a reduction of tax revenue, and the non-wastable portion is a cash benefit. The division of the cost can be uncertain, however, because for various reasons, including taxpayer morale, cash payments can be deemed as refunds of non-income taxes such as payroll taxes or social insurance contributions. Identification of the provision as a tax programme might argue for full tax treatment. Those who for political reasons would wish to portray the programme as a tax reduction, or who would wish to minimise the measured size of government, would choose full tax treatment.

Arguably, a non-wastable tax credit recorded solely as a reduction in tax liabilities would be less transparent and less visible in the budget process, because analysts simply would not know how much of the credit offset tax and how much did not. The programme therefore would be less open to effective review and oversight. The same might be said of treatment solely as outlays, although that treatment could be more accurate than would treatment as revenue reduction, if the non-wastable portion of the credit is the larger.

To summarise, non-wastable "make work pay" tax credits and equivalent outlay programmes arguably perform an important, if not an essential, function in prosperous economies today. Several countries have chosen the non-wastable tax credit model with apparent success. Where there is a significant degree of inequality of wage incomes, with potentially limited incentives for work on the part of less-skilled individuals, a wage supplement through the tax system can reward effort without adding to employer costs. The administrative apparatus of the tax system can arguably be used to manage the programme at lesser incremental cost than would running it as a spending programme, although that choice is to some degree a trade-off against reduced real-time programme verification and administration. There are undeniable complications to tax systems as a result, but those complications would not be avoided, only handled differently, than if the programmes were run through spending agencies. The growing number of such tax expenditures is testimony to the conclusion of many countries that this vehicle is the policy instrument of choice for making work pay.

The anecdotal growth in the number and size of tax expenditures in recent years is troubling, and justifies investigation of the implications of this growth for the efficiency and effectiveness of government, and for fiscal sufficiency. To the extent that tax expenditure growth has arisen from efforts to make work pay, it might be somewhat less troubling, and it would be less an indication of a new and more perilous situation broadly. Still, the need to maximise the efficiency and effectiveness of the allocation of scarce public resources, and to limit higher-than-desirable fiscal deficits, remains; careful management of all tax expenditures, including "make work pay" initiatives, must be an important part of that effort.

Tax expenditures and policy-making practices

In theory, it is government's job to continually look at everything. There is nothing to physically stop a policy making and political process from considering all alternative policy tools to achieve each objective, and to choose the tools that work the best, even without rules and guidelines. There

are numerous instances in recent history when problems were solved with political will but without a formalised process. There are few instances when problems have been solved with a formalised process but without apparent political will. Although this statement might seem a truism, it is worth remembering that the absence of rules should not inhibit analysis, and even the strongest rules require analysis to make them work.

This reality is as true of tax expenditures as it is of other policy issues. Policy analysts should not take a holiday from documenting the flaws in current institutions because an existing process should solve the problems, or because the absence of a process should make solution impossible.

Still, in the real world, at the margin, process can help. Sound process and rules can help to fend off an out-of-sight, out-of-mind mentality that can keep important issues from ever coming to debate. However, once the debate begins, it is up to political will and compelling analysis to lead to action.

One thing that rules can do is put known important issues on the agenda, at least nominally. Rules can also force policy makers to at least take explicit action that acknowledges through their votes and statements that they are violating widely accepted practice. Rules and processes can also force advocates of one perspective or another to at least articulate the unstated premises of their arguments. In these important respects, process can help.

To be sure, agendas determined by rules have been given short shrift, and sound practice has been violated. It is always within the power of those who write the law to change carefully considered existing law. But policy analysts should not ignore process, because it is sometimes the best tool available to put the facts on the table. Perhaps the ultimate testimony to process and rules with respect to tax expenditures will occur when advocates of some particular narrow-interest policy seek to avoid having it classified as a tax expenditure.

This section will divide practice questions into three categories: reporting, review and oversight, and the legislative process. The following chapter will consider the major issue of the role of tax expenditures in the budget process.

What practices have been successful in reporting and dealing with tax expenditures, to maximise fiscal responsibility, oversight, transparency, and administrative efficiency?

Reporting

Again, in theory and in an ideal world, policy makers can add and subtract, and can compare any data regarding tax expenditures from any source with the corresponding data on outlays in the budget. They also can compare data on tax expenditures with other data on receipts to determine the impact of tax expenditures on the tax base.

However, in that ideal world, policy makers can also compare data on outlays from any source with any other one, and can schedule oversight and review of outlay programmes at their discretion. Yet, it is considered basic good practice to create processes that prompt regular oversight of outlay programmes (though whether that basic good practice is fully observed is another question). There is no reason why tax expenditures, which just as surely allocate scarce national resources, should receive any less intense and frequent review than outlay programmes.

One basic standard of tax expenditure reporting is that data be included in the budget. For purposes of comparison, that is merely a convenience. More importantly beneath the surface is that the tax expenditure data have the same standing and be of the same level of quality as spending data in the budget.

There has been discussion over which agency – the revenue agency or the programmatic agency with related jurisdiction – should prepare the data. Some might have a preference for data coming from programmatic agencies. Thinking strictly of the source of the tax expenditure estimates, such a preference might not be well founded. There are considerable economies of scale in the estimation of the revenues forgone from multiple tax expenditures. There are also benefits of consistency of methodology. If different programmatic agencies created their own estimates of different tax expenditures, say under the individual income tax, there would likely be added costs of creation and maintenance of the various models, and there would be inconsistencies of concept and quality among the different estimates. It might make sense that all of the estimates be made by the revenue authorities. A separate and different point, however, is that the revenue authorities certainly should co-operate with the programmatic agencies on obtaining and controlling the quality of any estimating input data that do not come directly from tax returns or other tax documents. Co-operation at that level would entail no significant additional cost, and should increase quality.

A second standard is that tax expenditures should be reported in the budget in proximity to the outlay programmes that have similar objectives. Such reporting might reasonably be in addition to, rather than instead of, reporting in a separate tax expenditure section of the budget. The objective

is to invite and prompt comparison of tax expenditure programmes with outlay programmes, so that choices and trade-offs are confronted. Again, however, looking at tax expenditures next to outlays is not quite an apples-and-apples comparison; it is, rather, as was suggested earlier, a comparison of "beans" with "might-have-beans." Although it might be realistic to consider the elimination of one outlay programme to finance the creation (or the expansion) of another, it might not be equally politically feasible to eliminate a large tax expenditure and expect to retain the additional revenues to increase outlays, even for programmes with the same ostensible objective, simply because there are perceived limits to the level of taxes and the size of government. However, if there were duplications of objectives, and tax expenditures were found to be less effective than outlay programmes, it might be realistic to discuss the elimination of one tax expenditure to finance another, or to finance tax-rate reduction. Another way to address duplication would be to eliminate the spending programme. Beyond that, as noted earlier, a tax expenditure amount does not usually accurately reflect the change in revenues from the repeal of the tax expenditure in any event. Thus, comparisons of tax expenditures with outlay programmes might not be undertaken in quite the same fashion as evaluations of outlay programmes, but nonetheless should be highly desirable.

Comparisons of outlay programmes with cheques cut for the refundable portions of non-wastable credits might be a more natural use of tax expenditure data juxtaposed with outlays in the budget. Policy makers need to consider whether changing public preferences and technologies might change the balance of merit between non-wastable credits and outlay programmes, and a shift from one to the other would be less likely to raise widespread concern over the level of the tax burden.

The somewhat different context of non-wastable tax credits raises the question of what should be the reporting practice – whether the entire amount of the credit should be reported as outlays, or revenues, or divided between the non-wastable portion as an outlay and the portion offsetting other tax liability as forgone revenue. Koiwa argues that reporting as spending as opposed to dividing between spending and outlays highlights the trade-off between the tax expenditure and outlay programmes, and therefore yields better budgetary and fiscal control. That may be true. However, if both portions of the tax expenditure are presented in the budget along with outlays, the difference in oversight may be minimal; and counting the portion of the credit that reduces other tax liability as an outlay arguably overstates the size of government.[17] This choice seems arguable.

Review and oversight

Beyond having tax expenditures reported in the budget, in close proximity to the related outlay data, an even higher objective of process might be to obtain regular formal evaluation of tax expenditures in the budget documents or elsewhere. After all, the point of any presentation of tax expenditures is to weigh their efficiency and effectiveness against alternative spending programmes or, for that matter, general tax-rate reduction. Such evaluation could contribute to changes in policy that would yield a more efficient allocation of public resources.

However, obtaining such analyses, and maintaining such a level of commitment over time, would not be easy. An elected government with different priorities would not want to distract attention from its agenda toward problems elsewhere, including in tax expenditures. Even more so, a government would not want to antagonise its potential supporters on its priority issues by identifying problems with tax expenditures that might be politically unassailable. Government analysts would not want to anger their political superiors by picking such fights, or to exert considerable effort in analyses that they might believe to be quixotic wastes of time.

Elected governments have formidable tools at their disposal to discredit and weaken the analysis of tax expenditures. Analyses in the budget can be altered fundamentally by changes in the reference tax system, in particular from an income tax to a consumption tax, which would define away tax expenditures that reduce the tax burden on income from capital. Tax expenditures can even show negative revenue forgone if they do not entirely eliminate the tax on capital income. Merely changing the reference tax system at frequent intervals, in whatever way, can render the underlying analyses less useful.

Also disruptive to serious analysis of tax expenditures is a conviction that tax expenditures reflect an underlying premise that all income belongs to the government, therefore any tax expenditure, however distortionary and ineffective, is preferable to its repeal.[18] An example of a dispute over this point concerns the non-partisan auditing and analysis arm of the United States Congress concluded a recommendation for greater attention to tax expenditures with the following:

> As we move forward in shaping government for this century, the federal government cannot accept all of its existing programmes, policies, functions, and activities as "givens." Outmoded commitments and operations constitute an encumbrance on the future that can erode the capacity of the nation to better align its government with the needs and demands of a changing world and society. Re-examining the base of all major existing federal spending and tax programmes, policies,

> functions, and activities by reviewing their results and testing their continued relevance and relative priority for our changing society is an important step in recapturing our fiscal flexibility and bringing the panoply of federal activities into line with 21st century trends and challenges (US Government Accountability Office, 2005).

The then-sitting administration submitted the following response, which by custom was printed in the very same report:

> The GAO [Government Accountability Office] analysis in this report is deeply flawed and it would be unwise for the Administration to follow its recommendations. GAO believes that the Administration should pay more attention to tax expenditures as it formulates the budget, because of "the severity of the nation's long-term fiscal imbalance." The Administration rejects any attempt to address the long-term fiscal imbalance with tax increases (Office of Management and Budget, 1998).

An elected government with such principles would of course seem unlikely to pursue an aggressive analysis of the merits of particular tax expenditures. In the United States that reasoning would appear to hold, with two clear manifestations. First, spending programmes in the US budget are subject to a methodology called the Program Assessment Rating Tool, or PART. According to the budget, "these reviews have helped ensure that all program[me]s have clear, specific definitions of success; performance measures to track that success; and concrete improvement plans" (Office of Management and Budget, 2008). Tax expenditures are not subject to PART review. In addition, the report of the Senate Governmental Affairs Committee on the Government Performance and Results Act (GPRA) of 1993 calls on the executive branch of the government to undertake a series of analyses to assess the effect of specific tax expenditures on the achievement of agencies' performance objectives. The latest full budget, produced 15 years later, provides barely three pages of general comments on measurement issues, including a statement that current data are inadequate for systematic evaluation of tax expenditures.

To be fair to the then-sitting US administration, the prior elected government of the other major political party did not make much progress on this front either. There are many institutional reasons why (Burman, 2003). Every tax expenditure has a political constituency behind it, else it would not exist. The institutions that protect tax expenditures, including the customary status in continuing law and the lack of regular mandated review, mean that any discussion of a tax expenditure is easily construed as an attack. A government that has different priorities will not want to distract attention or generate ill will for its own proposals by calling attention to the

failings of other politically unassailable programmes. The government's policy analysts will not want to alienate their political superiors by providing rigorous critical analyses of those unassailable programmes under the same circumstances.

There may be ways to ensure that there is rigorous analysis of tax expenditures, even though it may fall short of political ownership by the elected government. In the United States, the non-partisan Congressional Research Service, a part of the Library of Congress, has produced approximately every two years a compendium of analyses of every tax expenditure.[19] The compendium includes an estimate of each tax expenditure's revenue cost, its legal authorisation, a description of the tax provision and its impact, the rationale at the time of adoption, an assessment which reports the arguments for and against the provision, a distributional analysis where available and relevant, and bibliographic references. In this way, the compendium makes the latest scholarship on each tax expenditure available without the interference of political ownership – but by the same token, without the impetus for reform provided by political ownership either.

In a somewhat more selective vein, the nonpartisan Congressional Budget Office (CBO) biannually produces a volume entitled *Budget Options*, which includes over 100 potential policy changes, generally to provide fiscal savings, including both spending and tax items.[20] Not surprisingly, many (but not all) of the revenue options involve reduction, repeal or reform of tax expenditures. Not all tax expenditures are addressed, and the presentations do not include the same comprehensive analysis of those tax expenditures as the Congressional Research Service volume does. However, this CBO document does hold selected tax expenditures up to scrutiny they would not otherwise receive.

Other countries have created successful institutions to facilitate review. Germany has begun a programme to evaluate its largest tax expenditures. Independent, non-governmental research institutions make multiple analyses of each provision to provide a check upon objectivity. The results are reported to the Parliament. The Netherlands has established a five-year schedule to review all tax expenditures, with the goals and standards of the reviews publicly established. These processes are underway, although more time might be needed to measure their ultimate impact. Other countries have attempted to establish similar processes, but some have achieved limited apparent success. Canada has engaged in evaluation only on an *ad hoc* basis, but with impressive research products.

These experiences reinforce the controversy that surrounds the tax expenditure concept. Some in the political and policy-making realm reject policy analysts' criticism of the inherent weaknesses of the tax expenditure vehicle; others merely reject any criticism of the particular tax expenditures that they support. Given this controversy, the ideal of regular, rigorous analysis of all tax expenditures by governments, feeding back into their policy decisions and proposals – akin to recognised (though admittedly often ignored) sound practice for all spending programmes – can be difficult to achieve. It is still the goal. However, for countries that have sufficient resources to have quasi-independent and non-partisan governmental research organisations, or as in Germany non-governmental institutions, a second-best and more attainable and reliable approach might be to commit those institutions to the task of providing ongoing evaluation and review, or at least cataloguing the review undertaken by academics and others outside of government. Time will tell whether independent analyses can motivate action by governments with no ownership of those studies.

A remaining question that is much more relevant in presidential (as opposed to parliamentary) systems is whether the locus of review and oversight should be in the executive or the legislative branch of government. Usually, executive review would be more likely to yield proposals for reform. Precisely for that reason, institutionalised review in the executive would be highly sensitive. The US example shows how even relatively explicit requirements for research can be technically fulfilled by statements about the importance of still further research, but at some time in the indefinite future. This suggests that the second-best approach of institutionalised non-partisan legislative review might be a second-best alternative to blissful ignorance. Especially in the context of process rules that force consideration of alternatives for budget savings, legislative review might prove productive; this context is discussed later.

Legislative process and enactment

Some countries have formal budget processes that involve quantitative disciplinary rules. Many do not. This section presents views regarding possible legislative practices **apart from** a budget process – for countries without formal processes, or for countries with budget processes to consider **in addition to** budget rules. Discussion of tax expenditures and the budget process rules themselves will come in the following chapter.

Apart from the fiscal deficit dimension, tax expenditures arguably can increase tax system complexity and distort the allocation of resources. Some techniques have been used in other contexts to try to address such problems arising from other forms of government action.

For example, the United States requires regulatory consideration of the paperwork impacts of changes in tax law and in other regulatory decisions (Graham, 2003). Regulation impact statements have been used in New York State (Department of Taxation and Finance) and Australia (Australian Parliament, 1999), and have been proposed for broader use in the field of taxation (Tran-Nam, 1999). A required assessment of the impact of any proposed tax expenditure might force policy makers to face up to any additional administrative or compliance burden.

The dimension of economic distortion might be measured, imperfectly to be sure, by the revenue cost of a proposed tax expenditure. One way to focus attention on the distortionary cost of tax expenditures would be to require reporting of the amount of tax-rate reduction that could be financed with the revenue loss.

In the United States, some entitlement programmes (although not the largest and most important ones) are legally authorised for limited periods of time (typically five years), requiring periodic reauthorisation. Doing the same for tax expenditures might improve oversight by requiring additional examination in the course of consideration of the reauthorisation legislation. However, the benefits of such requirements could come at a heavy price. As discussed above, the passage of large temporary tax cuts earlier in this decade, on the presumption that they would be reconsidered upon their expiration in light of any further developments on the fiscal deficit, now appears to have been at best ineffective, and at worst highly disruptive and divisive. In the United States, the existence of tax preferences with scheduled expiration dates could cynically be explained by a desire to ensure that tax bills will be taken up periodically by the legislature. However, there is some evidence (discussed later, in Germany, Japan and Korea) that such sunset dates might have led to more positive results in different environments.

Notes

1. Proposals to change from an income tax base to a consumption tax base are sometimes supported on the ground that they would substantially reduce the number of tax expenditures. However, past changes of tax laws generally regarded as significant have left large numbers of tax expenditures in place. For example, the United States Tax Reform Act of 1986 repealed perhaps 19 of 119 pre-existing tax expenditures (with the precise numbers sensitive to counting conventions; United States Office of Management and Budget, 1988). The largest effect on the number of dollars of tax expenditures in that instance likely came from the reduction of marginal tax rates, which reduced the values of the many tax expenditures based on exclusions or deductions from taxable income that were not repealed.

2. This point, of course, does not address the argument by some that the appropriate individual tax system, and therefore the appropriate reference tax system, is a consumption tax that would not tax income from capital at all.

3. Some tax expenditures, such as tax benefits for contributions to pension plans, are capped, and therefore the value to upper-income taxpayers is limited. However, other tax expenditures, like relief for realised capital gains or corporate dividends, typically are not limited in this fashion.

4. Maximum marginal tax rates have declined over recent decades, reducing this effect; the numbers of taxpayers with no liability have grown as well.

5. However, tax expenditure amounts are usually different in concept from outlay amounts, for reasons including, but not limited to, the fact that the benefits from some outlay programmes are taxed (thus calling for "outlay equivalent" measures of tax expenditures). See below.

6. At least in the United States, some of the greatest perceived abuses of so-called "loopholes" in the tax system have arisen not from individual provisions, but from the opportunistic use of combinations of provisions, sometimes tax expenditures, whose interactions were never intended or even considered. Examples include real estate tax shelters, which combined accelerated depreciation and the capital gains exclusion, among

other tax expenditures (along with the deductibility of interest, which in the US system is not considered a tax expenditure); and the tax-motivated sale and leaseback of non-profit and foreign property for the purpose of claiming deductions for depreciation that otherwise would have accrued outside of the taxable sector.

7. Ignoring the highly unlikely eventuality that a tax expenditure would have such beneficial effect that it would increase GDP sufficiently to replace its own direct revenue loss. In some instances, as well, negative tax expenditures have been measured, for example, for tax depreciation slower than the amount necessary to compensate for true depreciation or for the effect of inflation.

8. This is the case in the definition used by the Netherlands, as one example. See van den Ende, Haberham, and den Boogert (2004), pp. 136.

9. For example, in the United States, federal revenues have averaged slightly more than 18% of GDP for many years, and deviations in either direction have been short lived. In 2001, with recent revenues at record highs, considerable momentum for a tax cut arose, and the legislation that year included perhaps three net new tax expenditures (the increase in the number of tax expenditures reported in the federal budget documents for FY 2003 over that in FY 2002) while increasing the revenue cost of several others.

10. Note discussions below of customary or mandatory "sunset" or "phase-down" requirements in Germany, Japan and Korea.

11. During the fiscal surpluses earlier in this decade in the United States, temporary tax reductions were enacted with the justification that they could be allowed to expire if deficits were to reappear. Now, renewal of those tax reductions is argued on the ground that their expiration would constitute a tax increase, and no tax increase could be tolerated, even with renewed fiscal deficits.

12. There are of course other common and widely accepted classes of tax expenditures, such as deductions for charitable contributions or medical expenses, accelerated deductions for depreciation of physical business investments, and so on.

13. The minimum wage was increased in stages in 1966 legislation, and then increased again in 1974. In the absence of the new tax expenditure, there might have been pressure for a larger increase in 1974.

14. There has been some United States support for in effect converting entitlement programmes into discretionary programmes, on the grounds that they would then demand more attention and oversight. That notion

has not carried the day thus far, probably in part because it would at least in form put at risk what are considered essential supports to needy persons. See Antos, Bixby, Butler, *et al*. (2008).

15. In the United States, there was metaphorical concern about people claiming labour income from taking in each other's laundry to become eligible for larger EITCs. And there were actual cases of fraud, using forged employer earnings reports to claim the EITC.

16. With respect to intergovernmental comparisons, the importance of this issue is reduced to the extent that many developed economies use the same non-wastable tax credit policy tool; the differences among countries are thus restricted to whether the distributed monies are accounted for as outlays or negative tax revenues, and to the relative generosities of their tax expenditures.

17. Admittedly, in the United States, the refundable portion of the credit is far larger than the amount that offsets other taxes.

18. "The tax expenditure concept relies heavily on a normative notion that shielding certain taxpayer income from taxation deprives government of its rightful revenues. This view is inconsistent with the proposition that income belongs to the taxpayers and that tax liability is determined through the democratic process, not through arbitrary, bureaucratic assumptions." United States Joint Economic Committee (1999), *www.house.gov/jec/fiscal/tax/expend.pdf*, accessed 5 November 2007.

19. United States Senate, Committee on the Budget, Tax Expenditures: Compendium of Background Material on Individual Provisions, Senate Print 108-54, December 2004, prepared by the Congressional Research Service, is the latest volume.

20. Congress of the United States, Congressional Budget Office, *Budget Options*, *Volumes 1 and 2*, December 2008 and August 2009 are the most recent editions.

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Chapter 3
The role of tax expenditures in the budget process

This chapter discusses the role of tax expenditures in the budget process. Allowing the enactment of new tax expenditures without careful consideration of measurement issues and of regular review and oversight would make subsequent budget control much harder. A key question is how budget control processes can be designed to put tax expenditures on equal footing with spending decisions. It could be argued that a properly configured spending rule would be more effective than a deficit rule, both in maintaining fiscal balance and in creating incentives to control tax expenditures.

One reason why tax expenditures have attracted more attention of late, beyond their apparent recent growth in number and size, is that fiscal deficits are large in some countries, and could worsen with current adverse cyclical developments. Large and growing deficits are now particularly troublesome because many developed economies will soon face either accelerating or strongly continuing population ageing, which will tend to make fiscal deficits even worse. One result of looming fiscal deficits is growing interest in budget process and disciplines, including restraint of tax expenditures.

Disciplining tax expenditures is not easy or simple. There are several discontinuities between the measure of tax expenditures and the reality of budget outcomes. For example, the most straightforward and widely used method of measurement of tax expenditures, the revenue forgone method, does not account for taxpayer behaviour. For that reason, amounts of tax expenditures explicitly do not equal the revenues that would be gained by terminating them. The most likely outcome after the repeal of a tax expenditure is that taxpayers would attempt to minimise the impact on their spendable incomes, and so would attempt to minimise the increase in their tax liabilities. Some tax expenditures could likely be eliminated only with "grandfathering" of existing investments and transactions. Thus, on this one count, the increase in tax revenue from the repeal of a tax expenditure is likely to be less than the measured amount of the tax expenditure.

Other data regularities make the picture murkier. Tax expenditures interact with each other in varying ways. Eliminating multiple tax expenditures might push taxpayers into higher progressive tax-rate brackets, raising more additional revenue than the sum of the individual estimates. In general, it is difficult to predict the revenue effects of changes in tax expenditure policies from the published estimates, especially considering that those estimates typically use the revenue forgone method. Under other circumstances, multiple repeals could raise less than the sum of the individual items.[1] For this reason, revenue agencies routinely warn analysts against summing the estimates of individual tax expenditures to arrive at a total. It would raise complications if such an inexact total were operationalised as a target of budget policy. Of course, estimating the effects of policy changes for mandatory or entitlement spending programmes is also difficult.

There are other potential peculiarities. Faster income growth pushes taxpayers into higher tax-rate brackets, increasing measured tax expenditures even if the underlying law does not change.[2] Tax expenditures can evolve through changes in taxpayer practice or tax regulations, even without legal action, such that their revenue costs could increase or decrease relative to prior estimates.

Yet another question is the tenor of public attitudes toward the level of taxation, however replete with tax expenditures the tax system may (or may not) be. Whether a country's level of taxation is relatively high or relatively low, when revenues grow above a historical average level, which most typically occurs in good economic times when fiscal deficits are declining, there can be strong public sentiment pushing toward a tax cut. If such an implicit limit on tax revenues should be binding, it is unlikely that tax expenditures could be repealed, thus increasing receipts without compensating reductions in tax rates or similar changes in other structural tax features that would reduce the level of revenue back down toward the historical range. Of course, this argument could be broadened to hold that taxes are not likely to be an acceptable tool to narrow the budget gap under any circumstances. That broader argument may be politically realistic, but it would be most discouraging from the point of view of fiscal responsibility. A still broader view may suggest that major government spending programmes are just as politically entrenched as are tax expenditures, meaning that any deficit reduction is an uphill climb, and no option should be discarded.

There is another side to the budget control process, which is preventing the enactment of policies that worsen the outlook. Here, vigilance against the expansion of existing tax expenditures or the enactment of new ones could prevent both short-term decline of public budgets and long-term creation of implicit property rights in those particular provisions. Furthermore, because tax expenditures are typically enacted into permanent law with no guarantee of regular subsequent review and oversight, allowing the enactment of new tax expenditures without careful consideration would make subsequent budget control much harder.

In sum and as a broad conclusion, **measured** tax expenditures are an imperfect target, at best, for a budget control strategy. On the other hand, individual tax expenditure **policies** as a matter of principle should be as likely candidates for action to reduce a fiscal deficit as any other government policy, including spending programmes and structural tax features. Thus, tax expenditure evaluation should be part of the efforts for fiscal consolidation, which might or might not occur under the influence of a fiscal rule or a budget process. A key question is how budget control processes can be designed to put tax expenditures on equal footing with spending decisions.

To repeat some of the earlier discussion, the creation or expansion of tax expenditures can be the budgetary path of least resistance, offering multiple political benefits and advantages. Tax expenditures have the appeal of reducing taxes, for however narrow a beneficiary population. Relative to a spending programme to the same effect, tax expenditures result in a smaller

measured size of government, which may be politically attractive. Tax law can be complex, meaning that benefits for targeted populations can be less obtrusive, and might be politically acceptable as tax reductions when they would be unthinkable as spending programmes. Because they are typically written as permanent law, tax expenditures can be a more secure source of benefit for favoured populations than spending programmes that require annual appropriation, or at least periodic reauthorisation. Indeed, tax expenditures may have advantages in the policy-making process over general, structural tax cuts. For the revenue cost of a general tax cut so small as to be imperceptible, a substantial benefit can be directed to a small group of favoured taxpayers.

The political attraction of tax expenditures can affect even the mix of receipts by type of tax. If the policy-making system can give favours to selected constituencies most easily through tax expenditures in the income tax, there may be a tendency to increase income tax rates, reduce receipts by giving favours through tax expenditures in the income tax, and then make up the difference and raise further necessary revenues through other taxes. Such a distortion of tax policy making is probably undesirable.

To be sure, some of the political advantages of tax expenditures can be achieved through enactment of permanent mandatory spending programmes. As noted earlier, for purposes of support of low- and moderate-income working families, a non-wastable tax credit and a mandatory spending programme are close alternatives. And realistically speaking, the difference in merit between the two can be quite small, especially if benefits of whatever form for low-income working families are unlikely to be cut for fiscal consolidation. That would leave associated issues, such as: Is the oversight of mandatory programmes any more rigorous than for tax expenditures? Are programme management, innovation and improvement greater or less for tax expenditures than mandatory programmes? Is control of fraud greater or less for tax expenditures? Is beneficiary service (including the availability of payments on a periodic basis throughout the year, as opposed to only once per year) greater or less for tax expenditures? Are programme features such as implicit marginal tax rates for phasing out the benefit, treatment of married couples, and the like better or worse for a tax expenditure programme? In sum, with a non-wastable tax credit, there is likely to be less real-time programme administration, less-accurate or no real-time delivery of benefits, and resulting lower programme maintenance costs; whereas with an entitlement spending programme, there is likely to be greater real-time programme administration, real-time delivery and review of benefits, and resulting greater programme maintenance cost. Depending on programme reporting, there may be greater transparency with an outlay

programme, and a different measured cost of government. It may be arguable which form a "make work pay" programme should take.

Still, apart from such "make work pay" policies, there is distinct political attraction to the tax expenditure mechanism as a means to direct public resources toward relatively narrowly targeted ends. Therefore, any budget control mechanism must plug the tax expenditure loophole to be fully successful.

Types of budget rules

At a high level of conceptual aggregation, there are two broad types of budget rules. A **deficit rule** sets as its target a level of the fiscal deficit, either in currency or as a percentage of GDP. Examples of this type of rule are the European Community's Stability and Growth Pact and the US Gramm-Rudman budget process of the late 1980s. On the surface, a deficit rule would seem to address tax expenditures directly, in that revenue losses increase the deficit. In practice, however, deficit rules can be relatively ineffective against tax cuts in general or any other use of government funds, because such programmes can be created or expanded when the economy is strong, and the deficit target is not binding; and then, when the economy is weak and the deficit rises, the weakness in the economy can be used as an argument against reversing policy – which would have an undesirable pro-cyclical effect. Thus, a deficit rule is not by its nature an air-tight protection against the enactment or expansion of tax expenditures, and the task under such a rule is to make the rule effective generally. There is a case to be made that this task is extremely difficult (Anderson and Minarik, 2006).

The second type of rule is a **spending rule**. A spending rule sets a target of levels or changes of spending, rather than using the fiscal deficit as a goal. The advantage of a spending rule is that it can require, and allow, counter-cyclical behaviour: restraint in good times, without enforced restraint in bad times (Anderson and Minarik, 2006). When the economy is strong, a spending rule does not allow policy to use any budget windfalls. However, when the economy is weak, there is no requirement for pro-cyclical tightening of the budget, and the budget's automatic stabilisers are allowed to work to cushion the downturn. American experience with such a rule in the 1990s was positive, until the rule was first waived in 2001 and then allowed to expire.

On its face, a "spending" rule would seem to allow tax expenditures free rein. And in fact, Sweden employed a spending rule that imposed no restraint on revenue policy. Such a rule may constrain measured spending and the measured size of government, but unless those are the sole

objectives, its open loophole for tax policies to pursue spending-policy goals would seem to be a fatal flaw. As the most fundamental analysis of tax expenditures has explained from the very beginning, preferential exceptions to broad-based, neutral tax systems are in important ways the equivalent of spending. A budget process that limited the amount of spending but not the expansion of tax expenditures could be expected to steer plans for the use of public resources over the path of least resistance to the revenue side of the budget, in the form of tax expenditures – as illustrated by the experience in Sweden. However, the term "spending rule" can, and probably should, be recognised as a misnomer for such budget disciplines. A "spending" rule can cover revenues as well as spending narrowly defined. The US application of a spending rule included "pay-as-you-go" as a logically complete budget discipline system. In addition to statutory limits on annual appropriated spending, the pay-as-you-go discipline restricted combined changes of mandatory spending and taxes, including both tax expenditures and changes to structural tax parameters. Any change in mandatory spending or tax policies that increased the deficit over an estimation period of up to ten future years was required to be fully paid for by other changes in the same universe of policies.[3] Violations of the appropriated spending caps, and of the pay-as-you-go restrictions, were sanctioned separately by across-the-board spending cuts in the offending category. This system allowed no profit from converting an entitlement programme to a tax expenditure. Converting appropriated spending to a tax expenditure would make room under the appropriated spending cap, but would require an equal pay-as-you-go saving.

The pay-as-you-go system as applied in the United States was effective prospectively, and thus was subject to measurement manipulation such as underestimating costs or legislating unrealistic policy sunsets. However, a prospective deficit rule would be subject to the same manipulations. In fact, one might conclude that a pay-as-you-go rule would be less vulnerable to manipulations through optimistic mis-estimation than would be a deficit rule, because under a pay-as-you-go rule any error would be around a total estimated to have a net zero impact on the budget. In contrast, policies enacted to dissipate a budgetary windfall under a deficit rule would begin with an adverse net impact, and any estimating error would proceed from that point.

It could be argued that pay-as-you-go, as applied in the United States, is weak in that it restricts only adverse **changes** in policy, allowing an existing structural deficit to continue. However, the same system could be initialised with a requirement for specified amounts of future policy savings to be achieved from mandatory spending and taxes – including, if desired, a specified amount of budget savings through reductions and reforms of tax

expenditures. Some have argued for adding a deficit rule to a spending rule such that the tighter of the two constraints should bind. However, if the overall system could be satisfied by meeting one or the other rule, in effect the looser of the two constraints, then all of the weaknesses of a deficit rule would apply. If the ultimate constraint were the tighter of the two rules, it would require pro-cyclical budget tightening in bad economic times.

A pay-as-you-go rule could create an incentive to cut or repeal existing tax expenditures or mandatory spending programmes to finance any new mandatory spending programmes or general tax reductions. Pay-as-you-go could also stimulate evaluation of administration and quality improvement of tax expenditures, to achieve better outcomes from the fixed base of available mandatory spending and tax programmes.

The spending rule including restraint on taxes in the United States is widely held to have been instrumental in the progress of the budget from large deficit in the early 1990s to substantial surplus at the end of that decade. However, as yet more proof that sound process without political will is for naught, the spending rule was overridden in the first years of this decade, and then allowed to expire at the end of 2002, and substantial fiscal deficit has been the result. Still, based on this experience, it could be argued that a properly configured spending rule would be more effective than a deficit rule, both in maintaining fiscal balance and in creating incentives to control tax expenditures.

Notes

1. In a US example, repealing one itemised income tax deduction might leave a taxpayer claiming the fixed standard deduction, such that repeals of additional itemised deductions would have no revenue effect from that taxpayer. Burman, Geissler, and Toder (2008) provide estimates for non-business tax expenditures in the United States, which are further complicated by interactions with the alternative minimum tax (AMT).
2. This would certainly apply to faster real economic growth. It could apply to faster inflationary economic growth if the tax law is not perfectly indexed, or if tax-rate brackets and allowances are indexed with a lag (as they almost certainly would be).
3. Legislative rules also provided a point of order against policies with measurable net costs beyond the ten-year estimation window.

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Chapter 4
Country profiles: Methods, institutions and data

This chapter presents summary comparisons of ten countries' (Canada, France, Germany, Japan, Korea, the Netherlands, Spain, Sweden the United Kingdom and the United States) description of their own concepts and methods in defining and measuring tax expenditures, in order to provide a greater understanding of how different countries define, measure, review, and control tax expenditures It goes on to describe each country's institutions and practices that are relevant to the making of tax policy in the budgetary context. For most countries, it gives a count and a tabulation of measured tax expenditures, as shares of GDP and relative to aggregate revenues. It disaggregates tax expenditures under income taxes into a standardised set of budget purposes or functions. It attempts to compensate for differences across countries in categorisations of provisions as "structural" rather than as tax expenditures.

The following sections present summary comparisons of each country's description of its own concepts and methods in defining and measuring tax expenditures. The sections go on to describe each country's institutions and practices that are relevant to the making of tax policy in the budgetary context. A difficult goal is to shed light on some important questions about the handling of tax expenditures in OECD member countries. What government offices provide the accounting for tax expenditures? What can be said about the quality of the measurements? Are tax expenditures reviewed more or less carefully or often than similar mandatory spending programmes? How much of the recent growth of tax expenditures is accounted for by "make work pay" provisions? To what degree are tax expenditures integrated into the budget process? Is the budget process effective in disciplining the enactment or growth of tax expenditures?

For most of the countries, availability of data and language issues allowing, there is also a count and a tabulation of measured tax expenditures, as shares of GDP and relative to aggregate revenues. Tax expenditures under income taxes are disaggregated into a standardised set of budget purposes or functions. There is also an attempt to compensate for differences across countries in categorisations of provisions as "structural" rather than as tax expenditures, hopefully without doing violence to the countries' own measurement standards. For all of those countries, there remain questions as to the precise nature of some important tax expenditures, based upon issues of language and translation as well as the inherent complexity of tax systems. Collaboration with generous colleagues in each of these countries is gratefully acknowledged.

The goal is to provide a greater understanding of how different countries define, measure, review, and control tax expenditures. Based on the collaborative process thus far, few countries would claim to follow demonstrably superior processes, or to have achieved great success in dealing with these policy-making problems. Still, in the course of discussion, there were some ideas raised by individual countries that appeared to others to be worth serious consideration, or to have yielded some apparent desirable results. The report will close with a brief comparison and conclusion.

Notes on cross-country data comparisons

As was suggested in the discussion of the definition of tax expenditures at the outset of this report, any comparison of data across countries is subject to profound limitations. The comparisons in this report should be viewed more as qualitative than precisely quantitative. Even apparently significant numerical differences in numbers and amounts of tax expenditures can be

driven by apparently small differences in definition and judgment. To put the issue briefly at the outset, the point of the data comparisons in this volume is really not to provide answers, but rather to identify good and useful questions.

The differences that emerge from the comparisons do not come from the measurement issues that are most widely discussed at the conceptual level. For example, a textbook overview of the measurement of tax expenditures would compare and contrast the initial revenue loss method, the final revenue loss (or "revenue forgone") method, and the outlay equivalence method. However, in practice, all countries use the revenue forgone method of analysis, and only one country provides outlay-equivalence estimates as supplementary information; and so this headline measurement issue has no bearing on actual tax expenditure data. A second textbook focus is on the choice of an income or a consumption tax benchmark for measurement of tax expenditures. But as important as that decision arguably is in its implications for tax policy choices, all countries either explicitly or implicitly use an income tax benchmark; that major topic of classroom debate has no bearing on the data presented in this report. However, every country has some unique and subtle definitional aspects of its benchmark tax system which all else equal render the estimated costs of otherwise identical tax expenditures different and non-comparable from what would obtain in every other country. The discussion that follows will attempt the impossible task of identifying and explaining at least some of those subtle distinctions.

Even though those distinctions do render every country's data precisely non-comparable with every other country's, if those data are not over-interpreted, there are some apparent, important questions for further research, and qualitative lessons for policy may emerge. Careful, judgmental effort could provide some important and useful insights about how different approaches to tax expenditure enactment, review and control could lead to systematically different results. It would seem that research in this field, even without precise cross-country comparisons, would be worth the effort.

Conceptual issues

As noted above, one of the fundamental issues in the choice of a benchmark system is the taxation of income from capital. Under a consumption tax benchmark, any taxation of capital income would be a negative tax expenditure, and no relief of capital income taxation would be identified as a tax expenditure. Because no country uses a consumption tax benchmark, however, the issues in capital income taxation are not so extreme. However, there are far more subtle associated questions. For example, under an income tax, depreciation allowances that are more

generous than true depreciation should be identified as a tax expenditure. There is precisely no agreement on a quantitative measure of true depreciation. Likewise, depending on the precise interpretation of the benchmark, there may or may not be an identified tax expenditure for any relief from the double taxation of corporate dividends. Relief for the effect of inflation on the real value of interest or dividend income or accrued capital gains could raise measurement issues, although this issue is sufficiently complex that all of the countries considered here choose to ignore it. Countries that have schedular systems for capital-income taxation, under which income from capital is taxed separately at its own rates, often a single, flat rate, could choose either the schedular rate or the progressive rates on other income as the reference system.

Personal income taxation in general raises its own issues. Most definitions of tax expenditures would categorise provisions used to measure the ability to pay tax as structural provisions rather than tax expenditures. That principle raises a series of judgment calls as to whether many common tax features are subsidies to particular households or rather structural measurements of the ability to pay. Relief provisions for families with children could be categorised either way. Even a non-wastable tax credit to make work pay, especially one that is restricted to families with children, could perhaps be said to measure the ability to pay. The benchmark unit of tax expenditure analysis, and of taxation, is typically the family. However, for tax expenditure purposes, Canada defines the tax unit as the individual. That raises the prospect of different categorisations of family relief provisions as either tax expenditures or measurements of ability to pay under comparisons across countries. Koiwa (2006) argues that the failure to identify ability-to-pay reliefs puts them on a different plane of analysis than outlay programmes with the same objective.[1] On the other hand, if the point of income taxation is assessment based on the ability to pay, then identification of such provisions as tax expenditures would seem misplaced.[2]

Some countries identify tax expenditures only for their income taxes on individuals and corporations. Other countries also identify tax expenditures for value-added or sales taxes, estate taxes, specific excise taxes, and all other taxes. In this report, tax expenditures on different types of taxes are considered separately. This decision is vulnerable to the potential criticism that one country might choose to deliver a particular necessary relief through a tax expenditure under the income tax, while another country might decide to deliver relief to the same persons under the same circumstances through a tax expenditure under the value-added tax.

Categorising tax expenditures

Given the underlying purpose of tax expenditure analysis to compare tax expenditures with spending programmes, one task for this report was to categorise tax expenditures by their "purpose," or "function," or "budget function." From an examination of existing tax expenditures, we derived a set of purposes as follows:

- low-income, non-work-related;
- make work pay;
- retirement;
- employee benefits (non-health, non-retirement);
- education;
- health;
- housing;
- general business and investment;
- research and development;
- specific industry support;
- capital income relief;
- intergovernmental relations;
- charity;
- other.

