Handbook of Best Practices on Tax Expenditure Measurements

An Iberoamerican experience

Inter-American Center of Tax Administrations

Inter-American Center of Tax Administrations

Handbook of Best Practices on Tax Expenditure Measurements

An Iberoamerican experience

CIAT Executive Secretariat

Handbook of Best Practices on Tax Expenditure Measurements - An Iberoamerican Experience

Inter-American Center of Tax Administrations - CIAT
Ave. Ramón Arias, Reparto el Carmen
P.O. Box 0834-02129
Panamá, Republic of Panamá
Tel.: (507) 267-2766 - Fax: (507) 264-4926
Web site: www.ciat.org

ISBN 978-9962-647-53-9

INDEX

ABBREVIATIONS

AEAT	State Agency for Tax Administration of Spain
ATAF	African Tax Administration Forum
CAN	Andean Community of Nations
CIAT	Inter-American Center of Tax Administrations
CIT	Corporate Income Tax
COFINS	Contribution to Social Security Financing
CPI	Consumer Price Index
CSLL	Social Contribution on Net Profit of Legal Persons
DGI	General Tax Directorate of Uruguay
DGII	General Internal Tax Directorate of Dominican Republic
DTA	Double Taxation Agreement(s)
ECLAC	Economic Commission for Latin America and the Caribbean
FDI	Foreign Direct Investment
G-20	The twenty (20) world's most developed countries
GDP	Gross Domestic Product
GST	General Sales Tax
GTMGT	Working Group on Measuring Tax Expenditures
IBP	International Budget Partnership
IDB	Inter-American Development Bank
IEF	Institute for Fiscal Studies of Spain
IFA	International Fiscal Association
IIPF	International Institute of Public Finance
IMF	International Monetary Fund
IRAE	Tax on Benefits of Economic Activities
ISC	Excise Tax
ITBIS	Transfer Tax on Industries and Services
MECON	Ministry of Economy and Public Finance of Argentina
MERCOSUR	Southern Common Market
METR	Marginal Effective Tax Rate

OECD	Organization for Economic Co-operation and Development
OLAP	On-line Analytical Processing
PASEP	Education Program for the Patrimony of the Public Servant
PGD	Return Generator Program
PIS	Social Integration Program
PIT	Personal Income Tax
RFB	Brazilian Federal Revenue Service
ROSC	Report on the Observance of Standards and Codes
SAT	Tax Administration Services of Mexico
SAT	Tax Administration Superintendency of Guatemala
SHCP	Secretary of Finance and Public Credit of Mexico
SII	Internal Tax Services of Chile
SMEs	Small and Medium Size Enterprises
SRI	Internal Revenue Service of Ecuador
TAs	Tax Administrations
TUO	Homologized Text
UN	United Nations
USAID	US Agency for International Development
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organization

PROLOGUE

In all these years as a tax administrator, I have had the opportunity to access much literature about tax expenditures. Official reports from countries, comparative studies of organizations and academic studies of the subject are part of my personal library. All of them reflect the efforts to promote better tax transparency in the countries.

Today, I have the opportunity to present an additional contribution: the ***CIAT´s Handbook of Best Practices on Tax Expenditure Measurements***. I believe, without any doubt, that this is the first time a group of delegates from the TAs of Iberoamerican countries, experts on tax expenditures measurements, are able to meet, exchange experiences, discuss, and finally transpose in a document, the existing best practices in this area.

There is no doubt that the best products of our organization have been possible through the formation of such working groups and committees. It has been a usual practice in these forty-five (45) years. Thanks to them, we could, for instance, disseminate in 1997 our Tax Code Model, and update it later in 2006 as well as spreading our Tax Information Exchange Agreement Model in 1999.

I therefore want to congratulate the delegates of the participating countries that joined the working group for their dedication and I am deeply grateful to chairmen and chairwomen who authorized their involvement, regardless that the activities were carried out in times of crisis that always create budget constraints and limitations for conducting this type of study and research effort.

What comes after the publication of this document is an even greater challenge, since it involves extensive fieldwork to implement its recommendations. I am extremely pleased to have already received requests from two (2) member countries for technical assistance in the matter. Also, due to our integration with peer organizations in Africa, we hope that the Handbook can also be beneficial to CIAT non-member countries.

Finally, I would like to express my gratitude to Mr. Miguel Pecho Trigueros, Tax Studies and Research Manager at CIAT, who has coordinated the working group since its beginnings and has written most parts of this document. His tenacity and commitment have been essential for the achievement of the purposes of the working group. Without his decisive thrust, it would have been impossible to achieve this project.

Marcio Verdi
Executive Secretary

MEMBERS OF THE WORKING GROUP

Filipe Nogueira de Gama
Chief of the Division of Prevention and Tax Expenditure Analysis, RFB, Brazil

Raimundo Eloi de Carvalho
Coordinator of Studies, Forecasting and Analysis, RFB, Brazil

Patricio Barra Aeloiza
Ex-Deputy Director of Studies, SII, Chile

Mauro Andino
National Planning and Studies Director, SRI, Ecuador

Ximena Amoroso
Advisor to the Chairman, SRI, Ecuador

María Luz Gómez López
General Deputy Director of Statistics, Service Tax Research and Statistics, AEAT, Spain.

Joaquín Iglesias de Ussel
Head of the Special Service Computing, General Directorate of Statistics, AEAT, Spain

Hugo Edgardo Roldán Valdez
Deputy for Research, Analysis and Tax Statistics of the Management of Institutional Planning and Development, SAT, Guatemala

Jorge Lecumberri López
Tax Research Manager, SAT, Mexico

María Raquel Ayala Doval
Studies and Training Director, CIAT Executive Secretariat

Miguel Pecho Trigueros
Tax Studies and Research Manager, CIAT Executive Secretariat

Ángel Gonzales (e Isabelle Gaetan)
Head of French Mission to CIAT

Luis Cremades
Head of the Spanish Mission to CIAT

INTRODUCTION

Revenue mobilization in developing countries has been consistently cited in various international forums as a requirement for developing countries to achieve strong, sustained and inclusive growth. This requires continuing strengthening tax systems and improves fiscal transparency.

One mechanism that has proven to be very powerful to propose reforms to expand the main taxes' bases, and at the same time improve the accountability of public finances, has been the tax expenditure measurements. In the last two (2) decades, developing countries have shown remarkable progress in this area, particularly the ones from Latin America.

While cost-benefit analysis are more useful to propose cuttings of tax expenditures which may not be achieving their purposes, the fiscal cost computation of these provisions is still a great methodological challenge for those responsible for these tasks –many of them are TAs– so the efforts in that work line are still necessary.

Although in different CIAT's General Assemblies and Technical Conference, various aspects of tax expenditures have been addressed, it was not until 2009 that the CIAT Executive Committee decided to promote the creation of a working group to move forward with this work line, requiring a *Handbook of Best Practices on Tax Expenditure Measurements,* for the benefit of the member countries that do not have much experience in the matter.

It is pleasing to note that this guideline is fully compatible with the actions taken subsequently through the Multi-Year Action Plan for Development, agreed upon by leaders of the G-20 countries in November 2010 in Seoul, South Korea. This Plan required international organizations such as OECD, UN, IMF, World Bank, CIAT and ATAF, among others, to develop skills in the TAs for revenue mobilization.

The Working Group on Measuring Tax Expenditures (GTMGT in Spanish) was formed with delegates from the Brazilian Federal Revenue Service (RFB in Portuguese), Internal Tax Services of Chile (SII in Spanish), Internal Revenue Service of Ecuador (SRI in Spanish), the State Agency for Tax Administration of Spain (AEAT in Spanish), the Tax Administration Superintendency of Guatemala (SAT in Spanish) and the Tax Administration Services of Mexico (SAT in Spanish). In addition it had the support of the Spanish and the French Mission attached to the CIAT. The general coordination of the group was in charge of the Executive Secretariat, through the Tax Studies and Research Manager of the Studies and Training Directorate.