These categories were chosen to reflect the typical range of outlay or tax programme functions used in other contexts, without falling into excessive detail. This did involve some ambiguity. For example, an issue noted earlier was the narrow distinction between tax expenditures that deliver relief to specific population groups and structural provisions that measure the ability to pay tax, and so are not tax expenditures. Potentially borderline provisions would include a tax credit for families with children, or a "make work pay" non-wastable tax credit.[3] Another ambiguity is a distinction between a tax relief or incentive for all general business activity (like accelerated depreciation for all equipment), and one for specific industries (like a tax incentive for investment by manufacturing firms). This distinction can become ambiguous when the incentive is for investment in computer equipment by all firms, which this report categorises as an incentive for all businesses (because any business can invest in computer equipment), rather

than an incentive for a specific industry (which manufactures the computer equipment). This report establishes a category for intergovernmental tax relief available to all sub-national units of government (such as a federal income tax deduction for income taxes paid at the provincial or local level), but categorises incentives for all business investment in selected underdeveloped sub-national jurisdictions as general business tax expenditures. Another ambiguity was resolved by categorising tax relief or incentives for a specific industry in specific provinces as a tax incentive for the industry, when it was found that all of that particular industry in that country was located in those provinces. Because of perceived interest in incentives for research, development and experimentation, there is a category for such tax expenditures; this report restricts that category to incentives for the activity of research, not to include investments in equipment or processes derived from research (which are considered general business relief where the incentives are available to all businesses). There is a category for employer-provided benefits to employees; that category does not include exclusions of the benefits of government programmes that provide assistance to workers. To provide some measure of comparability across countries for tax provisions providing relief for income from capital, this report creates a separate category for all such provisions; it includes estimates provided by some countries for provisions for relief for capital gains, or for double taxation of corporate dividends, which those countries consider to be structural provisions rather than tax expenditures. The list of ambiguities could go on.

This list of budget purposes was applied flexibly, to reduce to the extent possible issues of non-comparability across countries. In particular, the category for capital income relief was chosen to collect provisions of the type that conceivably could be considered as partial steps toward the benchmark for a consumption tax. Thus, that category could include provisions like Canada's relief from double taxation of corporate dividends, or capital gains relief, or accelerated depreciation for business investment. In contrast, the tax expenditures categorised as specific industry relief, or research and development incentives, or even general business incentives would be the kinds of subsidies that would more likely be considered as outside of the benchmark even of a consumption tax.

This report presents two sets of data presentation for each of six countries. The first part of each table attempts to reflect the tax expenditures as closely as possible to each country's own intended presentation. Every tax expenditure identified by each country is included, and provisions identified by the two countries (Canada and the United Kingdom) that list structural provisions, or "memorandum items," that are not considered as tax expenditures are not included.

The second part of each table attempts to minimise the degree of non-comparability across countries by recategorising tax expenditures and memorandum items to as close to a common standard as possible. There are distinct limits to what can be done through this process, and the degree of change in fact is quite small. However, as one example, Canada defines its dividend relief provision as a part of its benchmark tax, and so does not consider that provision as a tax expenditure. It is, however, included in the list of memorandum items with a cost estimate calculated as though it were a tax expenditure. Examination of other countries' practices suggested that they would consider such a provision as a tax expenditure. Therefore, in the second part of each table, Canada's memorandum item for reduction of the double taxation of dividends is included as a tax expenditure in the category for broad capital income relief. In another example, some provisions that are identified as tax expenditures that provided relief to large groups of the population, and that might be interpreted as measurements of the ability to pay tax, are moved from the list of tax expenditures to separate groups of "structural items" that are created for every country, not just for Canada and the United Kingdom that already have themselves created categories for "memorandum items."

Because every country measures tax expenditures for their income taxes, but some countries measure tax expenditures only under the income taxes, and the degree of coverage of non-income taxes differs from country to country, this report has not extended the categorisation of tax expenditures beyond the income tax for any country. Tables in the annex report tax expenditures under taxes other than the income tax simply by type of tax.

There are four tables for each country: *1)* tax expenditures as a percentage of GDP; *2)* tax expenditures as a percentage of total taxes; *3)* tax expenditures by type of tax as a percentage of revenue collected under that type of tax; and *4)* a count of the number of tax expenditures, described below.

Counting tax expenditures

This report includes counts of tax expenditures as of the latest actual data, to give some sense of trend. Those counts, like the amounts of tax expenditures, involve ambiguities. In general, this report considers an incentive used by corporations and by individuals in unincorporated businesses as one tax expenditure. However, where very similar incentives were listed separately, either for corporations, or for individuals, or both, we count each listing as a separate tax expenditure. Finally, there are of course potential language issues. These and other ambiguities have the effect that the counts reported in this report do not necessarily match those reported

elsewhere, although they may be more consistent from country to country than might be others that were done for one country alone.

In sum, there are difficult, probably intractable, issues in cross-country comparisons of tax expenditures. There is no way to make such comparisons unambiguously "right." The goal of this analysis is to make the comparison as useful as possible – again, not to provide answers, but rather to identify questions.

Finally, for reasons presented in earlier sections, the sums of amounts of different tax expenditures do not necessarily equal the amounts that would be measured if all of those tax expenditures were considered jointly. Thus, in theory, tax expenditures should not be added. In the real world, there is little alternative to adding tax expenditures if there is interest in their total amounts, because quantitative analysis of any combinations of tax expenditures is rare or non-existent.

Tax expenditures in Canada

Definition and measurement

Definition

Canada defines tax expenditures as deviations from a benchmark tax system.

Types of taxes measured

Canada presents tax expenditure estimates covering the individual and corporate income taxes, and the goods and services tax (GST). (The central government's published tax expenditure estimates cover only federal taxes, but some provinces generate their own estimates.)

Benchmark tax system

As noted earlier, the attributes of the tax system included in the benchmark are "the existing tax rates and brackets, the unit of taxation, the time frame of taxation, the treatment of inflation in calculating income, and those measures designed to reduce or eliminate double taxation" (of corporate-source income). To resolve those choices that are not already explicit in this statement of issues with respect to taxation of individuals, Canada defines the tax unit as the individual, the time frame of taxation as

the calendar year, and the tax base is partially adjusted for inflation. With respect to corporations, the tax unit is the corporation, the time frame is the fiscal year, and the tax base is not adjusted for inflation (Seguin and Burr, 2004). Canada's benchmark tax system for measurement of tax expenditures under the individual and corporate income taxes is an income tax. Because of inclusion of double-taxation relief in the benchmark, Canada's gross-up and credit tax provisions for corporate dividends, and its non-taxation of inter-corporate dividends, are not considered to be tax expenditures (but note below Canada's extensive presentation of "memorandum items", including the provision for relief of double taxation of dividends, in its tax expenditure reporting). The treatment of inflation in calculating income relates to the existing system's indexation of credits and progressive rate brackets under the individual income tax; the system does not index amounts of capital income for the effects of inflation. Because the unit of taxation under the personal income tax is taken to be the individual, some provisions relating to taxation of the family, which would be considered to be structural in most other countries, are categorised as tax expenditures.

For the GST, Canada's reference tax system is a broadly based, multi-stage (with credit relief for business inputs) value-added tax, collected according to the destination principle (that is, with relief for exports at the border and taxation of imports).

Concepts

Canada presents estimates not only for what it considers tax expenditures, but also for all but the most fundamental structural provisions of the tax system, which would be considered part of the benchmark tax system. Those provisions that are considered structural rather than tax expenditures narrowly defined are listed separately as "memorandum items." Also included under this heading are measures where data limitations do not permit a separation of the tax expenditure and benchmark components of the measure. This additional information is intended to allow users of the estimates to make their own judgments as to the proper universe of tax expenditures for analysis. Because decisions regarding what provisions do or do not constitute tax expenditures are controversial (an example is Canada's decision not to consider its dividend-relief provision as a tax expenditure), Canada's approach is helpful in cross-country comparisons.

Canada uses the revenue forgone method to measure its tax expenditures; the estimates assume no changes in taxpayer behaviour or economic activity as a result of the presence of the tax expenditure. Estimates are for annual cash flows, rather than present values of longer-run

or steady-state effects.[4] Each tax expenditure is evaluated independently, and so there is no attempt to capture interaction effects among any combinations of tax expenditures; this means that any sum of tax expenditures does not accurately reflect the combined impact of all of the relevant provisions. Tax expenditures are also estimated independently of effects on government spending programmes, and of any possible changes in other government tax or spending policies that are made because of the tax expenditures. Therefore, the amount of a tax expenditure is not a precise estimate of the budgetary effect of its repeal.

Methods

Canada's measurement methodology is very thoroughly documented (Seguin and Burr, 2004). The models used for estimation employ statistical samples of individual and corporate tax returns where the returns provide the relevant information, and otherwise rely on administrative, survey or other data from a variety of sources. Estimates for tax expenditures under the GST are derived from a separate model.

Reporting

Location of estimates

Estimates are displayed in a document separate from the budget, and therefore separate from the amounts of spending outlays for comparable purposes (Department of Finance, 2007*b*).

Frequency of reporting and years covered

Reporting of tax expenditures is not required by law, but Canada reports its tax expenditures every year. Since 1997, reports have covered the report year, the five preceding years, and two succeeding years (thus eight years in total). Each cycle's tax expenditures for the three earliest years for the individual income tax, and the four earliest years for the corporate income tax, are developed using final administrative data; the later years' figures are estimates or projections. Tax expenditure figures are produced for **calendar** years rather than **fiscal** years. Every four years, Canada produces a detailed enumeration and description of all tax expenditures.

Policy making

Adding or expanding tax expenditures in the budget process

The budget process in Canada imposes no special restraints on enactment of tax expenditures. However, in the early 1980s, Canada implemented an "envelope system" in the budget formulation process, under which a total sum for outlays and tax expenditures would be made available for each policy area. Implicitly, line agencies could spend the amount in their envelopes either on tax expenditures or on spending programmes. This system had some initial success, but then was abandoned (Grady and Phidd, 1992). There were perceived problems with treating different policy areas even-handedly and systematically. Tax expenditures proposed by the Finance Ministry were not charged to the envelope of any line agency, and so those agencies had an incentive to try to associate tax expenditures that they wanted with the Finance Ministry. At the same time, line agencies had an incentive to ask that tax expenditures in their areas be repealed, in effect proposing tax increases to finance their own increased spending. From a theoretical standpoint, that may be precisely what policy analysts would want: a choice between a tax expenditure and a spending programme to achieve the same policy goal, with the presumption that more transparent spending programmes would tend to displace tax expenditures. However, elected policy makers would likely see the issue differently, given that there are probably perceived limits to the acceptable level of total revenues, and that taxpayers and voters might not be receptive to what they would consider a tax increase to finance higher spending.

In 1988, there was a tax reform aimed at broadening the tax base, and some tax expenditures were eliminated. Under fiscal austerity pressures in the mid-1980s and early 1990s, tax expenditures were considered for repeal or consolidation. In more recent years, Canada has run consistent budget surpluses, and there has been pressure to increase both spending and tax expenditures.

Incentives to repeal or reduce existing tax expenditures in the budget process

Canada has no special restraints on tax expenditures or structural tax provisions in the annual budget process. There is no requirement that changes in policy be fiscally neutral, although there are non-binding targets for the growth of spending, keyed to the growth of the economy. Currently there are only three tax provisions that are time-limited: two accelerated depreciation provisions (manufacturing and clean energy technologies) and

a tax credit for investors who buy tax-advantaged shares in mineral exploration companies. None of the major transfers to persons (elderly benefits, employment insurance, and the Canada Child Tax Benefit (CCTB)) are scheduled to expire.

Policy review

Review of tax expenditures

There is no formal mechanism for tax expenditure review by Parliament or Cabinet after provisions have been approved in a budget. However, tax measures are reviewed on an ongoing basis within the Department of Finance (and the Canada Revenue Agency, with respect to administrative matters), with technical input as appropriate from line departments. Some measures are evaluated more formally on a discretionary basis and the results are published (Department of Finance, 2007*b*).

Review of comparable spending programmes

Projections of future programme spending are provided for a five-year period in the Fall Economic and Fiscal Update (or economic statement, as the case may be) and for a two-year period in the budget.[5]

Information about causes of changes in budget results relative to past projections

The budget and the Fall Economic and Fiscal Update typically report changes in the budgetary balance arising due to changes in revenues and expenditures, which reflect economic and fiscal developments since the last forecast. The impact of any new legislative changes is identified separately (Receiver General, 2007). The budget and the Fall Economic and Fiscal Update also present five-year forward estimates of both revenues and outlays.[6]

"Make work pay" tax expenditures

Canada has several tax provisions that could be categorised as "make work pay" tax expenditures, but other outwardly similar provisions should not be so considered. These provisions were motivated by a perceived "welfare wall" that imposed high implicit marginal tax rates and thereby discouraged work effort on the part of public-benefit recipients.

The CCTB is composed of three income-tested benefits: a base benefit, the National Child Benefit Supplement (NCBS), which is targeted to low-income families, and the Child Disability Benefit (CDB), which is an additional benefit for families caring for children with severe disabilities. The main purpose of these benefits is to provide financial support to families with children, and only the NCBS could be considered to be a "make work pay" provision.

Although administered through the tax system, the CCTB is recorded as an expense in the *Public Accounts of Canada*.

The CCTB is paid monthly to eligible families provided that each supporting parent has filed an income tax return for the previous year. The amount of benefits, which is paid over a July to June period, is based on the combined net income of the supporting parents for the previous taxation year. That is, the benefits paid between July 2007 and June 2008 will be based on 2006 net income.

There are two other tax provisions that can be considered as "make work pay" measures: the Refundable Medical Expense Supplement and the Working Income Tax Benefit.

The Refundable Medical Expense Supplement provides assistance for above-average disability and medical expenses to low-income working Canadians. The measure improves incentives for disabled Canadians to participate in the labour force by providing an alternative to disability-related supports under provincial social assistance arrangements. It effectively takes the form of a non-wastable credit that is calculated and deducted against the individual's income tax liability when the annual tax return is filed.

The government has introduced a Working Income Tax Benefit (WITB) (which is analogous to the Earned Income Tax Credit in the United States). The WITB helps to make work more rewarding and attractive for an estimated 1.2 million Canadians already in the workforce, thereby strengthening their incentives to stay employed. In addition, it is estimated that a WITB will encourage close to 60 000 people to enter the workforce.

A WITB of up to CAD 1 000 is provided to couples and single parents with family earnings of CAD 3 000 or more and net income less than CAD 21 167. Couples and single parents with earnings of CAD 8 000 or more and net family income less than CAD 14 500 will receive the full CAD 1 000 amount. The WITB is provided as a non-wastable tax credit, effective for the 2007 tax year, with payments beginning in 2008. Since 2008, families can apply for an advance payment of one-half their estimated annual entitlements. The WITB is generally available to individuals 19 and older, not attending school full-time.

An additional supplement will be provided for low-income working Canadians with disabilities, as these individuals generally face even greater barriers to workforce participation. Employed individuals who are eligible for the Disability Tax Credit (DTC) will qualify for the disability supplement of the WITB. Benefits from the WITB will start when the earnings of the DTC-eligible individual reach CAD 1 750. The disability supplement will increase with individual earnings up to a maximum annual amount of CAD 250. The WITB does not appear as a tax expenditure in the current listing because it was not yet implemented.[7]

Number of tax expenditures

Income taxes

In 2004 (the latest year based on final or near-final data), Canada reported 143 tax expenditures under the income taxes (see Table 4, as reported by country). That is an increase from 126 in 1994. Over those years, the CCTB was counted as a tax expenditure, but it has not been so considered starting in 2006 (although Canada has other, smaller tax expenditures which this volume would categorise as "make work pay"). Despite that change, Canada's tax expenditure count increased to 154 by 2007 (based on not-yet-final data). Of those 143 tax expenditures in 2004, the largest category, specific industry relief, accounted for 34. General business relief included 32 tax expenditures. As noted earlier, Canada considers its unit of analysis for the benchmark tax system to be the individual, not the family. It therefore identifies two tax expenditures in each year that likely would not be so considered in all other countries, which implicitly choose the family as the unit of taxation. On the other hand, Canada lists several provisions for the relief of double taxation and for relief from inflation as memorandum items, rather than as tax expenditures. All other countries covered in this report would most likely count those provisions as tax expenditures. Under the approaches of other countries, therefore, Canada most likely would count 148 tax expenditures, rather than 143, in 2004 (see Table 4, with reclassifications by author).[8]

Other taxes

Canada reported 32 tax expenditures under the GST in 2004, an increase from 31 in 1994.

Memorandum items

Canada reported data on 38 "memorandum items", which are considered to be structural rather than tax expenditures, in 2004. There were 44 memorandum items reported in 1994.

Amount of tax expenditures

Income taxes

In 1994, Canada reported tax expenditures under the income taxes equal to 8.3% of GDP. By 2004, that had dropped to 5.4% of GDP (see Table 1, as reported by country). Thus, even though there were more tax expenditures in 2004, their admittedly imprecise arithmetic sum had dropped fairly substantially. The fundamental measurement problems prevent us from drawing any firm conclusions, but the figures do suggest that the increase in the number of tax expenditures may not have led to a greater influence on the economy or on sums in the tax system. More specific research would be needed to examine that conclusion. In 2004, the largest reported tax expenditures were for retirement and for inter-governmental relations, with general business incentives accounting for about half their amount. The most numerous tax expenditures, for specific industry relief, actually accounted for a sum equal to a comparatively small percentage of the GDP. Under the recategorisations in this report to achieve somewhat greater comparability with other countries, some general business relief tax expenditures are moved into the category for capital income relief more broadly (see Table 1, with reclassifications by author).

Other taxes

Canada reported tax expenditures under the GST that added to an amount equal to 1.2% of GDP in 2004. That was down from 1.4% of GDP in 1994.

Memorandum items

Canada's memorandum items summed to an amount equal to 3.6% of GDP in 2004. That is down from 4.3% of GDP in 1994, thus following the decline in the reported arithmetic sum of tax expenditures.

Tax expenditures in France

Definition and measurement

Definition

Tax expenditures are defined in France as legal or statutory measures whose implementation induces a lower tax revenue for the State in comparison with the application of the benchmark or "norm" – that is, the basic calculation principle of the tax.

Types of taxes measured

Tax expenditures are defined for every tax, including individual and corporate income taxes, wealth tax, value-added tax, stamp duties, and other indirect taxes. Some public documents list tax expenditures for social insurance taxes or contributions. Until recently, tax expenditures were defined only at the central government level; however, since the Budget Act for 2007, tax expenditures for local taxes (when they are refunded by the central government) have been listed.

Benchmark tax system

The "norm" is an interpretation of the intentions of the legislature. One general criterion used to define a tax expenditure is that it have a narrow scope. A general measure, which aims to benefit a large majority of taxpayers, is more likely to be considered a part of the norm. Previously, the age of a tax provision was also relevant. A measure of long standing could have been taken to be accepted as a part of the norm, and removed from the list of tax expenditures. However, the concept of the norm has now been changed, and long-standing tax expenditures are no longer dropped from the list and taken to become a part of the norm.

The French benchmark tax system for purposes of calculation of tax expenditures under its income tax is in fact an income tax, and so provisions that reduce the tax burden on capital income are considered to be tax expenditures. However, the norm is conceived as a basic income tax, such that many provisions that might otherwise be considered "structural" are counted as tax expenditures; this aspect of the definition of the norm might be thought to increase the number of provisions that would be considered as tax expenditures. So for example, although the norm includes progressive income tax rates and different filing statuses for married couples and single persons, special allowances for handicapped persons or single parents are not included in the norm.

Concepts

In France, tax expenditure estimates indicate the revenue directly forgone by the government, with no accounting for behavioural responses, changes in economic activity, or interactions among different provisions. Accordingly, tax expenditure estimates are not precise predictions of the amount of revenue that would be gained by repeal, and any sum of tax expenditures does not accurately reflect the combined impact of all of the relevant provisions. Only provisions judged to be tax expenditures are estimated; there are no reported estimates for structural provisions that are a part of the norm.

Methods

Tax expenditures are measured using simulations from a statistical sample of taxpayers and by other methods. The perceived reliability of many estimates is also specified, using designations as "very good," "good," or "approximation." For 2009, approximately 11% of all tax expenditures were not estimated at all; this was a significant reduction from 44% not estimated in 2001, and 20% in 2008. Of the remaining 89% of the tax expenditures that were estimated, 24% of the estimates were judged of "very good" reliability, 29% were "good," and 47% were judged as "approximations." The number of beneficiaries of a tax expenditure is reported where it is available.

Reporting

Location of estimates

Tax expenditures are reported each year in the Budget Act, as an annex, "Ways and Means Evaluation," of the Finance Bill, as well as in the Finance Bill for Social Security. The presentation in the Finance Bill of the Budget Act includes a legal reference for the provision; the number of beneficiaries (when available); the method of evaluation (when available); the reliability of the evaluation; the year of the creation of the tax expenditure, and of the last important modification of it; and the cost for the budget year and two preceding years. In the Finance Bill for Social Security, there is a presentation of the provision, a legal reference, the number of beneficiaries, the year of creation, the cost, and whether there is a compensation for social security for the provision.

Frequency of reporting and years covered

As noted above, tax expenditures are reported each year in the Budget Act and in the Finance Bill for Social Security. Both the Budget Act and the Budget for Social Security Act report the cost of tax expenditures for the budget year and the two prior years.

Policy making

Adding or expanding tax expenditures in the budget process

At present, France has no restriction upon the consideration of new tax expenditures, although Article 40 of the Constitution prohibits the submission of private member bills that would either reduce public revenue or increase expenditures (Assemblée nationale, 1958).

Incentives to repeal or reduce existing tax expenditures in the budget process

As noted above, there is no restriction on the consideration of tax expenditures. By the nature of the spending increase prohibitions in the Constitution, there is also no incentive to propose to decrease a tax expenditure to finance an increase in spending.

Policy review

Review of tax expenditures

The Organic Law requires that the Ways and Means Annex of the Finance Bill of the budget present an evaluation of each tax expenditure, but to date such evaluation has been limited to an estimate of cost. A new process of evaluation of tax expenditures began in 2006, and improvement of evaluations is a priority. However, at this stage of the process, there is concern that there is not yet a working set of performance criteria for those evaluations. The criteria used at present may be too numerous and not fully relevant. Any sunset dates for tax expenditures would be specified in the wording of each individual provision; there is no comprehensive list of expiring measures and the dates of their expirations.

Review of comparable spending programmes

The French budget does contain mandatory spending. It is estimated that 80% or more of the budget is comprised of mandatory spending. There are no specific sunset dates for mandatory spending programmes.

Information about causes of changes in budget results relative to past projections

The Budget Review Act (*la Loi de règlement*) reports on differences of actual revenues from projected estimates. It specifies the differences due to legislative changes on particular taxes or tax expenditures.

"Make work pay" tax expenditures

France has a non-wastable "make work pay" tax credit. If this tax expenditure exceeds the amount of tax owed, it can be granted in cash. However, even the non-wastable amount is accounted for as a decrease in revenues, not an expense. People receiving cash in one year can be granted a monthly advance as an anticipation of the benefit in the next year. The amount of the benefit is regularised once a year after the actual amount of the credit due is known.

The main goal of this measure is to reduce the tax wedge for people in the lower part of the income distribution and thus make their return on labour effort attractive. France considers from a purely economic point of view that such a measure is a tax credit rather than a public allowance. It was also seen as more rational, from an administrative point of view, to create a tax credit on income instead of a new spending allowance that would have involved administrative complexity. This measure was inspired by the similar foreign measures (such as the American EITC and the English WFTC) which are, in the majority, considered tax expenditures. At this time there is consideration that the insufficient co-ordination between the "make work pay" tax expenditure and the benefits system creates inefficiencies.

Number of tax expenditures

This report includes no independent analysis of tax expenditure data from France. A communication from France indicates that the number of tax expenditures, at 486 for fiscal year 2008, is 3.6% greater than for 2007, and 21% greater than the 401 tax expenditures in 2001.[9] The latest French publication indicates that the number of tax expenditures declined to 469 in 2009 (Ministère de l'Economie, des Finances et de l'Industrie, 2007). Recalling that, at least in the past, France's evolving norm in effect absorbed

some tax expenditures over time, the growth in the number (and the amount) of tax expenditures could have been greater if the norm were somehow held constant.

Amount of tax expenditures

Communication from France indicates that the total amount of tax expenditures for fiscal year 2008 was estimated to be 7.1% greater than for 2007, and 16% greater than for 2001. The latest French publication indicates that the amount of tax expenditures increased by another 4.2% in 2009.

Tax expenditures in Germany

Definition and measurement

Definition

Germany does not have a legally stated definition of tax expenditures. The law makes reference to aid to enterprises and business sectors of the economy. Provisions that benefit households are reported as tax expenditures only in so far as they are indirect subsidies to private enterprises or business sectors. Thus, the implicit definition of tax expenditures used in Germany is somewhat different from that in other countries.

Types of taxes measured

Germany measures tax expenditures under a wide range of taxes, but not all of its taxes have tax expenditures. The central government lists the revenue forgone to the federal budget, to the budgets of the *Länder*, and to the local government authorities; that is, tax expenditures are reported for all levels of government. This follows from the requirement that the legal basis for most taxes is the federal law. Even taxes (for example, the inheritance tax) whose revenues are assigned exclusively to the *Länder*, or taxes whose revenue is partly assigned to the *Länder* or to municipalities, must be adopted by both of the chambers (both the *Bundestag* and the *Bundesrat*) of the German Parliament.

Benchmark tax system

There is no explicit legal definition of the benchmark tax system for purposes of estimating tax expenditures. The implicit reference tax system is defined by the legal language described above, and is in a sense considered to be re-evaluated with every new tax law. Structural provisions of the law, like the personal exemptions or progressive rates, are considered as part of the reference tax system and thus not as tax expenditures.

Concepts

Published tax expenditure estimates represent revenue forgone on a cash basis for the particular year. They do not account for behavioural responses on the part of taxpayers, and thus are not intended to be estimates of the additional revenues that would be collected in the absence of the provisions. Because some tax expenditures are at least partly intended to simplify tax administration, the additional revenue collected from the repeal of those tax expenditures could be less than the reported amounts. Each tax expenditure is evaluated independently, and so there is no attempt to capture interaction effects among any combinations of tax expenditures; this means that any sum of tax expenditures does not accurately reflect the combined impact of all of the relevant provisions. Germany provides estimates only of provisions that it deems to be tax expenditures, not for any provisions that are considered to be structural parts of the benchmark tax system.

Methods

The tax expenditure estimates are based on different sources of data depending on the nature of each tax expenditure. Direct payment data, estimates based upon official statistics, and business statistics are used. In some instances, specially developed comprehensive estimating instruments, such as a micro-analytic income tax simulation model, are used.

Reporting

Location of estimates

Tax expenditure estimates are submitted within the federal government's subsidy report (which covers both tax expenditures and outlay subsidies, although tax expenditures are not presented side-by-side with outlay programmes that pursue similar purposes) biannually, together with the draft budget. A list of the 20 largest tax expenditures of the central

government is attached to the draft budget every year. These estimates are not integrated with the information on spending programmes.

Frequency of reporting and years covered

The subsidy report is submitted biannually and includes tax expenditure figures for the current year, the two preceding years, and one future year.

Policy making

Adding or expanding tax expenditures in the budget process

Beyond the rules of the European Union's Stability and Growth Pact, Germany has its own deficit-limiting budgetary rules in the German Basic Law (the *Grundgesetz*) and the Budget Principles Act (the *Haushaltsgrundsätzegesetz*), with corresponding regulations. The fundamental principle is a "golden rule," under which borrowing is to be limited to the amount of investment expenditures, such that the government's net asset position is maintained. Exceptions are entertained only in the case of an actual or impending serious and sustained macroeconomic disturbance. There are also non-binding guidelines from the Federal Cabinet in 2006 that new subsidies should be given as grants, or "financial aids," rather than as tax expenditures, and that they should be "paid for." These processes are seen in Germany as successful barriers against expansion of tax expenditures. Reform of these rules to make them even stronger is a high priority of the federal government's fiscal federalism programme. The goal would be structurally balanced budgets, and therefore fiscal balance in cyclically adjusted terms.

Incentives to repeal or reduce existing tax expenditures in the budget process

As a further budgetary restraint, the Federal Cabinet decided in 2006 that subsidies (whether as tax expenditures or direct payments) should be time-limited and should decline over time. The Cabinet also held that subsidies should be delivered as spending programmes, rather than as tax expenditures. Tax expenditures should be examined to consider whether they could be changed to spending programmes. There is also a non-binding agreement within the Financial Planning Council (which includes the Federal Minister of Finance, the finance ministers of the *Länder*, and representatives of the local authority associations) that expenditures at all levels of government should rise no more than an annual average of 1% in

nominal terms over the medium-term financial planning horizon. Tax expenditures are not covered by this agreement, but it is reported that there are no initiatives to circumvent the spending limitation by increasing tax expenditures.

Policy review

Review of tax expenditures

Germany has begun a process of formal reviews of tax expenditures. The 20 largest tax expenditures – accounting for 92% of the total cost of all tax expenditures – are to be evaluated. The evaluations are charged to define the objective of the tax expenditure, including macroeconomic motivations or perceived market failures; determine whether the tax expenditures are effective and efficient, and whether the tax expenditure is the best public-policy instrument to pursue the objective; and to find any side effects for the tax system broadly. Several respected outside research institutes perform the reviews, with the use of multiple reviewers seen as an important guarantee of unbiased analysis. The Ministry of Finance will comment on the reviews, and report the findings to the Parliament.

Review of comparable spending programmes

The future costs for public programmes are estimated annually during the budget preparation by the respective departments in co-operation with the Federal Ministry of Finance. The estimates cover the financial plan horizon, which is a five-year period including the current year and the following four years. The estimates are published in an aggregate form in the annual Finance Report (*Finanzbericht*) which is submitted with the budget bill, and every two years in the subsidy report to the Parliament. These estimates are publicly available. The Finance Report contains estimates of revenue and expenditure for the financial plan period, and also retrospectively. It includes information on public expenditures by function and economic classification from 1952 to the end of the financial plan horizon.

There are additional reports and statistics for certain spending areas (*i.e.* family, housing, labour market). The Statutory Pension Report and the Public Service Pension Report have a special long-term focus.[10] Finally, long-term developments of public expenditures are analysed in the Sustainability Report that is published every four years by the Federal Ministry of Finance.

In general, mandatory spending programmes and tax law provisions do not include sunset clauses. For subsidies subject to a time limit, data on expirations are included in the subsidies report.

Information about causes of changes in budget results relative to past projections

Tax revenues are estimated by an independent group of experts (*Arbeitskreis "Steuerschätzungen"*) twice a year (in May and November). The results are included in the federal budget draft for the following year. In the meeting in May the group of experts reports on the differences between the actual estimate and the previous estimate. Differences caused by legislative change are reported separately from other deviations, but there is no distinction between changes caused by macroeconomic fluctuations and those due to estimation errors.

"Make work pay" tax expenditures

In Germany, there are no "make work pay" tax expenditures like the earned income tax credit in the United States. Those government programmes to the same effect (especially the employment allowance within the so-called "Unemployment Benefit II") are not considered to be tax expenditures.

Number of tax expenditures

Income taxes

In 2006, which is the latest year for which final or near-final data were available, Germany reported 56 tax expenditures under the income taxes (see Table 8, as reported by country).[11] The largest category by purpose was specific industry relief, which included 22 tax expenditures; the second-largest category was housing, with ten. Germany's make work pay programme is not considered a tax expenditure, and thus does not affect any of the counts or totals. This report agrees with Germany's number of tax expenditures (see Table 8, with reclassifications by author).

Other taxes

Tax expenditures under all other taxes totalled 30, including 13 under the fuel tax, and six each under the electricity tax and the sales or value-added tax (see Table 8).

Total

In total, Germany reported 86 tax expenditures in 2006. That was a very small increase from 2003, when there were 82.[12] However, in 2008, one tax expenditure for owner-occupied housing is phased out, reducing the total.

Amount of tax expenditures

Income taxes

Total tax expenditures under the income tax summed to an amount equal to 0.29% of GDP in 2006 (see Table 5, as reported by country). Tax expenditures for housing accounted for more than half of the total. The more numerous tax expenditures for specific industry relief summed to only about 0.1% of GDP.

Other taxes

Tax expenditures under taxes other than the income taxes added to 0.45% of GDP in 2006. About half of the total came from the fuel tax, and not much less from the electricity tax.

Total

All tax expenditures in 2006 summed to 0.74% of GDP. In 1980, the equivalent figure was 0.80% of GDP; it fell to as little as 0.49% of GDP in 1995 and 1996. In part because of the phasing out of the tax expenditure for owner-occupied housing, the total of tax expenditures was expected to decline to 0.64% of GDP in 2008.

Tax expenditures in Japan

Definition and measurement

Definition

Japan's legally defined analogue to tax expenditures is "Special Tax Measures." Special Tax Measures are provisions that take exception to Japan's fundamental tax principles (equity, neutrality, and simplicity) to pursue some other policy objective.

Types of taxes measured

Special Tax Measures are estimated for individual income tax, corporation income tax, and other taxes, including inheritance tax, gift tax, liquor tax and gasoline tax. Special Tax Measures are estimated for local taxes as well. Article 84 of the Constitution requires that the basic framework of any taxes, including local taxes, be passed by the Japanese Parliament, or Diet. The ministry responsible for designing local taxes is the Ministry of Internal Affairs and Communications (MIC). Local authorities also retain some legislative discretion, such as applying their own tax rates within a range set by national law. However, these autonomies seldom affect the total amounts of Special Tax Measures in local taxes. Local authorities usually use direct subsidies or grants to particular groups rather than local tax expenditures to pursue their policy objectives.

Benchmark tax system

As noted above, Japan defines its Special Tax Measures by comparison to fundamental tax principles, rather than relative to a benchmark tax system *per se*. For income tax, among the items considered "structural" and therefore not included among the Special Tax Measures are employment income (that is, salaries) deduction; basic exemption; deductions for spouses; special exemption for spouses; exemption for dependents; and the progressive tax rate structure itself. Japan's concept of Special Tax Measures is somewhat different from the notion of tax expenditures in some other countries, and so comparisons must be made with care. However, a fair generalisation could be that Japan's benchmark of fundamental tax principles is somewhat more general and broad than other countries' reference tax systems, and a result may be the inclusion in Japan's list of Special Tax Measures of some provisions that would not be considered tax expenditures in other countries.

Concepts

Special Tax Measures are based solely on revenue estimates. Outlay equivalents or the net present value method are not used for tax revenue estimates for future years. Japan recognises some negative Special Tax Measures.

Methods

The tax officials of the Ministry of Finance (MOF) in charge of estimating tax revenue, including the effects of Special Tax Measures, usually use large volumes of tax statistics compiled by National Tax Agency (NTA). The basic sources for tax estimates include aggregate tax information based on the available data from tax returns in the "National Tax Agency Statistics Almanac". The NTA also conducts some sample surveys for tax estimates, including "wages of employees in private enterprises", "financial situation of corporate enterprises", and "situation of filing income tax returns". Other economic statistics, such as the System of National Accounts, are used when necessary and appropriate. In addition, the tax officials in the Ministry of Finance often conduct special interviews with major corporations to reflect the ongoing economic trend in their estimate of future tax revenue.

Reporting

Location of estimates

Officially, the revised estimates for the Special Tax Measures are reported to the Diet annually in the "Summary of Tax Revision" and "Explanation of Tax Revenue and Stamp Duties Budget", which are submitted along with the other budget documents. The aggregate estimates of all Special Tax Measures are also reported to the Budget Committee of the Diet annually, though this is not the official report.

Frequency of reporting and years covered

Only current fiscal year data of the annual changes and aggregate estimates are reported to the Diet. The restriction to reporting of changes leads to some concern that ongoing provisions are "secret subsidies".

Policy making

Adding or expanding tax expenditures in the budget process

There are no specific rules regarding Special Tax Measures in Japan's budget process. The Public Finance Act of 1947 defines Japan's budget process and basic budget rules, such as limits on government borrowing. It determines the basic golden rules of the budget. The recent reorganisation of the fiscal process added some procedural elements outside of the Public Finance Act.

Under the current process, in June of each year the Council on Economic and Fiscal Policy (CEFP) deliberates the fundamental issues and determines the "Basic Policies" for the next fiscal year's budget. It usually makes decisions only for the next year's budget. However, "Basic Policies for 2006" extended to future years, determining fiscal consolidation targets of achieving primary surplus by 2011 and then reducing the debt-GDP ratio by the mid-2010s. These decisions included a five-year spending ceiling. These Basic Policies were reaffirmed by the Cabinet.

In subsequent years, based on the "Basic Policy," the Minister of Finance proposes the detail of the spending ceilings for each spending item in the "Guideline for Budget Request," which is affirmed by the Cabinet in July and August. The ceilings' quantitative formulas are presented in the guideline.

There is no specific quantitative target for Special Tax Measures in the budget process, but any change of the tax system should be in line with the fiscal consolidation targets stipulated in "Basic Policies for 2006."

Incentives to repeal or reduce existing tax expenditures in the budget process

As noted above, any proposed change in existing Special Tax Measures, like any proposal for a new Special Tax Measure, would have to comply with the fiscal consolidation targets in the "Basic Policies for 2006." Presumably, also because the "Basic Policies" impose targets for the deficit with respect to the GDP, policy makers would contribute to meeting their targets by removing tax expenditures (or raising structural taxes) as well as by reducing expenditures.

Policy review

Review of tax expenditures

Special Tax Measures are reviewed annually by tax officials of the Ministry of Finance, mainly focusing on those that expire in the next year due to sunset clauses. Usually, the majority of the Special Tax Measures at the national level are stipulated in the Special Tax Measures Laws to have two- or three-year sunset clauses. These sunset clauses have functioned effectively, because they force tax officials and other related parties to review the contents of the Special Tax Measures regularly.

Negotiations between tax officials and the requesting ministries over the Special Tax Measures expiring in the next spring (usually the end of March) begin in September, at the same time as the budget expenditure negotiations. In many cases, each ministry requests the creation of new Special Tax Measures for their policy objectives. The necessity, effectiveness and efficiency of the measures are scrutinised in the negotiations. At the same time, the government Tax Commission, which is an advisory council to the Prime Minister, deliberates tax policy for the coming fiscal years. From late November to early December, the tax commissions of the ruling parties begin their decisions on tax policies for next fiscal year, including the Special Tax Measures. In this deliberation, the tax officials explain the discussions among the related ministries. In December, the Ministry of Finance decides the contents of the tax proposals based on the report submitted by both the government and the ruling parties' tax commissions. The Tax Bill is usually submitted to the Diet in the next January or February.

Review of comparable spending programmes

The review process for tax expenditures described above is independent from the expenditure process, though the tax revenue estimate in the next fiscal year's budget is based on the tax reform decided, and thus presumably is implicitly considered along with spending plans to comply with the debt targets in the "Basic Policies for 2006".

Information about causes of changes in budget results relative to past projections

When the supplementary budget is submitted to the Diet during the ongoing fiscal year, the tax revenue estimate is reviewed and, if necessary, revised. The Final Settlement Report shows the difference between the initial or supplemental revenue estimates and the actual results. There is no official analysis of the cause or source of the difference between the revenue projections and actual revenue in the final report for settlement of accounts.

"Make work pay" tax expenditures

Japan currently has no "make work pay" tax expenditure, and in particular no provision resembling a non-wastable "earned income tax credit." The recent Tax Commission (the Prime Minister's advisory body) report noted that further discussions on an EITC-type policy should be undertaken with respect to its necessity, policy goal and problems to be solved, with reference to other countries' experience, considering practical

difficulties in implementing such a policy and coping with possible fraud. Currently, assistance to low-income families is delivered mainly through social welfare spending programmes managed by the Ministry of Health, Labour and Welfare.

Number of tax expenditures

As noted above, there is no public, comprehensive listing of Japan's Special Tax Measures. However, communication from Japan indicates that the number of Special Tax Measures related to business enterprises has declined from 81 in 1998 to 61 in 2007.[13]

Amount of tax expenditures

Income taxes

Communication from Japan with respect to central government Special Tax Measures indicates that Special Tax Measures under the individual income tax, 52.5% of the total in 2007, come largely from a tax credit for housing loans (24.0% of the total of all Special Tax Measures), with a tax credit for dividends and a deduction for life and earthquake insurance premiums coming next (7.8% and 4.6% of all Special Tax Measures, respectively). Under the corporate income tax (33.7% of the total), the largest Special Tax Measures are the special tax credit for R&D (17.9%) and the tax credit for promoting investment by small- and medium-sized enterprises (6.8%).

Other taxes

All central government Special Tax Measures under other taxes total to 13.8% of the total of all Special Tax Measures at the central government level.

Local government special tax measures

Special Tax Measures at the local government level are slightly less than one-third the amount of central government Special Tax Measures. A little less than half of the local government total arises because of central government Special Tax Measures, and slightly more than half comes from Special Tax Measures that originate at the local government level.

Size of special tax measures

Central government Special Tax Measures are of a size equal to 0.6% of GDP. Local government Special Tax Measures equal 0.2% of GDP.

Tax expenditures in Korea

Definition and measurement

Korea is now revising its tax expenditure measurement and reporting system. Effective in 2010 (for the 2011 budget), the National Fiscal Act (NFA) requires a "tax expenditure budget" within the budget documents. Although not all of the details of this new system have yet been determined, there certainly will be marked changes in the categorisation of tax expenditures in the reports, and likely further changes in the methodology employed. The discussion that follows describes the current procedures, rather than any specific plans for the process in 2011 and beyond.

Definition

Korea does not now provide a formal definition of tax expenditures by law or regulation. Rather, the NFA specifies that the Ministry of Finance and Economy (MOFE) shall compile a report, referred to as the "Tax Expenditure Budget Document," that "analyses, by function and tax, the actual amount for the immediately preceding fiscal year and estimates for the current and following fiscal year for tax reductions and exemptions, income deductions, tax credits, rate reliefs, and deferrals." This document provides a general definition as the "tax-subsidy counterpart to fiscal expenditures…the reduction of national tax revenues that result from the application of special provisions, as exceptions to the normal taxation system, for reducing the tax burden of [a specific target group of] taxpayers." By inference, that listing has become the practical definition of tax expenditures.

Types of taxes measured

Because of the immediately preceding language of the NFA, Korea measures tax expenditures under all of its taxes. Two of its taxes are in fact surtaxes on other taxes, and so have no measured tax expenditures of their own; but all 12 of the other taxes do have identified tax expenditures. Only national-level taxes are considered.

Benchmark tax system

Korea's benchmark tax system is not yet fully articulated, but more detailed documentation is planned as a part of the effort to refine its tax expenditure measurement for the new process to begin in 2011. To date, Korea basically follows the outline described in OECD's 1996 *Tax Expenditure Report*.

Concepts

The language of the NFA dictates that Korea's list of tax preferences will be long. Because there is no formally established reference tax system, which could define some tax provisions as a part of a benchmark, more tax provisions are included in the list of tax expenditures than might be the case in other countries. Thus, like Canada and Japan, Korea has a long list of tax provisions in its tax expenditure exercise; but unlike Canada, Korea does not draw a distinction between tax expenditures narrowly defined, which provide narrowly focused benefits through exceptions to the general tax law, and "memorandum items" which follow the structure of a benchmark tax, are broadly applied, and thus do not provide targeted preferences for small groups of taxpayers. All of the provisions identified as tax expenditures are included in a single list.

Methods

Korea does not provide extensive documentation of its models and procedures for estimating tax expenditures, and in fact is aggressively refining its process to comply with the 2011 mandate in the NFA.

Reporting

Location of estimates

At present, Korea provides its tax expenditure estimates in a document, the "Tax Expenditure Report," which is separate from, and released after, the budget. The "Tax Expenditure Report" is produced by the MOFE, not by the Ministry of Planning and Budget (MPB), which is the agency that produces the budget itself. Thus, tax expenditures are not now presented, and are not likely to be presented in 2010, side by side with corresponding outlay figures in the budget.

Frequency of reporting and years covered

The "Tax Expenditure Report" is released annually, in keeping with the language of the NFA. The NFA also mandates that estimates be provided for the year prior to the budget year, the budget year itself, and the year after; however, the requirement is not considered binding until 2010, and projections for the succeeding year have not to date been provided. The retrospective year is based on final data; the current year is a projection. Tax expenditures hitherto have been reported according to functional areas that have not aligned with the functions for the reporting of spending. Recategorising the tax expenditures, and providing estimates for the succeeding year, are among the leading tasks for the 2010 reporting and process reform.

Policy making

Adding or expanding tax expenditures in the budget process

Korea's budget process places no special ***budgetary*** constraints on the enactment of tax expenditures (but see below). Non-binding provisions of the NFA specify that bills that will entail spending or tax reductions shall be accompanied by a report that includes estimates of changes in revenues and spending, for the five fiscal years beginning with the year of enactment, to offset such changes. However, there is no mechanism in the law to require that such compensating action be taken, or to provide remedies if it is not. Another provision in the NFA, which became effective in 2007, imposed a five-year PAYGO restriction only on tax expenditures. It is too early to judge the success of that provision, but given international interest in restraining tax expenditures, it bears watching.

Incentives to repeal or reduce existing tax expenditures in the budget process

Korea imposes a non-binding, five-year medium-term fiscal plan, which specifies annual total spending ceilings and sub-ceilings. The ceilings are set annually and usually expressed as percentages of GDP, with adjustment for the economic cycle. They are enforced for the annual appropriations through a top-down budgeting process.

Korea has two more noteworthy constraints on tax expenditures. In principle, since the enactment of a law in 1976, tax expenditures are subject to a five-year sunset, and must be re-enacted to continue in effect. It is unclear how rigorously this requirement has been enforced, and how highly

it is regarded, because the number of tax expenditures in effect now, and the number that have been proposed in recent years, are both perceived to be very high. However, over the years 2002-07, the number of tax expenditures declined in three of the five years of observed change, from 269 in 2002 (the highest number for the six years) to 219 in 2007 (the lowest). In 2005, 2006 and 2007, seven, five, and 38 tax expenditures expired respectively. Such reductions have not been common in the major OECD member countries, and so this favourable trend may indicate success for the use of a sunset requirement for tax expenditures.[14]

Another 2007 provision of the NFA requires that annual increases of total tax expenditures be limited such that the ratio of tax expenditures to the sum of tax expenditures and tax revenues grow by no more than 0.5% of the average of the previous three years. This provision is certainly aggressive. It raises the issues of the accuracy of the measurement of tax expenditures, the problems of summing tax expenditures, fluctuations of the amounts of tax expenditures with the economic cycle, and the non-comparability of tax expenditures with outlays (the "might-have-bean" problem). This is one more experiment in Korea that will be watched closely.

Policy review

Review of tax expenditures

In addition to the current effort to upgrade reporting on tax expenditures by 2011, in 1999 the MOFE began to report on tax expenditures to the National Assembly, based on a procedure prescribed by the Special Tax Treatment Control Act of 1965.

Review of comparable spending programmes

The above cited reports, in addition to the five-year sunset requirement and the new reporting requirements for 2011, suggest that the review of tax expenditures may be more rigorous than the review of mandatory (entitlement) spending programmes in Korea. Since the fiscal year 2005 budget, the budget office has required that the annual budget requests of all spending ministries include projections for the upcoming four years for all spending programmes (appropriations as well as mandatory programmes). However, there is little evidence that those spending projections have any meaningful effect. And while tax expenditures are at least in theory subject to five-year sunsets, which have in fact shown some apparent success, there are no significant sunset requirements on mandatory spending programmes.

Information about causes of changes in budget results relative to past projections

The budget has not explained differences between previous forecasts or budgets and actual outcomes, for tax receipts or outlays. In fact, with no projections of future tax expenditures, such a reconciliation would be impossible.

"Make work pay" tax expenditures

Korea has recently enacted a "make work pay" tax expenditure. Eligibility assessments began in 2008, with payments to begin in 2009. It was anticipated that the programme would be administered exclusively by the tax authorities. It would utilise an annual accounting process for the individual taxpayer, as is common with respect to income taxes. Payments are likely to come only from the government, without any apparent structure for advance payment from employers.

Number of tax expenditures

Income taxes

With the very low number of reclassifications in this report for purposes of international comparability, Korea had 136 tax expenditures under its income taxes in 2006, the latest year with final or nearly final data. Korea reported 143 such tax expenditures in 2007 (see Table 12, with reclassifications by author).[15] The greatest number of tax expenditures in each year was in the general business incentives category, with the second largest number in specific industry relief.

Other taxes

Korea reported 82 tax expenditures under other taxes in 2006, and 81 in 2007. The two largest contributing taxes were the VAT, with 26 tax expenditures in each year, and the securities transaction tax, with 17 in each year.

Memorandum items

For purposes of international comparability, this report reclassified two tax expenditures as "structural items," because they provided comparatively broad tax relief for a purpose not practically distinguishable from measuring the ability to pay tax.

Data reported by Korea

Communication from Korea presented numbers of tax expenditures over time, which are presented here to provide a sense of trend. However, please note that these counts do not correspond to those undertaken for this report.[16]

	2002	2003	2004	2005	2006	2007
Number of tax expenditures	269	254	220	226	230	219
New				13	9	27
Expired				7	5	38

Although information is not complete, Korea's own count of the number of tax expenditures shows a significant decline from 2002 to 2007. While the number has shown considerable fluctuation, the decline from 2005 through 2007, and particularly in 2007, appears to owe a great deal to expirations because of the requirement of a sunset clause imposed by the Special Tax Provision Limitation Act of 1998.

Amount of tax expenditures

Income taxes

With the minimal reclassifications described above, this report finds Korea's tax expenditures under the income taxes to sum to an amount equal to 1.76% of GDP in 2006 (see Table 9, with reclassifications by author). The largest category of tax expenditures is general business incentives, adding to more than one-third of the total. Tax expenditures for health, the second-largest category, are less than half as large.

Other taxes

Tax expenditures under other taxes sum to 0.72% of GDP. Almost two-thirds of that total comes under the VAT.

Data reported by Korea

Communication from Korea again can provide a sense of trend, but again without matching the numbers computed for this volume.

These figures indicate that Korea's tax expenditures grew more rapidly than tax revenues from 2002 through 2005, and then reversed course, with most of the reduction coming in 2007. This perspective is of practical importance because of Korea's statutory limit on the tax expenditure rate as calculated above, which was effective in 2007.

Billions of Korean won	2002	2003	2004	2005	2006	2007
Tax expenditures	14 726	17 528	18 286	20 017	21 338	22 708
Increase (%)	7.3	18.9	4.4	9.5	6.6	6.4
Tax revenues	103 968	114 664	117 796	127 466	138 044	158 334
Increase (%)	8.5	10.3	2.7	8.2	8.3	14.7
Tax expenditure rate (% of revenues)	12.4	13.2	13.4	13.6	13.4	12.5

Tax expenditures in the Netherlands

Definition and measurement

Definition

The Netherlands considers deviations from its benchmark tax system that reduce tax revenue to be tax expenditures (van den Ende, Haberham, and den Boogert, 2004).

Types of taxes measured

The Netherlands defines and measures tax expenditures at the national level under all of its taxes other than its social security premium for employers and employees.

Benchmark tax system

The Netherlands defines its benchmark using the general rate structure of its existing tax system – that is, a separate individual and corporate income tax, with schedular treatment of wage and capital income under the individual income tax, plus a value-added tax, a motor vehicle tax, and so

on. Although in principle this criterion is subject to interpretation, this incorporation in the benchmark of different tax treatment of different types of income likely leads in practice to a relatively smaller number of tax expenditures identified in the Netherlands than would be the case using the conventions of other countries. Other features of the tax system that are incorporated in the benchmark are:

> ...the possibility of offsetting losses…The fixed rate of imputed income for owner-occupied housing…and for savings and investments…The federal tax credit…Exemptions, deductions, and tax credits that adjust taxable income in line with the ability-to-pay principle. In general, those provisions relate to personal circumstances, such as being a single parent, having children, having a disability, or being ill. Provisions that enhance the efficiency of taxation, such as the use of fixed amounts to avoid disputes between taxpayers and the revenue service (Van den Ende, Haberham, and den Boogert, 2004).

Because the benchmark specifies that tax provisions that measure "ability to pay" are considered structural, and therefore are not tax expenditures, some provisions that might be deemed to be tax expenditures in other countries are not so considered in the Netherlands. These criteria extend to consideration as part of the benchmark the tax advantages for pension premiums (that is, contributions paid by employer and employee to the pension funds), mortgage interest, and a tax credit for workers (which was created to relieve the costs of earning wage income, but has since been increased to the extent that it now far exceeds that goal, and might be considered an incentive to work as well).

Concepts

The Netherlands uses the revenue forgone method to measure its tax expenditures; the estimates assume no changes in taxpayer behaviour or economic activity as a result of the presence of the tax expenditure. Estimates are for annual cash flows, rather than present values of longer run or steady-state effects. Each tax expenditure is evaluated independently, and so there is no attempt to capture interaction effects among any combinations of tax expenditures; this means that any sum of tax expenditures does not accurately reflect the combined impact of all of the relevant provisions. Tax expenditures are also estimated independently of effects on government spending programmes, and of any possible changes in other government tax or spending policies that are made because of the tax expenditures. Therefore, the amount of a tax expenditure is not a precise estimate of the budgetary effect of its repeal.

Methods

Tax expenditures are estimated by the Ministry of Finance. Although some tax expenditures are based on hard data, the ministry considers some of the other data that are needed for the estimating process to be of lesser quality and timeliness.

Reporting

Location of estimates

Tax expenditure estimates are presented in the Tax Plan and Budget Memorandum, which is a part of the budget, but separate from estimates of outlay programmes with the same purpose as the tax expenditures.

Frequency of reporting and years covered

The Tax Plan and Budget Memorandum is presented every year. It provides tax expenditure figures for the budget year, one prior year, and the five following years. The tax expenditures reported for the year prior to the budget year are the final figures for that year. Changes in individual tax expenditures – repeals, new provisions, increases and decreases – are presented.

Policy making

Adding or expanding tax expenditures in the budget process

Budget enactment in the Netherlands is based on a Coalition Agreement, formed at the start of a new government, and covering four years. The Coalition Agreement sets amounts for spending and revenues in currency, and thus serves as a non-binding spending cap and revenue floor, creating an informal "pay-as-you-go" system. The revenue floor relates to policy changes rather than to changes in receipts caused by macroeconomic fluctuations; thus, the automatic stabilisers in the tax system are allowed to work, but both structural tax cuts and the creation of new tax expenditures are restrained. (The operation of the automatic stabilisers in the budget could, however, trigger a violation of the European Union's Stability and Growth Pact.) Although the Coalition Agreement does not have the force of law, it has been respected and thus has acquired its own moral force.

Incentives to repeal or reduce existing tax expenditures in the budget process

Although the Coalition Agreement does not target tax expenditures specifically, the revenue component of the Agreement would induce the consideration of repeals or reductions of existing tax expenditures to finance any new structural tax cuts or tax expenditures.

Five tax expenditures have their own annual caps. These tax expenditures include credits for environmental and energy-saving investments. If applications for those credits reach the annual limit, use of the credits is closed until the beginning of the next fiscal year.

Policy review

Review of tax expenditures

In 2004, the Netherlands began a programme of evaluations of tax expenditures, with the goal of reviewing each tax expenditure approximately every five years. Responsibility is held jointly between the Ministry of Finance and the pertinent spending department. The purpose of the evaluation is to estimate the effectiveness and efficiency of the tax expenditure. Questions that are specified for the evaluations to answer include: Does the tax expenditure accomplish its objective? Can the same goals be achieved with lower costs through a different policy instrument? Is the tax expenditure the logical instrument to achieve these objectives? Is the tax expenditure really the cause of any perceived effect, or would the same outcomes have occurred without the tax expenditure? This evaluation programme is fully underway, and evaluations have already been produced.

Review of comparable spending programmes

The budget includes estimates of annual costs of comparable spending programmes.

Information about causes of changes in budget results relative to past projections

There is no *ex post* analysis of causes of changes in revenues from the planned or projected levels. Such changes are defined as "endogenous" as a general rule.

"Make work pay" tax expenditures

The Netherlands has no non-wastable "make work pay" tax credit. The most widely held view is that such a programme should be considered a spending programme. The Netherlands does have a deduction for employees to compensate for the costs associated with working; this provision started as a deduction of actual, documented costs, but then was converted to a fixed amount (although employees could document and deduct higher actual costs) in the interests of simplicity. This fixed amount has been increased so that it would serve as a stronger incentive, and will be changed to be income-related in the future.

Number of tax expenditures

Income taxes

In 2006, the latest year based on final or near-final tax data, the Netherlands reported 55 tax expenditures under the income taxes (see Table 16, as reported by country). Of those, 16 are categorised by this report as providing specific industry relief, and 13 as providing general business incentives.[17] For 2007 and 2008, the Netherlands reports 53 and 52 income tax expenditures, respectively; the decline results from reductions in the two biggest categories for general and focused business tax incentives. As noted earlier, there is no non-wastable make work pay tax incentive among these tax expenditures. For purposes of cross-country comparability, this report would reclassify one income tax expenditure in each year as a "structural item," on the ground that it provides comparatively broad and general tax relief (see Table 16, with reclassifications by author).

Other taxes

The Netherlands reports 46 tax expenditures under non-income taxes in each year 2006-2008. Of those, 17 apply under the VAT, and narrower excises taxes and a tax on the sale of immovable property combined account for 13 in each year.

Total

The Netherlands reports 101 tax expenditures in 2006, 99 in 2007, and 98 in 2008. This is down from 118 tax expenditures reported in 2001, and 123 in 2002.

Data reported by the Netherlands

Communication from the Netherlands reported data for several years that provide a sense of trend, although these data do not match precisely the calculations for this report.[18]

The data from the Netherlands confirm the reduction in the number of tax expenditures in the early years of this decade, at least in terms of government proposals. In 2003, 15 tax expenditures were abolished (and five others were cut; a new government in 2003 used savings from repealed and reduced tax expenditures to finance structural tax-rate reductions). In 2004, six tax expenditures were proposed for abolition, against two new propositions, for a net reduction of four. In 2005, two proposed repeals counterbalanced two proposed new provisions. In 2006 and 2007, however, two and one new tax expenditures, respectively, were proposed.

Amount of tax expenditures

Income taxes

In 2006, with the reclassification for cross-country comparability, this report finds a total of income tax expenditures of a sum equal to 1.1% of GDP (see Table 13, as reported by country). Almost half of that total is categorised among general business incentives; less than one-fifth, the second-largest category, falls in specific industry relief. Projections through 2012 show the total falling gradually to less than 1.0% of GDP.

Other taxes

Tax expenditures under taxes other than the income taxes sum to 0.9% of GDP in 2006. About three-fourths of that total falls within the VAT. By 2012, this total is projected to decline to about 0.8% of GDP.

Total

The sum of all tax expenditures for 2006 is about 2.0% of GDP. The total is projected to decline to less than 1.8% of GDP in 2012. Earlier data showed tax expenditures under the direct taxes of 1.8% and 1.9% of GDP, respectively, in 2001 and 2002, and under the indirect taxes of 1.0% and 1.1%, respectively, in the same years. Thus, the current level of tax expenditures in the Netherlands is a reduction of about one-third from the beginning of this decade.

Data reported by the Netherlands

Communication from the Netherlands reported proposed reductions of tax expenditures in 2003 and 2004, mirroring the proposals for reductions in the numbers of tax expenditures in the same years. From 2005 through 2007, proposals would increase tax expenditures, by a cumulative amount equal to about one-sixth of the combined reductions of 2003-2004. The sum of the estimates by the government fell from 2.7% of GDP in 2003 to 2.2% of GDP in 2006, and 2.1% of GDP in 2007.

Tax expenditures in Spain

Definition and measurement

Definition

Tax expenditures are not defined by law or regulation in Spain. For purposes of the annual Budget on Tax Expenditures mandated by the Spanish Constitution, tax expenditures are taken to be provisions of the tax system that reduce tax revenues for the general government and meet other conditions, the three most important of which are:

- a tax expenditure is an intended departure from the basic tax structure (or "benchmark");
- a tax expenditure is intended to attain some economic and social policy goal; and
- a tax expenditure provides support only to a certain segment of the tax population or to certain economic sectors, not to the population generally.

As in other OECD member countries, the borderline between tax expenditures and other basic elements of the tax system in Spain is complex. Therefore, designation of tax expenditures is to some degree subjective. A main reason is that lawmakers sometimes do not state explicitly whether a tax provision seeks to attain economic and social goals, or rather to improve the operations or the management of the tax system, which in the latter case would not be considered a tax expenditure. The designation of tax expenditures is made more complex by inclusion of many different tax concepts such as incentives, reductions, allowances, deductions, reduced tax rates, and exemptions in tax regulations and in the General Tax Law.

Types of taxes measured

In Spain, the annual Budget on Tax Expenditures includes only central government taxes, and those taxes not entirely ceded to the *comunidades autónomas* (regional governments); tax expenditures are not measured or defined for those taxes effectively administered by the *comunidades autónomas* or by local governments. The remaining taxes for which tax expenditure estimates are made include:

- income taxes: personal and corporate income taxes for both resident and non-resident taxpayers;
- VAT;
- excise duties;
- tax on insurance premiums; and
- central government fees (revenues included in the central government budget).

Tax expenditures are estimated for only two manufacturing excise duties: the tax on hydrocarbons and the tax on alcohol and derivative drinks. Duties such as the tax on beer, the tax on wine, the tax on the sale of intermediate products, the tax on electricity, the tax on tobacco products and all other minor excise duties are not included in the Budget on Tax Expenditures, because of their relatively low or null taxation, complete cession of tax yield to the *comunidades autónomas*, or the lack of reliable and detailed information to carry out tax expenditure estimates.

Economically significant taxes directly administered by the *comunidades autonónomas*, and therefore excluded from the Budget on Tax Expenditures, include the tax on capital transfers and documented legal acts (stamp duty), the tax on inheritance and gifts, and the general indirect tax (Canary Islands). The central government Budget on Tax Expenditures also excludes the important tax on real estate, which is levied at the local level.

Tax expenditures had been estimated for the wealth tax, but only for the so-called "real obligation to pay the tax," that is, for non-resident taxpayers in Spain, given that the main collection proceeds are totally ceded to the *comunidades autónomas*. Nonetheless, tax expenditure estimates for this tax were removed from the 2009 Budget because of a government decision the 1st January 2008.

Several *comunidades autónomas* produce tax expenditure reports on their own taxes. The local governments neither publish reports nor elaborate on the Budget on Tax Expenditures with respect to their own taxes.

Benchmark tax system

As was noted at the outset, tax expenditures are implicitly defined as intended departures from the basic tax structure. There is neither a legal definition of the basic structure of taxation (benchmark) in Spain, nor a list of all of the components of the tax system, although documentation of the benchmark is under discussion given its importance for a precise and objective listing of tax expenditures.

Nevertheless, in practice, the basic tax structure (benchmark) is taken to be the most permanent structure of taxes. It would include those tax provisions that are fundamental to the determination of tax liabilities, reaching a large majority of taxpayers, facilitating the management and collection of taxes, and preventing double taxation among the different taxes of the Spanish tax system.

From this standpoint, the basic structure of the personal income tax includes the following elements:

- the current dual system of taxation, which differentiates between: *i)* work and property income (the latter including rental income and income arising from active business activities) which are subject to a progressive tax schedule, and *ii)* the so-called saving income tax base (capital gains, dividend, interest and insurance income) which is subject to a flat tax rate (18% in 2008);
- the exemption for dividends received from Spanish companies (up to a ceiling of EUR 1 500);
- tax deductions to prevent double international taxation;
- personal and family allowances, including allowances for dependent children, parents and grandparents, and for disability; and
- withholding taxes (for work and capital income) and advance tax payments (made by individual entrepreneurs and professionals).

The corporate income tax benchmark includes elements such as:

- the general statutory tax rate;
- internal and international double taxation tax deductions;
- amortization tables; and
- advance tax payments (instalments made by companies).

The VAT and excise tax benchmark includes

- general tax rates;
- export exemptions;
- EU intra-community exempt deliveries and other minor deliveries (international organisations, diplomatic, etc.); and
- some exempt operations for technical and simplification reasons or to avoid double taxation (insurance operations, land transmissions, second and subsequent transmission of buildings, some gambling, the VAT special scheme, etc.).

Concepts

Spain uses the revenue forgone (initial revenue loss) method to measure its tax expenditures in the annual central government Budget on Tax Expenditures. This method assumes no changes in taxpayer behaviour or economic activity in response to the tax expenditures. Tax expenditures are reported according to the cash accounting method.

Tax expenditure estimates measure annual cash flows at current prices, rather than a discounted present value of future flows, or a longer-run steady state. Personal and corporate income tax expenditures are measured one-by-one, but also in combination for the personal income tax and for the corporate income tax. The combined estimates eliminate any strictly numerical, but not behavioural, interactions (for example, the numerical effect of multiple tax expenditures on effective marginal tax rates, as opposed to the way taxpayers change what they do because of the tax expenditures) among different tax incentives for that one tax, so that the figures add up to one consistent total for that tax.

Tax expenditures for the other taxes are measured independently, with no attempt to capture interaction effects among any combination of tax expenditures. Therefore, any sum of tax expenditures under non-income taxes does not accurately reflect their combined impact, either with respect to purely computational interactions, or any behavioural effects within the economy upon production, employment, consumption, and savings, and their effects in turn and in the longer run on revenues for the treasury. Tax expenditure assessment is also independent of any potential changes in any other government tax or spending policies because of the tax expenditures. Therefore, tax expenditure amounts are not precise estimates of the budgetary effect if they were repealed. Furthermore, as noted earlier, the Budget on Tax Expenditures provides estimates only for provisions deemed

to be tax expenditures, not for tax provisions that are deemed to be part of the basic structure of the tax system.

The inclusion of a particular tax provision in the Budget on Tax Expenditures is subject to the availability of sufficiently reliable tax and economic data to allow estimating with acceptable accuracy. Provisions are included only if they are currently in force, and if a previous analysis indicates that they meet the definition stated above. Provisions are removed from the report if they are repealed or are scheduled by law to expire. In any case, provisions are designated as tax expenditures independently of the time that has passed from their inception.

Finally, there is no attempt to evaluate so-called negative tax expenditures that generate revenue increases. Also, provisions such as advance tax payments, instalments or compensation of negative tax liabilities from previous years are excluded from the Budget on Tax Expenditures.

Methods

Spain's measurement methodology is thoroughly documented in the Annual Report that has accompanied the Budget on Tax Expenditures since 1996. Several estimation methods are used. The preferred methods use tax data and micro-simulation models based on taxpayers' information from their annual tax returns. Specifically, micro-simulation models for the personal and corporate income tax use individualised tax data (the whole tax population, not a sample), extrapolating tax variables such as taxpayers' income, corporate turnover, population and tax expenditures, to project the available information (with a gap of two years) to the year to be estimated in the Budget on Tax Expenditures. Tax expenditures for other taxes such the tax on non-resident income and central government fees are estimated with information from administrative records, and other economic and tax sources.

Excise duties tax expenditures are estimated using univariate time series methods applied to monthly tax data. VAT estimates come from National Accounts data sources, which after necessary adjustments yield VAT collection forecasts, considering VAT assessment peculiarities, special VAT schemes, and tax fraud. The tax on insurance premiums estimates are based mainly on information from the insurance industry.

Reporting

Location of estimates

The final tax expenditure amount is included in the annual Budget, which is part of the annual general government Budget Law. Detailed information about covered taxes, tax expenditure concepts, estimation methods, information sources, and the like appear in the Annual Report on Tax Expenditures produced by the Ministry of Economy and Finance, which is available to the general public, attached to the Budget Law, and sent to Parliament. A summary of the most important items in the Budget on Tax Expenditures is presented in the so-called "Yellow Book" (a summary report of the annual Budget Law).

Frequency of reporting and years covered

In accord with a mandate in the Spanish Constitution of 1978, and later in the General Budget Law, the Budget on Tax Expenditures has been released every year since 1979. Since 1996, as noted above, there is also a legal obligation to present an explanatory memorandum (the Annual Report on Tax Expenditures). This report includes a complete list of tax expenditures and associated tax regulations, as well as changes from the previous tax year. Each Annual Report compares tax expenditure amounts between the current and the preceding year, classified by the type of tax, the type of tax expenditure, and the public budget purpose. There is no comprehensive tax expenditure time series.

Policy making

Adding or expanding tax expenditures in the budget process

There is no legal restriction on adding or expanding tax expenditures in the budget process. Also, there is no legal limit on the total amount of tax expenditures included in the annual budget. Thus, the inclusion of a new tax expenditure does not necessarily require changes or reductions in grants or public expenditure programmes. However, the General Stability Budget Law sets procedures and ceilings for both public expenditure programmes and public deficit growth figures. The government establishes annual goals for spending and deficits according to the macroeconomic multiannual framework for the annual Budget Law.

Finally, the introduction of a new tax provision, whether it is considered a tax expenditure or not, must be supported by a legal provision (normally a law) proposed by the government, and therefore is subject to discussion in Parliament (except in emergency cases for which the legal instrument normally used is a Royal Decree-Law, which later must be confirmed by Congress). The government is required to present an economic report including cost estimates (revenue forgone) of the proposed tax measures, which often are included in the Budget on Tax Expenditures, at least during the year of introduction (until later information confirms or modifies the initial estimates).

Incentives to repeal or reduce existing tax expenditures in the budget process

In Spain, there is no explicit rule in the budget process to require or encourage repeal or reduction of existing tax expenditures.

There are no explicit "sunset" or expiration dates for tax expenditures except in some minor cases, such as for extraordinary tax provisions to address natural disasters or adverse economic conditions (*e.g.* the recent fuel or raw materials price increases). In such instances, the government may adopt temporary tax measures (such as tax rebates) for particular economic sectors (*e.g.* and agriculture), which may later be extended for the next year. Other exceptions have been tax expenditures supporting the celebration of certain cultural and sport events (*e.g.* America's Cup, Expo Zaragoza 2008, IV Centennial Quixote, etc.), which generally have had lifetimes of a maximum of three years.

Policy review

Review of tax expenditures

Beyond the release of the annual Budget on Tax Expenditures, its inclusion in the annual Budget Law, and its later delivery to the Parliament (according to the Spanish Constitution before 1 October every year), there is no legal requirement of further review of tax expenditures. As noted above, only a few small tax expenditures are time-limited. There is no requirement for later quantitative review of estimates, although the Ministry of Economy and Finance does carry out informal internal *ex post* reviews to identify any deviations from the initial estimates, and to analyse potential improvements in estimation for the future.

Review of comparable spending programmes

Unlike for tax expenditures, Spain has very strict controls for public expenditure programmes. Final data from both the expenditure and the revenue sides of the budget are deeply analysed in a report published each year by the Ministry of Economy and Finance. This report reflects only the final data on direct public expenditure programmes, not those of an indirect nature, or tax expenditures.

Information about causes of changes in budget results relative to past projections

Each October, when the government sends Parliament a new Budget Bill for the coming year, the Ministry of Economy and Finance provides advance estimates of revenues for the current year in comparison with amounts initially budgeted for the most important taxes, with some categorical detail. Likewise, the government provides information about deviations between *ex post* and initial revenue estimates, including possible effects from changes in the law and the economy, or from changes in taxpayers' behaviour as a consequence of prior policy changes.

Similarly, the new Budget Bill provides information on the effects of new tax measures in the budget document, especially on new tax incentives (whether considered as tax expenditures or not) and tax reforms.

Finally, the Budget on Tax Expenditures provides detailed information on tax expenditures in comparison with previous budgets. It may also provide some insight about changes in estimation methodology that might affect the budget, and about possible estimation errors in the previous year's forecast.

"Make work pay" tax expenditures

Spain has several tax provisions to stimulate labour market participation and support workers through the personal income tax, which therefore could be classified as "make work pay" tax expenditures. These provisions address mainly low-income workers and working women with children.

The "work-related income allowance" is a deduction based on income from labour that provides its greatest relief to low-wage workers. In 2009, it granted a maximum annual allowance of EUR 4 080 for wage-income earners whose yearly wage did not exceed EUR 9 180. The allowance is phased down as the taxpayer's salary increases up to EUR 13 260, where the allowance reaches its lower ceiling of EUR 2 652 – thus, the allowance is not phased down to zero for any taxpayer. In case of disabled workers, the

amounts above are increased by EUR 3 264 and EUR 7 242, respectively, according to the worker's degree of disability. Personal income taxpayers extending their labour market participation beyond retirement age (65 years), and unemployed workers accepting a job in a different location, may increase their prior work-related income allowance amounts by 100%. This tax expenditure has been utilised in the Spanish personal income tax, with modifications, since 1978. The 2009 Budget on Tax Expenditures shows EUR 8.4 billion in revenue forgone, which is 30.4% of tax expenditures within the personal income tax, and 14.1% of all tax expenditures. This tax expenditure was claimed by 19.7 million working taxpayers.

A second "make work pay" tax expenditure is the so-called "personal income tax maternity tax credit", a non-wastable tax credit for working women with children under three years of age (or older in case of adoption) of EUR 1 200 each year. This tax credit, introduced in 2003, was intended to raise the low fertility rates in Spain (among the lowest in OECD member countries), and to increase women's participation in the labour market (one of the lowest participation rates among OECD member countries), by providing direct economic support to women wanting to reconcile working and family life. This tax expenditure was expected to reach about 1.1 million working women in 2009, and the revenue forgone estimate was projected to rise to EUR 0.9 billion, according to the figures included in the 2009 Tax Expenditure Report.

Number of tax expenditures

Income taxes

In 2008 (the latest year for which final data are available), with the recategorisation performed in this volume for purposes of cross-country comparability, Spain has 75 tax expenditures under the income tax (see Table 20, with reclassifications by author). Of those, 24 provide general business incentives, and ten provide specific industry relief. There are five make work pay tax expenditures.

Other taxes

Spain has 64 tax expenditures in its taxes other than the income tax. Of those, 48 are under the VAT, with small numbers distributed among five other taxes.

Total

In total, Spain has 139 tax expenditures in 2008, with 149 identified as of 2009. For purposes of cross-country comparability, we have reclassified two of Spain's identified tax expenditures for 2008 (and three for 2009) as structural memorandum items rather than tax expenditures.

Amount of tax expenditures

Income taxes

Spain's tax expenditures under the income tax total to 2.3% of GDP (see Table 17, with reclassifications by author). The largest individual category is the "make work pay" tax expenditures, which at 0.7% accounts for about one-third of the total. The next largest categories are the tax expenditures for housing and health, at 0.5% and 0.4% respectively.

Other taxes

Tax expenditures under taxes other than the income tax equal 2.2% of GDP, only slightly less than those under the income tax. Tax expenditures under the VAT nearly exhaust this total.

Total

All tax expenditures sum to 4.6% of GDP.

Tax expenditures in Sweden

Definition and measurement

Definition

Sweden uses an informal definition of tax expenditures as provisions that reduce revenue relative to a pre-defined norm, either to pursue a specific policy objective or to facilitate the efficient operation of the tax system.

Types of taxes measured

The income tax (for individual income from labour and capital, and for income from business), social security contributions, value-added tax, excise duties (but only those on energy and carbon dioxide), and tax credits and surtaxes are analysed to identify tax expenditures. Tax expenditures are not measured at the local government (municipal) level, but tax expenditures at the central government level may affect tax revenues at the local government level. For example, income tax for individuals in Sweden is a municipal tax, in that the individual pays a municipal income tax, and then, for income over a certain threshold, the individual also pays the national income tax. There are, however, some payments which the central government has decided not to tax at all (*e.g.* for donation of blood). This is considered a tax expenditure at the central government level according to the norm, but it affects the revenues of both local governments and the central government.

Benchmark tax system

Sweden's guideline for its benchmark or norm is a document dating from about ten years ago. Sweden allows for different norms for different types of taxes, all of which are based on uniform taxation. One norm applies to income tax (for income from both capital and labour), and follows the Haig-Simons comprehensive definition of income. However, within that norm for income tax, Sweden accepts different tax rates for different tax bases (that is, different sources of income). Hence Sweden's different tax rates for capital income and labour income are considered compatible with the norm, and the different rates are not considered tax expenditures. Sweden allows for structural tax provisions to be considered as a part of the norm, and hence not to be tax expenditures. Thus, Sweden has an earned income tax credit that is not considered a tax expenditure.

In addition to the norm for the income tax, there is one special norm for social security contributions, one for value-added tax, and one for excise duties.

Concepts

Sweden uses the revenue forgone method to measure its tax expenditures; the estimates assume no changes in taxpayer behaviour or economic activity as a result of the presence of the tax expenditure. Estimates are for annual cash flows, rather than present values of longer-run or steady-state effects. Each tax expenditure is evaluated independently, and so there is no attempt to capture interaction effects among any combinations

of tax expenditures; this means that any sum of tax expenditures does not accurately reflect the combined impact of all of the relevant provisions. Tax expenditures are estimated independently of effects on government spending programmes, and of any possible changes in other government tax or spending policies that are made because of the tax expenditures. Therefore, the amount of a tax expenditure is not a precise estimate of the budgetary effect of its repeal. Sweden recognises and measures negative tax expenditures ("tax penalties") as well. Sweden also provides estimates of its tax expenditures on an outlay equivalent basis (both net and gross).

Methods

There are some concerns about the absence of data in some areas. There is a general sentiment that tax expenditure estimates can be of a lesser quality than spending estimates.

Reporting

Location of estimates

Data are presented in the Spring Fiscal Policy Bill appendices, and in the annual Budget Bills. The Budget Bills repeat the estimates from the prior Spring Fiscal Policy Bills, and report public expenditure programmes within each policy objective as well.

Frequency of reporting and years covered

Tables including all defined tax expenditures are reported in the appendices to the annual Spring Fiscal Policy Bills for three years (the budget year, one year prior, and one succeeding year.) The annual Budget Bills present figures for the budget year and one succeeding year. Retrospective data for the period 1992-2008 are available through current and prior Spring Fiscal Policy Bill appendices and Budget Bills.

Policy making

Adding or expanding tax expenditures in the budget process

Sweden has articulated a goal of an annual structural surplus of 1% of GDP, ultimately to reduce net debt to meet the burdens of an ageing population. To that end, Sweden imposed a spending cap, defined in units of currency, and extending over three years. In principle, with a surplus goal and a spending cap, there is an implicit target for revenues. However, in past

years, there was no explicit restraint of any kind on the implementation of tax expenditures, including the fact that there was no adjustment to the expenditure ceiling when a tax expenditure was enacted. As a result, the spending rule provided a strong incentive to create non-wastable tax credits for purposes that should have been addressed with spending programmes. In recent years, that problem was recognised, and those tax credits have been repealed or re-enacted as spending programmes, in the interest of budgetary transparency. Public attention, aided by the clarity and prominence of the spending cap, is thought to have been important in this process.

Furthermore, the Swedish budget process has been reformed to correct the past flaws going forward. The new Swedish fiscal policy framework includes three elements. The first is a target of an average general government surplus of at least 1% of GDP over the course of a business cycle. Second, to support this target, there is a multi-year expenditure ceiling for the central government, set three years in advance, which makes it more difficult to increase spending in good economic times when revenues are strong. In a significant departure from the prior system, new tax credits that work as spending programmes lead to an adjustment to the expenditure ceiling. And third, there is a balanced budget requirement for the local government sector.

Incentives to repeal or reduce existing tax expenditures in the budget process

The principles of the Swedish budget process require that any tax cut must be financed through a spending cut, a revenue increase, or the use of a projected surplus above the surplus target. This last option provides an opportunity for expansion of tax expenditures that is not available on the spending side of the budget, because with the spending cap, a spending increase cannot be financed through a projected surplus above the surplus target.

Policy review

Review of tax expenditures

The primary aim of reporting tax expenditures is to make those indirect subsidies in the form of tax expenditures on the income side of the budget more visible. However, tax expenditures are not integrated into the budget process, and there is no formal evaluation for tax expenditures in the budget process. There are very few examples of tax credits and tax reductions which have been enacted for limited time periods through sunset provisions.

Review of comparable spending programmes

For mandatory spending programmes, future cost estimates are usually reported for the period from year t-1 to year t+3 (thus for two additional projected years beyond the estimates for tax expenditures). The reports are presented twice each year: in the Budget Bill (specifying every appropriation) and in the Spring Fiscal Policy Bill (on a more aggregated level). Furthermore, all expenditures are specified in detail in the Yearly Annual Report for the Central Government. Every year there are time series published for the central government balance, revenues and expenditures going back ten years. The latest was from 1995 to 2006, in a publication called *Tidsserier statsbudgeten.* Sunset clauses for mandatory spending (as for tax law provisions) are not common in the Swedish context, and there is no explicit integration of consideration of taxation and spending in the budget process. Greater and more transparent integrated consideration of tax expenditures and spending programmes in the budget is a goal of future reporting, although spending estimates are considered to be more reliable than tax expenditure estimates, sound data for tax expenditure estimates can be difficult to find, and the tax benchmark is considered by some to be outdated.

Information about causes of changes in budget results relative to past projections

All legislative changes to the tax system are taken into account in the budget projections. The revenue effects of changed tax rules are reported separately. The budget reports the difference between projected estimates and actual revenues, and explains the deviations from the original projections in as transparent a manner as possible, although it may be difficult to differentiate among estimating errors, macroeconomic fluctuations and changes in behaviour.

"Make work pay" tax expenditures

Sweden has a so-called in-work tax credit, which was implemented in 2007. Because most benefits in Sweden (pensions or sick leave, for example) are taxed, the government, in order to make work pay, implemented this provision to tax income from labour differently from incomes emanating from benefit systems. Before this change these two types of income were taxed in a uniform way. However, this provision is not considered a tax expenditure. The largest tax expenditures aimed at making work pay include a tax reduction for household services, deductions for commuting costs and deductions for double housing expenses due to work at

geographical locations too far from home for commuting. These provisions do not follow the model of the non-wastable tax credit.

Amount of tax expenditures

This report includes no independent analysis of tax expenditure data from Sweden. Communication from Sweden provides some information on the amount of tax expenditures.[19] Sweden reported that its 2007 tax expenditures that fall within 60 specific defined policy areas sum to an amount equal to 10% of total tax revenue. That figure is net of measured negative tax expenditures (which might otherwise be called tax penalties). Tax expenditures under the capital income tax sum to 36% of revenues, and tax penalties under that tax are 15%; tax expenditures under excise taxes come to 48%; and those under the VAT add up to 19%. All tax expenditures sum to 12% of total tax revenue (again net of negative tax expenditures). Using this measurement approach, tax expenditures under the capital income tax add up to 61% of revenues (and tax penalties sum to 15%); tax expenditures under the excise taxes sum to 49% of revenues; and those under the VAT come to 22%. Total tax expenditures add up to 5.7% of GDP; those tax expenditures that are directly comparable to spending programmes come to 4.7% of GDP.

Tax expenditures in the United Kingdom

Definition and measurement

Definition

The United Kingdom divides tax reliefs into three categories. Those reliefs that are alternatives to, and have consequences similar to, public spending are referred to as tax expenditures. Those forms of tax relief that are either an integral part of the tax structure or that simplify administration or compliance are called structural reliefs. Structural reliefs include measures such as the personal allowance and relief from double taxation of dividends. Tax expenditures include measures such as the exemption of capital gains on the sale of a principal residence and the exemption of the first GBP 8 000 of reimbursed relocation packages provided by employers. However, the government acknowledges that the distinction between structural reliefs and tax expenditures is not always straightforward, and includes a third category of tax reliefs, which consists of tax concessions that combine elements of both the structural and expenditure categories. Into

this less well-defined category they put tax concessions such as age-related allowances and the tax exemptions for child benefits and disability living allowances.

Types of taxes measured

Tax expenditures are measured only for the central government. Taxes analysed include income tax, corporation tax, VAT, national insurance contribution tax, capital gains tax, inheritance tax, petroleum revenue tax, stamp duty land tax, and vehicle excise duties. In each tax category covered, the United Kingdom reports "tax expenditures," "reliefs with tax expenditure and structural components," and "structural reliefs."

Benchmark tax system(s)

For analysis of the income tax, the United Kingdom identifies tax expenditures for relief of tax on capital gains and corporate income, which suggests a reference income tax system.