The activities were conducted through three (3) on-site meetings and countless virtual interactions. The first and third on-site meetings were held at the CIAT headquarters Executive Secretariat in Panama City, Panama in December 2009 and January 2011, while the second was held in June 2010 at the Institute for Fiscal Studies (IEF in Spanish) facilities in Madrid, Spain.

The GTMGT has always tried to highlight in the Handbook the practical aspects that could face those responsible for these tasks in the TAs. It has not emphasized so much in theoretical discussions. It is a Handbook made by tax administrators for tax administrators. It is also an excellent example of international cooperation and exchange of experiences, which accomplishes the CIATs mission.

Although it is not the Handbook´s main purpose, it also points out the standardization of tax expenditure measurements, by including a chapter on tax expenditures identification and another one that recommends the adoption of certain conventions when considering measurements. Greater efforts are needed to standardize more complex aspects such as the information sources and the specific measurement methods to be used.

The Handbook also supports reform efforts by completing a database of current tax expenditures in the analyzed countries, and by proposing a *CIAT Model Report of Tax Expenditure Measurements* that provides systematic information to the authorities in charge of the cost-benefit analysis which, as it was mentioned before, are the most useful tool for identifying tax expenditures that could fail to meet their purposes[1].

The Executive Secretariat has made available to the whole community MyCiat, the electronic version of this Handbook and will soon launch a new online course for the benefit of those in charge of measuring tax expenditures in the TAs. The aforementioned database on tax expenditures,

1 Needless to say, that the detail information of tax expenditures included in the database also helps to improve the estimates of evasion based on the calculation of potential tax bases.

as well as diverse specialized literature on the subject compiled by GTMGT throughout their work, is available for the CIAT's Tax Studies and Research Areas Network.

Finally, it's appropriate to be grateful for the feedback of the Second Seminar on Tax Expenditures participants, organized by the IDB and the IMF in November 2010 and the Workshop on Revenue Mobilization in Sub-Saharan Africa organized by the Kenyan Government and the IMF in March 2011. Many of the comments, suggestions and criticisms of earlier drafts of this Handbook were essential for the GTMGT to perfect this final version.

EXECUTIVE SUMMARY

It has been forty-four (44) years since the concept of tax expenditures has surged in the world and even today the computation of the fiscal cost generated by these provisions is a major methodological challenge for those responsible of these tasks. Differences in the conventions used by countries for the measurements remain, which makes very difficult their international comparisons.

The IMF and the OECD have shown clear leadership in the development of methodological frameworks and comparative studies on tax expenditure measurements, which have served as a reference to many of the responsible for these tasks in the world. In Latin America, the IDB and ECLAC have also promoted much discussion on the subject. More recently, the IBP has been discussing the issue from a budgetary point of view.

Although various aspects of tax expenditures have been discussed in different CIAT´s General Assemblies and Technical Conferences, it was not until 2009 that the CIAT Executive Committee decided to promote the creation of a working group to develop a *Handbook of Best Practices on Tax Expenditure Measurements,* for the benefit of member countries that have not shown much experience in the area.

Chapter 1 is introductory. It explores the definition of tax expenditure and explains the main existing types. It also deepens into the importance of the measurements, the purposes they pursue and the tax systems that can be used as reference to identify the tax expenditures.

Venturing into the measurements, the chapter discusses the different types of measurements and time horizons used and the issue of information sources and measurement methods.

In Chapter 2, various tax provisions are analyzed trying to illustrate the way to identify tax expenditures.

Without taking sides for any option of reference tax system, they are analyzed highlighting the fact that, while there may still exist differences on the identification of tax expenditures when using legislation, these are steadily decreasing for the VAT case, particularly in Latin America, because legislation is converging to the internationally accepted doctrine.

Chapter 3 presents general and specific aspects of practice on tax expenditure measurements in a representative sample of CIAT member countries, which are the result to the attention of a questionnaire specially designed for this purpose.

Regarding the general aspects, it points out that in some countries there is no legal obligation to measure tax expenditures and that despite this, official reports are submitted. It also points out that some countries conduct ex-post analysis of fiscal years ended rather than projections as part of the budgetary processes.

With all the concern for the different conventions used by countries, different specific aspects of the fiscal costs of tax expenditures are compared: by categories of taxes, by type of tax expenditure, by source of information and mainly by the measurement method used.

In Chapter 4, the best practices followed by countries in related areas are investigated, specifically with the information sources and measurement methods, the most relevant topics on tax expenditure measurements.

In this last case, is presented the Spanish experience in the use of micro-simulation models, the Brazilian experience with aggregations or aggregate simulations that take advantage of the information contained in returns submitted by taxpayers or third parties to the TAs, and the Mexican experience with indirect calculations based on non-tax information.

Also pointing to the standardization of tax expenditures measurements, some conventions that countries might take are suggested in Chapter 5, particularly in terms of what is meant by tax expenditures, the purpose of the measurements, the reference tax systems to consider and the sources of information and measurement methods to use.

Also the CIAT Reporting Model on Tax Expenditure Measurements is presented as a proposed institutional arrangement that CIAT member countries could start using (as well as others if they considered it convenient) to present information on the issue, with the aggregated value of showing more detail information and present common use indicators that could guide cost-benefit analysis of tax expenditures.

Finally, some steps are proposed in order to give continuity to this effort.

Chapter 1

Conceptual framework

The concept of tax expenditures has its origin in the United States and Germany in the sixties. In the first case, the merit of including for the first time in 1968 a chapter on tax expenditures in the United States Budget is attributed to Stanley Surrey, Deputy Secretary of the Treasury at that time. In the second case, the 1967 Report of Tax Subsidies and Preferences (*1st Subventionsbericht*) is pointed as the starting point for the tax expenditure measurements in Germany[2].

Two (2) reputable organizations –IFA and IIPF– helped to expand the concept in the world through their annual meetings in 1976 and 1977. In 1978 Austria issued its first report on tax expenditures. Canada and the UK did the same in 1979. A year later, Spain and France followed. At the end of the eighties, tax expenditure measurements were widespread in OECD countries.

One of the first countries in Latin America to take these tasks was Brazil, which in 1989 published its first report on tax expenditures. But it was not until well into the twenty-first century that this practice began to be generalized and refined in other countries. Much had to do with the IMF first publication in 1998 of the Manual on Fiscal Transparency, containing recommendations on the subject, as well as the publication in 1984 and 1996 of comparative studies on tax expenditures measurements in OECD countries.

1. General definitions

In order not to anticipate the presentation of the proposed definition of tax expenditures that the GTMGT outlines in Chapter 5, this section can preliminarily say that tax expenditures are resources foregone by the State for the existence of benefits and incentives that reduce the tax burden of certain taxpayers.

The term expenditure emphasizes the fact that non-collected resources could have financed public spending programs explicitly for the benefit of those who see their tax burden reduced, and even others. It is therefore of interest to include them in the fiscal analysis. The idea behind is to have a complete view of the public spending.

2 *There are records showing that some has already been reported since 1959.*

Among the most used social or economic policy State objectives cited to justify the tax expenditures, are the need for more efficient and progressive tax systems, improve the social welfare levels, promote regional or local development through major investments, develop human capital, and more recently, the protection of the environment.

An important difference arises when digging into the concept of tax expenditures. Villela (2006) notes, for example, that an incentive is not the same as a benefit, even though both generate a loss in collection. While the first one seeks to change the behavior, the second one does not. Furthermore, any incentive may involve a benefit but not all benefit constitutes an incentive.

An example of that is the deduction for expenses on medicines that some individuals enjoy in some countries when determining their PIT. It cannot be said that this provision seeks to encourage people to become ill, but it can be said that it grants an indirect financial support. On the contrary, this does happens with incentives that reduce the tax burden on investment, which clearly seek to change behavior.

2. Types of tax expenditures

Tax expenditures come from provisions such as exemptions, exclusions, reduced tax rates, deductions, credits, deferrals, simplified, special or promotional regimes, and refunds or reimbursements.

Exemptions are suppression of taxation. They may have a defined validity period.

The exclusions are events left out of the taxation scope.

The reduced tax rates need no explanation. They are deviations of the established general tax rates.

The deductions are the amounts deducted from the taxable base.

Credits are the amounts to reduce from the determined tax.

The deferrals correspond to all those provisions that defer the tax liability over time.

The simplified, special or promotional regimes are provisions that cover one or more taxes. Typically they operate on small taxpayers, geographic areas with comparative disadvantages relative to the rest of the country and specific economic sectors.

Finally, refunds or reimbursements compensate financially the taxpayers.

3. Advantages and disadvantages

The advantages of tax expenditures have been less explored than their disadvantages, because of the minor existence of cost-benefit analysis, particularly in developing countries. In Latin America, for example, there is still little evidence to confirm that tax incentives for investment have been crucial to increase the net capital formation, especially the one coming from the FDI.

Part of the problem with cost-benefit analysis is the difficulty to identify the actual beneficiary of tax expenditures, in other words, the one that the social or economic policy of the State considers to justify their existence. This is not necessarily the liable person.

Neither is there a general methodology to apply. Case by case analysis are required.

For various VAT and PIT provisions, OECD (2010) has developed a methodological framework for this kind of analysis. Any method based on the neoclassical theory of the cost of use of capital can be considered to analyze investment incentives under CIT. Roca (2010) recently has presented a review of different methods that could be used for these purposes.

In general, tax expenditures promote the private sector participation in the economy and reduce the costs associated with the management of the public spending. Empirical evidence is needed to confirm this. In the first case, everything will depend on the response of taxpayers while in the second case; the cost of managing tax expenditures to verify that the State actually generates savings will also have to be considered.

On the other hand, the disadvantages that tax expenditures generate have been well documented. Mainly, the revenue loss for the State, the inefficient allocation of resources in the economy, and the horizontal or vertical inequity that it may end up promoting are highlighted.

In the first case, not only the current revenue that is lost should be considered, but also the one that is lost through potential tax fraud. This not only affects the National budget but the State redistributive possibilities.

In the second case, in addition to the excessive profits that tax expenditures promote, it should be considered the waste of resources in the intense lobbying for incentives or benefits and the costs due to the inability to further lower tax rates, having to maintain a certain level of revenue.

Finally, the last case concerns the different tax burdens that may be generated on equal taxpayers just because one can take advantage of tax expenditures and the other not, and the change in distance between the tax burden of taxpayers with different ability to pay, after the application of tax expenditures.

4. Importance of the measurement

The main interest in measuring tax expenditures rests on the potential revenue mobilization that their elimination or rationalization can generate in developing countries, especially if it is considered that the possibility of increasing the rates of existing taxes or introduce new ones is more and more limited.

However, the importance of tax expenditure measurements goes far beyond this simple interest on tax collection. The measurement and especially its disclosure promote fiscal policy transparency. Once the implicit public spending operated through the tax system is measured, conditions are created to have clear view of the State actions.

This expanded vision contributes to the discussion of legislators during the budget process, as they have at their disposal a complete picture of public spending. Thus, resource allocation can be better justified and the public accounts can be more balanced. But above all, the discussion on tax expenditures makes possible to subject them to the scrutiny of the whole society.

It must be said, that fiscal cost computation is essential for cost-benefit analysis that gives light to the effectiveness of tax expenditures. If they replace explicit public spending programs, their effectiveness must be evaluated in the context of similar evaluations to those applied to these programs that they replace. So, only if countries run tax expenditures measurements, the elimination or reduction of those whose fiscal cost exceeds the expected benefits could be proposed.

On the other hand, because tax expenditures are public policy instruments, they should be subject to evaluation and control mechanisms. In this sense, tax expenditure measurements facilitate the work of the supervisory bodies such as the Auditors Courts or the General Comptroller. The right supervision of the use of public resources requires considering not only the explicit public spending but also those made indirectly through the tax system.

Finally, in the interest of the TAs, tax expenditure measurements are important because they allow finding the limitations of the tax system, identifying provisions that offer opportunities for harmful international tax planning and tax evasion. Without being a justification for the failure of their goals and targets, tax expenditure measurements show the difficulties TAs face to meet the State requirements on collections.

5. Measurement purposes[3]

Tax expenditure measurements can pursue up to three (3) purposes.

A first purpose is to measure the revenue loss that the State suffers, as a result of the application of tax expenditures. Being tax expenditure measurements primarily part of the budget process, it is the most pursued purpose in practice by the countries.

A second purpose is to measure the revenue gain that would result from the repeal of tax expenditures. The measurement here must necessarily consider changes in the taxpayer behavior and considers general equilibrium analysis rather than only a partial equilibrium. In that sense, the information needed is more demanding, since it requires, for example, knowledge of the sensitivity of tax bases due to change in the tax burden. This is not always easy to find in developing countries.

A third and final purpose is to measure the magnitude of resources required to replace the tax expenditures with subsidies or transfers (explicit public spending), maintaining the taxpayers' welfare and the National Budget situation stable. That purpose could be more important in countries with relevant individualized transfer systems. The measurement considered here generally requires the use of micro-simulation methods, not much used in developing countries.

An explanation of the differences that result from measuring the same tax expenditures under the three different purposes mentioned here could be found in Kraan (2004) or Jorratt (2009). How to establish equivalences between them is also discussed there. In any case, for the purposes of this Handbook, the important aspect to point out is that the measurement purposes defines the information needed and the measurement methods used, as it will be discussed below.

6. The reference tax system

Tax expenditure measurements require proper identification of them, which makes necessary to first define a reference tax system. This is certainly the most complex of all the processes and the one that generates most discussion. The reference tax system can result from the reading of legislation or from a benchmark, in other words, some option of an optimal tax system.

3 *Based on the literature on tax expenditures, this section would be called measurement methods. Here it has been chosen to use the term purposes since the term measurement methods is reserved to be later discussed as the techniques used to compute the fiscal cost of tax expenditures.*

Many experts believe that the selection of a reference tax system based on legislation prevents the tax expenditure measurements to be comparable between countries. This is because laws can still diverge greatly from the internationally accepted doctrine, and so the list of provisions that in a countries would be considered tax expenditure are being left out in another or vice versa.

That would be the case, for example, for the credit that in some countries is given to the PIT for the VAT paid on purchases by individuals. Under a reference tax system based on legislation, the provision may not be considered as tax expenditure, while under a benchmark it would be so.

An extreme case would be the territories of low or no taxation. Under a reference tax system based on legislation, it could be asserted that they do not have significant tax expenditures. However, when considering a reference tax system based on a benchmark, the expenditures would be significant.

As it will be discussed below, countries generally prefer to adopt a reference tax system based on legislation for practical measurement reasons. On this point, scholars should keep in mind that tax expenditure measurements are activities that are part of the budget process and in that sense, must provide information for a better understanding of the legislators.

But it should also be noted that the globalization and harmonization efforts are gradually leading the legislation of developing countries, particularly in Latin America, to converge towards an internationally accepted doctrine. If it has not happened yet, sooner or later it will, so it will be easier to compare tax expenditure measurements between countries, although the reference tax system be one based on legislation.

7. Type of measurements and time horizon

Being tax expenditure measurements primarily an activity of the budget process, the major interest of countries is to measure the revenue losses that the State will support in the following budget year (s), so the type of measurements in most of them are basically projections.

However, this measurement can also suppose the computation of the fiscal cost experienced in ended fiscal years. Although subtle, there is a difference in this type of measurements because the information that those responsible for these tasks face is in general much more accurate in this last case. For example, the macroeconomic aggregates used or the data contained in the taxpayers` returns will be real and not projected.

Consider here that in some countries there is Auditors Court or General Comptroller of the Republic requirements that enforce this type of measurements.