Concepts

The United Kingdom uses the revenue forgone method to measure its tax expenditures; the estimates assume no changes in taxpayer behaviour or economic activity as a result of the presence of the tax expenditure. Each tax expenditure is evaluated independently, and so there is no attempt to capture interaction effects among any combinations of tax expenditures; this means that any sum of tax expenditures does not accurately reflect the combined impact of all of the relevant provisions. Tax expenditures are estimated independently also of effects on government spending programmes, and of any possible changes in other government tax or spending policies that are made because of the tax expenditures. Therefore, the amount of a tax expenditure is not a precise estimate of the budgetary effect of its repeal. The United Kingdom uses accrual accounting for their budget expenditures, as well as for estimating the cost of tax expenditures.

Structural provisions are included in the "Tax Expenditure and Structural Relief" report. As noted above, the government acknowledges that the distinction between structural reliefs and tax expenditures is not always clear.

Methods

The loss of revenue associated with tax reliefs and allowances cannot be directly observed. Estimation methods include calculating the amount of tax that individuals or firms would have had to pay if there were no exemptions or deductions for certain categories of income or expenditure, and comparing it with the actual amount of tax due.

Reporting

Location of estimates

The data are reported in "Chapter A: Budget Policy Decisions" within the government's "Financial Statement and Budget Report" (HM Treasury, 2007*a*). More details on individual tax allowances and reliefs can be found in *Tax Ready Reckoner and Tax Reliefs,* published alongside the pre-budget report. Estimates are not presented directly alongside outlays for comparable purposes.

Frequency of reporting and years covered

Although there is no statutory requirement to produce a report on tax expenditures, the government still estimates and reports all major tax expenditures in the *Tax Ready Reckoner* every autumn. And Chapter A of the annual Budget, "Budget and Policy Decisions of Financial Statement and Budget Report," contains a list of proposed tax expenditures. No comprehensive historical report exists, but the "Financial Statement and Budget Report" was first reported following approval of Parliament (for the purposes of Section 5 of the European Communities Amendments Act) in 1993. The "Financial Statement and Budget Report" has been published online since 1997.

Policy making

Adding or expanding tax expenditures in the budget process

The government has committed not to take policy measures which are likely to increase social security or other parts of the budget, including tax expenditures, without offsetting steps to accommodate the government's "Golden Rule" and "Sustainable Investment Rule." The Golden Rule states that over the economic cycle, the government will borrow only to invest and not to fund current spending. The Sustainable Investment Rule states that net

public debt as a proportion of GDP will be maintained below 40% over the economic cycle. In addition, a section of the 1998 Finance Act requires that HM Treasury lay before the House of Commons a Code for Fiscal Stability (CFS). This code emphasises five principles for fiscal policy and requires HM Treasury, on behalf of the government, to prepare reports outlining past and prospective developments in fiscal and debt management, including adherence with the government's fiscal rules mentioned above.

The United Kingdom has a budget law that limits total debt. There is also an explicit prudence factor built into the economic assumptions which reduces the final economic estimates by a set amount. This is informally done, not legally required. The United Kingdom does not follow a strict PAYGO process. It does, however, as outlined above, try to follow the "Golden Rule" and to obey the "Code for Fiscal Stability".

Incentives to repeal or reduce existing tax expenditures in the budget process

If observed, the "Golden Rule" would provide an incentive to reduce or eliminate existing tax expenditures. Unanticipated surpluses at year-end can either be treated as a dividend to the budget carried over to next year, offset against next year's budget, or used as price reductions.

Policy review

Review of tax expenditures

Tax expenditures are reviewed twice a year by the HM Treasury as part of the budget and pre-budget report process. This, however, is not a legal requirement.

Review of comparable spending programmes

The United Kingdom's budget contains spending that is mandatory in nature. It is estimated that 40-60% of the budget is comprised of mandatory spending. There are specific sunset dates for some of these mandatory expenditure programmes, at which point spending ceases if they are not renewed.

Information about causes of changes in budget results relative to past projections

The United Kingdom does report differences of actual revenues from projected estimates. Forecasts are based on "cautious assumptions" (a trend economic growth rate of 0.25% lower than the government's view) audited on a three-year rolling basis. An alternative scenario where trend growth is 1% lower than the central case is published to illustrate the risks. Fiscal rules are assessed in both the central and cautious cases.

"Make work pay" tax expenditures

In the United Kingdom, due to high marginal effective tax rates, the net income result from a small increase in gross earnings could be only slightly positive or possibly even negative. This is particularly true of single parents and one-earner families. This factor led to early interest in "make work pay" tax expenditures.

The Married Couple's Allowance (MCA), whose estimated cost (GBP 4 600 million in the 1992-93 period) made it the sixth largest tax expenditure, was abolished in April 2000. The revenue thereby saved was allocated to funding the Children's Tax Credit, which replaced MCA and came into effect at the same time. The Children's Tax Credit was a wastable tax credit available to families with one or more children.

In April 2003, two new credits – the Child Tax Credit (CTC) and the Working Tax Credit (WTC) – replaced the Working Families Tax Credit (WFTC), the Disabled Person's Tax Credit (DPTC) and the Children's Tax Credit. The CTC replaced the existing, income-related elements of support for children in WFTC, DPTC, the Children's Tax Credit, income support and the income-based Jobseeker's Allowance. Also, the CTC is non-wastable, so that people paying no tax could receive the support. Similarly, the WTC replaced existing elements of support for adults and their child-care costs in the WFTC, DPTC, and the New Deal Employment Credit for those aged 50 or older. The WTC also will provide support for working households without children where at least one adult is aged 25 or over.

The government has enriched these tax credits almost every year since the introduction of the WFTC. Although their estimated costs are modest – GBP 3 300 million and GBP 1 100 million, respectively, in 2005 – those costs do not include the non-wastable payments that exceed liability. Such payments are currently treated as expenditures and amount to as much as GBP 15 billion in 2004-05.

HM Revenue and Customs, formed in 2005, pay and administer all tax credits, including the Working Tax Credit (WTC). The United Kingdom also subsidises employers by reducing employers' social security contributions. These subsidies are given to all those with low earnings, without any attempt to identify and treat differently sub-groups of the population. The United Kingdom also subsidises employees, paying cash transfers to those who separately apply for the benefit and meet the qualifying conditions.

Number of tax expenditures

Income taxes

In 2006-2007, the last measurement period using final or near-final data, the United Kingdom reported 189 tax expenditures under the income tax, and 151 under other taxes.[20] It also reported 42 "reliefs with tax expenditure and structural components, and eight "structural reliefs" (see Table 24, as reported by country).

On the basis of reporting practices observed in the rest of the sample of OECD member countries, this volume judgmentally classifies 39 of the 42 "reliefs with tax expenditure and structural components," and three of the "structural reliefs," as tax expenditures. The other three of the "reliefs with tax expenditure and structural components," and five of the "structural reliefs," are classified as "structural items." Thus, for purposes of greater cross-country comparability in this volume, the United Kingdom has the same number of 208 tax expenditures under the income taxes in 2006-2007 as under the United Kingdom's own count – but they are not the same 208 provisions; three are different (see Table 24, with reclassifications by authro).[21] The United Kingdom also reported 208 tax expenditures for 2007-2008. The category of general business incentives, with 38 tax expenditures, was the largest; there were 37 tax expenditures for work-related employee benefits (other than retirement and health), and 29 for specific industry relief. These tax expenditures include a non-wastable "make work pay" tax credit.

Other taxes

The United Kingdom reported 173 tax expenditures for 2006-2007 under all taxes other than the income taxes. In 2007-2008, the number increased to 175. The VAT was subject to 43 tax expenditures in 2006-2007, and 44 in 2007-2008. The inheritance tax had 44 tax expenditures in both years. The stamp duty land tax had 22 tax expenditures in 2006-2007, and 23 in 2007-2008.

Memorandum items

Like Canada, the United Kingdom enumerates and estimates the cost of some provisions that it considers to be structural, and therefore not tax expenditures. Uniquely, the United Kingdom also classifies a group of provisions that it believes have attributes of both structural provisions and tax expenditures. After categorising these provisions for what is judged to be the greatest possible cross-country comparability, we have classified eight as structural in both 2006-2007 and 2007-2008 – five from the United Kingdom's own list of eight structural provisions, and three from the United Kingdom's list of 42 provisions with both structural and tax-expenditure attributes.

Amount of tax expenditures

Income taxes

With this volume's recategorisation of tax expenditures under the income taxes, the sum of these provisions equals 8.3% of GDP in 2006-2007 (see Table 21, with reclassifications by author). It was projected to fall to 8.1% of GDP in 2007-2008. Tax expenditures for retirement equal 2.3% of GDP in 2006-2007; those for capital gains are 0.5% of GDP; those for accelerated depreciation add to 1.4% of GDP, and dividends to 1.1%, and those for housing come to 1.2% of GDP. The portion of the make work pay tax credit that is counted as a reduction of receipts comes to 0.3% of GDP. The numerous general business incentive tax expenditures add up to 0.8% of GDP; those for work-related employee benefits sum to 0.2% of GDP; and the specific industry provisions equal 0.1% of GDP.

In 2001-2002, tax expenditures under the income taxes, using the United Kingdom's own categorisation but including the "reliefs with tax expenditure and structural components," added to 8.2% of GDP, or not very different from the current level. In 2002-2003, the corresponding sum was 8.6% of GDP, surely higher in part because of downward pressure on GDP from the weak global economy at that time.

Other taxes

Tax expenditures under all taxes other than the income taxes sum to 4.5% of GDP in both 2006-2007 and 2007-2008. The VAT tax expenditures add to 3.2% of GDP, and those under the inheritance tax come to 1.0% of GDP, so these two taxes virtually exhaust the total.

In both 2001-2002 and 2002-2003, the sum of non-income-tax tax expenditures was 2.1% of GDP, or less than half the current level.

Memorandum items

The sum of the few provisions we have categorised as structural items in 2006-2007 and 2007-2008 added up to 4.2% of GDP. These are provisions that provide comparatively broad tax relief, and one (the personal allowance under the income tax) is quite large. In 2001-2002 and 2002-2003, provisions that the United Kingdom identified as structural added to 5.9% and 5.8% of GDP, respectively.

Tax expenditures in the United States

Definition and measurement

Definition

The statutory definition of tax expenditures in the United States is "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of liability."

Types of taxes measured

Tax expenditures in the United States are identified only for central government taxes. They do include many items that benefit state and local governments, including exemptions for interest earned on municipal bonds. Tax expenditures have generally been limited to individual and corporate income taxes. In principle they could be defined for other taxes as well, but this has not been done except for a brief period in the 1990s when tax expenditures were measured for estate and gift taxes.

Benchmark tax system

In general, the tax expenditures in the United States budget are deviations from a comprehensive income tax in which income is defined as consumption plus the change in net worth – the Haig-Simons definition. The statutory definition of tax expenditures given by the 1974 Budget Act does not specify the precise reference tax system, and the choice of a baseline is

somewhat arbitrary. In recent years, the presentation of tax expenditures in the budget has discussed the ambiguities in the tax expenditure concept, pointing out how the list of tax expenditures would change if a pure income tax or a pure consumption tax were used as a benchmark. Two benchmark tax systems are used in the budget: the normal tax and the reference tax. Both are patterned on a comprehensive income tax. The reference tax is closer to existing tax law, limiting designation as tax expenditures to special exemptions that serve programmatic functions. For that reason, there are fewer tax expenditures under the reference tax, and it might be seen in very broad terms by some observers as more objective, whereas the normal tax system might be criticised by some as being more prescriptive.

Measurement

Concepts

The United States uses the revenue forgone method to measure its tax expenditures; the estimates assume no changes in taxpayer behaviour or economic activity as a result of the presence of the tax expenditure. Estimates are for annual cash flows, rather than present values of longer-run or steady-state effects. Each tax expenditure is evaluated independently, and so there is no attempt to capture interaction effects among any combinations of tax expenditures; this means that any sum of tax expenditures does not accurately reflect the combined impact of all of the relevant provisions. Tax expenditures are estimated independently of effects on government spending programmes, and of any possible changes in other government tax or spending policies that are made because of the tax expenditures. Therefore, the amount of a tax expenditure is not a precise estimate of the budgetary effect of its repeal. There are structural provisions of the income tax that are not considered to be tax expenditures. These include personal exemptions, the standard deduction, and the graduated tax rates for the individual income tax (the graduated rates in the corporate tax are considered a tax expenditure). Also, income is generally considered taxable only when it is realised in exchange. Tax rates vary by marital status, and these variations are not considered to be tax expenditures. Taxes on purely nominal gains resulting from inflationary changes in asset values or the effects of higher expected inflation on interest rates are not regarded as negative tax expenditures. The corporate income tax is not regarded as a tax penalty on income, even though that income is also taxed at the individual level. Only estimates for provisions deemed to be tax expenditures are presented; no "memorandum items" are presented for provisions that are judged to be structural parts of the benchmark tax.

Methods

The tax expenditure estimates are an analytical construction prepared in the Department of Treasury's Office of Tax Analysis (OTA). This is the same group that prepares the revenue estimates for the budget and which analyses the revenue impact of proposed changes in tax laws. Some of the tax expenditure estimates rely on the same large sample of tax returns that is used in preparing revenue estimates. This sample is extrapolated for the year of the budget and the years that follow using the administration's macroeconomic forecast and technical assumptions by OTA. Unlike the revenue estimates, however, the tax expenditure estimates are based on the previous mid-year forecast, to save time in making the necessary calculations. Another difference is that the tax expenditure estimates assume no change in behaviour as a result of varying the tax law; the revenue estimates generally do allow for microeconomic behavioural changes. The estimates are defined as "revenue losses" from the tax expenditure provision. A prior practice of identifying the outlay equivalents of these revenue loss estimates has been discontinued. Present-value estimates also are presented for selected tax expenditures where current revenue losses potentially give a misleading impression of the net impact of the tax provision. No attempt is made using actual tax return data to verify the accuracy of the estimates made earlier for the same fiscal year.

Reporting

Location of estimates

Tax expenditures are presented in the annual budget, but in a section of a budget annex volume (called *Analytical Perspectives*) that is devoted to revenue issues. Prior to the FY 1990 Budget, they were issued separately in a volume accompanying the budget called *Special Analyses*. The estimates for particular tax expenditures are thus separate from the figures for spending programmes directed toward similar purposes.

Frequency of reporting and years covered

Tax expenditures were presented for the first time in the FY 1976 Budget issued in 1975. Since the late 1970s, the tax expenditure tables show seven years of estimates: two years prior to the year of the budget, the year of the budget, and the four years following the year of the budget. The estimates are currently based on the economic forecast used for the mid-year estimates of the budget and they are not retrospectively revised or updated. Each year's budget includes listings of all new tax provisions enacted in the

preceding year, but no separate listing of new tax expenditures. When new tax expenditures are enacted, they are included in the annual presentation, but only a close comparison of the current presentation with that in previous budgets would reveal which of the listed provisions are new. The tables do not identify the new tax expenditures. In the past, the budget chapter that presents all of the revenue proposals also listed the new tax expenditures, but that practice has been discontinued, because it was difficult to include the proposed tax expenditures in a timely manner. These proposals were often determined at the end of the budget process, making it difficult to prepare estimates for them before the budget was scheduled to print.

Policy making

Adding or expanding tax expenditures in the budget process

The most recent US statutory budget disciplines, which were enacted in 1990 and extended in 1993 and 1997, expired at the end of 2002. Those disciplines included "pay-as-you-go" rules, which required that any tax reduction (including both new and expanded tax expenditures, and any structural tax cuts; a new or increased mandatory spending programme would be subject to the same disciplines) must be fully offset (by repeal or reduction of an existing tax expenditure or tax expenditures, a structural tax increase, and/or repeal or reduction of an existing mandatory spending programme or programmes; an unanticipated budgetary "windfall" of either higher revenues or lower outlays would not qualify as an offset for these purposes). The pay-as-you-go process was enforced in law by an automatic across-the-board reduction (called "sequestration") in a specified subset of mandatory spending programmes. This pay-as-you-go rule was fully observed over a substantial part of its history, and has been considered responsible for some part of the improvement in the United States budget during the 1990s. It was, however, waived several times in the legislative process in 2001 and 2002, immediately before it was allowed to expire. Separate multi-year disciplinary pay-as-you-go rules (without the force of law) on all tax and mandatory spending legislation are now imposed in the House and in the Senate, although these have been relaxed for some measures. These past and current pay-as-you-go rules are in the nature of "new spending rules," which is to say that there is no fixed target for total spending or revenue amounts, and automatic stabilisers are allowed to function unimpeded. The past administration proposed modified pay-as-you-go rules that would be limited to new spending without applying to taxes; the new administration has proposed a general renewal of the pay-as-you-go rule. The House and Senate pay-as-you-go rules, if enforced, would not

allow current unanticipated revenues to be spent in the future (or require that current unanticipated revenue shortfalls be made up in the future).

Incentives to repeal or reduce existing tax expenditures in the budget process

As noted above, the expired pay-as-you-go law, and the current pay-as-you-go rules, would prohibit the expansion of an existing tax expenditure without an offset through the repeal or reduction of an existing tax expenditure, a structural tax provision, or a mandatory spending programme. The pay-as-you-go process also creates an incentive for the repeal or reduction of an existing tax expenditure as a possible offset for any proposed new or expanded mandatory spending programme.

Policy review

Review of tax expenditures

There is no required review of existing tax expenditures. However, many tax provisions (including tax expenditures and structural provisions) – many more than was the case eight years ago – now have sunset dates, and will expire in the next few years (many at the end of 2010). This will require some measure of "reconsideration," if not "review." There has been a biannual volume of analyses of tax expenditures produced by the governmental but non-partisan Congressional Research Service of the Library of Congress; that review does not reflect the views of either executive or legislative policy makers. Also, the governmental but non-partisan Congressional Budget Office produces a biannual volume of potential policy changes to reduce the deficit; the ideas considered inevitably included some reductions or repeals of existing tax expenditures. Tax expenditures receive considerable attention whenever tax reform is on the political agenda. In 2005, the President's Advisory Panel on Federal Tax Reform issued a report calling for the comprehensive overhaul of the tax system, which would have drastically altered many of the largest tax expenditures. This effort at tax reform did not lead to legislation, but the central place of tax expenditures in the reform options is typical of what a general tax reform would produce. In the FY 2008 budget, and again in the FY 2009 budget, the President proposed major changes in the tax expenditure for private health insurance.

Review of comparable spending programmes

The budget (like the Congressional Budget Office's comparable annual report) includes multi-year projections of the costs of entitlement programmes. The projections cover the same time frame as the other budget projections: the year of the budget and four years beyond. Social Security and Medicare both are reviewed annually by their trustees who issue annual reports which present 75-year projections for these programmes. The trustees' projections are usually based on different assumptions from those used for the budget. For more than a decade, the budget has included a "Stewardship" chapter in *Analytical Perspectives* which reports long-run projections for the budget as a whole including the major entitlement programmes. It is arguable whether such analyses make legislative review and revision more likely. Some mandatory spending programmes – but not the very largest – are subject to periodic expiration, which requires legislative reauthorisation and, in theory, attendant review in the Congress. It should be noted that such review has not always resulted in the past, nor has there always been careful and timely review of the other mandatory spending programmes, which are in permanent law. There is no readily accessible comprehensive listing of the required reauthorisations of mandatory spending programmes.

Information about causes of changes in budget results relative to past projections

Both the budget and reports by the Congressional Budget Office identify three classes of causes of deviations of revenues (and outlays) from projected estimates after the fact: legislative action, changes in the economy, and "technical" factors (which can include specific issues regarding programme details, but often denote simple estimating errors). These assessments are not updated after they are first made. There are no such retrospective re-estimates that pertain specifically to tax expenditures.

"Make work pay" tax expenditures

The US Earned Income Tax Credit (EITC) was one of the first, if not the first, non-wastable tax credits designed to "make work pay". It was enacted in 1974. It is managed solely by the revenue authorities, and typically is paid to beneficiaries annually by the central government tax authorities. (More frequent distribution is permitted, but is rarely done, largely because of perceived complexity for employers.) Amounts of the credit that offset tax liability (the smaller part) are counted as reductions of revenues; amounts in excess of tax liability are counted as increased outlays. This programme was

structured as a tax programme rather than an outlay programme because of an apparent preference to administer it through the existing tax system rather than through a new spending bureaucracy.

Number of tax expenditures

Income taxes

With recategorisations to achieve somewhat greater cross-country comparability, we have counted 164 tax expenditures under the US income tax in 2008 (the latest year based on final or near-final tax data; see Table 28, with reclassifications by author).[22] That is an increase from 135 in 2002. The US Treasury projects that two tax expenditures will drop in cost to zero by 2010. In 2008, there were 54 tax expenditures, more than one-third of the total, in the category of specific industry relief. We have categorised 18 as general business incentives, and 16 for education.

The United States communicated historical counts of tax expenditures that are not directly comparable with the calculations in this volume, but that give a longer sense of trend.[23] In 1985, there were 104 tax expenditures. That number was reduced somewhat by the Tax Reform Act of 1986, but by 1990 the number was back up to 116. Under the methodology used in the US communication, there were 130 tax expenditures in 2000 and 161 in 2006, so the growth since the 1986 Act has been continuous and significant.

Other taxes

As noted earlier, the United States does not identify tax expenditures for any taxes other than income taxes.

Amount of tax expenditures

Income taxes

With the recategorisation for cross-country comparability, US tax expenditures under the income tax sum to 6.0% of GDP in 2008 (see Table 25, with reclassifications by author). That is down from 7.0% in 2002 (although because 2002 was a recession year, GDP was cyclically low, and tax expenditure estimates were cyclically affected). Health, housing and retirement purposes each individually account for more than 1.0% of GDP.

Relief for income from capital through accelerated depreciation, capital gains, interest and dividends accounts for 0.7% of GDP (and tax cuts for capital gains and dividend income enacted in 2001 and 2003 are not counted as tax expenditures by the current United States administration). This is a decline from 0.8% in 2007, and 0.9% in 2006. In the coming years, this amount is projected to fluctuate wildly. As was noted earlier, the United States does not in concept recognise negative tax expenditures. However, the tax expenditure for accelerated depreciation includes both a positive component in the early years of new investments (when depreciation deductions are larger than what is deemed to be true economic depreciation) and a negative component in the later years of those investments (when depreciation deductions are correspondingly smaller than the neutral amount). With the current economic downturn, new investment has slowed sufficiently that the accelerated depreciation deductions on new purchases are estimated to be smaller than the reduced later deductions on prior investments. Accordingly, the measured tax expenditure for accelerated depreciation declined substantially for 2008, and is projected to be negative for 2009 through 2012. The swing from the larger prior positive estimates to the projected negative estimates will reduce the total by as much as 0.5% of GDP. At the same time, with the weakness in financial markets, the tax expenditure for capital gains has dropped by another 0.3% of GDP. Even with an assumed economic recovery, the total of tax expenditures for relief from capital income taxation will barely return to half its 2007 level by 2014.

The numerous provisions for specific industry relief add to only 0.2% of GDP, general business incentives for 0.3% of GDP, and education for 0.1%. Because the accounting for the "make work pay" non-wastable tax credit, the Earned Income Tax Credit (EITC), includes only the portion that offsets tax liability as a reduction of revenues, the impact of that provision on the total is only about 0.1% of GDP. Furthermore, because the provision dates back almost to the dawn of the tax expenditure concept – it was enacted in 1974 – it will have little impact on any measure of the growth, as well as the level, of tax expenditures. Total income tax expenditures are projected to grow to 6.8% of GDP by 2013.

Data communicated by the United States show tax expenditures declining unevenly as a percentage of GDP over a longer term – from 8.8% of GDP in 1985 to 6.0% in 1990 (after the Tax Reform Act of 1986), but then rising to 6.4% in 2000, before declining slightly to 6.2% in 2006. These figures suggest that the reduction of marginal income tax rates in 1986 has had a long-term effect of holding down the revenue impact of tax expenditures. The data might also suggest that new tax expenditures added since 1986 have been somewhat smaller on average than those that were

repealed in the 1986 tax reform. That hypothesis would need to be verified carefully, but it is true that the tax cuts in this decade have included very large structural rate reductions, rather than being dominated by new or expanded tax expenditures.

Notes

1. See Section 3.2.

2. It might be argued that ability-to-pay tax provisions are different from most spending programmes, in that the former apply to persons with income from labour or capital, and the latter often apply to those with no other means of support. Even that distinction clearly is imperfect, however. All of these issues might suggest that it would be helpful to identify the revenue costs of ability-to-pay reliefs, even if they were not formally categorised as tax expenditures. Many countries are far from that degree of detail in reporting, and such a practice would add to workloads.

3. For one specific example, the United States provides a personal exemption for all persons including children, which is considered structural and not a tax expenditure; and an additional tax credit for children, which is considered a tax expenditure. It certainly is true that the population of children is smaller than the population of all persons, and so the tax credit for children might be considered a tax benefit to a narrow population; but the population of all children still would seem quite broad. If the benefit were delivered through an additional personal exemption for children, or a larger personal exemption for children than for older persons, this categorisation might be even more ambiguous.

4. Present-value estimates, in addition to the annual cash-flow estimates, are presented for the tax-deferred savings programmes.

5. See the chapters entitled "Fiscal Projections" or "Fiscal Outlook." The most recent projections are in Chapter 3 of the *2008 Economic Statement*: *www.fin.gc.ca/ec2008/pdf/EconomicStatement2008_Eng.pdf*.

6. The most recent projections are in Chapter 3 of the 2008 Economic Statement, *www.fin.gc.ca/ec2008/pdf/EconomicStatement2008_Eng.pdf*.

7. For further details on the WITB, see Department of Finance (2007*a*).

8. All counts and categorisations are by the author. See earlier discussion for limitations.

9. Communication from Georges-Henri Lion to the OECD conference on tax expenditures, 10-11 December 2007. All responsibility for interpretation rests with the current author.

10. For the statutory pension system, expenditure, revenue and the federal grants to the system are estimated by an independent working group. The group meets quarterly and their estimates cover the short- and medium-term. The annual Statutory Pension Report (*Rentenversicherungsbericht*) covers revenues, expenditures, sustainability, and the expected contribution rates for the next 15 years. The Public Service Pension Report (*Versorgungsbericht*) is published every four years. It presents data on expenditures for the previous year and estimates for the next 15 years and analyses the main determinants of expenditures. The most recent report, published in 2005, includes estimates through 2050.

11. All counts and categorisations are by the author. See earlier discussion for limitations.

12. These totals attempt to represent central government tax expenditures only.

13. Communication from Takao Shiraishi to the OECD conference on tax expenditures, 10-11 December 2007. All responsibility for interpretation rests with the current author.

14. The effectiveness of a sunset requirement must be judged carefully. In the United States, a small number of tax expenditures had been subject to periodic expirations over the 1980s and 1990s, but they were continuously re-enacted, albeit on occasion after some legislative drama. Political analysts went so far as to suggest that those sunsets actually had the effect of increasing the number and size of tax expenditures and structural tax cuts, because the periodic expiration of those provisions created repeated occasions for consideration of tax bills when there was no other pressing motivation. Thus, other countries might want to consider the Korean experience as evidence of the potential success of mandatory sunsets, but also whether their own legislative environments are conducive to such favourable results, more than the apparently less attractive US experience.

15. All counts and categorisations are by the author. See earlier discussion for limitations.

16. Communication from John Kim to the OECD conference on tax expenditures, 10-11 December 2007. All responsibility for interpretation rests with the current author.

17. All counts and categorisations are by the author. See earlier discussion for limitations.

18. Communication from Wilhelmus van Tol to the OECD conference on tax expenditures, 10-11 December 2007. All responsibility for interpretation rests with the current author.

19. Communication from Ragnar Olofsson to the OECD conference on tax expenditures, 10-11 December 2007. All responsibility for interpretation rests with the current author.

20. For purposes of this analysis, tax expenditures under the income tax include those that apply to national insurance contributions.

21. All counts and categorisations are by the author. See earlier discussion for limitations.

22. All counts and categorisations are by the author. See earlier discussion for limitations.

23. Communication from Robert B.Anderson to the OECD conference on tax expenditures, 10-11 December 2007. All responsibility for interpretation rests with the current author.

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Chapter 5
Conclusions

This chapter draws conclusions of the comparison of the ten countries under review. It discusses the differences between countries in defining tax expenditures and concludes that there are some commonalities. It then turns to the differences between countries concerning what types of taxes are measured. It continues by explaining the differences in benchmark tax systems each country uses in order to define their tax expenditures. It includes an analysis of the different concepts, methods, reporting, policy making and review, make work pay programmes, and the number and amount of tax expenditures, among the nine different countries studied in this report.

There are several global conclusions from the analysis of tax expenditures and policy-making institutions. One is certainly that international comparisons of tax expenditures are difficult, and careful judgment must be employed. Some useful conclusions may be drawn, but they should not over-reach the comparability of the data. Still further research beyond this report would be helpful; at the extreme, it would involve analysis of the various countries' tax systems in details far deeper than the lists of tax expenditures themselves. A second, more immediately practical conclusion is that there are no policy rules or procedures that **guarantee** success in controlling tax expenditures, but that some ideas now in use among the sampled countries may help. The following discussion expands on these themes.

Definition and measurement

Definition

Definitions of tax expenditures share a common core across countries, but differ widely around that core.

Every country defines "tax expenditures," either explicitly or implicitly and sometimes using a minor variation on the title, as exceptions to some baseline standard for the entire tax. For most countries one criterion to identify a deviation from the baseline is a loss of revenue, although a few countries formally recognise "negative tax expenditures," or "tax penalties." Some countries establish a criterion as providing a benefit to a narrow group of taxpayers. Some look for pursuit of a policy objective other than the core goals of the tax system itself. Some look for some measure of similarity to a hypothetical alternative outlay programme toward the same end. However, all of these criteria seem close enough that they should cause identified tax expenditures to diverge little from one country to another.

However, countries differ in the purpose of the exercise of the identification of tax expenditures, and these differences can cause what may be enormous divergences in the meaning of the tax expenditure statistics. Most of these differences are somewhere in the nexus between the definition of tax expenditures and the specification of the benchmark tax system against which possible tax expenditures are tested. Discussion related to the benchmark will continue below.

However, as one example of the differences among countries, Germany explicitly focuses its interest in tax expenditures on their use to deliver subsidies to business, whether organised in the corporate sector or in

households. Accordingly, Germany identifies and measures tax expenditures under its household income tax, but they are generally related to business activity. Germany's measured number of tax expenditures under its individual income tax would be expected to be low for this reason, but there could be other provisions that would be considered tax expenditures but for the measurement focus on business subsidies. Determining whether there are such unidentified subsidies delivered through the tax system would require extensive analysis not of Germany's list of tax expenditures, but rather of the rest of its tax system – which would be a considerable exercise.[1]

Types of taxes measured

Many countries extend their analyses of tax expenditures to central government taxes beyond income tax. Some, depending on the nature of their federal fiscal systems, measure tax expenditures for taxes received at lower levels of government as well. Of course, countries that identify tax expenditures of non-central governments may list more and greater amounts of tax expenditures than countries that consider the federal level only. The identified tax expenditures may serve different governmental functions as well, given the typical division of labour between central and lower levels of government, under which central governments deliver larger subsidies and services keyed to national objectives such as economic growth, while lower levels of government more often pursue social objectives, and often have smaller taxes whose tax expenditures might be correspondingly smaller. In the end, it is essential to recall that a country that does not measure tax expenditures outside of its income tax may well have unmeasured tax expenditures outside of its income tax; and a country that does not measure tax expenditures at the provincial or local levels of government may well have unmeasured tax expenditures at those levels (if those governments have taxing powers).

Benchmark tax system(s)

The selection of a benchmark tax system has important leverage on the outcome of measurements of tax expenditures. Some countries have very elaborately specified benchmarks, while others have only implicit definitions of tax expenditures from which their benchmark systems are inferred. However, whether precise or impressionistic, the choice of a benchmark is potentially important.

The literature pays considerable attention to the choice between an income tax and a consumption tax as the benchmark for tax-expenditure purposes under its income tax.[2] In theory, of course, this choice is of

enormous importance. Under a comprehensive income tax benchmark, any subsidy for income from capital is a tax expenditure. Under a consumption tax benchmark, any taxation of income from capital is a negative tax expenditure or a tax penalty.

Each country examined here uses what is basically an income tax as its benchmark (or uses other criteria that lead to the listing of tax preferences for income from capital as tax expenditures). And yet there are significant differences in benchmarks that apparently lead to equally significant differences in the measurement of tax expenditures, independent of the nature of the underlying reference tax.

At the most fundamental level, each country has a choice of how general or detailed its benchmark system will be. A country with a very general benchmark could consider many provisions of the actual law to be tax expenditures. In another country, a more elaborate benchmark might include some of those same kinds of provisions, which therefore would not be considered tax expenditures. Countries at opposite ends of this spectrum could be Japan and the Netherlands. Japan expresses its benchmark only in terms of its basic principles of taxation: equity, neutrality, and simplicity. Any provision to pursue any other objective is considered a "Special Tax Measure," the term that Japan uses to denote a provision that other countries might call a "tax expenditure." From this benchmark, Japan might be expected to have a large number of tax expenditures. In fact, Japan considers its Special Tax Measures to be qualitatively different from the tax expenditures recognised and measured in other countries. In sharp contrast, the Netherlands considers its benchmark to be the "primary structure" of the actual tax system in place. As a result, that benchmark might be expected to include some provisions that might otherwise be considered tax expenditures, and the Netherlands might be expected to have relatively few recognised tax expenditures, all else equal.

France's approach is a variation on the definitional end of the scale that would tend to have fewer tax expenditures. In the past, France's concept of its benchmark or "norm" was assumed to evolve over time, and there was a presumption that a tax provision that had been long-lived could for that reason become accepted into the "norm." As a result, some tax expenditures over time could come to lose that status. It was only recently that France ceased that practice.

Canada and the United Kingdom employ measurement concepts toward the end of the spectrum that presents a more restrictive benchmark, and which thus tends toward the identification of numerous tax expenditures. Furthermore, in addition to provisions that it considers tax expenditures, Canada provides estimates of other provisions that it considers to be

structural, and therefore not tax expenditures. Thus, Canada could be expected to list estimates for many tax provisions, like Japan, but unlike Japan it divides those estimates into two classes: those that are considered tax expenditures, and those that are not. The United Kingdom goes one step further, and separates a third class of provisions, which are identified as on the borderline between being tax expenditures and being structural.

Thus, through its approach to the definition of tax expenditures and the benchmark, a country can significantly affect the number and size of tax expenditures that it identifies. Yet for all of its significance in terms of measurement outcomes, this choice has much less economic salience than the more commonly discussed decision between an income tax and a consumption tax benchmark.

Concepts

As noted elsewhere in this report, there is a fundamental conceptual choice among measurement by "initial revenue loss," more commonly known as "revenue forgone", "final revenue loss", and "outlay equivalence." In practice, only Sweden provides outlay equivalent measures, in their case as a supplement to their primary presentation, rather than as the primary presentation itself; the United States once did the same as Sweden, but has discontinued the practice.

Thus, the main choice that each nation has confronted is between the revenue forgone method, and the final revenue loss method. The revenue forgone method is inevitably discussed as having several important theoretical drawbacks. It does not take into account interactions among different tax expenditures; it does not take into account behavioural changes on the part of taxpayers because of the existence of the tax expenditure; it does not take into account behavioural changes on the part of government because of the tax expenditure, such as enacting or repealing other tax expenditures or outlay programmes; it therefore does not provide an accurate estimate of the revenue effect of the repeal of the tax expenditure, and the amounts of multiple tax expenditures cannot be added to obtain an accurate sum. In contrast, the final revenue loss method has none of these flaws.

Every government examined here has chosen the revenue forgone method, despite all its flaws. The reason almost surely is that the final revenue loss method is totally impractical. The domain of governments is almost exclusively the production of data, not contestable scientific estimates. Given only basic assumptions, a revenue forgone estimate is determinate. In contrast, a final revenue loss estimate is almost totally subjective. A revenue forgone estimate does not depend on estimates of

predicted human behaviour; a final revenue loss estimate does. Thus, the task of generating a final revenue loss estimate is infinitely more difficult and more involved. Furthermore, the number of potential interactions among tax provisions and other government programmes, when the number of relevant tax provisions and programmes may rise into triple digits, is for all practical purposes infinite. Governments cannot generate such estimates, which would amount to multiple replications of the work of providing an estimate for a complex tax bill, over any feasible production cycle. Accordingly, no one should be surprised that governments choose the revenue forgone method.

However, one implication of the choice of the revenue forgone estimation method is usually ignored. Separate revenue forgone estimates of multiple tax expenditures cannot be added together accurately. And yet, virtually every government (and virtually every private researcher) adds tax expenditure estimates routinely. The reason is that there is no alternative way to compare the prevalence and size of tax expenditures over time and across countries. This report falls into line and follows this questionable procedure.

There is no way to judge even whether adding multiple tax expenditures yields a sum that is too high or too low, let alone by what margin. As was noted earlier, sums of tax expenditures for itemised deductions in the United States likely overstate the true total; sums of tax expenditures for exclusions of income likely understate the true total. Sums of a combination of the two are unpredictable. And that is true even if the objective of the sum is another, albeit combined, revenue forgone estimate. Once changes of taxpayer and government behaviour are added into the exercise, the result is even more uncertain.

The best course is to forewarn policy analysts about the problems of sums of tax expenditures, and to use them as indicative, rather than as precise indicators. With appropriate caution, small differences in sums can be discounted, and large differences can be interpreted as qualitative signs. Under some circumstances, such indications may prove useful, and may direct further, more-focused research in important directions. Only Spain has attempted to provide an estimate of the combined effect of all tax expenditures; and even that effort would yield no guidance toward the combined effect of any subset of tax expenditures.

Similarly, the number of tax expenditure provisions, rather than their revenue forgone, may not be a definitive indicator (because of differences in definition across countries) but may suggest avenues for more detailed research. For example, if the number of a country's tax expenditures has increased over time, that may motivate a review of tax policy and the policy process.

Some particular individual tax expenditures can raise their own conceptual issues. Tax expenditures are typically, but not always, measured as annual cash flows. In some instances, governments produce discounted present-value estimates. Such estimates may be useful, although governments are not necessarily indifferent between different streams of costs with the same present value, and often will want to see the year-by-year figures. Where policy choices must be made with respect to deferrals of tax liability, like pension programmes where contributions and earnings are tax deferred but later redemptions are taxable, even annual net tax expenditure flows can be inadequate. Policy makers may want to see both revenues collected from taxation of redemptions, and revenues postponed from deferral of tax on contributions and earnings, for each year. Such detail is not routinely reported in the public tax expenditure statements.[3]

Methods

Some countries have more mature tax expenditure reporting systems than others, which means more publicly available and complete documentation of methods. However, such documentation as there is suggests that methods from one country to another are basically similar, whether the tax expenditure in question is from income tax or some other tax. Tax expenditures such that the current tax collection processes generate the necessary data – such as a deduction from reportable income, which must be claimed on a tax return – are estimated from those data, through statistical samples of the tax returns themselves. Tax expenditures that do not generate such data – such as an exclusion from reportable income, which does not even appear on the tax return – are estimated from whatever data can be found, whether from public survey statistics, or administrative data of central, provincial or local government, or even data obtained from private entities. Government agencies other than the tax policy or collection authorities may well be involved. Where necessary, econometric estimates are made using those data.

Reporting

Location of estimates

It is widely believed that tax expenditures are best reported in the budget alongside outlay programmes with the same purpose. However, in some countries, even the reporting of tax expenditures is not required by law. Some countries report biannually, rather than every year. Some report outside of the budget, many annexed to the budget. None of the countries in this sample report tax expenditures alongside similar outlay programmes; Germany's subsidy report may be the closest to such reporting. Depending on the perspective of the observer, this may be taken as a reason why tax expenditure policy is made so poorly, or a paradox given that tax expenditure policy is made as well as it is. As was pointed out earlier, there may not be realistic trade-offs between tax expenditures and outlay programmes, particularly if there are firm political constraints against higher taxes and higher spending. Still, going forward, it would seem desirable to pursue the goal of side-by-side reporting of tax expenditures and similar outlay programmes – even if there are no examples of that practice in OECD member countries at this time.

Frequency of reporting and years covered

To keep tax expenditures in the focus of policy makers, annual reporting might be seen as an ideal, and in fact most countries follow an annual schedule. Typically, reporting is limited to one, two or three years of estimates. Canada, the Netherlands and the United States provide the longest estimation windows, with Canada showing estimates for eight years (including the budget and two succeeding years) and the Netherlands and the United States for seven years (in the Netherlands, including the budget year, one prior year, and five succeeding years, and in the United States, including the budget year, two prior years, and four succeeding years). The generally small number of years reported may be an indication of the priority that is assigned to tax expenditures, or to the perceived complexity of the task of generating the estimates, although once the estimating infrastructure is created, there should be economies of scale in replicating the estimates for multiple years, and in performing the estimates year after year. No country has made a practice of maintaining a consistent historical database of tax expenditure estimates, which makes trend analysis difficult and time-consuming; however, changes of methodology and data limitations may make such an historic compilation a low priority.

Policy making

Adding or expanding tax expenditures in the budget process

Few countries have explicit limits on tax expenditures in their budget processes, which leaves the widely discussed incentives to create tax expenditures to act with full force. Sweden's spending cap, with no restriction on tax expenditures, pushed this incentive to the extreme; but that policy arrangement has since been corrected with a spending cap adjustment for non-wastable tax credits that are close substitutes for alternative spending programmes. However, Sweden allows new tax expenditures – but not spending programmes – to be "paid for" with unexpected increases in the budget surplus. Still, Sweden's overall budget process has proved highly successful, at least as measured by a sustained favourable fiscal balance.