Some of them are prepared to contrast the projections made in the past, which are by the way a very good practice that some countries have.

Another issue to discuss is the selection of time horizon to be considered. In general it is one (1) year, but if a country runs a multi-year budget, it will probably consider a number of years. It should be noted that when this is the case, spaces are opened to set aside the tax expenditures of deferral type, as they only deal with postponements of tax obligations payments, this is not a loss of resources for the State, but only a financial loss.

To see this, consider an accelerated depreciation scheme under CIT for assets in a particular sector. In an annual measurement, the loss of resources in each year could be considered a fiscal cost, while in a multi-year measurement it does not, since when appraising the compensation with the gains that occur along the entire investment, the only fiscal cost would be the loss of value of money through time.

8. Sources of information

The information available in a country, defines the methods that can be used for tax expenditure measurements. Obviously, the more a country shows statistical development, the greater is the possibility of using more sophisticated measurement methods.

The information generally used for tax expenditure measurements are returns submitted by taxpayers or third parties to the TAs, and statistics or any other information managed by public or private organizations. In the first case, the tax secrecy limits public access to information, while in the second; the previously mentioned statistical development is decisive.

There are some concerns about the use of returns as the main source for tax expenditure measurements. Some experts suggest that the data contained in them are not reliable because they contain errors or they are incompletely filed, or because they contain undervalued income and sales or overvalued costs and expenses, generating distortion.

To this it must be added that the TAs over the last decades have tended to reduce the amount of information required to taxpayers, individuals as well as companies or corporations, in line with simplification strategies to reduce compliance costs. This somehow limits the use of information from returns for tax expenditure measurements.

In the case of statistics or any other information managed by public or private organizations, not only is the country's statistical development determinant but also the opportunity of the information availability. This is because tax expenditure measurements are activities that are part of the budget process and as such, must adhere to the strict schedule of presentation of the National Budget to the relevant authorities.

The lack of this information can also define the purpose of the measurement. For example, a country with a limited development of its Household Surveys Programs can hardly measure the magnitude of resources required to replace the tax expenditures for subsidies and transfers, since this would require the use of individual revenues and expenses data, which are not accessible.

Finally, whichever the information to use, considering the issues of storage, data cleaning and management and exploitation of information which facilitate the tasks of those responsible for the tax expenditures measurements is necessary. Fortunately, today the technological development offers different solutions in the market; however, in developing countries their cost can still make them inaccessible.

9. Measurement methods

The measurement methods go from simple aggregations of the contained information in the returns submitted by taxpayers or third parties to the TAs, to sophisticated general equilibrium models. However, only three (3) of them are pointed out in this Handbook: aggregations or aggregated simulations that use tax information, the indirect calculation using statistics or other information of aggregated character, managed by public or private organizations, and micro-simulation or similar models[4].

Aggregations or aggregate simulations consist of simple mathematical calculations using partial or total values contained in specific fields of the tax returns submitted by taxpayers or third parties to the TAs.

This method is most appropriate when considering a reference tax system based on legislation, but only if taxpayers are required to submit relevant information on tax expenditures through returns.

The indirect calculations using statistics or any other information of aggregated character, managed by public or private organizations, such as Census and National Accounts, include the application of arithmetic operations that try to replicate the liable tax.

4 *Some elements of these methods can be combined in order to create variants.*

It will be difficult to measure the collection gain that would result from a repeal of tax expenditures or the magnitude of resources required to replace the tax expenditures by subsidies or transfers because they do not operate on individual data.

Micro-simulation models or similar do analyze individual data, contained in the returns submitted by taxpayers or third parties to the TAs or in statistics or other information managed by public or private organizations, such as, mainly, Household Surveys Programs.

Therefore they are the most powerful tax expenditures measurement tools. They are useful for any of the three (3) measurement purposes outlined above.

Micro-simulation models can be static or dynamic. The static micro-simulation is based on using information taken from a representative sample of individuals at a given point in time (cross-section data). The dynamic Micro-simulation incorporates the flow of time. On one hand, it can apply, for example, to a given probability of survival to each individual from the sample and incorporate the impact of changes in its demographic characteristics (dynamic cross-section micro-simulation). It can also create a full cohort of individuals with full life cycles from their birth to their death (life-cycle dynamic micro-simulation) [5] to make the calculations.

5 *In both cases, changing the behavior of individuals as a result of tax expenditures can be considered. For example, , answers on labor supply in direct taxation models and change in the demand of goods in indirect tax models.*

Chapter 2

Identification of tax expenditures

The identification of tax expenditures requires a careful analysis of the provisions that goes beyond the revenue loss verification. It is also important to discover if they really have an exceptional character, if they increase the economic capacity of taxpayer or pursue State economic or social objectives.

If the provisions were only applied to one economic sector or geographic area, there would be no doubt about the configuration of the characteristics of tax expenditure. However, when the provision is, for example, a reduction in taxes for any taxpayer who meets certain requirements, some doubts may arise. The structure of cumulative progressive tax rates of most PITs is an example to consider.

Taxpayers with certain personal characteristics will see reduced their tax burden compared to others, so it could be argued that the provision constitutes tax expenditure. However, if it is considered that the principle of taxation behind almost all PITs is the ability to pay, the fact that this differentiation is allowed would not be tax expenditure but just the way the taxation principle is implemented.

Inside the GTMGT this and other tax provisions were analyzed seeking to find consensus, pointing towards the standardization of tax expenditure measurements. It is worth mentioning that the discussion was limited to the analysis of provisions of the Income, Profits and Capital Gains Taxes and General Consumption Taxes that are under the jurisdiction of the Central, National or Federal Governments, as it may apply.

1. General Consumption Taxes

The General Consumption Tax most used in the world is the VAT. This section will only deal with it.

Ebrill et al. (2001) defines the VAT *as a broad-based tax on the sale and import of goods and services in all stages of the production-distribution chain, which systematically compensate the taxes for the goods purchased as inputs -except perhaps capital goods- with the ones payable by the outputs.*

VAT is an objective tax; it does not consider personal aspects of taxpayers to determine the tax liability. The most used variant of VAT in the world is the VAT Consumption established under the destination principle, which does not affect the acquisition of capital goods and refunds the taxes paid on acquisitions or imports to exporters. This way, only the final consumption of residents is actually taxed[6].

In general, the VAT legislation is quite similar in most countries in the personal, territorial and temporal aspects of the generating event, following the internationally accepted doctrine[7]. There is also consensus on the method for determining the tax liability. Virtually all countries use the invoice credit method.

Perhaps the biggest differences lie in the number of tax rates that are used. Some countries use one (1) single tax rate, letting through excise or selective consumption taxes, certain goods or services to be treated differently. Others prefer to use the theories of optimal taxation through VAT itself, and either for reasons of efficiency or equity, allows the use of more than one (1) tax rate.

Exemptions or exclusions on final goods or services

These provisions clearly generate a revenue loss.

In the case of necessity goods or services, the usual purpose is to improve the welfare of a particular segment of the society –the most unprivileged ones– on the hypothesis that they spend a greater proportion of their income on consumption. The State objective is more clearly stated when the requirement to enjoy the benefit is, for example, to be limited to the sales points usually visited by the most disadvantaged ones, such as the local marketplaces or street markets.

It must be remembered that an exemption or exclusion in the final stage of the production-distribution chain improves the economic capacity of consumers by reducing the price of the final goods or services involved, even if considering that the taxes paid on inputs in the previous stages that cannot be compensated, are moved to consumers.

It could be argued that these provisions are not exceptional because all consumers (rich and poor) have access to this benefit when they purchase exempted or excluded final goods or services. But if VAT is considered as an

6 *Note that this variant of VAT is equivalent to a Sales Tax charged in the final stage of production-distribution chain.*

7 *In Latin America, this standardization has been possible too by the efforts of harmonization of indirect taxes in the countries of the CAN, Central American Common Market and MERCOSUR.*

objective tax, which does not consider the personal aspects of taxpayers to determine tax liability, this argument is irrelevant in determining the general or exceptional character of these provisions[8].