The EU Stability and Growth Pact, and the United State's budget process (which has expired in its strongest form), impose limits on the budget deficit, and through it, on tax cuts and spending in general. Several other countries (including the Netherlands, with its Coalition Agreement, and Sweden) have non-binding restrictions on the deficit. Germany has its non-binding directive to deliver business subsidies on the spending side of the budget. Only Korea imposes limits on tax expenditures narrowly defined, and those limits are so new as to be as yet untested. One such limit is the pay-as-you-go restriction on tax expenditures. The other, the restriction on the total of tax expenditures based on a moving average of totals over the previous three years, raises questions about the imprecision of sums of separate revenue forgone estimates, among other conceptual issues. It remains to be seen whether Korea will attempt to enforce this limit through more elaborate estimates of all of its tax expenditures taken together, so as to avoid the problem of the inaccuracy of the sum of multiple estimates. However, even if Korea does calculate a joint estimate, that will leave the further problem of fluctuations of estimates based on the state of the economy, and issues regarding measurement and taxpayer behaviour. Even if tax expenditure policy does not change, tax expenditure amounts under the progressive income tax will grow if the economy grows in real terms. (Conversely, in a recession, tax expenditure amounts could go down, thus rendering the limit not operative.) It may be that the intent of the provision was to impose a downward pressure on tax expenditures based solely on the growth of the economy. However, with such an instrument based on an imperfect measure, there could well be unintended and awkwardly timed consequences.

The Canadian envelope system was an interesting attempt to drive policy makers to make the explicit choice between spending and tax programmes. Canadian policy analysts were concerned that it was not implemented systematically. Furthermore, elected officials might not be indifferent between a budget with fewer tax expenditures, and thus an apparently larger total revenue and larger spending, and an alternative budget that actually commands the same amount of the economy's resources but has more tax expenditures and thus an apparently smaller government. Canada's line agencies reportedly attempted to trade their own tax expenditures for implicit tax increases to allow more spending. However, this experiment does at least suggest the potential merit of making line agencies play a constructive role in choices between spending and equivalent tax expenditure programmes, and perhaps even some workable incentive to move any less efficient tax expenditures toward more transparent and perhaps more frequently reviewed direct spending programmes.

Incentives to repeal or reduce existing tax expenditures in the budget process

Several countries provide encouraging experience, and perhaps some ideas that might be emulated to improve budgetary control. Sweden's correction of its incentive to increase tax expenditures involved the conversion of several non-wastable tax credits, which reportedly had been chosen solely to take advantage of asymmetric budget process constraints, into more-transparent spending programmes. The United State's. pay-as-you-go system allowed credit for the repeal of tax expenditures to finance other tax cuts or spending increases. Korea has enacted a similar system. The EU Stability and Growth Pact, Japan's Basic Policies, and the United Kingdom's Golden Rule in theory provide incentives to reduce or eliminate tax expenditures to achieve budget deficit targets.[4] Korea's moving-average target to limit the growth of tax expenditures is too new to evaluate. It does raise questions about the practicality of the use of sums of revenue-forgone estimates of tax expenditures. The sunset requirements in Germany, Japan and Korea show signs of success, but further research and evaluation, and perhaps experience, are needed.

Policy review

Review of tax expenditures

Some countries have formal schedules for review of their tax expenditures. Germany's system has the interesting attribute of a mandated role for multiple non-governmental research institutions, producing competing evaluations. That process is underway, and bears watching for its performance both for the quality of the reviews and for their impact within government. The new five-year cycle of reviews in the Netherlands may also show results. In contrast, France's statutorily required evaluations thus far have produced only quantitative estimates of tax expenditures, although that process has been revised and apparently improved.

Other countries require evaluations without firm schedules, and have shown limited results. The United States has a statutory requirement, but results have been paltry. Greater review, although with limited political impact, has come from the governmental but non-partisan institutions of the Congressional Budget Office and the Congressional Research Service of the Library of Congress. Korea will begin a new statutory process in a few years. Japan undertakes reviews as its Special Tax Measures approach their sunset dates; concrete results are unclear.

Canada has no requirement for evaluations, but has an apparently successful track record of publication of reviews in some detail. Other countries have no specific requirements and have demonstrated little in the way of reviews.

Review of comparable spending programmes

It is worth remembering that budget analysts have long railed against mandatory or entitlement spending programmes, the most likely substitutes for many tax expenditures, as "uncontrollable" and unreviewed spending (Schick, 2007). Discussion by OECD member countries does not suggest any significantly more robust review of entitlement spending than of tax expenditures. In particular, Korea's newly established regimen of tax-expenditure review, though not yet in effect, seems far more robust than that country's own review of mandatory spending programmes. The United States requires periodic reauthorisation of some spending programmes, but there is no consistent pattern of rigorous review as a result, and the largest entitlement programmes are not subject to such reauthorisation. Except for the United Kingdom, it appears that more tax expenditures than spending programmes are subject to statutory sunset, which might provide some greater occasion for review.

In other words, although replacing tax expenditures with spending programmes might result in greater transparency, it is by no means a guaranteed path to more regular and more rigorous review. The political energy expended to convert tax expenditures to spending programmes arguably may yield greater improvement if applied directly to obtaining review.

Information about causes of changes in budget results relative to past projections

The United State's system of semi-annual calculation of an exhaustive taxonomy of changes to prior budget projections – with changes divided among effects of new legislation, changes in economic assumptions, and "technical re-estimates" (usually unexplained forecasting errors, but sometimes changes in regulations or other identifiable non-legislative, non-economic factors) – is unique. Other countries provide much less information, with only Canada, France, Germany and Sweden providing separate figures for the effects of legislative changes. More specific accounting could help in considering policy alternatives to tax expenditures.

"Make work pay" tax expenditures

Over a long historical time horizon, the enactment and expansion of "make work pay" provisions has had an important cumulative effect on the total amount of tax expenditures. Koiwa (2006) lists 11 OECD member countries with make work pay tax expenditures and the budgeting techniques they report to the OECD.[5] However, the sample of countries in this survey report only limited **recent** changes. Korea has enacted a provision like the US Earned Income Tax Credit that will begin making payments in 2009. The United Kingdom has modified pre-existing provisions of this type.

Accounting treatment of non-wastable make work pay tax expenditures varies from country to country. The United States and the United Kingdom split their provisions between revenues (for the portion that offsets tax liability) and outlays (for the non-wastable portion). France accounts for its provision fully as revenues. Canada scores its provision as outlays. Germany and Sweden do not consider their make work pay provisions to be tax expenditures. Japan and the Netherlands do not have such provisions. Korea, as noted above, has not yet begun making payments, and accounting treatment is not yet determined.

If the make work pay function is truly necessary in contemporary developed economies, however, then this role will be played on one side of the budget ledger or the other. The issue is choosing the better of the two more than a concern that the tax expenditure vehicle would lead to the creation of such programmes.

Number of tax expenditures

Income taxes

The numbers of tax expenditures vary widely from country to country (see Figure 8 and Table 32). As noted earlier, this could have much more to do with measurement details as well as broad questions in the definition of tax expenditures, and of the benchmark tax, than with the issues in the actual tax laws and regulations of the various countries. The greatest number of tax expenditures is in the United Kingdom. However, the listing of United Kingdom's tax expenditures shows considerable detail, to the extent that what might be one tax expenditure under the methodologies of other countries could be counted as several in the United Kingdom. Furthermore, we have included as tax expenditures many of the provisions listed by the United Kingdom as having attributes of both structural provisions and tax expenditures. Other countries with similarly ambiguous provisions might not have listed them at all.

At the other end of the scale, Germany and the Netherlands list comparatively few tax expenditures. However, those results do seem to rest on approach and methodology as well as substance. Germany's focus on tax expenditures that deliver subsidies to business could lead to the identification of fewer provisions under the individual income tax that might be called tax expenditures in other countries, though Germany has fewer business-subsidy-oriented tax expenditures than many other countries. The broad reference tax in the Netherlands may well encompass some provisions that would be identified as tax expenditures in other countries. This pattern includes the incorporation of the "three-box" system of taxation of income from different countries, but also the inclusion in the benchmark of numerous provisions designed to simplify tax administration.

In short, it would be a mistake to over-interpret these data as even an imprecise measure of the prevalence of tax expenditures in the tax systems of the various countries. It would be more useful to use them instead along with the information about policy practices and institutions in the different countries, and the trend information that has been collected, to consider ways to improve policy making in every country.

One result that is to type with the political-economic view of tax expenditures is the large number of provisions in several countries to provide specific industry relief (see igure 9 and Table 32). Those provisions do not comprise substantial revenue losses in any country. Still, part of the cost of large numbers of narrowly targeted provisions may well be accumulated administrative and compliance complexity and perceived unfairness. In addition, although those tax expenditures may not be large, they may allocate resources far more narrowly and specifically than would be ideal.

Other taxes

Different countries have different reporting practices with respect to non-income taxes. For those countries that do report broadly, it is clear that non-income taxes are hardly devoid of tax expenditures. Value-added taxes and inheritance taxes do in some instances have significant numbers and sizes of tax expenditures. And yet again, comparisons from one country to another are potentially vulnerable to benchmark issues, such as the identification of provisions as structural measures of the ability to pay tax. Generally speaking, those countries with the most tax expenditures identified under income tax have the most tax expenditures identified under the value-added tax and other taxes (see Figure 8). This finding could indicate that countries that make the most use of tax expenditures do so under all of their taxes. However, it could also suggest once more that some countries are more meticulous than others in defining and cataloguing their tax expenditures. Under this interpretation, comparisons of numbers of tax expenditures may say more about measurement methodologies than about the underlying tax systems, and so must be considered carefully.

Memorandum items

The presentation of estimates for structural measures in Canada and the United Kingdom helps to present a comparable view of those countries relative to others. However, because those provisions may not be considered tax expenditures in a reasonable international comparison, they should not be counted in a total number of tax expenditures without careful consideration. The comparison in this report is based on a country-by-country and provision-by-provision judgment of which tax features should be counted as tax expenditures on the most consistent basis possible. Thus, many of the memorandum items in Canada and the United Kingdom are not counted.

Amount of tax expenditures

Income taxes

The diversity in the data across countries carries forward from the numbers of tax expenditures to their amounts as percentages of GDP, both in absolute terms and in shares of the total within any given country. In general, countries with more tax expenditures tend to have larger currency totals of tax expenditures (see Figure 10 and Table 29).

Perhaps the most noteworthy departure from this general pattern is Korea. Korea identifies a comparatively large number of tax expenditures from income tax, but the sum of those tax expenditures is a comparatively small percentage of GDP. Thus, while Korea may have fairly many tax expenditures, and the number of tax expenditures carries its own cost of complexity and economic distortion independent of money, the sizes of those tax expenditures may be comparatively small, or the sum of those tax expenditures may be particularly affected by some measurement and methodology issues. One hypothesis could be that Korea provides a disproportionately large share of its relief through tax expenditures under taxes other than income taxes, but the data here do not seem to support that explanation. Because measurement patterns across countries with respect to non-income taxes do differ, this question would require further research.

This apparent correlation between the number of tax expenditures and the sum of their costs generally but not precisely translates from tax expenditures as percentages of GDP to tax expenditures as percentages of income tax revenues (see Figure 11 and Table 31), with variations depending on each country's relative reliance on the income tax.

Looking at patterns of amounts of tax expenditures across countries, there are some other impressions, if not conclusions. The sums of tax expenditures in Canada, the United Kingdom and the United States are significantly larger than those in Germany, Korea and the Netherlands. Close comparisons are of course impossible because revenue-forgone estimates do not account for behavioural reactions, and the sums of individual tax expenditures do not equal the combined effects of change. However, these large orders-of-magnitude differences do suggest significant differences in measurement methodologies, institutions, or both.

For example, as noted earlier, Germany's identification of tax expenditures is focused on business subsidies, and one hypothesis would be that Germany may not identify what other countries would call tax expenditures to benefits households for social purposes. However, all of

Germany's identified tax expenditures account for a significantly smaller percentage of GDP that the tax expenditures for capital income tax relief, general business incentives, and housing alone in Canada, the United Kingdom, or the United States. Thus, the differences between Germany and this group of countries likely are more than just that Germany does not identify social tax expenditures. The differences may be methodological, or they may be substantive. But these data do suggest that there are significant differences, and that they could be worth further investigation.

Another question is the public purpose for which tax expenditures are used. There are only a few sketchy patterns for tax expenditures under the income tax (see Figure 12, Table 29, and Figures 1-7). Canada, the United Kingdom and the United States devote comparatively large shares of their tax expenditures toward retirement. Germany, the United Kingdom and the United States have relatively large shares for housing. Canada, Germany, the United Kingdom and the United States put meaningful shares of their totals toward relief for income from capital (capital gains, interest, dividends, or depreciation). But beyond that, it is hard to identify more than a pair of countries that would suggest a degree of similarity that looks other than purely random. As mentioned earlier, one pattern identifiable by its absence is the low share of GDP devoted to specific industry benefits, despite the large number of provisions. Thus, the many specific industry tax expenditures have apparently low money costs while absorbing larger volumes of law, regulation, and perhaps taxpayer attention – which can be real costs to society.

This result as much as any is potentially sensitive to measurement issues. Tax benefits for broad categories of income from capital are a prime example. The measure of the tax benefit for depreciation in excess of true economic depreciation is totally dependent upon the chosen measure of true economic depreciation, which is a subject of competing volumes of controversy and ignorance. Canada defines its provision to relieve double taxation of corporate dividends as part of the benchmark, but reports its revenue cost as a memorandum item. Because other countries do not explicitly state their benchmarks in those terms, this report counts that memorandum item as a tax expenditure. However, in 2003 the United States enacted *ad hoc* tax relief for dividend income, and chose not to count it as a tax expenditure. Without a listing as a memorandum item, which the United States does not provide for any tax provision, there is no opportunity to provide treatment comparable to that of Canada's dividend relief. Measurement of capital gains provisions could be similarly uneven across countries.

None of these countries shows a substantial percentage of GDP devoted to a make work pay non-wastable tax credit. There may be other countries that do. The countries analysed thus far either do not have such provisions, or count only the portion that offsets other tax liability as a reduction of revenues. The largest cost from all make work pay tax expenditures in any given country by a significant margin is in Spain, at 0.7% of GDP; Spain's largest tax expenditure in this category is a deduction (and therefore it is wastable, that is, not refundable). Second is the United Kingdom, at 0.3% of GDP, which is not an overly small category but is small relative to the overall differences between the tax expenditures of the various countries. Further research could present data for France, which does consider all of the effect of its "make work pay" provision as a revenue cost; but for this group of countries, such tax expenditures are not the key element of numerical differences.

Yet again, the data at this stage do not lend themselves to firm comparisons or conclusions. The United Kingdom's sum of tax expenditures is inexact just as any sum of revenue-forgone estimates would be. The United Kingdom's elaborate list of tax expenditures may simply be more inclusive than is that of any other country. These data should be used to discover good questions, not final answers.

Other taxes

Just as for income-tax tax expenditures, the United Kingdom has the largest sum of non-income-tax tax expenditures, and therefore, of course, the largest total of tax expenditures, as a percentage of GDP (see Figure 13 and Table 29). Again, careful further research would be needed to determine the sources of the numbers, and whether they reflect programmatic differences, or rather highly inclusive accounting in the United Kingdom relative to less-inclusive accounting in other countries. As with tax expenditures under the income tax, non-income tax expenditures in the continental European countries and Korea are smaller than those in Canada and the United Kingdom.. When viewed relative to tax revenue, however, total tax expenditures in Canada are larger than those in the United Kingdom (see Figure 14 and Table 30). This follows arithmetically from the larger share of tax revenues in the GDP in the United Kingdom. Relative to tax expenditures under the income tax, non-income tax expenditures are slightly greater in Germany, and not quite equal in the Netherlands. Non-income tax expenditures are significantly smaller relative to income tax expenditures in United Kingdom, Korea, and Canada (in descending order of proportion). The United States, as noted earlier, does not measure tax expenditures other than in its income tax (but because the United States does not have a national-level value-added tax, and its income taxes are a higher proportion

of its total revenue, tax expenditures outside of the income tax likely would be less important in any event).

One question that might arise from the numerical comparisons across countries is whether any one nation might have a total driven solely by one very large tax expenditure. To answer that question, Figure 16 ranks each country's ten largest tax expenditures as percentages of GDP.[6] If one country had a larger total than another only because of one very large tax expenditure, then the lines for the two countries in Figure 16 would cross. In fact, with six countries represented in the figure, lines cross only once – between Korea and the Netherlands, with both countries having comparatively small totals of tax expenditures, and the two lines lying quite close together for all ten tax expenditures. Thus, it appears that the tax expenditure totals of the sample countries represent relatively consistent patterns of behaviour over all of their tax expenditures, rather than policy and measurement anomalies driven by individual outlying legal provisions.

Another question is the relative use of tax expenditures under different taxes in different countries. To explore this question, Figure 17 compares the ratio of tax expenditures under the income tax and the value-added tax in the six countries in the sample that use both taxes. The figure reveals patterns that are quite different from one country to another. Spain and the United Kingdom have significantly larger tax expenditures under their VATs than under their income taxes; Germany and Korea are the reverse; Canada and the Netherlands have ratios that are more equal. Both ratios are lower in Germany and the Netherlands than in Canada, Spain and the United Kingdom; Korea is approximately in the middle on that scale.

Memorandum items

As noted earlier, Canada and the United Kingdom provide substantial additional information in the form of memorandum items. After reclassification for purposes of cross-country comparability, the memorandum items for those two countries remain in excess of 3% and 4% of GDP, respectively. In the case of Canada, the sum of the memorandum items comes to well over one-third of the total amount of tax expenditures (see Figure 15). This information has proved useful in this report. For example, Canada does not consider its provision for relief of double taxation of corporate dividends to be a tax expenditure, whereas some other countries with similar provisions do. Adding Canada's memorandum item to its list of tax expenditures provides greater comparability with the tax expenditures reported in those other countries.

Conclusions

This report presents an exploration of tax expenditure practices across a sample of OECD member countries.

The definition of tax expenditures can steer analysis in one particular direction or another. For example, a country that accepts as a tax expenditure a provision that measures the ability to pay tax (or another provision that facilitates the efficient operation of the tax system) will likely take a different perspective on the issue than another that does not. But such determinative ground rules aside, a tax expenditure will at times be the policy instrument of choice to achieve a legitimate objective. In other circumstances, a tax expenditure will be the path of least resistance toward less well justified ends. Thus, in a time of fiscal challenges, the topic of tax expenditures is clearly important.

This volume found no fool-proof process to distinguish between good tax policy and bad in enactment, reporting or review. Different countries employ different tools, and have had different experiences. Still, this analysis may have identified policy or process ideas that will prove helpful in some particular context. If one country's practice can galvanise another's political will, better outcomes will result.

Numerical comparisons may measure differences in reporting practices rather than in substantive tax policy. However, the presentation in this report shows an apparently wide range of country practices, and may suggest productive avenues for further research – again, perhaps motivating one country to employ sound tools identified in another.

Ideally, these institutional comparisons will suggest some ideas for policy makers to consider. The data comparisons were expected to raise questions rather than answers, and they appear to have achieved the more reasonable goal. Economic and budgetary pressures should motivate further inquiry and data analysis.

Notes

1. Note that both the number and the size of Germany's business tax expenditures are significantly lower than those for most other countries, suggesting that Germany may simply make less use of tax expenditures, comparably measured.

2. No country currently employs a so-called "consumed-income" or consumption tax at the household level (although many countries use a value-added or sales tax collected at the time and place of routine purchases by households). However, any country could use a consumption-tax benchmark to measure tax expenditures under its income tax. The United States has discussed such a possibility in its tax expenditure reports. See Office of Management and Budget (2008).

3. Canada does provide such separate estimates.

4. Anderson and Minarik (2006) question the effectiveness of these deficit rules.

5. See Table 10, p. 49.

6. Spain is not included in Figure 16 because it reports tax expenditures under its value-added tax in groups rather than individually, which would distort the results in the figure.

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Part II

Comparing tax expenditures in OECD countries

Explanatory key

This part presents the data for each country. The data are presented in four different tables for each country. They are:

- Tax expenditures as a percentage of GDP;
- Tax expenditures as a percentage of total taxes;
- Tax expenditures by type of tax as a percentage of revenue collected under that type of tax; and
- The number of tax expenditures.

The left-hand side of each country table reflects the tax expenditures as closely as possible to each country's own intended presentation. Every tax expenditure identified by each country is included. Provisions identified by two countries (Canada and the United Kingdom) as "memorandum items", which are not considered to be tax expenditures, are listed separately.

The right-hand side of each country table attempts to minimise the degree of non-comparability across countries by re-categorising tax expenditures and memorandum items to approach a common standard. This includes: *i)* reclassifying some "memorandum items" identified by Canada and the United Kingdom to be considered as tax expenditures, where prevailing practices in the other countries would so identify such provisions; and *ii)* reclassifying some tax expenditures identified by the other countries to a category called "structural items", if prevailing practices in this group of countries would tend **not** to consider these provisions to be tax expenditures. The category of "structural items" includes those "memorandum items" of Canada and the United Kingdom that continue to be considered not to be tax expenditures after this reclassification. The number of tax expenditures and other provisions so reclassified is small.

The tables on international comparisons present the latest actual year of tax expenditure data for each country, using the reclassifications developed for the right-hand part of each individual country's tables.

The sources for the tables and figures that follow are listed on pages 238-240.

Table II.1. Tax expenditures in Canada (% of GDP)

	As reported by country								
	2001 †	2002	2003	2004	2005 ‡	2006 ‡	2007 ‡	2008 ‡	2009 ‡
*Purpose of tax expenditure, income tax**									
General tax relief [4]	0.16	0.16	0.15	0.14	0.14	0.14	0.23	0.22	0.23
Low-income non-work related [1] [2]	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Retirement [1] [2]	0.65	0.96	1.35	1.68	1.87	2.03	2.07	2.06	2.03
Work related [1] [2]	0.12	0.10	0.09	0.10	0.11	0.12	0.11	0.12	0.12
Education	0.12	0.12	0.12	0.12	0.11	0.12	0.11	0.11	0.12
Health	0.24	0.25	0.26	0.27	0.25	0.25	0.26	0.27	0.27
Housing	0.08	0.12	0.15	0.20	0.25	0.28	0.27	0.27	0.27
General business incentives [1] [2]	1.00	0.82	0.76	0.85	0.97	1.15	1.12	1.12	1.10
Research & development [2]	0.22	0.21	0.20	0.24	0.25	0.27	0.28	0.30	0.33
Specific industry relief [1] [2]	0.21	0.17	0.08	0.02	0.02	0.04	0.07	0.07	0.07
Intergovernmental relations [1] [2]	1.63	1.56	1.55	1.55	1.56	1.57	1.56	1.58	1.60
Charity [1] [2]	0.20	0.18	0.19	0.21	0.20	0.21	0.21	0.21	0.20
Other [1] [2]	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03
Make work pay	0.00	0.01	0.01	0.01	0.01	0.04	0.16	0.16	0.16
Total	4.67	4.71	4.95	5.44	5.77	6.26	6.51	6.54	6.54
Capital income taxation									
Accelerated depreciation [2]									
Interest									
Dividends									
Capital gains [2]									
Subtotal									
Total									

	As reported by country								
	2001 †	2002	2003	2004	2005 ‡	2006 ‡	2007 ‡	2008 ‡	2009 ‡
Make work pay									
Total									
GST tax related [1] [2] [3]	1.11	1.12	1.12	1.16	1.17	1.10	1.02	0.89	0.90
Total	5.78	5.82	6.07	6.60	6.93	7.36	7.52	7.43	7.44
Memorandum items [1] [2]	3.94	3.86	3.66	3.56	3.50	3.52	3.47	3.40	3.42
Structural items [1] [2]									
Grand total	9.72	9.69	9.73	10.16	10.44	10.88	10.99	10.83	10.86
*Income tax expenditures by type**									
Credits [2]	1.21	1.20	1.19	1.23	1.20	1.32	1.53	1.56	1.59
Deductions, exemptions & exclusions [1] [2]	2.52	2.33	2.31	2.50	2.65	2.86	2.83	2.85	2.85
Deferrals [1] [2]	0.47	0.77	1.15	1.50	1.71	1.85	1.86	1.85	1.83
Reduced rates [1]	0.47	0.40	0.30	0.21	0.20	0.24	0.28	0.28	0.27

† Tax expenditures are reported by calendar year rather than fiscal year.
‡ Projections.
* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] At least one provision in this category is not estimated because adequate data are not available.
[2] At least one provision in this category is not estimated because it cost less than CAD 2.5 million.
[3] Projections begin in 2006 for GST tax-related provisions.
[4] There are no tax expenditures in this category.
Based on "budgetary revenues" as defined by the Canadian Government.

Table II.1. Tax expenditures in Canada (% of GDP) *cont'd*

	With reclassifications by author								
	2001 †	2002	2003	2004	2005 ‡	2006 ‡	2007 ‡	2008 ‡	2009 ‡
*Purpose of tax expenditure, income tax**									
General tax relief									
Low-income non-work related [1] [2]	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Retirement [1] [2]	0.65	0.96	1.35	1.68	1.87	2.03	2.07	2.06	2.03
Work related [1] [2]	0.46	0.43	0.40	0.39	0.37	0.36	0.34	0.34	0.34
Education	0.12	0.12	0.12	0.12	0.11	0.12	0.11	0.11	0.12
Health	0.24	0.25	0.26	0.27	0.25	0.25	0.26	0.27	0.27
Housing	0.08	0.12	0.15	0.20	0.25	0.28	0.27	0.27	0.27
General business incentives [1] [2]	0.53	0.47	0.42	0.41	0.43	0.45	0.46	0.47	0.47
Research & development [2]	0.22	0.21	0.20	0.24	0.25	0.27	0.28	0.30	0.33
Specific industry relief [1] [2]	0.22	0.19	0.10	0.05	0.05	0.08	0.10	0.10	0.10
Intergovernmental relations [1] [2]	1.63	1.56	1.55	1.55	1.56	1.57	1.56	1.58	1.60
Charity [1] [2]	0.20	0.18	0.19	0.21	0.20	0.21	0.21	0.21	0.20
Other [1] [2]	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03
Make work pay									
Total	4.39	4.54	4.78	5.16	5.36	5.66	5.72	5.76	5.78
Capital income taxation									
Accelerated depreciation [2]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest [4]									
Dividends	0.29	0.27	0.22	0.27	0.29	0.39	0.39	0.40	0.40
Capital gains [2]	0.42	0.29	0.27	0.35	0.44	0.55	0.51	0.48	0.45
Subtotal	0.71	0.56	0.49	0.62	0.73	0.94	0.91	0.88	0.85

	With reclassifications by author								
	2001 †	2002	2003	2004	2005 ‡	2006 ‡	2007 ‡	2008 ‡	2009 ‡
Total	5.09	5.10	5.27	5.77	6.09	6.60	6.62	6.64	6.63
Make work pay	0.00	0.01	0.01	0.01	0.01	0.04	0.16	0.16	0.16
Total	5.10	5.10	5.27	5.78	6.10	6.64	6.78	6.80	6.79
GST tax related [1] [2] [3]	1.11	1.12	1.12	1.16	1.17	1.10	1.02	0.89	0.90
Total	6.21	6.22	6.40	6.94	7.26	7.74	7.80	7.70	7.68
Memorandum items [1] [2]									
Structural items [1] [2]	3.51	3.46	3.33	3.22	3.17	3.14	3.19	3.14	3.17
Grand total									
*Income tax expenditures by type**									
Credits [2]	1.46	1.43	1.40	1.44	1.40	1.53	1.64	1.67	1.69
Deductions, exemptions, & exclusions [1] [2]	2.71	2.50	2.42	2.64	2.78	3.02	3.01	3.00	3.00
Deferrals [1] [2]	0.47	0.77	1.15	1.50	1.71	1.85	1.86	1.85	1.83
Reduced rates [1]	0.47	0.40	0.30	0.21	0.20	0.24	0.28	0.28	0.27

† Tax expenditures are reported by calendar year rather than fiscal year.
‡ Projections.
* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] At least one provision in this category is not estimated because adequate data are not available.
[2] At least one provision in this category is not estimated because it cost less than CAD 2.5 million.
[3] Projections begin in 2006 for GST tax-related provisions.
[4] There are no tax expenditures in this category.
Based on "budgetary revenues" as defined by the Canadian Government.

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Table II.2. Tax expenditures in Canada
(% of central government total tax and non-tax receipts)

	As reported by country ₸								
	2001 †	2002	2003	2004	2005 ‡	2006 ‡	2007 ‡	2008 ‡	2009 ‡
*Purpose of tax expenditure, income tax**									
General tax relief [1]	0.93	0.98	0.96	0.92	0.89	0.87	1.45	1.45	1.51
Low-income non-work related [2] [3]	0.14	0.14	0.14	0.13	0.12	0.12	0.13	0.13	0.13
Retirement [2] [3]	3.77	5.95	8.49	10.72	11.96	13.01	13.30	13.34	13.64
Work related [2] [3]	0.68	0.60	0.58	0.67	0.73	0.77	0.74	0.75	0.78
Education	0.67	0.75	0.76	0.78	0.69	0.74	0.68	0.73	0.78
Health	1.39	1.58	1.64	1.70	1.61	1.63	1.68	1.74	1.81
Housing	0.46	0.76	0.95	1.29	1.59	1.77	1.76	1.76	1.79
General business incentives [2] [3]	5.79	5.10	4.76	5.44	6.24	7.40	7.23	7.27	7.37
Research & development [3]	1.26	1.31	1.25	1.55	1.62	1.71	1.81	1.98	2.20
Specific industry relief [2] [3]	1.21	1.09	0.52	0.12	0.13	0.27	0.45	0.45	0.47
Intergovernmental relations [2] [3]	9.39	9.70	9.78	9.94	9.98	10.09	10.06	10.21	10.77
Charity [2] [3]	1.15	1.13	1.18	1.32	1.26	1.33	1.33	1.34	1.37
Other [2] [3]	0.11	0.12	0.11	0.13	0.12	0.16	0.20	0.21	0.22
Make work pay	0.03	0.03	0.04	0.04	0.04	0.25	1.02	1.03	1.06
Total	26.97	29.23	31.15	34.75	36.97	40.13	41.85	42.37	43.89
Capital income taxation									
Accelerated depreciation [2]									
Interest [1]									
Dividends									
Capital gains [2]									
Subtotal									
Total									
Make work pay									
Total									
GST tax related [2] [3] [4]	6.43	6.95	7.06	7.43	7.48	7.06	6.54	5.79	6.02
Total	33.40	36.18	38.21	42.18	44.45	47.19	48.39	48.16	49.91
Structural items [2] [3]									
Memorandum items [1] [2]	22.76	24.00	23.06	22.79	22.46	22.56	22.32	22.04	22.94
Grand total	56.16	60.18	61.27	64.96	66.91	69.75	70.71	70.20	72.85
*Income tax expenditures by type**									
Credits [3]	7.01	7.45	7.47	7.88	7.70	8.43	9.86	10.12	10.65
Deductions, exemptions & exclusions [2] [3]	14.56	14.46	14.55	15.97	16.98	18.31	18.23	18.44	19.14
Deferrals [2] [3]	2.69	4.81	7.26	9.56	10.98	11.86	11.98	11.99	12.30
Reduced rates [2]	2.72	2.50	1.88	1.34	1.31	1.53	1.77	1.82	1.81

₸ Based on "budgetary revenues" as defined by the Canadian Government.
† Tax expenditures are reported by calendar year rather than fiscal year.
‡ Projections.
* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] There are no tax expenditures in this category.
[2] At least one provision in this category is not estimated because adequate data are not available.
[3] At least one provision in this category is not estimated because it cost less than CAD 2.5 million.
[4] Projections begin in 2006 for GST tax-related provisions.

Table II.2. Tax expenditures in Canada (% of central government total tax and non-tax receipts) *cont'd*

	With reclassifications by author ₸								
	2001 †	2002	2003	2004	2005 ‡	2006 ‡	2007 ‡	2008 ‡	2009 ‡
*Purpose of tax expenditure, income tax**									
General tax relief									
Low-income non-work related [2] [3]	0.14	0.14	0.14	0.13	0.12	0.12	0.13	0.13	0.13
Retirement [2] [3]	3.77	5.95	8.49	10.72	11.96	13.01	13.30	13.34	13.64
Work related [2] [3]	2.66	2.64	2.52	2.47	2.40	2.32	2.20	2.21	2.27
Education	0.67	0.75	0.76	0.78	0.69	0.74	0.68	0.73	0.78
Health	1.39	1.58	1.64	1.70	1.61	1.63	1.68	1.74	1.81
Housing	0.46	0.76	0.95	1.29	1.59	1.77	1.76	1.76	1.79
General business incentives [2][3]	3.05	2.93	2.63	2.64	2.72	2.91	2.97	3.07	3.15
Research & development [3]	1.26	1.31	1.25	1.55	1.62	1.71	1.81	1.98	2.20
Specific industry relief [2] [3]	1.29	1.18	0.66	0.30	0.32	0.48	0.66	0.65	0.67
Intergovernmental relations [2] [3]	9.39	9.70	9.78	9.94	9.98	10.09	10.06	10.21	10.77
Charity [2] [3]	1.15	1.13	1.18	1.32	1.26	1.33	1.33	1.34	1.37
Other [2] [3]	0.11	0.12	0.11	0.13	0.12	0.16	0.20	0.21	0.22
Make work pay									
Total	25.34	28.18	30.11	32.97	34.39	36.28	36.78	37.35	38.79
Capital income taxation									
Accelerated depreciation [1]									
Interest [1]									
Dividends	1.70	1.68	1.37	1.70	1.86	2.47	2.53	2.59	2.70
Capital gains [2]	2.40	1.81	1.71	2.23	2.79	3.56	3.29	3.10	2.99
Subtotal	4.10	3.49	3.08	3.93	4.66	6.03	5.82	5.69	5.69
Total	29.44	31.68	33.19	36.90	39.05	42.31	42.60	43.05	44.48
Make work pay	0.03	0.03	0.04	0.04	0.04	0.25	1.02	1.03	1.06
Total	29.47	31.71	33.23	36.94	39.09	42.56	43.63	44.08	45.54
GST tax related [2] [3] [4]	6.43	6.95	7.06	7.43	7.48	7.06	6.54	5.79	6.02
Total	35.89	38.66	40.29	44.37	46.57	49.62	50.17	49.87	51.55
Structural items [2] [3]	20.27	21.52	20.98	20.59	20.34	20.13	20.54	20.32	21.29
Memorandum items [1] [2]									
Grand total									
*Income tax expenditures by type**									
Credits [3]	8.41	8.89	8.82	9.18	8.98	9.78	10.54	10.82	11.33
Deductions, exemptions & exclusions [2] [3]	15.65	15.51	15.27	16.86	17.82	19.39	19.33	19.45	20.10
Deferrals [2] [3]	2.69	4.81	7.26	9.56	10.98	11.86	11.98	11.99	12.30
Reduced rates [2]	2.72	2.50	1.88	1.34	1.31	1.53	1.77	1.82	1.81

₸ Based on "budgetary revenues" as defined by the Canadian Government.
† Tax expenditures are reported by calendar year rather than fiscal year.
‡ Projections.
* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] There are no tax expenditures in this category.
[2] At least one provision in this category is not estimated because adequate data are not available.
[3] At least one provision in this category is not estimated because it cost less than CAD 2.5 million.
[4] Projections begin in 2006 for GST tax-related provisions.

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Table II.3. Tax expenditures in Canada (% of relevant tax revenue)

	As reported by country † ‡								
	2001*	**2002**	**2003**	**2004**	**2005****	**2006****	**2007****	**2008****	**2009****
*Purpose of tax expenditure, income tax****									
General tax relief	1.46	1.58	1.58	1.48	1.42	1.37	2.23	2.18	2.22
Low-income non-work related [1] [2]	0.22	0.23	0.23	0.21	0.20	0.19	0.20	0.19	0.19
Retirement [1] [2]	5.95	9.65	13.96	17.23	19.15	20.49	20.42	20.08	20.00
Work related [1] [2]	1.07	0.97	0.95	1.08	1.16	1.54	2.28	2.27	2.28
Education	1.05	1.22	1.24	1.25	1.10	1.16	1.05	1.09	1.14
Health	2.20	2.56	2.69	2.73	2.58	2.57	2.58	2.61	2.65
Housing	0.73	1.23	1.56	2.07	2.54	2.79	2.71	2.65	2.62
General business incentives [1] [2]	9.14	8.28	7.82	8.75	10.00	11.66	11.10	10.95	10.80
Research & development [2]	1.99	2.13	2.05	2.48	2.59	2.70	2.79	2.97	3.22
Specific industry relief [1] [2]	1.91	1.76	0.85	0.19	0.20	0.43	0.69	0.68	0.70
Intergovernmental relations [1] [2]	14.83	15.73	16.07	15.97	15.97	15.90	15.44	15.38	15.78
Charity [1] [2]	1.81	1.84	1.94	2.13	2.02	2.09	2.05	2.01	2.00
Other [1] [2]	0.17	0.19	0.19	0.20	0.19	0.25	0.30	0.31	0.32
Make work pay	0.05	0.06	0.06	0.06	0.07	0.07	0.43	0.41	0.41
Total									
Capital income taxation									
Accelerated depreciation [1]									
Interest [1]									
Dividends									
Capital gains [1]									
Subtotal									
Total									
Make work pay									
Total	42.57	47.43	51.20	55.84	59.18	63.22	64.26	63.80	64.34
GST tax related [1] [2] [3]	49.49	49.54	48.13	52.38	52.48	48.85	50.18	47.78	53.09
*Income tax expenditures by type****									
Credits [2]	11.07	12.09	12.27	12.66	12.32	13.28	15.15	15.24	15.61
Deductions, exemptions & exclusions [1] [2]	22.97	23.47	23.92	25.66	27.18	28.84	28.00	27.77	28.06
Deferrals [1] [2]	4.24	7.81	11.93	15.36	17.58	18.69	18.40	18.05	18.03
Reduced rates [1]	4.29	4.06	3.09	2.15	2.09	2.41	2.72	2.74	2.65

† Percent of tax revenue by type of tax.
‡ Individual and corporate income taxes are considered together.
* Tax expenditures are reported by calendar year rather than fiscal year.
** Projections.
*** Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] At least one provision in this category is not estimated because adequate data are not available.
[2] At least one provision in this category is not estimated because it cost less than CAD 2.5 million.
[3] Projections begin in 2006 for GST tax-related provisions.
[4] There are no tax expenditures in this category.

Table II.3. Tax expenditures in Canada (% of relevant tax revenue) *cont'd*

	With reclassifications by author † ‡								
	2001*	2002	2003	2004	2005**	2006**	2007**	2008**	2009**
*Purpose of tax expenditure, income tax****									
General tax relief [4]									
Low-income non-work related [1] [2]	0.22	0.23	0.23	0.21	0.20	0.19	0.20	0.19	0.19
Retirement [1] [2]	5.95	9.65	13.96	17.23	19.15	20.49	20.42	20.08	20.00
Work related [1] [2]	4.19	4.29	4.14	3.96	3.84	3.97	4.52	4.47	4.47
Education	1.05	1.22	1.24	1.25	1.10	1.16	1.05	1.09	1.14
Health	2.20	2.56	2.69	2.73	2.58	2.57	2.58	2.61	2.65
Housing	0.73	1.23	1.56	2.07	2.54	2.79	2.71	2.65	2.62
General business incentives [1] [2]	4.81	4.75	4.33	4.25	4.36	4.59	4.57	4.63	4.62
Research & development [2]	1.99	2.13	2.05	2.48	2.59	2.70	2.79	2.97	3.22
Specific industry relief [1] [2]	2.03	1.91	1.08	0.49	0.51	0.76	1.01	0.98	0.99
Intergovernmental relations [1] [2]	14.83	15.73	16.07	15.97	15.97	15.90	15.44	15.38	15.78
Charity [1] [2]	1.81	1.84	1.94	2.13	2.02	2.09	2.05	2.01	2.00
Other [1] [2]	0.17	0.19	0.19	0.20	0.19	0.25	0.30	0.31	0.32
Make work pay									
Total	39.99	45.73	49.49	52.97	55.04	57.48	57.63	57.39	58.01
Capital income taxation									
Accelerated depreciation [1]									
Interest [1]									
Dividends	2.68	2.73	2.25	2.73	2.98	3.89	3.88	3.91	3.96
Capital gains [1]	3.79	2.94	2.82	3.59	4.47	5.60	5.06	4.67	4.38
Subtotal	6.47	5.67	5.07	6.32	7.46	9.50	8.94	8.58	8.34
Total	46.46	51.40	54.56	59.30	62.50	66.98	66.57	65.96	66.35
Make work pay	0.05	0.06	0.06	0.06	0.07	0.07	0.43	0.41	0.41
Total	46.51	51.46	54.62	59.36	62.57	67.05	67.00	66.38	66.75
GST tax related [1] [2] [3]	49.49	49.54	48.13	52.38	52.48	48.85	50.18	47.78	53.09
*Income tax expenditures by type****									
Credits [2]	13.28	14.42	14.50	14.76	14.37	15.41	16.19	16.30	16.60
Deductions, exemptions & exclusions [1] [2]	24.69	25.17	25.10	27.09	28.52	30.54	29.69	29.29	29.47
Deferrals [1] [2]	4.24	7.81	11.93	15.36	17.58	18.69	18.40	18.05	18.03
Reduced rates [1]	4.29	4.06	3.09	2.15	2.09	2.41	2.72	2.74	2.65

† Percent of tax revenue by type of tax.
‡ Individual and corporate income taxes are considered together.
* Tax expenditures are reported by calendar year rather than fiscal year.
** Projections.
*** Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] At least one provision in this category is not estimated because adequate data are not available.
[2] At least one provision in this category is not estimated because it cost less than CAD 2.5 million.
[3] Projections begin in 2006 for GST tax-related provisions.
[4] There are no tax expenditures in this category.