Other State economic or social policy objectives can also be identified when the exemptions or exclusions are applied to other types of final goods or services. When applied to goods or services more sensitive to price changes or to goods or services complementary with work, it could be understood that the objective is to pursue a more efficient tax system. Also, when applied to merit goods or services, it's understood that they seek to improve social welfare levels.

In conclusion, they feature the characteristics to be considered as tax expenditures.

Exemptions or exclusions on intermediate goods or services

An exemption or exclusion of this type breaks the production-distribution chain and generates a cascade effect for the later stages through the price. In this case there are two (2) possibilities to consider before concluding that the exemption or exclusion is a tax expenditure: that the intermediate good or service enjoying the special treatment, is intended to produce final goods or services subject to VAT, or intended to produce final goods or services consumed in the domestic market, or exported, that are also exempted or excluded.

In the first case, the State is facing provisions that increase the collection, rather than decreasing it. With them the economic capacity of consumers is not improved, because they end up facing higher prices on final goods or services which use in their production the intermediate goods or services that enjoy the special treatment.

Nor can it be thought to be the State objectives to introduce distortions that make the production less efficient. Can they be the result of lobbying by exceptional economic sectors? Probably, yes. Perhaps this exceptionality is what has led some to consider them as tax expenditures.

In the second case, as well as with the exemptions or exclusions in the final stage of the production-distribution chain, the provisions discussed here improve the economic capacity of consumers (residents or foreigners) because they face lower prices of final goods or services that use in their production intermediate goods or services that enjoy special treatment.

8 *In terms of tax expenditures cost-benefit analysis, the regressively of VAT in different countries of Latin America has been demonstrated extensively. In the case of Central America, Panama and the Dominican Republic can be consulted, for example, Barreix et al. (2010a).*

In the event that these final goods or services are exported, the State purpose behind these provisions is quite clear: to make the country more competitive in the international markets.

When they are consumed in the domestic market, the case has been described in the previous paragraphs.

The State could pursue to increase the welfare of the disadvantaged ones, on the assumption that they spend a greater proportion of their income to consumption, when the final goods or services that use intermediate goods or services which enjoy special treatment, are necessity goods or services. When they were more sensitive to changes on prices or be complementary with work, it could be understood that the provision is pursuing the purpose of introducing a more efficient tax system. Finally, when applied to merit goods or services, it could be understood that what they look for is to improve social welfare levels.

As for the revenue losses experienced by the State, there is no doubt that unlike the first case, one takes place here. It adds to the loss generated by the exemption or exclusion of final goods or services that use in their production intermediate goods or services that enjoy special treatment.

These provisions are often the result of pressure from previous stages of the production-distribution chain, to the existing exemptions or exclusions in the final stage known as the "snowball" effect.

Thus, exemptions or exclusions on intermediate goods or services will only constitute tax expenditures if these goods or services are aimed to produce final goods or services exempted or excluded in the domestic market or exported.

Differentiated tax rates on final goods or services

This includes both the reduced tax rate as the increased ones.

In the case of reduced tax rates there are two (2) possibilities: either they are part of a VAT using multiple tax rates or they are not. In the first case, it could be considered that due to being part of the general legislation, the provisions do not constitute tax expenditure. In the second case, it is clear that there is an exceptional treatment and therefore there is tax expenditure. The best examples are the reduced VAT tax rates that are approved only for certain geographic areas.

In any case they reflect the State intention to achieve certain objective with the tax system. Reduced tax rates can aim to improve progressivity when applied to necessity goods or services. Or they can search a more efficient tax system when applied to goods or services more sensitive to changes in price or complementary with work. Finally, they can seek to improve social welfare levels when applied to merit goods or services.

In any case, the State always faces a revenue loss.

With regard to exemptions or exclusions, the improvement in economic capacity that consumers reach is higher, since the ability of producers to recover taxes paid on acquisitions or imports bound to produce these final goods or services, reduces the impact on prices even if it is at a lower tax rate.

In the case of increased tax rates, again there are two (2) possibilities: that they are part of a VAT using multiple tax rates or that they are not. In the first case, it again could be considered to be part of the general law and not be considered tax expenditure. In the second case, the exceptionality is also clear again.

But apart from the general or exceptional character of the provisions, what makes it questionable whether they are considered tax expenditures is that they do not improve the consumer economic capacity and generate a revenue gain for the State rather than a loss.

As in the case of reduced tax rates, they reflect different State objectives. They can seek more efficiency applying them to goods or services with a demand less sensitive to changes in price or in goods or services associated with leisure. Or they may seek to improve social welfare levels when applied to bad goods or services. Finally, they can look more progressivity when applied to luxury goods or services.

What is really strong in the case of increased rates, as already indicated, is that they increase State revenues instead of decreasing it, and they do not lead to an improvement in the consumer's economic capacity. In this sense, unlike the reduced tax rates they are not tax expenditures.

Recovery of taxes paid in the production of final goods or services exempted or excluded that are sold in the domestic market

As mentioned above, the most used variant of the VAT is the VAT Consumption established under the destination principle, which does not affect the capital goods acquisition and refund the taxes paid on acquisitions or imports to exporters.

When in addition to exporters, some producers operating in the domestic market also can recover the taxes paid on acquisitions or imports; there exist the application of a provision of an exceptional nature that seeks to reduce the price of goods or services they produce for the benefit of consumers.

In that sense, the same way as the other provisions were discussed above, it improves the consumer's economic capacity. It can be verified that this is even greater than when using exemptions, exclusions or reduced tax rates, since the possibility for producers to recover taxes paid for their acquisitions or imports, reduces prices much more.

Again, in the case of producers of necessity goods or services, what the State would seek is to improve the welfare of a particular segment of society –the less advantaged ones– under the hypothesis that they spend a greater proportion of their income to consumption. If they were producing goods or services with more sensitive demands to changes in price or goods or services complementary with work, it could be understood that the goal would be to introduce more efficient tax systems. Finally, when it is the case of producers of merit goods or services, improving social welfare levels is probably the main purpose.

Tax refund or reimbursement is a very high resource loss for the State. Therefore, it is generally limited to the case of exports. To the proper loss of the provision it must be added the loss generated by the exemption or exclusion of those final goods or services produced by producers to whom the acquisitions or imports that generate the refund or reimbursement are destined.

Deferrals for credit sales or credit services

Normally under the VAT legislation the tax liability arises with the invoice issuance or the delivery of goods or the provision of service. Credit sales or credit services open space to propose deferrals that break with the accounting principle of accrual and allow the tax to be paid only when installments are paid.

The financial relief for taxpayers that the State seeks to introduce through a provision of this type aims to promote a more efficient tax system. However it can be exploited unduly and lead to simulate very long-term credits which unnecessarily postponed the tax liability.

The provision does not produce a loss of resources for the State, but only a financial loss. Except for the very long-term credits, the losses will be moderate. That is also why the improvement achieved in the consumer's economic capacity is also reduced.

On the exceptional nature of the provision two (2) cases could be considered. The first arises when the tax liability origin is expressly changed, becoming the moment of issuance of the applicable installment. The second arises when, without altering the origin of the tax liability, taxpayers are allowed to pay the tax only when they receive the actual payments.

As it is part of the general legislation, probably the first case would not be considered tax expenditure. The exceptional nature of the provision is clearer in the second case, especially because they are generally applied only to tax payers that meet certain characteristics.

In summary, the credit sales or credit services with deferred payment are tax expenditures.

Refund of taxes paid on the purchase of capital goods to liable persons that are on a pre-operational stage

As previously mentioned, the VAT Consumption does not tax the purchase of capital goods. This is accomplished by explicitly excluding these acquisitions from the scope of the tax or by taxing them but recognizing immediately 100% of all incurred taxes. Therefore there is no tax expenditure, but simply a provision technique.