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Table II.4. Number of tax expenditures in Canada (% of GDP)

	As reported by country						
	2001 †	2002	2003	2004	2005 ‡	2006 ‡	2007 ‡
*Purpose of tax expenditure, income tax**							
General tax relief	2	2	2	2	2	2	3
Low-income non-work related	4	4	4	4	5	5	6
Retirement	13	13	13	13	13	13	14
Work related	8	8	8	8	8	8	9
Education	8	9	9	9	9	10	10
Health	5	5	5	5	5	5	6
Housing	1	1	1	1	1	1	1
General business incentives	32	32	32	32	31	32	32
Research & development	5	5	5	5	5	5	5
Specific industry relief	32	32	34	34	33	35	35
Intergovernmental relations	8	8	8	8	8	8	8
Charity	13	13	13	13	13	13	13
Other	7	7	7	8	8	9	9
Make work pay	1	1	1	1	1	2	3
Total							
Capital income taxation							
Accelerated depreciation							
Interest							
Dividends							
Capital gains							
Subtotal							
Total							
Make work pay							
Total	139	140	142	143	142	148	154
GST tax related [1]	32	32	32	32	32	32	32
Total	171	172	174	175	174	180	186
Memorandum items	39	39	39	38	38	38	38
Structural items							
Grand total	210	211	213	213	212	218	224
*Income tax expenditures by type**							
Credits	30	30	32	32	33	37	41
Deductions, exemptions & exclusions	66	67	67	68	68	69	71
Deferrals	35	35	35	35	35	36	36
Reduced rates	8	8	8	8	6	6	6

† Tax expenditures are reported by calendar year rather than fiscal year.
‡ Projections.
* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] Projections begin in 2006 for GST tax-related provisions.

Table II.4. Number of tax expenditures in Canada (% of GDP) *cont'd*

	With reclassifications by author						
	2001 †	2002	2003	2004	2005 ‡	2006 ‡	2007 ‡
*Purpose of tax expenditure, income tax**							
General tax relief	0	0	0	0	0	0	0
Low-income non-work related	4	4	4	4	5	5	6
Retirement	13	13	13	13	13	13	14
Work related	11	11	11	11	11	11	12
Education	8	9	9	9	9	10	10
Health	5	5	5	5	5	5	6
Housing	1	1	1	1	1	1	1
General business incentives	29	29	29	29	28	29	29
Research & development	5	5	5	5	5	5	5
Specific industry relief	33	33	35	35	34	36	36
Intergovernmental relations	8	8	8	8	8	8	8
Charity	13	13	13	13	13	13	13
Other	7	7	7	8	8	9	9
Make work pay							
Total	137	138	140	141	140	145	149
Capital income taxation							
Accelerated depreciation	1	1	1	1	1	1	1
Interest	0	0	0	0	0	0	0
Dividends	3	3	3	3	3	3	3
Capital gains	3	3	3	3	3	3	3
Subtotal	7	7	7	7	7	7	7
Total	144	145	147	148	147	152	156
Make work pay	1	1	1	1	1	2	3
Total	145	146	148	149	148	154	159
GST tax related [1]	32	32	32	32	32	32	32
Total	177	178	180	181	180	186	191
Memorandum items							
Structural items	33	33	33	32	32	32	33
Grand total							
*Income tax expenditures by type**							
Credits	31	31	33	33	34	38	41
Deductions, exemptions, and exclusions	71	72	72	73	73	74	76
Deferrals	35	35	35	35	35	36	36
Reduced rates	8	8	8	8	6	6	6

† Tax expenditures are reported by calendar year rather than fiscal year.
‡ Projections.
* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] Projections begin in 2006 for GST tax-related provisions.

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Table II.5. Tax expenditures in Germany (% of GDP) †

	As reported by country				With reclassifications by author			
	2005	2006	2007 ‡	2008 ‡	2005	2006	2007 ‡	2008 ‡
*Purpose of tax expenditure, income tax**								
General tax relief [1]								
Low-income non-work related [1]								
Retirement	0.03	0.03	0.03	0.03	0.00	0.00	0.01	0.01
Work related [2]	0.04	0.04	0.04	0.04	0.03	0.03	0.03	0.03
Education [3]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Health [1]								
Housing [2]	0.20	0.18	0.18	0.15	0.20	0.18	0.18	0.15
General business incentives [2] [3]	0.00	0.00	0.02	0.01	0.00	0.00	0.02	0.01
Research & development [1]								
Specific industry relief [2] [3]	0.02	0.01	0.01	0.01	0.02	0.01	0.01	0.01
Intergovernmental relations	0.05	0.03	0.01	0.01	0.05	0.03	0.01	0.01
Charity [1]								
Other [2]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Make work pay [1]								
Total	0.34	0.29	0.29	0.26	0.30	0.26	0.27	0.23
Capital income taxation								
Accelerated depreciation [1]								
Interest [1]								
Dividends					0.04	0.04	0.02	0.02
Capital gains [1]								
Subtotal					0.04	0.04	0.02	0.02
Total					0.34	0.29	0.29	0.26
Make work pay [1]								
Total					0.34	0.29	0.29	0.26
Beer tax [1]								
Electricity tax [2]	0.17	0.17	0.15	0.15	0.17	0.17	0.15	0.15
Fuel tax [2]	0.20	0.23	0.18	0.17	0.20	0.23	0.18	0.17
Inheritance tax [1]								
Insurance tax [2] [3]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Motor vehicle tax [1]								
Sales tax [2]	0.05	0.05	0.06	0.06	0.05	0.05	0.06	0.06
Spirits tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tobacco tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal	0.43	0.45	0.40	0.38	0.43	0.45	0.40	0.38
Grand total	0.77	0.74	0.69	0.64	0.77	0.74	0.69	0.64
Structural items								
*Income tax expenditures by type**					0.00	0.00	0.00	0.00
Credits [2]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deductions, exemptions & exclusions [2] [3]	0.33	0.28	0.28	0.25	0.33	0.28	0.28	0.25
Deferrals [2] [3]	0.01	0.00	0.00	0.00	0.01	0.00	0.00	0.00
Reduced rates [2] [3]	0.01	0.01	0.00	0.00	0.01	0.01	0.00	0.00

† Only costs to the federal government are included.

‡ 2007 is an estimate, 2008 is a projection.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] There are no federal tax expenditures in this category.

[2] At least one provision in this category is not estimated because adequate data are not available.
[3] At least one provision in this category is estimated to equal zero because its cost is < EUR 0.5 million.

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Table II.6. Tax expenditures in Germany (% of central government total tax revenue) †

	As reported by country			With reclassifications by author		
	2005	2006	2007 ‡	2005	2006	2007 ‡
*Purpose of tax expenditure, income tax**						
General tax relief [1]						
Low-income non-work related [1]						
Retirement	0.41	0.39	0.28	0.05	0.05	0.08
Work related [2]	0.51	0.44	0.42	0.40	0.36	0.36
Education [3]	0.00	0.00	0.00	0.00	0.00	0.00
Health [1]						
Housing [2]	2.31	2.01	1.89	2.31	2.01	1.89
General business incentives [2] [3]	0.05	0.04	0.17	0.05	0.04	0.17
Research & development [1]						
Specific industry relief [2] [3]	0.23	0.14	0.15	0.23	0.14	0.15
Intergovernmental relations	0.56	0.30	0.15	0.56	0.30	0.15
Charity [1]						
Other [2]	0.00	0.00	0.00	0.00	0.00	0.00
Make work pay [1]						
Total	4.06	3.33	3.05	3.59	2.91	2.79
Capital income taxation						
Accelerated depreciation [1]						
Interest [1]						
Dividends				0.47	0.42	0.26
Capital gains [1]						
Subtotal				0.47	0.42	0.26
Total				4.06	3.33	3.05
Make work pay [1]						
Total				4.06	3.33	3.05
Beer tax [1]						
Electricity tax [2]	2.05	1.92	1.62	2.05	1.92	1.62
Fuel tax [2]	2.38	2.65	1.88	2.38	2.65	1.88
Inheritance tax [1]						
Insurance tax [2] [3]	0.00	0.00	0.00	0.00	0.00	0.00
Motor vehicle tax [1]						
Sales tax [2]	0.63	0.59	0.68	0.63	0.59	0.68
Spirits tax	0.00	0.00	0.00	0.00	0.00	0.00
Tobacco tax	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal	5.07	5.16	4.18	5.07	5.16	4.18
Grand total	9.13	8.48	7.23	9.13	8.48	7.23
Structural items				0.00	0.00	0.00
*Income tax expenditures by type**						
Credits [2]	0.00	0.00	0.00	0.00	0.00	0.00
Deductions, exemptions & exclusions [2] [3]	3.88	3.24	2.95	3.88	3.24	2.95
Deferrals [2] [3]	0.06	0.02	0.04	0.06	0.02	0.04
Reduced rates [2] [3]	0.11	0.07	0.05	0.11	0.07	0.05

† Only costs to the federal government are included.
‡ 2007 is an estimate, 2008 is a projection.
* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] There are no federal tax expenditures in this category.
[2] At least one provision in this category is not estimated because adequate data are not available.
[3] At least one provision in this category is estimated to equal zero because its cost is < EUR 0.5 million.

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Table II.7. Tax expenditures in Germany (% of relevant tax revenue) † ‡ *

	As reported by country			With reclassifications by author		
	2005	2006	2007**	2005	2006	2007**
*Purpose of tax expenditure, income tax****						
General tax relief [1]						
Low-income non-work related [1]						
Retirement	1.14	1.04	0.75	0.13	0.14	0.23
Work related [2]	1.42	1.16	1.14	1.13	0.96	0.96
Education [3]	0.00	0.00	0.00	0.00	0.00	0.00
Health [1]						
Housing [2]	6.47	5.33	5.11	6.47	5.33	5.11
General business incentives [2] [3]	0.13	0.12	0.45	0.13	0.12	0.45
Research & development [1]				0.00	0.00	0.00
Specific industry relief [2] [3]	0.65	0.36	0.41	0.65	0.36	0.41
Intergovernmental relations	1.56	0.80	0.40	1.56	0.80	0.40
Charity [1]						
Other [2]	0.00	0.00	0.00	0.00	0.00	0.00
Make work pay [1]						
Total	11.38	8.81	8.27	10.07	7.71	7.57
Capital income taxation						
Accelerated depreciation [1]						
Interest [1]						
Dividends				1.31	1.10	0.70
Capital gains [1]						
Subtotal				1.31	1.10	0.70
Total				11.38	8.81	8.27
Make work pay [1]						
Total				11.38	8.81	8.27
Electricity tax [2]	60.20	62.27	58.69	60.20	62.27	58.69
Fuel tax [2]	11.31	13.52	11.08	11.31	13.52	11.08
Sales tax [2]	1.62	1.54	1.68	1.62	1.54	1.68
Spirits tax	0.32	0.28	0.31	0.32	0.28	0.31
Tobacco tax	0.05	0.05	0.05	0.05	0.05	0.05
*Income tax expenditures by type****						
Credits [2]	0.01	0.01	0.01	0.01	0.01	0.01
Deductions, exemptions & exclusions [2] [3]	10.88	8.58	8.00	10.88	8.58	8.00
Deferrals [2] [3]	0.18	0.04	0.12	0.18	0.04	0.12
Reduced rates [2] [3]	0.31	0.18	0.14	0.31	0.18	0.14

† Only costs to the federal government are included. Percent of tax revenue by type of tax.

‡ Current assumptions: that electricity tax, spirits tax, fuel tax, and the tobacco tax are all federal taxes with 100% of the revenue going to the federal government. It is also assumed that the fuel tax *mineralÖlsteuer* and the energy tax *Energiesteuer* are one and the same.

* Individual and corporate income taxes are considered together.

** Estimate.

*** Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] There are no federal tax expenditures in this category.

[2] At least one provision in this category is not estimated because adequate data are not available.

[3] At least one provision in this category is estimated to equal zero because its cost is < EUR 0.5 million.

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Table II.8. Number of tax expenditures in Germany (% of GDP) †

	As reported by country				With reclassifications by author			
	2005	2006	2007 ‡	2008 ‡	2005	2006	2007 ‡	2008 ‡
*Purpose of tax expenditure, income tax**								
General tax relief	0	0	0	0	0	0	0	0
Low-income non-work related	0	0	0	0	0	0	0	0
Retirement	2	2	2	2	1	1	1	1
Work related	4	4	4	4	2	2	2	2
Education	1	1	1	1	1	1	1	1
Health	0	0	0	0	0	0	0	0
Housing	9	10	10	10	9	10	10	10
General business incentives	9	9	10	10	9	9	10	10
Research & development	0	0	0	0	0	0	0	0
Specific industry relief	22	22	23	23	22	22	23	23
Intergovernmental relations	5	7	5	5	5	7	5	5
Charity	0	0	0	0	0	0	0	0
Other	1	1	1	1	1	1	1	1
Make work pay	0	0	0	0				
Total	53	56	56	56	50	53	53	53
Capital income taxation								
Accelerated depreciation					0	0	0	0
Interest					0	0	0	0
Dividends					3	3	3	3
Capital gains					0	0	0	0
Subtotal					3	3	3	3
Total					53	56	56	56
Make work pay					0	0	0	0
Total					53	56	56	56
Beer tax	0	0	0	0	0	0	0	0
Electricity tax	5	6	5	5	5	6	5	5
Fuel tax	12	13	13	13	12	13	13	13
Inheritance tax	0	0	0	0	0	0	0	0
Insurance tax	3	3	3	3	3	3	3	3
Motor vehicle tax	0	0	0	0	0	0	0	0
Sales tax	6	6	6	6	6	6	6	6
Spirits tax	1	1	1	1	1	1	1	1
Tobacco tax	1	1	1	1	1	1	1	1
Subtotal	28	30	29	29	28	30	29	29
Grand total	81	86	85	85	81	86	85	85
Structural items					0	0	0	0
*Income tax expenditures by type**								
Credits	2	2	2	2	2	2	2	2
Deductions, exemptions & exclusions	43	46	47	47	43	46	47	47
Deferrals	4	4	3	3	4	4	3	3
Reduced rates	4	4	4	4	4	4	4	4

† Only tax expenditures which relate to federal government tax revenues are included.
‡ 2007 is an estimate, 2008 is a projection.
* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

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Table II.9. Tax expenditures in Korea (% of GDP)

	As reported by country		With reclassifications by author	
	2006	2007 †	2006	2007 †
*Purpose of tax expenditure, income tax**				
General tax relief	0.08	0.09	0.05	0.05
Low-income non-work related	0.03	0.04	0.03	0.04
Retirement	0.02	0.01	0.02	0.01
Work related [1]	0.03	0.03	0.03	0.03
Education	0.12	0.12	0.12	0.12
Health [2]	0.29	0.31	0.29	0.31
Housing	0.05	0.06	0.05	0.06
General business incentives [1] [2]	0.69	0.65	0.68	0.65
Research & development [1]	0.15	0.12	0.15	0.12
Specific industry relief [1] [2]	0.18	0.24	0.18	0.24
Intergovernmental relations [3]				
Charity [2]	0.13	0.14	0.13	0.14
Other [1] [2]	0.02	0.02	0.02	0.02
Make work pay	0.01	0.01		
Total	1.79	1.83	1.75	1.79
Capital income taxation				
Accelerated depreciation			0.00	0.00
Interest [3]				
Dividends [3]				
Capital gains [3]				
Subtotal			0.00	0.00
Total			1.75	1.79
Make work pay			0.01	0.01
Total			1.76	1.80
Stamp tax	0.01	0.01	0.01	0.01
Inheritance tax	0.00	0.01	0.00	0.01
Educational tax	0.03	0.03	0.03	0.03
Security transaction tax	0.02	0.02	0.02	0.02
Special excise tax	0.03	0.03	0.03	0.03
Liquor tax	0.01	0.01	0.01	0.01
Customs duties	0.04	0.03	0.04	0.03
Transportation tax	0.14	0.15	0.14	0.15
Value added tax [2]	0.45	0.44	0.45	0.44
Subtotal	0.72	0.72	0.72	0.72
Grand total	2.52	2.55	2.48	2.52
Structural items			0.03	0.03
*Income tax expenditures by type**				
Credits	0.02	0.01	0.02	0.01
Deductions, exemptions & exclusions [1] [2]	1.73	1.78	1.70	1.75
Deferrals [1] [2]	0.00	0.00	0.00	0.00
Reduced rates	0.04	0.05	0.04	0.05

† Prospect.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category was established in 2006 or 2007 and was not estimated in the year it was established.
[2] At least one provision in this category is not estimated because adequate data are not available.
[3] There are no tax expenditures in this category.

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Table II.10. Tax expenditures in Korea
(% of central government total tax and non-tax receipts)

	As reported by country		With reclassifications by author	
	2006	2007 †	2006	2007 †
*Purpose of tax expenditure, income tax**				
General tax relief	0.47	0.49	0.29	0.31
Low-income non-work related	0.19	0.20	0.19	0.20
Retirement	0.10	0.08	0.10	0.08
Work related [1]	0.16	0.15	0.16	0.15
Education	0.67	0.67	0.67	0.67
Health [2]	1.67	1.78	1.67	1.78
Housing	0.29	0.35	0.29	0.35
General business incentives [1] [2]	3.96	3.71	3.95	3.70
Research & development [1]	0.87	0.65	0.87	0.65
Specific industry relief [1] [2]	1.05	1.37	1.05	1.37
Intergovernmental relations [3]				
Charity [2]	0.76	0.82	0.76	0.82
Other [1] [2]	0.09	0.09	0.09	0.09
Make work pay	0.05	0.05		
Total	10.34	10.41	10.09	10.17
Capital income taxation				
Accelerated depreciation			0.02	0.01
Interest [3]				
Dividends [3]				
Capital gains [3]				
Subtotal			0.02	0.01
Total			10.11	10.18
Make work pay			0.05	0.05
Total			10.16	10.24
Stamp tax	0.04	0.04	0.04	0.04
Inheritance tax	0.03	0.04	0.03	0.04
Educational tax	0.16	0.16	0.16	0.16
Security transaction tax	0.14	0.12	0.14	0.12
Special excise tax	0.18	0.18	0.18	0.18
Liquor tax	0.03	0.03	0.03	0.03
Customs duties	0.20	0.20	0.20	0.20
Transportation tax	0.83	0.85	0.83	0.85
Value added tax [2]	2.59	2.48	2.59	2.48
Subtotal	4.18	4.10	4.18	4.10
Grand total	14.52	14.51	14.34	14.33
Structural items			0.18	0.18
*Income tax expenditures by type**				
Credits	0.11	0.05	0.11	0.05
Deductions, exemptions & exclusions [1] [2]	9.97	10.09	9.79	9.92
Deferrals [1] [2]	0.02	0.01	0.02	0.01
Reduced rates	0.24	0.26	0.24	0.26

† Prospect.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] At least one provision in this category was established in 2006 or 2007 and was not estimated in the year it was established.
[2] At least one provision in this category is not estimated because adequate data are not available.
[3] There are no tax expenditures in this category.

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Table II.11. Tax expenditures in Korea (% of relevant tax revenue) † ‡

	As reported by country	With reclassifications by author
	2006	2006
*Purpose of tax expenditure, income tax**		
General tax relief	1.15	0.72
Low-income non-work related	0.45	0.45
Retirement	0.23	0.23
Work related [1]	0.39	0.39
Education	1.64	1.64
Health [2]	4.06	4.06
Housing	0.71	0.71
General business incentives [1] [2]	9.65	9.61
Research & development [1]	2.12	2.12
Specific industry relief [1] [2]	2.56	2.56
Intergovernmental relations [3]		
Charity [2]	1.85	1.85
Other [1] [2]	0.22	0.22
Make work pay	0.13	
Total	25.17	24.56
Capital income taxation		
Accelerated depreciation		0.05
Interest [3]		
Dividends [3]		
Capital gains [3]		
Subtotal		0.05
Total		24.60
Make work pay		0.13
Total		24.73
Stamp tax	8.76	8.76
Inheritance tax	1.64	1.6 [4]
Educational tax	6.80	6.81
Security transaction tax	7.93	7.93
Special excise tax	5.28	5.28
Liquor tax	1.90	1.90
Customs duties	4.39	4.39
Transportation tax	12.64	12.64
Value added tax [2]	9.98	9.98
*Income tax expenditures by type**		
Credits	0.27	0.27
Deductions, exemptions & exclusions [1] [2]	24.27	23.84
Deferrals [1] [2]	0.05	0.05
Reduced rates	0.57	0.57

† Percent of tax revenue by type of tax.

‡ Individual and corporate income taxes are considered together.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category was established in 2006 and was not estimated in the year it was established.

[2] At least one provision in this category is not estimated because adequate data are not available.

[3] There are no tax expenditures in this category.

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Table II.12. Number of tax expenditures in Korea (% of GDP)

	As reported by country		With reclassifications by author	
	2006	2007 †	2006	2007 †
*Purpose of tax expenditure, income tax**				
General tax relief	3	3	1	1
Low-income non-work related	2	2	2	2
Retirement	2	2	2	2
Work related	4	4	4	4
Education	5	5	5	5
Health	3	3	3	3
Housing	12	12	12	12
General business incentives	50	55	49	54
Research & development	7	8	7	8
Specific industry relief [1]	34	34	34	34
Intergovernmental relations	0	0	0	0
Charity	4	4	4	4
Other	11	12	11	12
Make work pay	1	1		
Total	138	145	134	141
Capital income taxation				
Accelerated depreciation			1	1
Interest			0	0
Dividends			0	0
Capital gains			0	0
Subtotal			1	1
Total			135	142
Make work pay			1	1
Total			136	143
Stamp tax	6	6	6	6
Inheritance tax [1]	2	2	2	2
Educational tax [1]	3	3	3	3
Security transaction tax	17	17	17	17
Special excise tax [1]	11	11	11	11
Liquor tax	1	1	1	1
Customs duties [1]	13	12	13	12
Transportation tax [1]	3	3	3	3
Value added tax [1]	26	26	26	26
Subtotal	82	81	82	81
Grand total	220	226	218	224
Structural items			2	2
*Income tax expenditures by type**				
Credits	2	2	2	2
Deductions, exemptions & exclusions	122 [1]	125 [1]	120	123
Deferrals	7	10	7	10
Reduced rates	7 [1]	8 [1]	7	8

† Prospect.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category applies under at least two different taxes. These provisions are therefore counted under each tax. If these provisions were counted only once, the total number of tax expenditures in 2007 would be 215 rather than 226. The corporate and individual income taxes are considered to be one tax.

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Table II.13. Tax expenditures in the Netherlands (% of GDP)

	As reported by country						
	2006	**2007 †**	**2008 †**	**2009 †**	**2010 †**	**2011 †**	**2012 †**
*Purpose of tax expenditure, income tax**							
General tax relief	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Low-income non-work related	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retirement	0.06	0.06	0.05	0.05	0.05	0.05	0.05
Work related	0.06	0.05	0.05	0.05	0.05	0.05	0.05
Education	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Health [1]							
Housing	0.05	0.04	0.04	0.04	0.04	0.04	0.04
General business incentives	0.48	0.45	0.43	0.43	0.42	0.41	0.40
Research & development	0.07	0.07	0.07	0.07	0.08	0.08	0.08
Specific industry relief	0.18	0.15	0.14	0.14	0.14	0.14	0.14
Intergovernmental relations [1]							
Charity	0.09	0.08	0.08	0.08	0.08	0.08	0.08
Other	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Make work pay	0.04	0.04	0.04	0.04	0.04	0.05	0.05
Total	1.11	1.02	0.99	0.99	0.98	0.98	0.97
Capital income taxation							
Accelerated depreciation							
Interest							
Dividends							
Capital gains							
Subtotal							
Total							
Make work pay							
Total							
Excises	0.08	0.07	0.07	0.07	0.07	0.07	0.08
Heavy motor vehicle tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Motor vehicle tax	0.02	0.02	0.03	0.03	0.03	0.03	0.03
Regulating energy tax [2]	0.03	0.03	0.00	0.00	0.00	0.00	0.00
Special excise on motor vehicles	0.01	0.02	0.01	0.01	0.01	0.01	0.01
Tax on the sale of immovable property	0.02	0.02	0.02	0.02	0.02	0.02	0.02
VAT [3]	0.73	0.72	0.71	0.71	0.70	0.69	0.68
Subtotal	0.90	0.88	0.85	0.84	0.83	0.82	0.81
Grand total	2.00	1.90	1.83	1.83	1.81	1.80	1.78
Structural items							
*Income tax expenditures by type**							
Credits	0.06	0.06	0.06	0.07	0.07	0.08	0.08
Deductions, exemptions & exclusions	0.81	0.73	0.70	0.70	0.68	0.67	0.66
Deferrals	0.05	0.06	0.05	0.05	0.05	0.05	0.05
Reduced rates	0.19	0.17	0.17	0.17	0.17	0.18	0.17

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
† 2007 and 2008 are initial estimates. 2009-2012 are projections.
[1] There are no tax expenditures in this category.
[2] At least one provision in this category is not estimated because its cost is small.
[3] At least one provision in this category is not estimated because adequate data are not available.

Table II.13. Tax expenditures in the Netherlands (% of GDP) *cont'd*

	With reclassifications by author						
	2006	2007 †	2008 †	2009 †	2010 †	2011 †	2012 †
*Purpose of tax expenditure, income tax**							
General tax relief [1]							
Low-income non-work related	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retirement	0.06	0.06	0.05	0.05	0.05	0.05	0.05
Work related	0.06	0.05	0.05	0.05	0.05	0.05	0.05
Education	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Health [1]							
Housing	0.05	0.04	0.04	0.04	0.04	0.04	0.04
General business incentives	0.48	0.45	0.43	0.43	0.42	0.41	0.40
Research & development	0.07	0.07	0.07	0.07	0.08	0.08	0.08
Specific industry relief	0.18	0.15	0.14	0.14	0.14	0.14	0.14
Intergovernmental relations [1]							
Charity	0.09	0.08	0.08	0.08	0.08	0.08	0.08
Other	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Make work pay							
Total	1.06	0.98	0.95	0.94	0.93	0.93	0.92
Capital income taxation							
Accelerated depreciation [1]							
Interest [1]							
Dividends [1]							
Capital gains [1]							
Subtotal	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	1.06	0.98	0.95	0.94	0.93	0.93	0.92
Make work pay	0.04	0.04	0.04	0.04	0.04	0.05	0.05
Total	1.10	1.01	0.98	0.98	0.97	0.98	0.96
Excises	0.08	0.07	0.07	0.07	0.07	0.07	0.08
Heavy motor vehicle tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Motor vehicle tax	0.02	0.02	0.03	0.03	0.03	0.03	0.03
Regulating energy tax [2]	0.03	0.03	0.00	0.00	0.00	0.00	0.00
Special excise on motor vehicles	0.01	0.02	0.01	0.01	0.01	0.01	0.01
Tax on the sale of immovable property	0.02	0.02	0.02	0.02	0.02	0.02	0.02
VAT [3]	0.73	0.72	0.71	0.71	0.70	0.69	0.68
Subtotal	0.90	0.88	0.85	0.84	0.83	0.82	0.81
Grand total	2.00	1.89	1.83	1.83	1.81	1.80	1.78
Structural items	0.00	0.00	0.00	0.00	0.00	0.00	0.00
*Income tax expenditures by type**							
Credits	0.06	0.06	0.06	0.07	0.07	0.08	0.08
Deductions, exemptions & exclusions	0.80	0.73	0.70	0.69	0.68	0.67	0.66
Deferrals	0.05	0.06	0.05	0.05	0.05	0.05	0.05
Reduced rates	0.19	0.17	0.17	0.17	0.17	0.18	0.17

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
† 2007 and 2008 are initial estimates. 2009-2012 are projections.
[1] There are no tax expenditures in this category.
[2] At least one provision in this category is not estimated because its cost is small.
[3] At least one provision in this category is not estimated because adequate data are not available.

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Table II.14. Tax expenditures in the Netherlands (% of central government total tax and non-tax receipts)

	As reported by country			With reclassiications by author		
	2006	2007 †	2008 †	2006	2007 †	2008 †
*Purpose of tax expenditure, income tax**						
General tax relief	0.01	0.01	0.01	[1]	[1]	[1]
Low-income non-work related	0.00	0.00	0.00	0.00	0.00	0.00
Retirement	0.16	0.15	0.14	0.16	0.15	0.14
Work related	0.17	0.15	0.13	0.17	0.15	0.13
Education	0.16	0.18	0.17	0.16	0.18	0.17
Health [1]						
Housing	0.12	0.12	0.11	0.12	0.12	0.11
General business incentives	1.23	1.22	1.14	1.23	1.22	1.14
Research & development	0.19	0.20	0.19	0.19	0.20	0.19
Specific industry relief	0.47	0.40	0.37	0.47	0.40	0.37
Intergovernmental relations [1]						
Charity	0.22	0.23	0.22	0.22	0.23	0.22
Other	0.02	0.02	0.02	0.02	0.02	0.02
Make work pay	0.10	0.10	0.09			
Total	2.85	2.79	2.60	2.74	2.68	2.50
Capital income taxation						
Accelerated depreciation				[1]	[1]	[1]
Interest				[1]	[1]	[1]
Dividends				[1]	[1]	[1]
Capital gains				[1]	[1]	[1]
Subtotal				0.00	0.00	0.00
Total				2.74	2.68	2.50
Make work pay				0.10	0.10	0.09
Total				2.84	2.78	2.59
Excises	0.21	0.19	0.20	0.21	0.19	0.20
Heavy motor vehicle tax	0.00	0.00	0.00	0.00	0.00	0.00
Motor vehicle tax	0.06	0.06	0.07	0.06	0.06	0.07
Regulating energy tax [2]	0.08	0.08	0.00	0.08	0.08	0.00
Special excise on motor vehicles	0.04	0.04	0.02	0.04	0.04	0.02
Tax on the sale of immovable property	0.05	0.06	0.06	0.05	0.06	0.06
VAT [3]	1.87	1.97	1.89	1.87	1.97	1.89
Subtotal	2.31	2.41	2.23	2.31	2.41	2.23
Grand total	5.16	5.20	4.84	5.15	5.19	4.83
Structural items				0.01	0.01	0.01
*Income tax expenditures by type**						
Credits	0.14	0.16	0.16	0.14	0.16	0.16
Deductions, exemptions & exclusions	2.08	2.01	1.86	2.07	2.00	1.85
Deferrals	0.14	0.15	0.14	0.14	0.15	0.14
Reduced rates	0.49	0.47	0.44	0.49	0.47	0.44

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
† 2007 and 2008 are initial estimates.
[1] There are no tax expenditures in this category.
[2] At least one provision in this category is not estimated because its cost is small.
[3] At least one provision in this category is not estimated because adequate data are not available.

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Table II.15. Tax expenditures in the Netherlands (% of relevant tax revenue) † ‡

	As reported by country			With reclassifications by author		
	2006	2007*	2008*	2006	2007*	2008*
*Purpose of tax expenditure, income tax***						
General tax relief	0.03	0.03	0.03	[1]	[1]	[1]
Low-income non-work related	0.01	0.01	0.00	0.01	0.01	0.00
Retirement	0.55	0.52	0.46	0.55	0.52	0.46
Work related	0.58	0.50	0.42	0.58	0.50	0.42
Education	0.58	0.61	0.55	0.58	0.61	0.55
Health [1]						
Housing	0.42	0.42	0.37	0.42	0.42	0.37
General business incentives	4.32	4.18	3.69	4.32	4.18	3.69
Research & development	0.67	0.68	0.62	0.67	0.68	0.62
Specific industry relief	1.63	1.37	1.21	1.63	1.37	1.21
Intergovernmental relations [1]						
Charity	0.78	0.79	0.70	0.78	0.79	0.70
Other	0.07	0.08	0.07	0.07	0.08	0.07
Make work pay	0.34	0.34	0.30			
Total	9.98	9.53	8.40	9.60	9.15	8.07
Capital income taxation						
Accelerated depreciation				[1]	[1]	[1]
Interest				[1]	[1]	[1]
Dividends				[1]	[1]	[1]
Capital gains				[1]	[1]	[1]
Subtotal				0.00	0.00	0.00
Total				9.60	9.15	8.07
Make work pay				0.34	0.34	0.30
Total				9.95	9.49	8.37
Excises	4.41	3.96	4.12	4.41	3.96	4.12
Heavy motor vehicle tax	0.00	0.00	0.00	0.00	0.00	0.00
Motor vehicle tax	4.96	4.55	4.63	4.96	4.55	4.63
Regulating energy tax [2]	3.61	3.62	0.23	3.61	3.62	0.23
Special excise on motor vehicles	2.18	2.36	1.42	2.18	2.36	1.42
Tax on the sale of immovable property	2.02	2.33	2.06	2.02	2.33	2.06
VAT [3]	9.74	9.51	9.66	9.74	9.51	9.66
*Income tax expenditures by type***						
Credits	0.51	0.54	0.51	0.51	0.54	0.51
Deductions, exemptions & exclusions	7.30	6.86	6.00	7.27	6.82	5.97
Deferrals	0.47	0.52	0.46	0.47	0.52	0.46
Reduced rates	1.70	1.60	1.43	1.70	1.60	1.43

† Percent of tax revenue by type of tax.
‡ Individual and corporate income taxes are considered together.
* 2007 and 2008 are initial estimates.
** Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] There are no tax expenditures in this category.
[2] At least one provision in this category is not estimated because its cost is small.
[3] At least one provision in this category is not estimated because adequate data are not available.

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Table II.16. Number of tax expenditures in the Netherlands (% of GDP)

	As reported by country			With reclassifications by author		
	2006	2007 †	2008 †	2006	2007 †	2008 †
*Purpose of tax expenditure, income tax**						
General tax relief	1	1	1	0	0	0
Low-income non-work related	1	1	1	1	1	1
Retirement	2	2	2	2	2	2
Work related	6	6	6	6	6	6
Education	2	2	2	2	2	2
Health	0	0	0	0	0	0
Housing	2	2	2	2	2	2
General business incentives	13	13	12	13	13	12
Research & development	2	2	2	2	2	2
Specific industry relief	16	14	14	16	14	14
Intergovernmental relations	0	0	0	0	0	0
Charity	6	6	6	6	6	6
Other	2	2	2	2	2	2
Make work pay	2	2	2			
Total	55	53	52	52	50	49
Capital income taxation						
Accelerated depreciation				0	0	0
Interest				0	0	0
Dividends				0	0	0
Capital gains				0	0	0
Subtotal				0	0	0
Total				52	50	49
Make work pay				2	2	2
Total				54	52	51
Excises	7	6	6	7	6	6
Heavy motor vehicle tax	1	1	1	1	1	1
Motor vehicle tax	8	8	8	8	8	8
Regulating energy tax	3	3	3	3	3	3
Special excise on motor vehicles	4	4	4	4	4	4
Tax on the sale of immovable property	6	7	7	6	7	7
VAT	17	17	17	17	17	17
Subtotal	46	46	46	46	46	46
Grand total	101	99	98	100	98	97
Structural items				1	1	1
*Income tax expenditures by type**						
Credits	7	7	7	7	7	7
Deductions, exemptions & exclusions	35	34	33	34	33	32
Deferrals	6	6	6	6	6	6
Reduced rates	7	6	6	7	6	6

† 2007 and 2008 are initial estimates.
* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

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Table II.17. Tax expenditures in Spain (% of GDP)

	As reported by country		With reclassifications by author	
	2008	2009 †	2008	2009 †
*Purpose of tax expenditure, income tax**				
General tax relief	0.28	0.82	[3]	[3]
Low-income non-work related	0.04	0.04	0.04	0.04
Retirement	0.17	0.19	0.17	0.19
Work related	0.01	0.01	0.01	0.01
Education	0.00	0.00	0.00	0.00
Health	0.00	0.00	0.00	0.00
Housing	0.41	0.59	0.41	0.59
General business incentives [1]	0.68	0.56	0.52	0.38
Research & development [1]	0.03	0.02	0.03	0.02
Specific industry relief [1]	0.04	0.04	0.04	0.04
Intergovernmental relations [3]				
Charity	0.02	0.02	0.02	0.02
Other [1]	0.17	0.18	0.17	0.18
Make work pay	0.74	0.90		
Total	2.58	3.37	1.41	1.48
Capital income taxation				
Accelerated depreciation			[3]	[3]
Interest			[3]	[3]
Dividends			[3]	[3]
Capital gains [5]			0.16	0.18
Subtotal			0.16	0.18
Total			1.57	1.66
Make work pay			0.74	0.90
Total			2.31	2.56
VAT [1] [2]	2.08	2.20	2.08	2.20
Tributes	0.01	0.01	0.01	0.01
Insurance tax	0.03	0.04	0.03	0.04
Alcohol and by-product beverages tax [1]	0.01	0.01	0.01	0.01
Non-residents equity tax [4]	0.00	0.00	0.00	0.00
Hydrocarbons tax [1] [2]	0.12	0.14	0.12	0.14
Subtotal	2.25	2.39	2.25	2.39
Total	4.83	5.76	4.55	4.95
Structural items			0.28	0.82
*Income tax expenditures by type**				
Credits	0.51	0.53	0.32	0.36
Deductions, exemptions & exclusions [1] [2]	1.72	2.63	1.63	1.99
Deferrals [3]	0.00	0.00	0.00	0.00
Reduced rates	0.36	0.21	0.36	0.21

† 2009 is a projection.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category is not estimated because its cost is small.

[2] At least one provision in this category is not estimated because adequate data are not available.

[3] There are no tax expenditures in this category.

[4] This tax expenditure is no longer current.

[5] Tax deductions for corporate reinvestment and reserves.

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Table II.18. Tax expenditures in Spain
(% of central government total tax and non-tax receipts)

	As reported by country		With reclassifications by author	
	2008	2009 †	2008	2009 †
*Purpose of tax expenditure, income tax**				
General tax relief	0.76	2.27	[3]	[3]
Low-income non-work related	0.11	0.12	0.11	0.12
Retirement	0.46	0.51	0.46	0.51
Work related	0.03	0.04	0.03	0.04
Education	0.01	0.01	0.01	0.01
Health	0.00	0.00	0.00	0.00
Housing	1.12	1.62	1.12	1.62
General business incentives [1]	1.86	1.56	1.42	1.06
Research & development [1]	0.10	0.07	0.10	0.07
Specific industry relief [1]	0.11	0.11	0.11	0.11
Intergovernmental relations [3]				
Charity	0.04	0.06	0.04	0.06
Other [1]	0.46	0.49	0.46	0.49
Make work pay	2.02	2.49		
Total	7.08	9.35	3.86	4.09
Capital income taxation				
Accelerated depreciation			[3]	[3]
Interest [3]			[3]	[3]
Dividends [3]			[3]	[3]
Capital gains [5]			0.44	0.50
Subtotal			0.44	0.50
Total			4.30	4.59
Make work pay			2.02	2.49
Total			6.32	7.08
VAT [1] [2]	5.70	6.10	5.70	6.10
Tributes	0.02	0.02	0.02	0.02
Insurance tax	0.09	0.11	0.09	0.11
Alcohol and by-product beverages tax [1]	0.02	0.02	0.02	0.02
Non-residents equity tax [4]	0.00	0.00	0.00	0.00
Hydrocarbons tax [1] [2]	0.32	0.38	0.32	0.38
Subtotal	6.16	6.62	6.16	6.62
Total	13.24	15.97	12.48	13.70
Structural items			0.76	2.27
*Income tax expenditures by type**				
Credits	1.38	1.47	0.87	0.99
Deductions, exemptions & exclusions [1] [2]	4.71	7.29	4.46	5.51
Deferrals [3]	0.00	0.00	0.00	0.00
Reduced rates	0.99	0.59	0.99	0.59

† 2009 is a projection.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category is not estimated because its cost is small.

[2] At least one provision in this category is not estimated because adequate data are not available.

[3] There are no tax expenditures in this category.

[4] This tax expenditure is no longer current.

[5] Tax deductions for corporate reinvestment and reserves.

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Table II.19. Tax expenditures in Spain (% of relevant tax revenue)

	As reported by country		With reclassifications by author	
	2008	2009 †	2008	2009 †
*Purpose of tax expenditure, income tax**				
General tax relief	3.39	11.49	[3]	[3]
Low-income non-work related	0.48	0.62	0.48	0.62
Retirement	2.07	2.60	2.07	2.60
Work related	0.12	0.20	0.12	0.20
Education	0.05	0.05	0.05	0.05
Health	0.00	0.00	0.00	0.00
Housing	4.98	8.24	4.98	8.24
General business incentives [1]	8.31	7.90	6.34	5.36
Research & development [1]	0.43	0.33	0.43	0.33
Specific industry relief [1]	0.49	0.56	0.49	0.56
Intergovernmental relations [3]				
Charity	0.20	0.31	0.20	0.31
Other [1]	2.05	2.47	2.05	2.47
Make work pay	8.99	12.62		
Total	31.56	47.38	17.21	20.73
Capital income taxation				
Accelerated depreciation			[3]	[3]
Interest [3]			[3]	[3]
Dividends [3]			[3]	[3]
Capital gains [5]			1.97	2.54
Subtotal			1.97	2.54
Total			19.18	23.27
Make work pay			8.99	12.62
Total			28.16	35.89
VAT [1] [2]	59.69	66.12	59.69	66.12
Tributes	6.78	5.05	6.78	5.05
Insurance tax	23.65	25.07	23.65	25.07
Alcohol and by-product beverages tax [1]	10.05	10.15	10.05	10.15
Non-residents equity tax [2] [4]	0.00	0.00	0.00	0.00
Hydrocarbons tax [1] [2]	19.45	23.43	19.45	23.43
*Income tax expenditures by type**				
Credits	6.17	7.44	3.89	5.00
Deductions, exemptions & exclusions [1] [2]	20.99	36.97	19.88	27.92
Deferrals [3]	0.00	0.00	0.00	0.00
Reduced rates	4.40	2.97	4.40	2.97

† 2009 is a projection.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category is not estimated because its cost is small.

[2] At least one provision in this category is not estimated because adequate data are not available.

[3] There are no tax expenditures in this category.

[4] This tax expenditure is no longer current.

[5] Tax deductions for corporate reinvestment and reserves.