It is the same when using the “temporary pro-rata” scheme, whereby the VAT credit is amortized over the life of the asset and based on its use.

However, when the VAT credit is anticipated through refunds or reimbursements in respect of the acquisition of capital, for example, to liable persons who are in a pre-operative stage and still do not generate VAT debit, it is obviously a provision of exceptional character.

As well as the case previously discussed, the provision is not a loss of resources for the State, but only a financial loss because the VAT credit may not be used by the liable person when VAT debits start building up when they begin their operations.

The State objetive with this type of provision is to introduce a more efficient tax system by financially relieving the liable persons. In the case of investment projects of large scale, the positive effect is even greater.

It is less clear if the consumers’ economic capacity is improved.

In summary, the taxes refunds paid on the purchase of capital goods to liable persons on pre-operational stage, is tax expenditure.

2. Income, Profits and Capital Gains Taxes

As for PITs, Zee (2005) notes that there are three (3) dominant tax models today i) the traditional, synthetic or global tax based on a broad concept of income defined, among others by G. Von Schanz, R.M. Haig and Henry Simons[9], ii) schedular taxation schemes that treat favorably the net capital income, implemented either within the same global or synthetic taxes or implemented through a dual taxation scheme and iii) flat tax as in Eastern Europe countries.

In the case of the CIT, despite the existence of some theoretical proposals, there is nothing new in the practice of countries rather than the conventional and historical taxes over the corporate equity returns, i.e. over normal profit plus any additional profit, after deducting interest, thus implying that any undistributed income is taxed.

Capital gains are taxed as part of these taxes, or through an independent tax, either if the flow or assets (property taxes) are taxed.

Unlike what happens with VAT, PIT and CIT are more heterogeneous across countries. However, several provisions may share certain legislative logic. For example, there are those that only allow taxing net income rather than gross income, such as the deductions for costs and expenses related to the activity that generates income.

There are also provisions that maintain the symmetry of taxes like carry-forward schemes for losses and credit balances in favor of previous fiscal years.

When the jurisdictional principle of taxation is the one of worldwide income, unilateral or bilateral provisions to avoid international double taxation such as credits for taxes paid abroad or the application of DTAs are just ways to ensure that this principle is complied[10].

Income exempt or excluded on PITs and CITs

Certain incomes are not taxed by PITs or CITs, usually by the application of exceptional provisions that seek to improve the economic capacity of taxpayers in order to reach certain economic or social State policy objectives.

9 *According to it, the sum of the market value of his consumption and the change in value of his assets constitute the income of one individual at a given time period.*

10 *Provided that the tax is not limited to residence. When this is the case (for instance, through a DTA) even this limitation may be justified if there is a strong connection to the source State, which grants them all or part of the collection.*

In all the cases, the provisions produce a lower tax collection.

In the field of PIT, a more favorable treatment to certain capital gains and interest stands out. Undoubtedly, exemptions or exclusions make them more attractive than other income, promoting savings and investment financing.

It could be the case that under a tax system based on a benchmark they are not viewed as tax expenditures, as it is considered optimal not to tax the capital gains.

Other PIT exemptions or exclusions are applied on royalties. The State objective is to promote the artistic, literary, etc., creations for the whole society benefit.

Finally, there are exemptions or exclusions on pensions. At this point, it should be taken into account the tax treatment of the three (3) phases of a typical pension plan: the contribution, the yield and the withdrawal. The provision to not tax pensions could avoid double taxation only if the contribution cannot be deduced or the yields not be taxed.

In case of CIT, the most commonly used are those called tax holidays, which became popular in the sixties in Latin America to promote industrialization and to achieve the desired substitution of imports.

The case of exclusions of dividends and any other distribution of profits between resident corporations is discussed later, concluding that they only seek to avoid a double “economic” taxation.

Clearly what CIT exemptions and exclusions seek is to promote investments, reducing the minimum return required by the investment project to be viable.

Finally, within the scope of these taxes, it can be pointed out all those exemptions or exclusions on the income from the Church, from missions and international organizations, from State apparatus entities, etc. that are not taxed by the application of international treaties, reciprocity or simply to achieve a greater simplicity in the tax system.

Tax deductions on PITs

Here are considered the case of deductions for dependents and for specific expenses.

The principle of ability to pay on PIT, involves taking into consideration the personal characteristics of taxpayers when determining their tax burden. In that sense, the deductions for dependents only seek to capture the differences among taxpayers, in order to successfully implement the taxation principle.

Undoubtedly, the economic capacity of some –the parents– will end to be higher after taxation than others –the singles without children– by the application of this provision. However, the difference in tax burdens should not be considered a resource loss for the State since it only reflects the objective of such taxes to tax differently those that are not the same.

In that sense, the deductions for dependents in the PIT do not constitute tax expenditures.

The provision could be tax expenditure if by the size of the deduction it could be identified an indirect financial support to the taxpayers by the State. Also, if the deduction could only be exploited by a certain segment of taxpayers (public sector workers, for example), the exceptionality of the provision would be more clear and therefore the existence of a tax expenditure.

As for the deduction of specific expenses, there are two (2) types of expenses to consider: those associated with the generation of income, such as the education of the taxpayer, and those who are not, such as mortgage loans interests or medical expenses of their dependents.

In the first case, the provision seeks to tax net income rather than gross income, so it would not constitute tax expenditures. Being the purpose of the provision to ensure the source of income –the taxpayer itself– there is no intention to improve any economic capacity.

This is why it cannot be pointed out either that there is a collection loss.

In the second case, the provision does pursues the State objective of providing indirect financial support to taxpayers or promoting the consumption of certain merit goods or services, being the taxpayer the beneficial owner or their dependents.

The magnitude of financial support would be the State revenue loss.

Here, not only the economic capacity of the taxpayer who can apply the deductions is improved, but also only those who incur in such expenses can take advantage of the provision. In that sense, is exceptional.

Therefore, in this second case, the provision shows all the characteristics of tax expenditure.

Non-taxable income and PIT rates structure

The non-taxable income does only seek to recognize that all taxpayers must meet certain subsistence needs before paying the tax, regardless their personal characteristics or their economic circumstances. As the provision equally improve the economic capacity of all taxpayers and not just a specific group, they do not have an exceptional character.

Also, as generating tax progressivity in PIT, whether this is a global or synthetic type or flat tax as used in Eastern Europe, it can be understood that the only thing that the State looks with the application of the provision is to successfully implement the ability to pay principle. Remember that progressivity is made with both the rates and with the net income.

Thus, the revenue loss in respect to the determination of the tax liability without the application of the provision could not be considered a fiscal cost.

Thus, the non-taxable income in the PIT does not constitute tax expenditure.

Only when they are applied to a specific group of taxpayers, (public sector workers, for example) could set an exception to the rule, especially if by their magnitude, a State social or economic policy objective seeking to grant an indirect financial support to these taxpayers can be identified.

As for the structure of tax rates on PITs two (2) cases could be considered.

In case of global or synthetic type of taxes, the cumulative progressive tax rates fixed according to income brackets, again, would only define the way the State implements the ability to pay principle, so the difference between the maximum marginal tax rate and the other rates do not constitute a tax expenditure.

Without doubt what is sought is to improve the economic capacity of some taxpayers over others. However, the difference in tax burdens should not be considered a resource loss for the State, because, again, it only reflects the purpose of this type of taxes to tax differently those who are not the same.

In the case of dual taxation, the difference between the definite rate for capital income and the structure of rates defined for the work income also will not constitute tax expenditure, unless the reference tax system used was based on a benchmark. Even in this case, new theoretical developments in favor of capital income lower taxation would support the idea of not considering it as tax expenditure.
What should be noted is that as the same favorable treatment for capital

income could also be implemented in the global or synthetic taxes, and there such provisions tend to be considered as tax expenditure, comparability problems between countries arise from these unequal criteria.