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Table II.20. Number of tax expenditures in Spain (% of GDP)

	As reported by country		With reclassifications by author	
	2008	2009 †	2008	2009 †
*Purpose of tax expenditure, income tax**				
General tax relief	2	3	0	0
Low-income non-work related	5	7	5	7
Retirement	3	3	3	3
Work related	3	3	3	3
Education	2	2	2	2
Health	1	1	1	1
Housing	3	5	3	5
General business incentives	26	26	24	24
Research & development	2	2	2	2
Specific industry relief	10	10	10	10
Intergovernmental relations	0	0	0	0
Charity	5	5	5	5
Other	10	9	10	9
Make work pay	5	5		
Total	77	81	68	71
Capital income taxation				
Accelerated depreciation				
Interest				
Dividends				
Capital gains [1]			2	2
Subtotal			2	2
Total			70	73
Make work pay			5	5
Total			75	78
VAT	48	55	48	55
Tributes	3	3	3	3
Insurance tax	5	6	5	6
Alcohol and by-product beverages tax	3	3	3	3
Non-residents equity tax [1]	1	0	1	0
Hydrocarbons tax	4	4	4	4
Subtotal	63	71	63	71
Total	140	152	138	149
Structural items			2	3
*Income tax expenditures by type**				
Credits	14	14	13	13
Deductions, exemptions & exclusions	60	64	59	62
Deferrals	0	0	0	0
Reduced rates	3	3	3	3

† 2009 is a projection.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] This tax expenditure is no longer current.

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Table II.21. Tax expenditures in the United Kingdom (% of GDP)

	As reported by country		With reclassifications by author	
	2006-07	2007-08 †	2006-07	2007-08 †
*Purpose of tax expenditure, income tax**				
General tax relief [1]	0.00	0.00		
Low-income non-work related [1] [2]	0.00	0.00	0.09	0.09
Retirement [1] [2]	2.13	2.05	2.32	2.24
Work related [1] [2]	0.15	0.15	0.15	0.15
Education [2]	0.00	0.00	0.00	0.00
Health [1] [2]	0.00	0.00	0.00	0.00
Housing [1] [2]	1.20	1.17	1.20	1.17
General business incentives [1] [2]	0.03	0.03	0.77	0.74
Research & development [2]	0.04	0.04	0.04	0.04
Specific industry relief [1] [2]	0.05	0.03	0.11	0.10
Intergovernmental relations [2]	0.00	0.00	0.00	0.00
Charity [2]	0.09	0.09	0.09	0.09
Other [2]	0.12	0.11	0.12	0.11
Make work pay [2] [4]	0.35	0.34		
Total	4.16	4.00	4.90	4.72
Capital income taxation				
Accelerated depreciation [3]			1.41	1.34
Interest [2] [3]			0.02	0.02
Dividends [3]			1.13	1.07
Capital gains [3]			0.52	0.55
Subtotal			3.08	2.99
Total			7.98	7.71
Make work pay [3] [4]			0.35	0.34
Total			8.32	8.06
VAT [1] [2]	2.33	2.31	3.19	3.18
Inheritance tax related [1] [2]	0.08	0.08	0.98	1.03
Stamp duty reserve tax [2]	0.00	0.00	0.00	0.00
Stamp duty [2]	0.00	0.00	0.00	0.00
Stamp duty land tax [1]	0.01	0.01	0.19	0.17
Petroleum revenue tax [1]	0.00	0.00	0.09	0.06
Excise taxes	0.00	0.00	0.00	0.00
Landfill tax [1] [2]	0.00	0.00	0.00	0.00
Climate change levy [1] [2]	0.00	0.00	0.00	0.00
Aggregates levy [1] [2]	0.01	0.00	0.01	0.00
Air passenger duty [2]	0.00	0.00	0.01	0.01
Hydrocarbon oils [2]	0.00	0.00	0.00	0.00
Vehicle excise duty	[3]	[3]	0.01	0.01
Subtotal	2.43	2.41	4.47	4.48
Total	6.59	6.41	12.79	12.54
Reliefs with tax expenditure & structural components	5.10	5.08		
Structural reliefs	5.34	5.26		

	As reported by country		With reclassifications by author	
	2006-07	**2007-08 †**	**2006-07**	**2007-08 †**
Grand total	17.03	16.75		
Structural items			4.25	4.21
*Income tax expenditures by type**				
Credits [2]	0.39	0.37	1.52	1.44
Deductions, exemptions & exclusions [1] [2]	3.77	3.63	4.93	4.80
Deferrals [1] [2]	0.00	0.00	1.47	1.40
Reduced rates [2]	0.00	0.00	0.41	0.40

† Preliminary estimate.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category is not estimated because its cost is small.

[2] At least one provision in this category is not estimated because adequate data are not available.

[3] There are no tax expenditures in this category.

[4] One provision in this category, called "Personal Tax Credits", includes both the Child Tax Credit (structural item) and Working Tax Credit (make work pay). The costs of those two parts cannot be separated.

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Table II.22. Tax expenditures in the United Kingdom (% of central government total tax and non-tax receipts)

	As reported by country		With reclassifications by author	
	2006-07	2007-08 †	2006-07	2007-08 †
*Purpose of tax expenditure, income tax**				
General tax relief [1]	0.00	0.00		
Low-income non-work related [1] [2]	0.01	0.01	0.26	0.26
Retirement [1] [2]	5.85	5.63	6.38	6.15
Work related [1] [2]	0.42	0.41	0.42	0.41
Education [2]	0.00	0.00	0.00	0.00
Health [1] [2]	0.00	0.00	0.00	0.00
Housing [1] [2]	3.30	3.22	3.30	3.22
General business incentives [1] [2]	0.09	0.08	2.12	2.03
Research & development [2]	0.10	0.10	0.10	0.10
Specific industry relief [1] [2]	0.13	0.08	0.31	0.28
Intergovernmental relations [2]	0.00	0.00	0.00	0.00
Charity [2]	0.25	0.25	0.25	0.25
Other [2]	0.32	0.30	0.32	0.30
Make work pay [2] [4]	0.95	0.92		
Total	11.44	11.01	13.47	13.00
Capital income taxation				
Accelerated depreciation [3]			3.86	3.70
Interest [2] [3]			0.05	0.06
Dividends [3]			3.11	2.94
Capital gains [3]			1.43	1.52
Subtotal			8.45	8.22
Total			21.92	21.22
Make work pay [3] [4]			0.95	0.92
Total			22.87	22.14
VAT [1] [2]	6.42	6.35	8.78	8.75
Inheritance tax related [1] [2]	0.21	0.21	2.68	2.84
Stamp duty reserve tax [2]	0.00	0.00	0.00	0.00
Stamp duty [2]	0.00	0.00	0.00	0.00
Stamp duty land tax [1]	0.02	0.02	0.51	0.47
Petroleum revenue tax [1]	0.00	0.00	0.24	0.17
Excise taxes	0.01	0.01	0.01	0.01
Landfill tax [1] [2]	0.00	0.00	0.00	0.00
Climate change levy [1] [2]	0.01	0.01	0.01	0.01
Aggregates levy [1] [2]	0.01	0.01	0.01	0.01
Air passenger duty [2]	0.00	0.00	0.01	0.03
Hydrocarbon oils [2]	0.00	0.00	0.00	0.00
Vehicle excise duty	[3]	[3]	0.04	0.03
Subtotal	6.68	6.61	12.30	12.32
Total	18.12	17.62	35.17	34.46
Reliefs with tax expenditure and structural components	14.04	13.97		

	As reported by country		With reclassifications by author	
	2006-07	**2007-08 †**	**2006-07**	**2007-08 †**
Structural reliefs	14.68	14.44		
Grand total	46.84	46.04		
Structural items			11.67	11.58
*Income tax expenditures by type**				
Credits [2]	1.06	1.03	4.18	3.97
Deductions, exemptions & exclusions [1] [2]	10.38	9.98	13.54	13.20
Deferrals [1] [2]	0.00	0.00	4.03	3.86
Reduced rates [2]	0.00	0.00	1.12	1.11

† Preliminary estimate.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category is not estimated because its cost is small.

[2] At least one provision in this category is not estimated because adequate data are not available.

[3] There are no tax expenditures in this category.

[4] One provision in this category, called "Personal Tax Credits", includes both the Child Tax Credit (structural item) and Working Tax Credit (make work pay). The costs of those two parts cannot be separated.

StatLink http://dx.doi.org/10.1787/747113565065

Table II.23. Tax expenditures in the United Kingdom (% of relevant tax revenue) † ‡

	As reported by country		With reclassifcations by author	
	2006-07	2007-08*	2006-07	2007-08*
*Purpose of tax expenditure, income tax***				
General tax relief [1]	0.01	0.01		
Low-income non-work related [1] [2]	0.01	0.01	0.45	0.44
Retirement [1] [2]	9.94	9.42	11.03	10.55
Work related [1] [2]	0.71	0.69	0.72	0.70
Education [2]	0.01	0.01	0.01	0.01
Health [1] [2]	0.00	0.00	0.00	0.00
Housing [1] [2]	5.61	5.39	5.71	5.53
General business incentives [1] [2]	0.15	0.13	3.66	3.48
Research & development [2]	0.17	0.16	0.18	0.17
Specific industry relief [1] [2]	0.22	0.13	0.53	0.48
Intergovernmental relations [2]	0.00	0.00	0.00	0.00
Charity [2]	0.42	0.41	0.43	0.42
Other [2]	0.55	0.51	0.56	0.52
Make work pay [2] [4]	1.62	1.54		
Total	19.43	18.40	23.27	22.29
Capital income taxation				
Accelerated depreciation [3]			6.68	6.34
Interest [2] [3]			0.08	0.10
Dividends [3]			5.38	5.05
Capital gains [3]			2.47	2.61
Subtotal			14.61	14.10
Total			37.88	36.39
Make work pay [3] [4]			1.65	1.58
Total			39.53	37.97
VAT [1] [2]	39.93	40.20	54.69	54.74
Stamp duties [1] [2]	0.71	0.73	18.48	15.91
Hydrocarbon oils [2]	0.00	0.00	4.45	3.33
Other [1] [2] [5]	2.43	2.43	46.79	49.23
*Income tax expenditures by type***				
Credits [2]	1.81	1.72	7.22	6.81
Deductions, exemptions & exclusions [1] [2]	17.62	16.68	23.41	22.64
Deferrals [1] [2]	0.00	0.00	6.96	6.62
Reduced rates [2]	0.00	0.00	1.94	1.90

† Percent of tax revenue by type of tax.

‡ Individual, corporate, and capital gains taxes as well as National Insurance Contributions are considered together.

* Preliminary estimate.

** Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category is not estimated because its cost is small.

[2] At least one provision in this category is not estimated because adequate data are not available.

[3] There are no tax expenditures in this category.

[4] One provision in this category, "Personal Tax Credits", includes both the Child Tax Credit (structural item) and Working Tax Credit (make work pay). The costs of those two parts cannot be separated.

[5] "Other" includes all taxes with annual total revenue less than GBP 10 billion.

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Table II.24. Number of tax expenditures in the United Kingdom (% of GDP) †

	As reported by country		With reclassifications by author	
	2006-07	2007-08 ‡	2006-07	2007-08 ‡
*Purpose of tax expenditure, income tax**				
General tax relief	2	2	0	0
Low-income non-work related	11	11	15	15
Retirement	15	15	16	16
Work related	37	37	37	37
Education	4	4	4	4
Health	4	4	4	4
Housing	7	7	7	7
General business incentives	35	35	38	38
Research & development	2	2	2	2
Specific industry relief	28	28	29	29
Intergovernmental relations	2	2	2	2
Charity	6	6	6	6
Other	33	33	27	27
Make work pay	3	3		
Total	189	189	187	187
Capital income taxation				
Accelerated depreciation			2	2
Interest			6	6
Dividends			3	3
Capital gains			7	7
Subtotal			18	18
Total			205	205
Make work pay			3	3
Total			208	208
VAT	34	35	43	44
Inheritance tax related	42	42	44	44
Stamp duty reserve tax	5	5	5	5
Stamp duty	8	8	8	8
Stamp duty land tax	17	18	22	23
Petroleum revenue tax	4	4	9	9
Excise taxes	2	2	2	2
Landfill tax	5	5	5	5
Climate change levy	9	9	9	9
Aggregates levy	18	18	18	18
Air passenger duty	5	5	6	6
Hydrocarbon oils	1	1	1	1
Vehicle excise duty	0	0	1	1
Subtotal	150	152	173	175
Total	339	341	381	383
Reliefs with tax expenditure & structural components	42	42		
Structural reliefs	8	8		

	As reported by country		With reclassifications by author	
	2006-07	2007-08 ‡	2006-07	2007-08 ‡
Grand total	389	391		
Structural items			8	8
*Income tax expenditures by type**				
Credits	4	4	5	5
Deductions, exemptions & exclusions	177	177	186	186
Deferrals	7	7	11	11
Reduced rates	1	1	6	6

† Given reporting practices, some of these tax expenditures may have gone into effect only in 2007.
‡ Preliminary estimate.
* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] One provision in this category, called "Personal Tax Credits", includes both the Child Tax Credit (structural item) and Working Tax Credit (make work pay).

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Table II.25. Tax expenditures in the United States (% of GDP)

	As reported by the country												
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009 †**	**2010 †**	**2011 †**	**2012 †**	**2013 †**	**2014 †**
*Purpose of tax expenditure, income tax**													
General tax relief	0.21	0.35	0.19	0.34	0.23	0.23	0.20	0.19	0.18	0.13	0.06	0.05	0.05
Low-income non-work related	0.14	0.14	0.13	0.12	0.11	0.11	0.11	0.11	0.11	0.11	0.10	0.10	0.10
Retirement	1.47	1.50	1.19	1.04	1.00	1.02	1.02	1.06	1.04	1.09	1.11	1.09	1.07
Work related	0.12	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Education	0.12	0.13	0.13	0.14	0.15	0.12	0.13	0.13	0.12	0.12	0.12	0.12	0.11
Health [1]	1.04	1.04	1.01	1.08	1.06	1.08	1.05	1.15	1.21	1.26	1.30	1.33	1.37
Housing	0.91	0.89	1.10	1.21	1.20	1.06	1.05	1.02	1.10	1.23	1.31	1.33	1.36
General business incentives [1] [2]	1.51	1.06	1.03	0.94	1.24	1.11	1.10	0.60	0.73	0.72	0.77	0.80	0.83
Research & development	0.08	0.03	0.02	0.08	0.08	0.11	0.09	0.08	0.06	0.05	0.05	0.05	0.05
Specific industry relief [1]	0.25	0.26	0.26	0.24	0.25	0.24	0.23	0.26	0.26	0.26	0.26	0.26	0.26
Intergovernmental relations	0.91	0.90	0.79	0.67	0.67	0.59	0.63	0.57	0.48	0.65	0.73	0.72	0.70
Charity	0.38	0.35	0.30	0.30	0.35	0.35	0.33	0.38	0.40	0.40	0.41	0.42	0.42
Other	0.04	0.03	0.03	0.04	0.04	0.04	0.10	0.10	0.09	0.09	0.09	0.08	0.08
Make work pay	0.07	0.08	0.07	0.07	0.07	0.06	0.06	0.07	0.06	0.06	0.07	0.06	0.06
Total	7.26	6.83	6.33	6.34	6.51	6.19	6.17	5.80	5.92	6.25	6.46	6.49	6.52
Capital income taxation [3]													
Accelerated depreciation													
Interest													
Dividends													
Capital gains													
Subtotal													
Total													

	As reported by the country												
	2002	2003	2004	2005	2006	2007	2008	2009 †	2010 †	2011 †	2012 †	2013 †	2014 †
Make work pay provisions													
Total													
Non-income tax [3]													
Grand total	7.26	6.83	6.33	6.34	6.51	6.19	6.17	5.80	5.92	6.25	6.46	6.49	6.52
Structural items													
*Income tax expenditures by type**													
Credits [1]	0.54	0.67	0.47	0.62	0.49	0.53	0.54	0.50	0.45	0.38	0.31	0.29	0.28
Exemptions & allowances [1]	5.35	5.12	5.04	5.01	5.03	4.73	4.63	4.77	4.83	5.25	5.51	5.53	5.56
Deferrals [1]	0.77	0.77	0.57	0.46	0.58	0.49	0.80	0.34	0.41	0.43	0.46	0.48	0.49
Reduced rates [1]	0.60	0.28	0.25	0.25	0.41	0.44	0.20	0.19	0.23	0.19	0.17	0.18	0.19

† Projections.
* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] At least one provision in this category was not estimated in 1994 because it cost ≤ USD 2.5 million.
[2] Beginning in 2003 lower rates of taxation for dividends and capital gains on corporate equity are not considered tax expenditures.
[3] There are no tax expenditures in this category.

Table II.25. Tax expenditures in the United States (% of GDP) *cont'd*

With reclassifications by author											
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
*Purpose of tax expenditure, income tax**											
General tax relief [3]											
Low-income non-work related	0.15	0.16	0.15	0.15	0.15	0.14	0.14	0.14	0.14	0.14	0.13
Retirement	1.15	1.13	1.14	1.30	1.37	1.36	1.37	1.33	1.47	1.50	1.19
Work related	0.12	0.11	0.08	0.07	0.13	0.12	0.12	0.12	0.12	0.07	0.07
Education	0.04	0.04	0.04	0.04	0.04	0.11	0.11	0.10	0.12	0.13	0.13
Health [1]	0.88	0.88	0.91	0.89	0.85	0.83	0.86	0.90	1.04	1.04	1.01
Housing	1.16	1.07	1.01	1.03	0.93	0.96	0.95	0.97	0.91	0.89	1.10
General business incentives [2]	0.18	0.18	0.17	0.17	0.22	0.22	0.23	0.21	0.22	0.22	0.22
Research & development	0.06	0.04	0.01	0.01	0.03	0.04	0.03	0.07	0.08	0.03	0.02
Specific industry relief [1]	0.23	0.23	0.24	0.24	0.22	0.23	0.22	0.23	0.25	0.26	0.26
Intergovernmental relations	0.74	0.76	0.78	0.75	0.82	0.90	0.90	0.91	0.91	0.90	0.79
Charity	0.31	0.33	0.27	0.27	0.28	0.27	0.27	0.38	0.38	0.35	0.30
Other	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Make work pay											
Total	5.06	4.96	4.83	4.96	5.06	5.21	5.22	5.39	5.68	5.56	5.25
Capital income taxation [3]											
Accelerated depreciation	0.33	0.44	0.42	0.38	0.41	0.31	0.35	0.42	0.44	0.43	0.36
Interest	0.02	0.02	0.02	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00
Dividends	0.05	0.06	0.06	0.06	0.06	0.07	0.07	0.05	0.05	0.03	0.02
Capital gains	0.47	0.49	0.49	0.41	0.73	0.72	0.70	0.94	0.81	0.38	0.43
Subtotal	0.87	0.99	0.98	0.85	1.21	1.11	1.12	1.42	1.30	0.84	0.81
Total	5.92	5.95	5.81	5.81	6.28	6.32	6.34	6.81	6.98	6.40	6.06
Make work pay provisions	0.10	0.11	0.10	0.11	0.10	0.08	0.08	0.08	0.07	0.08	0.07
Total	6.03	6.06	5.91	5.92	6.38	6.40	6.42	6.89	7.05	6.47	6.13
Non-income tax [3]											
Grand total	6.03	6.06	5.91	5.92	6.38	6.40	6.42	6.89	7.05	6.47	6.13
Structural items	0.00	0.00	0.00	0.00	0.04	0.21	0.20	0.20	0.21	0.35	0.19
*Income tax expenditures by type**											
Credits [1]	0.26	0.26	0.23	0.23	0.27	0.29	0.29	0.31	0.33	0.32	0.27
Exemptions & allowances [1]	4.85	4.78	4.67	4.55	4.90	4.96	4.95	5.07	5.35	5.12	5.04
Deferrals [1]	0.77	0.86	0.84	0.77	0.69	0.63	0.68	0.78	0.77	0.77	0.57
Reduced rates [1]	0.14	0.16	0.16	0.37	0.51	0.51	0.49	0.74	0.60	0.28	0.25

Table II.25. Tax expenditures in the United States (% of GDP) *cont'd*

With reclassifications by author										
	2005	2006	2007	2008	2009†	2010†	2011†	2012†	2013†	2014†
*Purpose of tax expenditure, income tax**										
General tax relief [3]										
Low-income non-work related	0.12	0.11	0.11	0.11	0.11	0.11	0.11	0.10	0.10	0.10
Retirement	1.04	1.00	1.02	1.02	1.06	1.04	1.09	1.11	1.09	1.07
Work related	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Education	0.14	0.15	0.12	0.13	0.13	0.12	0.12	0.12	0.12	0.11
Health [1]	1.08	1.06	1.08	1.05	1.15	1.21	1.26	1.30	1.33	1.37
Housing	1.21	1.20	1.06	1.05	1.02	1.10	1.23	1.31	1.33	1.36
General business incentives [2]	0.32	0.33	0.28	0.41	0.40	0.43	0.42	0.42	0.40	0.40
Research & development	0.08	0.08	0.11	0.09	0.08	0.06	0.05	0.05	0.05	0.05
Specific industry relief [1]	0.24	0.25	0.24	0.23	0.26	0.26	0.26	0.26	0.26	0.26
Intergovernmental relations	0.67	0.67	0.59	0.63	0.57	0.48	0.65	0.73	0.72	0.70
Charity	0.30	0.35	0.35	0.33	0.38	0.40	0.40	0.41	0.42	0.42
Other	0.03	0.03	0.03	0.09	0.09	0.08	0.08	0.08	0.08	0.07
Make work pay										
Total	5.30	5.29	5.06	5.21	5.33	5.37	5.75	5.97	5.96	5.97
Capital income taxation [3]										
Accelerated depreciation	0.16	0.27	0.16	0.35	-0.12	-0.07	-0.06	-0.01	0.02	0.04
Interest	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Dividends	0.03	0.03	0.04	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Capital gains	0.44	0.61	0.63	0.33	0.31	0.34	0.34	0.34	0.36	0.37
Subtotal	0.63	0.92	0.84	0.70	0.21	0.30	0.31	0.36	0.41	0.44
Total	5.93	6.21	5.90	5.91	5.54	5.67	6.06	6.33	6.37	6.42
Make work pay provisions	0.07	0.07	0.06	0.06	0.07	0.06	0.06	0.07	0.06	0.06
Total	6.00	6.27	5.96	5.97	5.61	5.73	6.12	6.39	6.43	6.47
Non-income tax [3]										
Grand total	6.00	6.27	5.96	5.97	5.61	5.73	6.12	6.39	6.43	6.47
Structural items	0.34	0.23	0.23	0.20	0.19	0.18	0.13	0.06	0.05	0.05
*Income tax expenditures by type**										
Credits [1]	0.28	0.25	0.30	0.34	0.31	0.26	0.25	0.25	0.24	0.23
Exemptions & allowances [1]	5.01	5.03	4.73	4.63	4.77	4.83	5.25	5.51	5.53	5.56
Deferrals [1]	0.46	0.58	0.49	0.80	0.34	0.41	0.43	0.46	0.48	0.49
Reduced rates [1]	0.25	0.41	0.44	0.20	0.19	0.23	0.19	0.17	0.18	0.19

† Projections.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category was not estimated in 1994 because it cost ≤ USD 2.5 million.

[2] Beginning in 2003 lower rates of taxation for dividends and capital gains on corporate equity are not considered tax expenditures.

[3] There are no tax expenditures in this category.

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Table II.26. Tax expenditures in the United States (% of central government total tax and non-tax receipts)

	As reported by country												
	2002	2003	2004	2005	2006	2007	2008	2009 †	2010 †	2011 †	2012 †	2013 †	2014 †
*Purpose of tax expenditure, income tax**													
General tax relief	1.20	2.13	1.19	1.94	1.26	1.20	1.13	1.26	1.16	0.75	0.33	0.29	0.26
Low-income non-work related	0.76	0.84	0.78	0.69	0.61	0.57	0.61	0.73	0.67	0.61	0.55	0.54	0.53
Retirement	8.24	9.10	7.29	5.89	5.39	5.42	5.77	7.01	6.58	6.30	5.93	5.78	5.65
Work related	0.69	0.43	0.46	0.40	0.38	0.36	0.38	0.47	0.46	0.42	0.37	0.36	0.35
Education	0.68	0.79	0.77	0.77	0.78	0.65	0.76	0.88	0.78	0.70	0.65	0.62	0.60
Health [1]	5.84	6.33	6.17	6.14	5.70	5.73	5.93	7.57	7.64	7.27	6.97	7.04	7.21
Housing	5.12	5.37	6.74	6.88	6.48	5.63	5.90	6.75	6.92	7.10	7.01	7.04	7.16
General business incentives [1] [2]	8.46	6.43	6.29	5.36	6.68	5.90	6.18	3.95	4.58	4.17	4.14	4.24	4.38
Research & development	0.46	0.17	0.12	0.43	0.42	0.60	0.50	0.55	0.40	0.31	0.29	0.28	0.26
Specific industry relief [1]	1.39	1.55	1.56	1.37	1.35	1.28	1.30	1.71	1.66	1.48	1.39	1.37	1.36
Intergovernmental relations	5.10	5.46	4.86	3.80	3.63	3.12	3.54	3.79	3.04	3.77	3.93	3.81	3.72
Charity	2.13	2.10	1.84	1.71	1.91	1.84	1.88	2.49	2.50	2.33	2.20	2.21	2.23
Other	0.20	0.20	0.21	0.25	0.23	0.23	0.55	0.67	0.56	0.51	0.46	0.44	0.44
Make work pay	0.41	0.47	0.44	0.38	0.35	0.32	0.36	0.47	0.39	0.34	0.35	0.32	0.31
Total	40.67	41.37	38.73	36.01	35.17	32.87	34.78	38.31	37.36	36.05	34.58	34.34	34.47
Capital income taxation [3]													
Accelerated depreciation													
Interest													
Dividends													
Capital gains													
Subtotal													
Total													

	As reported by country												
	2002	2003	2004	2005	2006	2007	2008	2009 †	2010 †	2011 †	2012 †	2013 †	2014 †
Make work pay provisions													
Total													
Non-income tax [3]													
Grand total	40.67	41.37	38.73	36.01	35.17	32.87	34.78	38.31	37.36	36.05	34.58	34.34	34.47
Structural items													
*Income tax expenditures by type**													
Credits [1]	3.05	4.04	2.87	3.54	2.63	2.81	3.05	3.28	2.82	2.18	1.66	1.56	1.49
Exemptions & allowances [1]	29.96	31.00	30.87	28.44	27.16	25.11	26.09	31.51	30.49	30.32	29.51	29.29	29.38
Deferrals [1]	4.32	4.64	3.48	2.62	3.14	2.62	4.53	2.25	2.62	2.45	2.49	2.52	2.58
Reduced rates [1]	3.35	1.68	1.51	1.41	2.24	2.34	1.11	1.27	1.43	1.09	0.92	0.97	1.02

† Projections.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category was not estimated in 1994 because it cost ≤ USD 2.5 million.

[2] Beginning in 2003 lower rates of taxation for dividends and capital gains on corporate equity are not considered tax expenditures.

[3] There are no tax expenditures in this category.

Table II.26. Tax expenditures in the United States (% of central government total tax and non-tax receipts) *cont'd*

With reclassifications by author											
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
*Purpose of tax expenditure, income tax**											
General tax relief [3]											
Low-income non-work related	0.15	0.16	0.15	0.15	0.15	0.14	0.14	0.14	0.76	0.84	0.78
Retirement	1.15	1.13	1.14	1.30	1.37	1.36	1.37	1.33	8.24	9.10	7.29
Work related	0.12	0.11	0.08	0.07	0.13	0.12	0.12	0.12	0.69	0.43	0.46
Education	0.04	0.04	0.04	0.04	0.04	0.11	0.11	0.10	0.68	0.79	0.77
Health [1]	0.88	0.88	0.91	0.89	0.85	0.83	0.86	0.90	5.84	6.33	6.17
Housing	1.16	1.07	1.01	1.03	0.93	0.96	0.95	0.97	5.12	5.37	6.74
General business incentives [1]	0.18	0.18	0.17	0.17	0.22	0.22	0.23	0.21	1.21	1.36	1.32
Research & development	0.06	0.04	0.01	0.01	0.03	0.04	0.03	0.07	0.46	0.17	0.12
Specific industry relief [1]	0.23	0.23	0.24	0.24	0.22	0.23	0.22	0.23	1.39	1.55	1.56
Intergovernmental relations	0.74	0.76	0.78	0.75	0.82	0.90	0.90	0.91	5.10	5.46	4.86
Charity	0.31	0.33	0.27	0.27	0.28	0.27	0.27	0.38	2.13	2.10	1.84
Other	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.03	0.17	0.20	0.21
Make work pay											
Total	5.06	4.96	4.83	4.96	5.06	5.21	5.22	5.39	31.78	33.69	32.12
Capital income taxation [3]											
Accelerated depreciation	0.33	0.44	0.42	0.38	0.41	0.31	0.35	0.42	2.48	2.59	2.20
Interest	0.02	0.02	0.02	0.01	0.01	0.01	0.00	0.00	0.03	0.00	0.00
Dividends	0.05	0.06	0.06	0.06	0.06	0.07	0.07	0.05	0.26	0.17	0.13
Capital gains	0.47	0.49	0.49	0.41	0.73	0.72	0.70	0.94	4.51	2.31	2.64
Subtotal	0.87	0.99	0.98	0.85	1.21	1.11	1.12	1.42	7.28	5.08	4.97
Total	5.92	5.95	5.81	5.81	6.28	6.32	6.34	6.81	39.06	38.77	37.10
Make work pay provisions	0.10	0.11	0.10	0.11	0.10	0.08	0.08	0.08	0.41	0.47	0.44
Total	6.03	6.06	5.91	5.92	6.38	6.40	6.42	6.89	39.48	39.24	37.53
Non-income tax [3]											
Grand total	6.03	6.06	5.91	5.92	6.38	6.40	6.42	6.89	39.48	39.24	37.53
Structural items	0.00	0.00	0.00	0.00	0.04	0.21	0.20	0.20	1.20	2.13	1.19
*Income tax expenditures by type**											
Credits [1]	0.26	0.26	0.23	0.23	0.27	0.29	0.29	0.31	1.85	1.91	1.68
Exemptions & allowances [1]	4.85	4.78	4.67	4.55	4.90	4.96	4.95	5.07	29.96	31.00	30.87
Deferrals [1]	0.77	0.86	0.84	0.77	0.69	0.63	0.68	0.78	4.32	4.64	3.48
Reduced rates [1]	0.14	0.16	0.16	0.37	0.51	0.51	0.49	0.74	3.35	1.68	1.51

Table II.26. Tax expenditures in the United States (% of central government total tax and non-tax receipts) *cont'd*

With reclassifications by author										
	2005	2006	2007	2008	2009†	2010†	2011†	2012†	2013†	2014†
*Purpose of tax expenditure, income tax**										
General tax relief [3]										
Low-income non-work related	0.69	0.61	0.57	0.61	0.73	0.67	0.61	0.55	0.54	0.53
Retirement	5.89	5.39	5.42	5.77	7.01	6.58	6.30	5.93	5.78	5.65
Work related	0.40	0.38	0.36	0.38	0.47	0.46	0.42	0.37	0.36	0.35
Education	0.77	0.78	0.65	0.76	0.88	0.78	0.70	0.65	0.62	0.60
Health [1]	6.14	5.70	5.73	5.93	7.57	7.64	7.27	6.97	7.04	7.21
Housing	6.88	6.48	5.63	5.90	6.75	6.92	7.10	7.01	7.04	7.16
General business incentives [1]	1.83	1.77	1.48	2.29	2.63	2.74	2.42	2.24	2.13	2.09
Research & development	0.43	0.42	0.60	0.50	0.55	0.40	0.31	0.29	0.28	0.26
Specific industry relief [1]	1.37	1.35	1.28	1.30	1.71	1.66	1.48	1.39	1.37	1.36
Intergovernmental relations	3.80	3.63	3.12	3.54	3.79	3.04	3.77	3.93	3.81	3.72
Charity	1.71	1.91	1.84	1.88	2.49	2.50	2.33	2.20	2.21	2.23
Other	0.19	0.18	0.18	0.50	0.61	0.51	0.46	0.41	0.40	0.39
Make work pay										
Total	30.11	28.59	26.87	29.36	35.19	33.91	33.16	31.95	31.57	31.56
Capital income taxation [3]										
Accelerated depreciation	0.90	1.47	0.85	1.95	-0.82	-0.44	-0.32	-0.04	0.11	0.22
Interest	0.06	0.05	0.05	0.05	0.06	0.06	0.05	0.05	0.05	0.04
Dividends	0.15	0.17	0.21	0.10	0.11	0.12	0.12	0.10	0.10	0.10
Capital gains	2.48	3.27	3.37	1.84	2.04	2.16	1.95	1.84	1.90	1.97
Subtotal	3.59	4.97	4.48	3.94	1.39	1.90	1.80	1.95	2.15	2.33
Total	33.69	33.56	31.35	33.30	36.57	35.81	34.96	33.90	33.72	33.90
Make work pay provisions	0.38	0.35	0.32	0.36	0.47	0.39	0.34	0.35	0.32	0.31
Total	34.07	33.91	31.67	33.65	37.05	36.20	35.30	34.25	34.05	34.21
Non-income tax [3]										
Grand total	34.07	33.91	31.67	33.65	37.05	36.20	35.30	34.25	34.05	34.21
Structural items	1.94	1.26	1.20	1.13	1.26	1.16	0.75	0.33	0.29	0.26
*Income tax expenditures by type**										
Credits [1]	1.60	1.37	1.60	1.92	2.02	1.66	1.43	1.33	1.27	1.23
Exemptions & allowances [1]	28.44	27.16	25.11	26.09	31.51	30.49	30.32	29.51	29.29	29.38
Deferrals [1]	2.62	3.14	2.62	4.53	2.25	2.62	2.45	2.49	2.52	2.58
Reduced rates [1]	1.41	2.24	2.34	1.11	1.27	1.43	1.09	0.92	0.97	1.02

† Projections.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category was not estimated in 1994 because it cost ≤USD 2.5 million.

[2] Beginning in 2003 lower rates of taxation for dividends and capital gains on corporate equity are not considered tax expenditures.

[3] There are no tax expenditures in this category.

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Table II.27. Tax expenditures in the United States (% of relevant tax revenue) † ‡

	As reported by country												
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009***	**2010***	**2011***	**2012***	**2013***	**2014***
*Purpose of tax expenditure, income tax***													
General tax relief	2.20	4.10	2.24	3.47	2.17	2.02	1.96	2.48	2.20	1.33	0.57	0.50	0.45
Low-income non-work related	1.40	1.62	1.48	1.23	1.04	0.95	1.06	1.43	1.28	1.08	0.96	0.92	0.90
Retirement	15.17	17.53	13.72	10.53	9.28	9.08	10.04	13.75	12.48	11.15	10.38	9.96	9.68
Work related	1.26	0.84	0.86	0.71	0.66	0.61	0.66	0.92	0.88	0.74	0.65	0.62	0.61
Education	1.25	1.52	1.46	1.38	1.35	1.09	1.32	1.72	1.49	1.24	1.14	1.07	1.04
Health [1]	10.75	12.19	11.63	10.97	9.82	9.60	10.33	14.84	14.49	12.87	12.19	12.13	12.35
Housing	9.43	10.35	12.69	12.28	11.15	9.44	10.27	13.24	13.12	12.56	12.26	12.13	12.26
General business incentives [1] [2]	15.59	12.39	11.85	9.57	11.51	9.89	10.76	7.75	8.69	7.38	7.24	7.31	7.50
Research & development	0.85	0.32	0.24	0.77	0.72	1.01	0.87	1.08	0.76	0.55	0.50	0.48	0.44
Specific industry relief [1]	2.57	2.98	2.94	2.45	2.32	2.14	2.26	3.34	3.14	2.63	2.43	2.36	2.33
Intergovernmental relations	9.38	10.52	9.15	6.80	6.25	5.23	6.16	7.43	5.77	6.67	6.87	6.56	6.37
Charity	3.92	4.05	3.46	3.06	3.29	3.09	3.27	4.89	4.73	4.13	3.84	3.81	3.82
Other	0.37	0.38	0.39	0.46	0.40	0.39	0.96	1.32	1.07	0.90	0.81	0.76	0.75
Make work pay	0.76	0.90	0.82	0.68	0.61	0.54	0.62	0.93	0.73	0.59	0.61	0.56	0.53
Total	74.91	79.68	72.94	64.34	60.58	55.04	60.55	75.13	70.83	63.81	60.45	59.17	59.01
Capital income taxation [3]													
Accelerated depreciation													
Interest													
Dividends													
Capital gains													
Subtotal													

As reported by country													
	2002	2003	2004	2005	2006	2007	2008	2009*	2010*	2011*	2012*	2013*	2014*
Total													
Make work pay provisions													
Total													
Non-income tax [3]													
*Income tax expenditures by type**													
Credits [1]	5.61	7.79	5.40	6.33	4.53	4.70	5.31	6.43	5.34	3.87	2.90	2.68	2.55
Exemptions & allowances [1]	55.17	59.71	58.13	50.81	46.78	42.05	45.41	61.80	57.81	53.67	51.59	50.47	50.30
Deferrals [1]	7.96	8.93	6.55	4.68	5.41	4.39	7.89	4.40	4.96	4.34	4.35	4.34	4.41
Reduced rates [1]	6.17	3.24	2.85	2.52	3.85	3.91	1.94	2.50	2.72	1.93	1.61	1.68	1.75

† Percent of tax revenue by type of tax.
‡ Individual and corporate income taxes are considered together.
* Projections.
** Classification of income tax expenditures by purpose and by type is to some degree arbitrary.
[1] At least one provision in this category was not estimated in 1994 because it cost ≤ USD 2.5 million.
[2] Beginning in 2003 lower rates of taxation for dividends and capital gains on corporate equity are not considered tax expenditures.
[3] There are no tax expenditures in this category.

Table II.27. Tax expenditures in the United States (% of relevant tax revenue) † ‡ *cont'd*

	With reclassifications by author										
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
*Purpose of tax expenditure, income tax***											
General tax relief [1]											
Low-income non-work related	0.15	0.16	0.15	0.15	0.15	0.14	0.14	0.14	1.40	1.62	1.48
Retirement	1.15	1.13	1.14	1.30	1.37	1.36	1.37	1.33	15.17	17.53	13.72
Work related	0.12	0.11	0.08	0.07	0.13	0.12	0.12	0.12	1.26	0.84	0.86
Education	0.04	0.04	0.04	0.04	0.04	0.11	0.11	0.10	1.25	1.52	1.46
Health [1]	0.88	0.88	0.91	0.89	0.85	0.83	0.86	0.90	10.75	12.19	11.63
Housing	1.16	1.07	1.01	1.03	0.93	0.96	0.95	0.97	9.43	10.35	12.69
General business incentives [2]	0.18	0.18	0.17	0.17	0.22	0.22	0.23	0.21	2.23	2.61	2.49
Research & development	0.06	0.04	0.01	0.01	0.03	0.04	0.03	0.07	0.85	0.32	0.24
Specific industry relief [1]	0.23	0.23	0.24	0.24	0.22	0.23	0.22	0.23	2.57%	2.98	2.94
Intergovernmental relations	0.74	0.76	0.78	0.75	0.82	0.90	0.90	0.91	9.38	10.52	9.15
Charity	0.31	0.33	0.27	0.27	0.28	0.27	0.27	0.38	3.92	4.05	3.46
Other	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.03	0.32	0.38	0.39
Make work pay											
Total	5.06	4.96	4.83	4.96	5.06	5.21	5.22	5.39	58.53	64.90	60.50
Capital income taxation [3]											
Accelerated depreciation	0.33	0.44	0.42	0.38	0.41	0.31	0.35	0.42	4.57	5.00	4.15
Interest	0.02	0.02	0.02	0.01	0.01	0.01	0.00	0.00	0.05	0.00	0.01
Dividends	0.05	0.06	0.06	0.06	0.06	0.07	0.07	0.05	0.48	0.33	0.25
Capital gains	0.47	0.49	0.49	0.41	0.73	0.72	0.70	0.94	8.31	4.45	4.96
Subtotal	0.87	0.99	0.98	0.85	1.21	1.11	1.12	1.42	13.41	9.78	9.36
Total	5.92	5.95	5.81	5.81	6.28	6.32	6.34	6.81	71.94	74.68	69.87
Make work pay provisions	0.10	0.11	0.10	0.11	0.10	0.08	0.08	0.08	0.76	0.90	0.82
Total	6.03	6.06	5.91	5.92	6.38	6.40	6.42	6.89	72.70	75.57	70.69
Non-income tax [3]											
*Income tax expenditures by type***											
Credits [1]	0.26	0.26	0.23	0.23	0.27	0.29	0.29	0.31	3.41	3.69	3.16
Exemptions & allowances [1]	4.85	4.78	4.67	4.55	4.90	4.96	4.95	5.07	55.17	59.71	58.13
Deferrals [1]	0.77	0.86	0.84	0.77	0.69	0.63	0.68	0.78	7.96	8.93	6.55
Reduced rates [1]	0.14	0.16	0.16	0.37	0.51	0.51	0.49	0.74	6.17	3.24	2.85

Table II.27. Tax expenditures in the United States (% of relevant tax revenue) †‡ *cont'd*

	With reclassifications by author									
	2005	**2006**	**2007**	**2008**	**2009 ***	**2010 ***	**2011***	**2012***	**2013***	**2014***
*Purpose of tax expenditure, income tax***										
General tax relief [1]										
Low-income non-work related	1.23	1.04	0.95	1.06	1.43	1.28	1.08	0.96	0.92	0.90
Retirement	10.53	9.28	9.08	10.04	13.75	12.48	11.15	10.38	9.96	9.68
Work related	0.71	0.66	0.61	0.66	0.92	0.88	0.74	0.65	0.62	0.61
Education	1.38	1.35	1.09	1.32	1.72	1.49	1.24	1.14	1.07	1.04
Health [1]	10.97	9.82	9.60	10.33	14.84	14.49	12.87	12.19	12.13	12.35
Housing	12.28	11.15	9.44	10.27	13.24	13.12	12.56	12.26	12.13	12.26
General business incentives [2]	3.28	3.04	2.47	3.99	5.15	5.20	4.28	3.92	3.68	3.58
Research & development	0.77	0.72	1.01	0.87	1.08	0.76	0.55	0.50	0.48	0.44
Specific industry relief [1]	2.45	2.32	2.14	2.26	3.34	3.14	2.63	2.43	2.36	2.33
Intergovernmental relations	6.80	6.25	5.23	6.16	7.43	5.77	6.67	6.87	6.56	6.37
Charity	3.06	3.29	3.09	3.27	4.89	4.73	4.13	3.84	3.81	3.82
Other	0.34	0.31	0.30	0.87	1.20	0.96	0.81	0.72	0.69	0.67
Make work pay										
Total	53.79	49.24	45.00	51.10	69.00	64.30	58.70	55.86	54.41	54.04
Capital income taxation [3]										
Accelerated depreciation	1.60	2.54	1.42	3.40	-1.62	-0.84	-0.56	-0.08	0.19	0.38
Interest	0.11	0.09	0.08	0.09	0.12	0.11	0.09	0.08	0.08	0.07
Dividends	0.26	0.29	0.35	0.17	0.22	0.23	0.20	0.18	0.17	0.16
Capital gains	4.43	5.64	5.64	3.21	3.99	4.10	3.46	3.22	3.27	3.37
Subtotal	6.41	8.56	7.50	6.86	2.72	3.60	3.19	3.40	3.71	3.99
Total	60.20	57.79	52.49	57.97	71.72	67.90	61.89	59.27	58.11	58.03
Make work pay provisions	0.68	0.61	0.54	0.62	0.93	0.73	0.59	0.61	0.56	0.53
Total	60.88	58.40	53.03	58.59	72.65	68.63	62.48	59.88	58.67	58.56
Non-income tax [3]										
*Income tax expenditures by type***										
Credits [1]	2.86	2.36	2.68	3.35	3.95	3.14	2.53	2.33	2.18	2.10
Exemptions & allowances [1]	50.81	46.78	42.05	45.41	61.80	57.81	53.67	51.59	50.47	50.30
Deferrals [1]	4.68	5.41	4.39	7.89	4.40	4.96	4.34	4.35	4.34	4.41
Reduced rates [1]	2.52	3.85	3.91	1.94	2.50	2.72	1.93	1.61	1.68	1.75

† Percent of tax revenue by type of tax.