Credits on PIT

Here are considered the cases of certain State compensation “paid” through the tax system and a credit caused by the VAT paid on purchases.

The PIT can be used to support the implementation of a comprehensive tax and transfer system (a negative income tax). The idea of this design is that the State can make compensations to those below certain minimum level of income.

In theoretical terms, it is described as a more efficient redistribution scheme because it neither discourages work nor discourages the savings for those below the non-taxable income.

Examples of these provisions are transfers for the children’s birth or for working mothers of minor children. In both cases, the provision is embodied in the form of credits through the tax returns submitted by taxpayers or third parties to the TAs, reducing their tax liability.

It could be argued that these are explicit public expenses managed through the tax system and not considered tax expenditures. But because it affects the collection, they are usually viewed as such.

The second case is the one of credits against the PIT liability determined on the basis of VAT paid on purchases by individuals.

This provision runs away from an internationally accepted doctrine for PIT. If it is thought that this provision is designed to encourage citizens to demand receipts for purchases and become an extension of the TAs, one might conclude that it is a general provision, especially if they require the delivery of information to the tax authority for information and cross-control.

However, it also represents a State revenue loss that can not be compensated by the indirect positive effect in raising collection from General Consumption Taxes. Therefore the provision should be considered tax expenditures. Furthermore, the economic capacity experienced by benefitting taxpayers is important, if taken into account that they open spaces for tax evasion.

Provisions to prevent “economic” double taxation of dividends

The “economic” double taxation of dividends occurs when there is no integration scheme (imputation system) between the PIT and CIT, through which taxes paid at the level of the company paying the dividends are recognized when calculating the tax of the partners or shareholders.

The imputation system could be implemented at the level of the partners or shareholders (the tax paid to the company level is credited 100% against their personal tax or simply they are exempted from tax on dividends) or at the corporate level (allowing the deduction of dividends, like interest or simply reducing the rate of distributed profits).

Under a reference tax system based on a benchmark, these provisions would not be considered a tax expenditure, while under one based on the legislation, they could be, being different the concepts of “economic” double taxation and “legal” double taxation”. In other words, the company paying the dividends is considered a different liable person from the partners or shareholders and this is why the provisions discussed here would constitute tax expenditure.

Several laws also allow for the exclusion of dividends and any other distribution of profits between resident corporations on the understanding that the receiving company is not the real receiver of the benefit. Also, under a reference tax system based on legislation, this provision could be considered tax expenditure. But if it is considered that such dividends will be taxable income of the receiver corporation, it is realized that the exclusion only seeks to ensure that those who face the imposition would be the real beneficiaries of the dividends.

Closely related to the provisions discussed above, are those that involve relief to undistributed profits. It is true that taxpayers take advantage of them to postpone the application of taxes on dividends so that some countries consider them as tax expenditure of the deferral type.

In short, these provisions seek to avoid only double “economic” taxation of dividends and thus should not be considered tax expenditures.

Provisions to promote investment in CITs

Here are considered the cases of profits reinvestment and the immediate recognition of the acquisition of assets or accelerated depreciation or amortization of schemes.

To encourage investment, under the CIT, States grant deductions on the tax base, credits against the liable tax or reduced tax rates when the shareholders reinvest their profits.

Similarly, as the accounting rules for depreciation or amortization of assets often do not approach the actual economic depreciation or amortization of the physical or intangible asset, usually taxpayers in certain economic sectors are allowed to enjoy special treatment, recognizing these costs immediately or in an accelerated fashion.

The State objective with these provisions is quite clear: to reduce the effective tax burden on investment. Thus, the minimum return required by the investment project to be viable is also reduced.

Roca (2010) points out that these provisions improve the METR. In the case of deductions, for example, if they are total (100%), the METR is zero when investments are financed with own capital and negative when they are financed with debt.

Note that State revenue loss is higher in the first case than in the second, since the last one is just a financial loss. While the loss of resources in each year could be considered a fiscal cost, in the long term, in appraising the compensation with the gains that occur along the entire investment, the tax expenditure would be only the net fiscal cost.

In summary, the provisions discussed here, and others pursuing the same purposes, clearly are tax expenditures.

Simplified, special or promotional regimes

In many legislations, sales or income from certain segment of taxpayers are treated as part of a preferential simplified, special or promotional regimes within the general taxes or as part of an autonomous regime, as a “monotributo”, showing the State economic or social policy objectives.

Usually, these are used to promote the development of geographical areas with disadvantages comparatively to the rest of the country, such as borders, the mountainous areas or the jungle areas.

In the case of CIT, for example, by setting thresholds, these taxpayers are excluded from the scope of the tax. Under a reference tax system based on legislation, such provision could be not considered tax expenditure. But when it is verified that the operations of the excluded ones are treated preferentially, the characteristics of tax expenditure appear.

The taxpayer economic capacity improvement may seek to integrate to the formal economy taxpayers who otherwise would continue to operate in the underground economy.

In the case of General Consumption Taxes, the same purpose can be pursued when setting thresholds for VAT to keep out of the scope taxpayers with minor sales in order to give them a preferential treatment or when applying exemptions, exclusions or reduced tax rates to final goods or services that are consumed within these zones or intermediate goods or services designed to produce them.

When other requirements are summed up that shape the profile of specific segments of taxpayers and SMEs, “maquiladoras”, operating in free trade zones, etc., the intention of promoting their activities[11] becomes clear. In the case of free trade zones, these geographical areas no longer are subject to full customs control in order to promote the introduction or removal of goods and thus promote international trade.

11 *Each time fewer incentives are used to promote exports, as they are inconsistent and violated with economic integration processes and for receiving a series of reprisals within the standards set by the WTO by those countries that granted them.*

Chapter 3

The countries practices

Efforts to analyze the countries practices in tax expenditure measurements have been promoted mostly by international organizations. In 1984, for example, the OECD conducted the first comparative study among its members. Two more were published in 1996 and 2010. The IMF has done the same, with a global perspective, based on the ROSC that countries present.

Recently, the IBP, a non-governmental organization, focused on improving States budget transparency and accountability, issued a comparative report on tax expenditure measurements in thirty-six (36) countries.

In Latin America, the IDB and ECLAC have promoted various studies and seminars on tax expenditures measurements, which are an important reference on the subject.

1. Backgrounds

In preparing the Handbook it was important to review the countries practice. Although different General Assemblies and CIAT Technical Conference of member countries have had the opportunity to make presentations about it, this was never the subject of a compared analysis. In that sense, it was essential to collect new and updated information, by sending a questionnaire specially designed for this purpose.

The questionnaire sent to member countries contained general questions about their experience on tax expenditure measurements and specific questions aimed at identifying current major tax expenditures and at knowing the magnitude of their fiscal cost and information sources and the methods used to measure them.

Once the questionnaire responses received from several countries, the GTMGT selected a representative sample of ten (10), depending on the target audience finally sought to benefit with the Handbook and the operational availability of the information provided. The countries selected were all Iberoamerican: Argentina, Brazil, Chile, Ecuador, Spain, Guatemala, Mexico, Peru, Dominican Republic and Uruguay.

Tax expenditures on Income, Profits and Capital Gains Taxes and General Consumption Taxes that are under the jurisdiction of the Central, National or Federal Governments, were only considered as appropriate for analysis, not just because they are the largest of any modern tax system but because they are the ones that generate a higher fiscal cost[12].

In general, is about tax expenditures on PIT and CIT, and VAT or similar. Taxes considered for the countries studied are listed in Annex No. 1. This delimitation should not lead to believe that the analysis that follows is incomplete if it is considered that there are still few countries which measure tax expenditures also associated to Excise Taxes, Property Taxes, Social Contributions, or Import Duties.

Also, the GTMGT's attention focused on tax expenditures related to resident taxpayers, for reasons of comparability. This is because the tax treatment for non-resident taxpayers differs more among the countries selected than in the case of treatment for resident taxpayers, making less comparable the tax expenditures associated with them.