‡ Individual and corporate income taxes are considered together.

* Projections.

** Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] At least one provision in this category was not estimated in 1994 because it cost ≤ USD 2.5 million.

[2] Beginning in 2003 lower rates of taxation for dividends and capital gains on corporate equity are not considered tax expenditures.

[3] There are no tax expenditures in this category.

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Table II.28. Number of tax expenditures in the United States (% of GDP)

	As reported by country								
	2002 †	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009‡**	**2010‡**
*Purpose of tax expenditure, income tax**									
General tax relief	1	1	1	1	1	1	1	1	1
Low-income non-work related	11	11	11	11	11	11	11	11	11
Retirement	11	11	11	10	10	10	10	10	10
Work related	10	9	9	9	9	9	10	10	10
Education	14	15	15	16	16	16	16	16	16
Health	8	8	8	8	8	9	9	9	9
Housing	8	8	9	9	9	9	11	11	11
General business incentives	22	22	22	23	24	24	24	24	24
Research & development	2	2	2	2	2	2	2	2	2
Specific industry relief	34	35	35	43	50	52	54	54	54
Intergovernmental relations	3	3	3	3	3	3	3	3	3
Charity	4	4	4	4	4	4	5	5	5
Other	4	4	4	4	5	5	5	5	5
Total	132	133	134	143	152	155	161	161	161
Capital income taxation									
Accelerated depreciation									
Interest									
Dividends									
Capital gains									
Subtotal									
Total									
Make work pay provisions	4	4	4	4	4	4	4	4	4
Total	136	137	138	147	156	159	165	165	165
Non-income tax related	0	0	0	0	0	0	0	0	0
Grand total	136	137	138	147	156	159	165	165	165
Structural items	0	0	0	0	0	0	0	0	0
*Income tax expenditures by type**									
Credits	29	29	29	32	36	37	39	39	39
Deductions, exemptions & exclusions	80	81	82	88	91	92	96	96	96
Deferrals	22	22	22	22	24	25	25	25	25
Reduced rates	5	5	5	5	5	5	5	5	5

† In fiscal years: fiscal year 2006 is from 1 October 2005 to 30 September 2006.

‡ Projection.

* Classification of tax expenditures by purpose and by type is to some degree arbitrary.

Table II.28. Number of tax expenditures in the United States (% of GDP) *cont'd*

	With reclassifications by author								
	2002 †	2003	2004	2005	2006	2007	2008	2009‡	2010‡
*Purpose of tax expenditure, income tax**									
General tax relief	0	0	0	0	0	0	0	0	0
Low-income non-work related	11	11	11	11	11	11	11	11	11
Retirement	11	11	11	10	10	10	10	10	10
Work related	10	9	9	9	9	9	10	10	10
Education	14	15	15	16	16	16	16	16	16
Health	8	8	8	8	8	9	9	9	9
Housing	8	8	9	9	9	9	11	11	11
General business incentives	16	16	16	17	18	18	18	18	18
Research & development	2	2	2	2	2	2	2	2	2
Specific industry relief	34	35	35	43	50	52	54	54	54
Intergovernmental relations	3	3	3	3	3	3	3	3	3
Charity	4	4	4	4	4	4	5	5	5
Other	3	3	3	3	4	4	4	4	4
Total	124	125	126	135	144	147	153	153	153
Capital income taxation									
Accelerated depreciation	2	2	2	2	2	2	2	2	2
Interest	1	1	1	1	1	1	1	1	1
Dividends	1	1	1	1	1	1	1	1	1
Capital gains	3	3	3	3	3	3	3	3	3
Subtotal	7	7	7	7	7	7	7	7	7
Total	131	132	133	142	151	154	160	160	160
Make work pay provisions	4	4	4	4	4	4	4	4	4
Total	135	136	137	146	155	158	164	164	164
Non-income tax related	0	0	0	0	0	0	0	0	0
Grand total	135	136	137	146	155	158	164	164	164
Structural items	1	1	1	1	1	1	1	1	1
*Income tax expenditures by type**									
Credits	28	28	28	31	35	36	38	38	38
Deductions, exemptions & exclusions	80	81	82	88	91	92	96	96	96
Deferrals	22	22	22	22	24	25	25	25	25
Reduced rates	5	5	5	5	5	5	5	5	5

† In fiscal years: fiscal year 2006 is from 1 October 2005 to 30 September 2006.
‡ Projection.
* Classification of tax expenditures by purpose and by type is to some degree arbitrary.

Source: Budget of the U.S. Government, *Fiscal Years 2009 and 2010, Analytical Perspectives*, Chapter 19, Table 19-1.

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Table II.29. International comparison of tax expenditures (% of GDP) †

Latest actual year available

	Canada (2004)	Germany (2006)	Korea (2006)	Netherlands (2006)	Spain (2008)	United Kingdom (2006)	United States (2008)
*Purpose of tax expenditure, income tax**							
General tax relief	0.00	0.00	0.05	0.00	0.00	0.00	0.00
Low-income non-work related	0.02	0.00	0.03	0.00	0.04	0.09	0.11
Retirement	1.68	0.00	0.02	0.06	0.17	2.32	1.02
Work related	0.39	0.03	0.03	0.06	0.01	0.15	0.07
Education	0.12	0.00	0.12	0.06	0.00	0.00	0.13
Health	0.27	0.00	0.29	0.00	0.00	0.00	1.05
Housing	0.20	0.18	0.05	0.05	0.41	1.20	1.05
General business incentives	0.41	0.00	0.68	0.48	0.52	0.77	0.41
Research & development	0.24	0.00	0.15	0.07	0.03	0.04	0.09
Specific industry relief	0.05	0.01	0.18	0.18	0.04	0.11	0.23
Intergovernmental relations	1.55	0.03	0.00	0.00	0.00	0.00	0.63
Charity	0.21	0.00	0.13	0.09	0.02	0.09	0.33
Other	0.02	0.00	0.02	0.01	0.17	0.12	0.09
Total	5.16	0.26	1.75	1.06	1.41	4.90	5.21
Capital income taxation							
Accelerated depreciation	0.00	0.00	0.00	0.00	0.00	1.40	0.35
Interest	0.00	0.00	0.00	0.00	0.00	0.02	0.01
Dividends	0.27	0.04	0.00	0.00	0.00	0.00	0.02
Capital gains	0.35	0.00	0.00	0.00	0.16	1.65	0.33
Subtotal	0.62	0.04	0.00	0.00	0.16	3.07	0.70
Total	5.77	0.29	1.75	1.06	1.57	7.97	5.91
Make work pay provisions	0.01	0.00	0.01	0.04	0.74	0.35	0.06
Total	5.78	0.29	1.76	1.10	2.31	8.32	5.97
Non-income tax related	1.16	0.45	0.72	0.90	2.25	4.47	0.00
Total	6.94	0.74	2.48	2.00	4.55	12.79	5.97
Structural items	3.22	0.00	0.03	0.00	0.28	4.24	0.20
*Income tax expenditures by type**							
Credits	1.44	0.00	0.02	0.06	0.34	1.52	0.34
Deductions, exemptions & exclusions	2.64	0.28	1.70	0.80	1.61	4.92	4.63
Deferrals	1.50	0.00	0.00	0.05	0.00	1.47	0.80
Reduced rates	0.21	0.01	0.04	0.19	0.36	0.41	0.20

† For every country except for Canada and Spain, fiscal years rather than calendar years are used. For the United Kingdom, fiscal year 2006-07 is used (from 6 April 2006 to 5 April 2007).

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

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Table II.30. International comparison of tax expenditures (% of central government total tax and non-tax receipts) †

Latest year available

	Canada (2004)	Germany (2006)	Korea (2006)	Netherlands (2006)	Spain (2008)	United Kingdom (2006)	United States (2008)
*Purpose of tax expenditure, income tax**							
General tax relief	0.00	0.00	0.29	0.00	0.00	0.00	0.00
Low-income non-work related	0.13	0.00	0.19	0.00	0.11	0.26	0.61
Retirement	10.72	0.05	0.10	0.16	0.46	6.38	5.77
Work related	2.47	0.36	0.16	0.17	0.03	0.42	0.38
Education	0.78	0.00	0.67	0.16	0.01	0.00	0.76
Health	1.70	0.00	1.67	0.00	0.00	0.00	5.93
Housing	1.29	2.01	0.29	0.12	1.12	3.30	5.90
General business incentives	2.64	0.04	3.95	1.23	1.42	2.12	2.29
Research & development	1.55	0.00	0.87	0.19	0.10	0.10	0.50
Specific industry relief	0.30	0.14	1.05	0.47	0.11	0.31	1.30
Intergovernmental relations	9.94	0.30	0.00	0.00	0.00	0.00	3.54
Charity	1.32	0.00	0.76	0.22	0.04	0.25	1.88
Other	0.13	0.00	0.09	0.02	0.46	0.32	0.50
Total	32.97	2.91	10.09	2.74	3.86	13.47	29.36
Capital income taxation							
Accelerated depreciation	0.00	0.00	0.02	0.00	0.00	3.86	1.95
Interest	0.00	0.00	0.00	0.00	0.00	0.05	0.05
Dividends	1.70	0.42	0.00	0.00	0.00	0.00	0.10
Capital gains	2.23	0.00	0.00	0.00	0.44	4.54	1.84
Subtotal	3.93	0.42	0.02	0.00	0.44	8.45	3.94
Total	36.90	3.33	10.11	2.74	4.30	21.92	33.30
Make work pay provisions	0.04	0.00	0.05	0.10	2.02	0.95	0.36
Total	36.94	3.33	10.16	2.84	6.32	22.87	33.65
Non-income tax related	7.43	5.16	4.18	2.31	6.16	12.30	0.00
Total	44.37	8.48	14.34	5.15	12.48	35.17	33.65
Structural items	20.59	0.00	0.18	0.01	0.76	11.67	1.13
*Income tax expenditures by type**							
Credits	9.18	0.00	0.11	0.14	0.92	4.18	1.92
Deductions, exemptions & exclusions	16.86	3.24	9.79	2.07	4.41	13.54	26.09
Deferrals	9.56	0.02	0.02	0.14	0.00	4.03	4.53
Reduced rates	1.34	0.07	0.24	0.49	0.99	1.12	1.11

† For every country except for Canada, fiscal years rather than calendar years are used. For the United Kingdom, fiscal year 2006-07 is used (from 6 April 2006 to 5 April 2007).

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

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Table II.31. International comparison of tax expenditures (% of relevant tax revenue)†‡*

Lastest actual year available

	Canada (2004)	Germany (2006)	Korea (2006)**	Netherlands (2006)	Spain (2008)	United Kingdom (2006)	United States (2008)
*Purpose of tax expenditure, income tax****							
General tax relief	0.00	0.00	0.72	0.00	0.00	0.00	0.00
Low-income non-work related	0.21	0.00	0.45	0.01	0.48	0.44	1.06
Retirement	17.23	0.14	0.23	0.55	2.07	10.83	10.04
Work related	3.96	0.96	0.39	0.58	0.12	0.71	0.66
Education	1.25	0.00	1.64	0.58	0.05	0.01	1.32
Health	2.73	0.00	4.06	0.00	0.00	0.00	10.33
Housing	2.07	5.33	0.71	0.42	4.98	5.61	10.27
General business incentives	4.25	0.12	9.61	4.32	6.34	3.59	3.99
Research & development	2.48	0.00	2.12	0.67	0.43	0.17	0.87
Specific industry relief	0.49	0.36	2.56	1.63	0.49	0.53	2.26
Intergovernmental relations	15.97	0.80	0.00	0.00	0.00	0.00	6.16
Charity	2.13	0.00	1.85	0.78	0.20	0.42	3.27
Other	0.20	0.00	0.22	0.07	2.05	0.55	0.87
Total	52.97	7.71	24.56	9.60	17.21	22.86	51.10
Capital income taxation							
Accelerated depreciation	0.00	0.00	0.05	0.00	0.00	6.56	3.40
Interest	0.00	0.00	0.00	0.00	0.00	0.08	0.09
Dividends	2.73	1.10	0.00	0.00	0.00	0.00	0.17
Capital gains	3.59	0.00	0.00	0.00	1.97	7.72	3.21
Subtotal	6.32	1.10	0.05	0.00	1.97	14.35	6.86
Total	59.30	8.81	24.60	9.60	19.18	37.22	57.97
Make work pay provisions	0.06	0.00	0.13	0.34	8.99	1.62	0.62
Total	59.36	8.81	24.73	9.95	28.16	38.84	58.59
VAT or sales tax	52.38	1.54	9.98	9.74	59.69	54.66	
Excises [1]				4.41			
Heavy motor vehicle tax [1]				0.00			
Motor vehicle tax [1]				4.96			
Regulating energy tax [1]				3.61			
Special excise on motor vehicles [1]				2.18			
Tax on the sale of immovable property [1]				2.02			
Electricity tax [2]		62.27					
Fuel tax [2]		13.52					
Spirits tax [2]		0.28					
Tobacco tax [2]		0.05					
Stamp tax [3]			8.76				
Inheritance and gift tax [3]			1.64				
Educational tax [3]			6.81				
Security transaction tax [3]			7.93				
Special excise tax [3]			5.28				
Liquor tax [3]			1.90				
Customs duties [3]			4.39				
Transportation tax [3]			12.64				

	Canada (2004)	Germany (2006)	Korea (2006)**	Netherlands (2006)	Spain (2008)	United Kingdom (2006)	United States (2008)
Stamp duties [4]						18.47	
Hydrocarbon oils [4]						0.00	
Other [4]						3.08	
Tributes [5]					6.78		
Insurance tax [5]					23.65		
Alcohol and by-product beverages Tax [5]					10.05		
Non-residents equity tax [5]					0.00		
Hydrocarbons tax [5]					19.45		
*Income tax expenditures by type****							
Credits	14.76	0.01	0.27	0.51	4.11	7.09	3.35
Deductions, exemptions & exclusions	27.09	8.58	23.84	7.27	19.65	23.00	45.41
Deferrals	15.36	0.04	0.05	0.47	0.00	6.84	7.89
Reduced rates	2.15	0.18	0.57	1.70	4.40	1.91	1.94

† For every country except for Canada, fiscal years rather than calendar years are used. For the United Kingdom, fiscal year 2006-07 is used (from 6 April 2006 to 5 April 2007).

‡ Percent of tax revenue by type of tax.

* Individual and corporate income taxes are considered together. For the United Kingdom, capital gains taxes and National Insurance Contributions are also included in this grouping.

** For Korea, fiscal year 2006 is used.

*** Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

[1] Only reported in the Netherlands.

[2] Only reported in Germany.

[3] Only reported in Korea.

[4] Only reported in the United Kingdom.

[5] Only reported in Spain.

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Table II.32. International comparison of number of tax expenditures (% of GDP) †

Latest actual year available

	Canada (2004)	Germany (2006)	Korea (2006)	Netherlands (2006)	Spain (2008)	United Kingdom (2006) ‡	United States (2008)
*Purpose of tax expenditure, income tax**							
General tax relief	0	0	1	0	0	0	0
Low-income non-work related	4	0	2	1	5	15	11
Retirement	13	1	2	2	3	16	10
Work related	11	2	4	6	3	37	10
Education	9	1	5	2	2	4	16
Health	5	0	3	0	1	4	9
Housing	1	10	12	2	3	7	11
General business incentives	29	9	49	13	24	38	18
Research & development	5	0	7	2	2	2	2
Specific industry relief	35	22	34	16	10	29	54
Intergovernmental relations	8	7	0	0	0	2	3
Charity	13	0	4	6	5	6	5
Other	8	1	11	2	10	27	4
Total	141	53	134	52	68	187	153
Capital income taxation							
Accelerated depreciation	1	0	1	0	0	2	2
Interest	0	0	0	0	0	6	1
Dividends	3	3	0	0	0	2	1
Capital gains	3	0	0	0	2	8	3
Subtotal	7	3	1	0	2	18	7
Total	148	56	135	52	70	205	160
Make work pay provisions	1	0	1	2	5	3	4
Total	149	56	136	54	75	208	164
Non-income tax related	32	30	82	46	64	173	0
Total	181	86	218	100	139	381	164
Structural items	32	0	2	1	2	8	1
*Income tax expenditures by type**							
Credits	33	2	2	7	15	5	38
Deductions, exemptions & exclusions	73	46	120	34	57	186	96
Deferrals	35	4	7	6	0	11	25
Reduced rates	8	4	7	7	3	6	5

† For every country except for Canada, fiscal years rather than calendar years are used. For the United Kingdom, fiscal year 2006-07 is used (from 6 April 2006 to 5 April 2007).

‡ Given reporting practices, some of these tax expenditures may have gone into effect only in 2007.

* Classification of income tax expenditures by purpose and by type is to some degree arbitrary.

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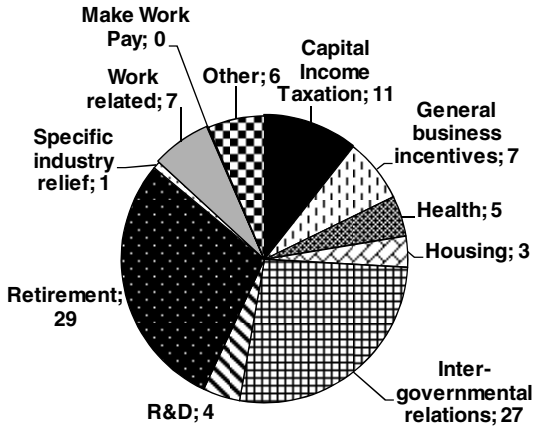
Figure II.1. Income tax expenditure by purpose in Canada

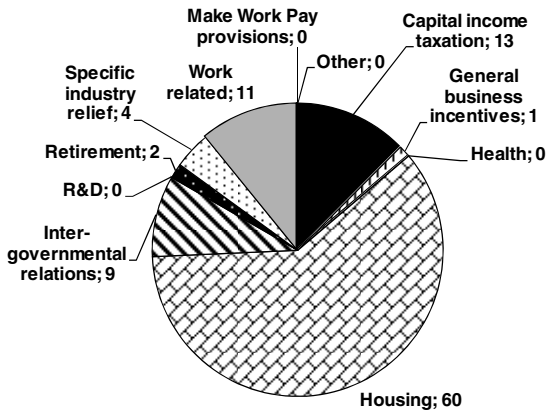
Percent of total, latest actual year available



StatLink http://dx.doi.org/10.1787/746827562747

Figure II.2. Income tax expenditure by purpose in Germany

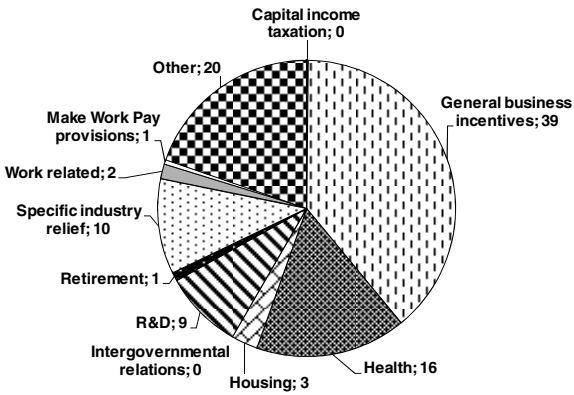
Percent of total, latest actual year available



StatLink http://dx.doi.org/10.1787/746827562747

Figure II.3. Income tax expenditure by purpose in Korea

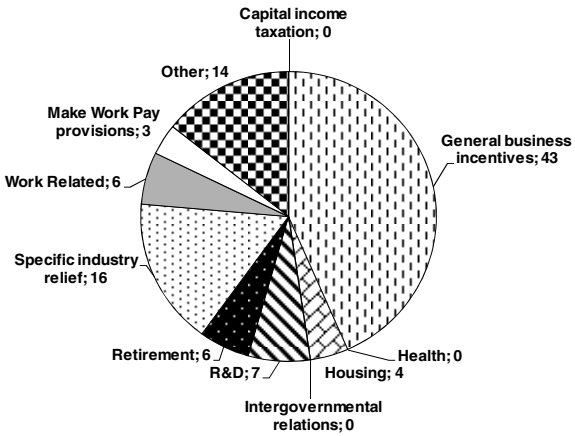
Percent of total, latest actual year available



StatLink http://dx.doi.org/10.1787/746827562747

Figure II.4. Income tax expenditure by purpose in the Netherlands

Percent of total, latest actual year available



StatLink http://dx.doi.org/10.1787/746827562747

Figure II.5. Income tax expenditure by purpose in Spain

Percent of total, latest actual year available

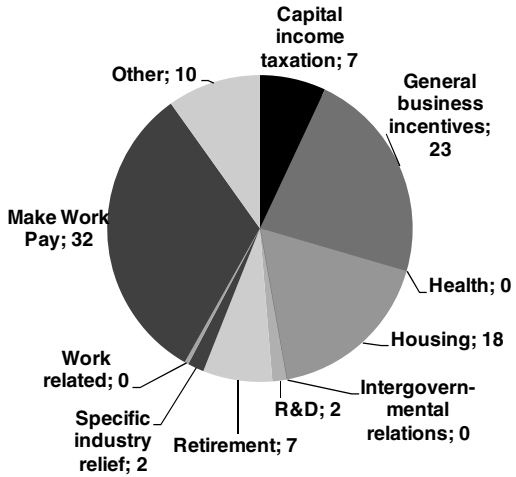


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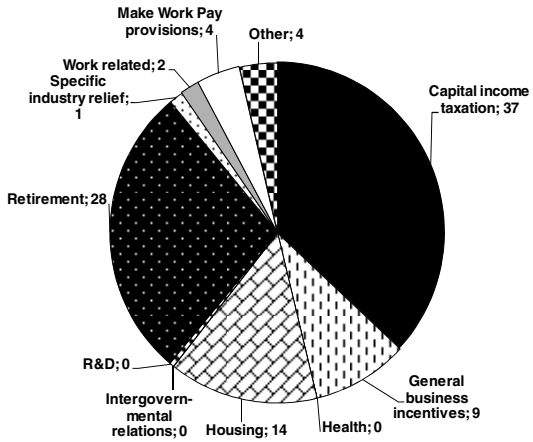
Figure II.6. Income tax expenditure by purpose in the United Kingdom

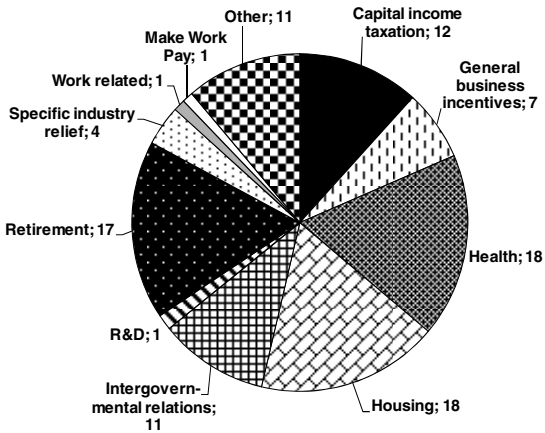
Percent of total, latest actual year available



StatLink http://dx.doi.org/10.1787/746827562747

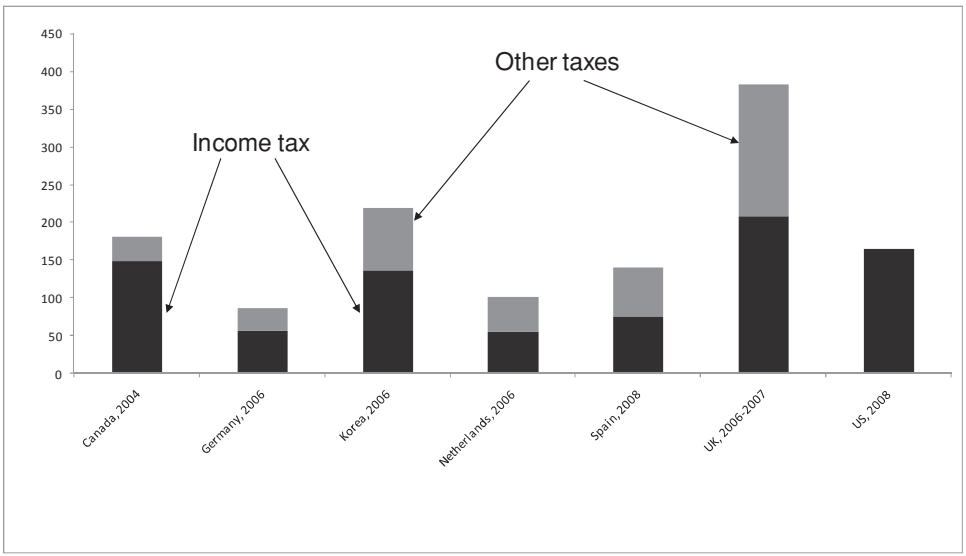
Figure II.7. Income tax expenditure by purpose in the United States

Percent of total, latest actual year available



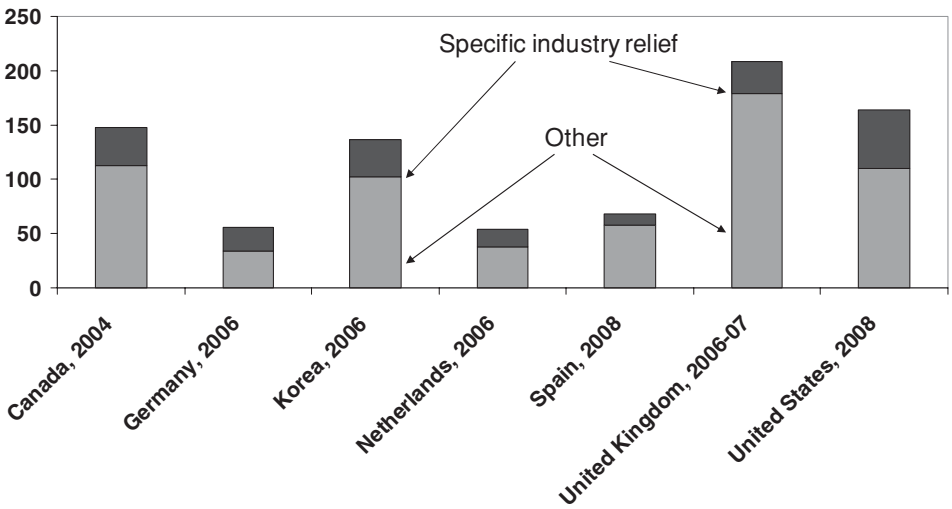
StatLink http://dx.doi.org/10.1787/746827562747

Figure II.8. Number of tax expenditures



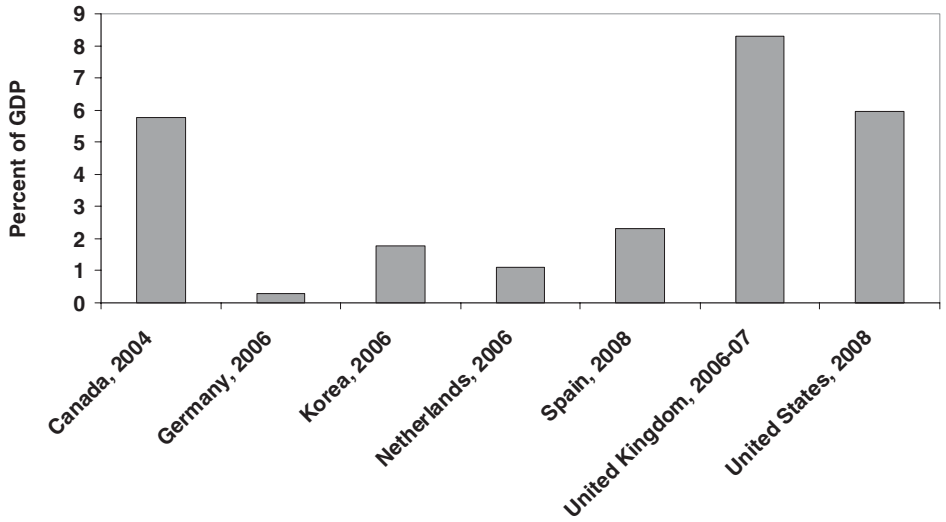
StatLink http://dx.doi.org/10.1787/746827562747

Figure II.9. Number of income tax expenditures



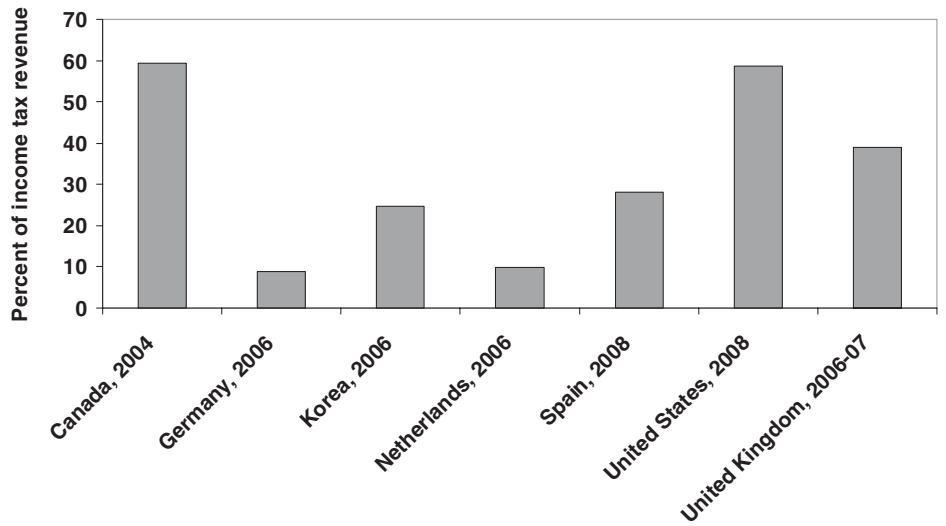
StatLink http://dx.doi.org/10.1787/746827562747

Figure II.10. Income tax expenditures (% of GDP)



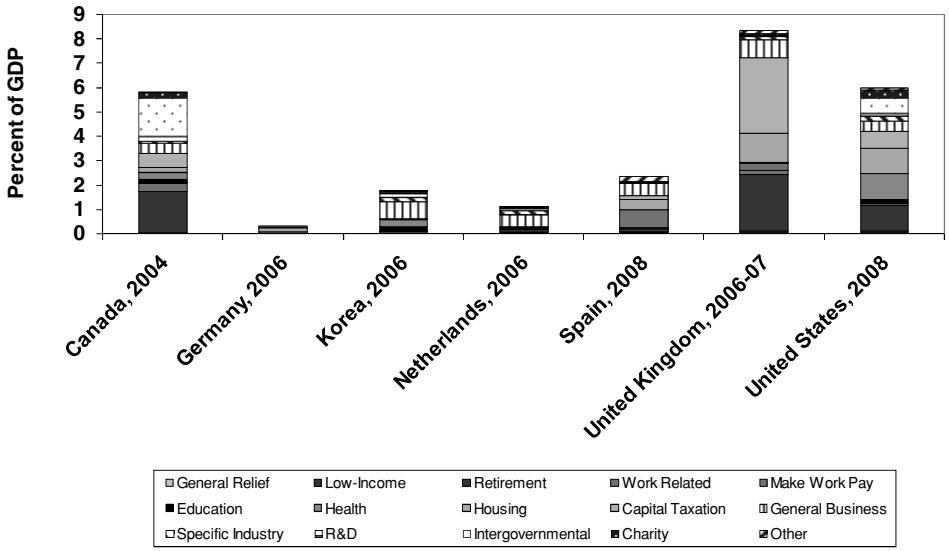
StatLink http://dx.doi.org/10.1787/746827562747

Figure II.11. Income tax expenditures (% of income tax revenue)



StatLink http://dx.doi.org/10.1787/746827562747

Figure II.12. Income tax expenditures (% of GDP)



StatLink http://dx.doi.org/10.1787/746827562747

Figure II.13. All tax expenditures (% of GDP)

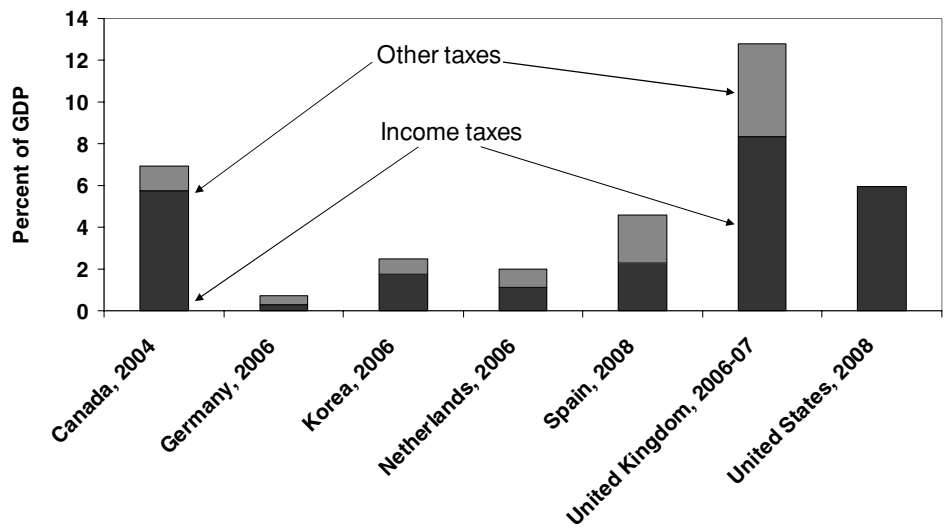


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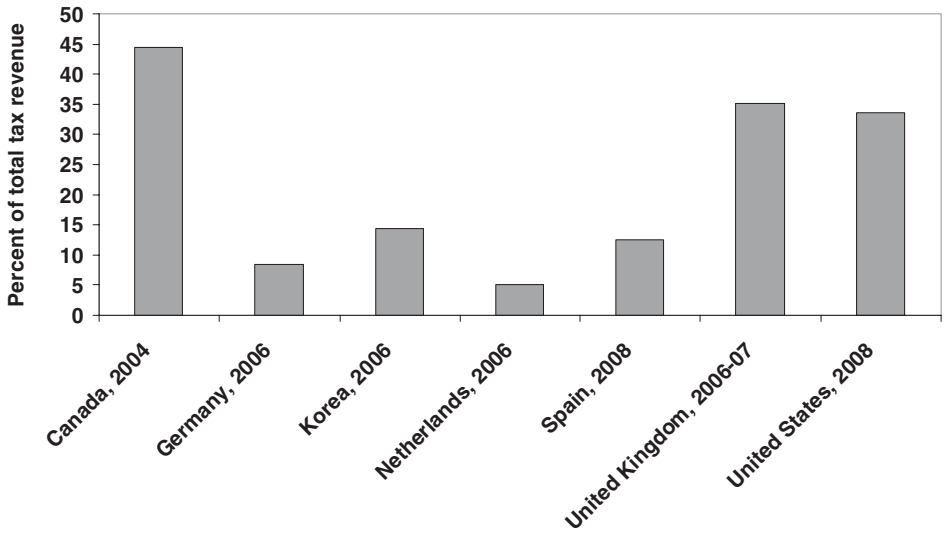
Figure II.14. All tax expenditures (% of total tax revenue)



StatLink http://dx.doi.org/10.1787/746827562747

Figure II.15. Canada's "memorandum items"

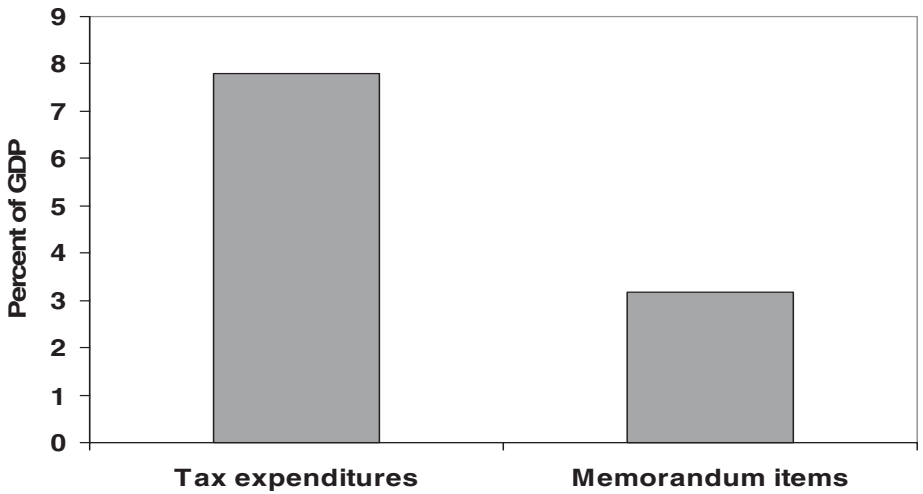


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Figure II.16. Cost of ten largest tax expenditures

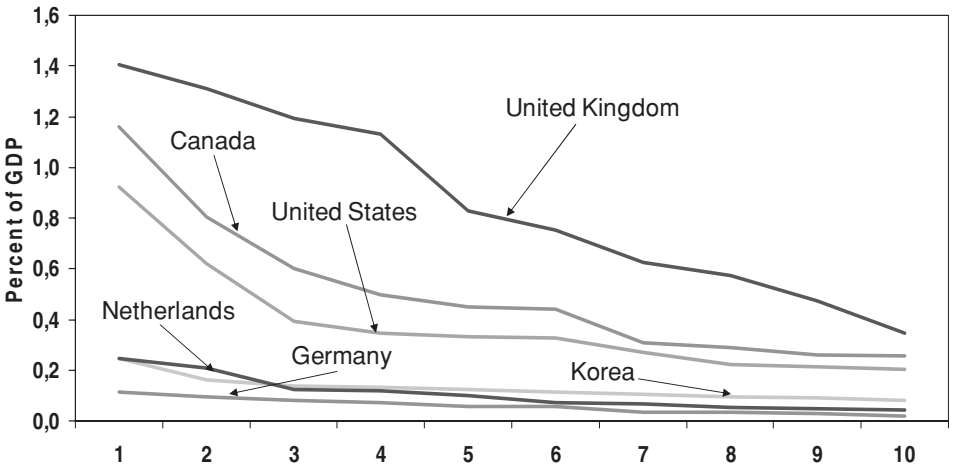

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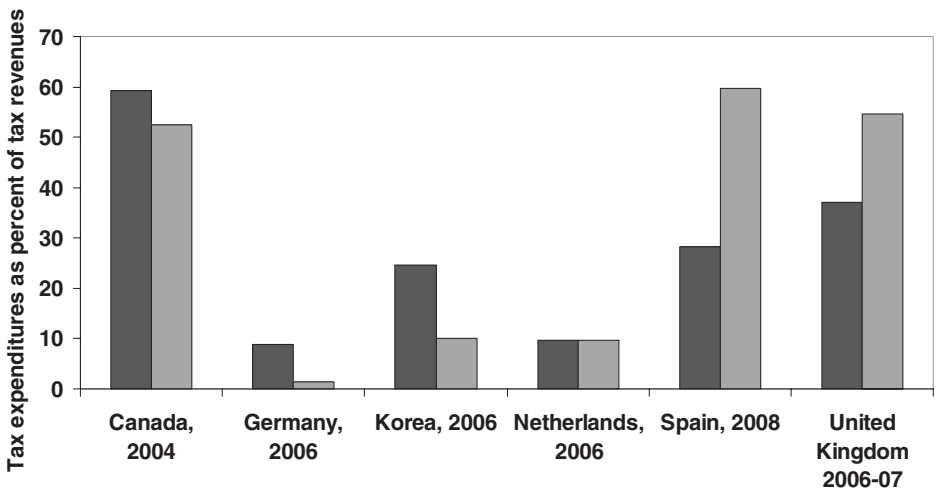
Figure II.17. Intensity of use of tax expenditures



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