This does not mean that those which apply to the large foreign investment are not considered, particularly in the CIT, since they normally operate in capital receiving countries through affiliates or subsidiaries and not through branches (branch offices) or if this occurs, they constitute a permanent establishment in most countries and, therefore, are treated as resident taxpayers.

2. General aspects

The analyzed countries make regularly measurements on tax expenditures. As shown in Table No. 1, Spain and Brazil are among the world's most experienced, followed by Argentina and Chile.

12 *The decision to not consider the tax expenditures under the jurisdiction of subnational governments, was due also to the fact that CIAT is an organization formed by TAs from Central, National or Federal Governments, and in that sense, GTMGT members were not competent to deliver opinions on subnational taxes.*

Table No. 1
Experienced in Measurement

	Year in which the measurement started to be institutionalized
Argentina	1999
Brazil	1989
Chile	2001
Dominican Rep.	2008
Ecuador	2008
Guatemala	2001
Mexico	2002
Peru	2002
Spain	1979
Uruguay	2008

It is worth to point out that what count here is from when the task became a routine activity in the State apparatus. In this sense, the sporadic efforts performed through consultancies with the support of international cooperation or international organizations were not considered. This is the case, for example, in Ecuador, where the tax expenditure measurements performed in 2002 by the SALTO / USAID Project is not considered.

Table No. 2 shows that some of the countries surveyed do not require a legal obligation for tax expenditure measurements. This is the case of Argentina, Ecuador and Uruguay. Other countries began measuring tax expenditures as a result of a change in the Constitution, the establishment of special tax laws or particular events.

For example, in Spain and Brazil, the 1978 Constitution and the Constitution of 1988, set forth the obligation to measure tax expenditures. In Peru and Mexico, the Tax Responsibility Law and the Federal Income Law introduced a requirement for reporting tax expenditures. In Guatemala, it was the Fiscal Pact of May 2000, which established the obligation to measure tax expenditures.

Table No. 2
Legal Obligation to Measure

	Exists	Does not exist
Argentina		x
Brazil	x	
Chile	x	
Dominican Rep.	x	
Ecuador		x
Guatemala	x	
Mexico	x	
Peru	x	
Spain	x	
Uruguay		x

It is encouraging that some countries do not require a legal obligation for tax expenditure measurements, since it means that practices to improve fiscal transparency requires no more than the willingness of the officials in charge of tax policy.

In the analyzed countries, mostly TAs does the tax expenditure measurements. Table No. 3 shows that the Secretariats or Finance Ministries are responsible for this task only in Argentina and Mexico. Only in this last country an overlap is presented since the SAT and also universities carry out tax expenditure measurements as part of its estimates of evasion.

When TAs are in charge of the tasks for tax expenditure measurements, since officials are not being restricted by the tax secrecy, the returns submitted by taxpayers or third parties can be used better and this way exploit data that otherwise would not be used.

An interesting experience is highlighted in the formation of joint committees in the case of Spain and the Dominican Republic. This practice facilitates the exchange of information among participating agencies. For example, the data contained in returns previously indicated, can be shared to improve the measurements.

Table No. 3
Responsible for the Measurement

	TAs	Secretariats/Ministry of Finance	Joint Commission
Argentina		x	
Brazil	x		
Chile	x		
Dominican Rep.			x
Ecuador	x		
Guatemala	x		
Mexico	x	x	
Peru	x		
Spain			x
Uruguay	x		

In Table No. 4, the reference tax system that the analyzed countries take into account for their measurements is reviewed. All, without exception, identify tax expenditures from a reference tax system based on legislation, being of tax nature or not.

Only Chile and the Dominican Republic expressed considering a reference tax system based on a benchmark for some special cases. In the case of Chile, however, when considering the identification of tax expenditures following this approach, it should be noted that its use is concentrated in the retained profits of the CIT, a particularity of the tax system designed by this country.

As indicated in the first chapter, many scholars believe that the selection of a reference tax system based on legislation hinders the tax expenditure measurements to be comparable among countries. However, more practicality in measurement and better understanding achieved among legislators is what leads to select them.

Table No. 4
Reference Tax System

	Based on legislation	**Based on a benchmark**
Argentina	x	
Brazil	x	
Chile	x	x
Dominican Rep.	x	x
Ecuador	x	
Guatemala	x	
Mexico	x	
Peru	x	
Spain	x	
Uruguay	x	

As for the definition of tax expenditures used by the analyzed countries, Table No.5, as it was expected, highlights the use of two (2) features to identify them: that they generate a revenue loss and suggest a deviation from a general provision. In the case of Brazil, Chile, Ecuador, Spain, Peru and Dominican Republic, in addition they referred to them as pursuing a State economic or social policy purpose, and only in Brazil, Spain and Peru, as to increase the taxpayer economic capacity is also considered.

Annex No. 2 shows the definitions of tax expenditures used by countries in their official reports. As an example, one of the most complete one, which is used by Brazil, is presented below.

> *"Tax expenditures are indirect government expenses, made through the tax system, trying to pursue economic and social objectives. These are explicitly present in the tax regulation, they constitute an exception to the reference tax system, reducing the potential revenue and, consequently, increasing the taxpayer economic capacity. They have a compensatory nature, when the government does not adequately provide the public services, or as an incentive, when the government intends to develop a sector or region. "*

Table No. 5
Definitions of Tax Expenditure

	Revenue loss generated	Represent a deviation from a general provision	Pursue an economic policy objectives or social	Increase the economic capacity of the taxpayer
Argentina	x	x		
Brazil	x	x	x	x
Chile	x	x	x	
Dominican Rep.	x	x	x	
Ecuador	x	x	x	
Guatemala	x	x		
Mexico	x	x		
Peru	x	x	x	x
Spain	x	x	x	x
Uruguay	x	x		

Although the purpose of measurements in all the studied countries, without exception, is to measure the revenue loss that the State incurs, resulting from the application of tax expenditures, Table No. 6 shows that some countries, rather than make projections of the fiscal cost to be included in the National Budget, make ex-post evaluations of previous tax years. This is the case of Ecuador and Uruguay.

For international comparisons on fiscal costs that tax expenditures generates, this could create some complications because the measurements are made at different time moments and therefore they face differences in the availability of information. For example, those who make ex-post analysis have accurate information on tax returns, GDP, exchange rates, etc. making the measurements more accurate.

Brazil and Guatemala conducts both types of measurements. In the first case, the ex-post evaluation derivate from the Auditors Court or General Comptroller requirements which compel to review fiscal cost projections made in the past. In the second case, is the opposite, since the ex-post evaluations are required, leaving space to make projections with a certain eye on the National Budget.

Table No. 6
Types of Measurement

	Projection	Ex - post evaluation
Argentina	x	
Brazil	x	x
Chile	x	
Dominican Rep.	x	
Ecuador		x
Guatemala	x	x
Mexico	x	x
Peru	x	
Spain	x	
Uruguay		x

In the case of Mexico is considered that two (2) types of measurements take place due to overlapping the responsibilities mentioned above.

Table No. 7 shows that in some of the analyzed countries, measurements are made for several years, being these projections or ex-post evaluations. Normally these are made for two (2) or three (3) years, although in the case of Guatemala and Uruguay more years are included.

The fact that in countries are made ex-post evaluations of tax expenditures instead of projections may also explain this practice since, as noted above, when this is the case, officials can rely on accurate information from returns, GDP, exchange rates, etc. making their measurements more accurate. This encourages them to consider a longer time horizon.

It should be noted that when this is the case, spaces are opened to put aside deferral type of tax expenditures because postponements payments of tax liabilities, is not strictly a loss of resources for the State, but only a financial loss.

Especially in Argentina, Guatemala and Uruguay, that make measurements for several years, deferrals are not considered tax expenditures.

Again, it should be noted that in the case of Mexico, both time horizons are considered because of the overlapping responsibilities mentioned above.

Table No.7
Time Horizons

	Annual	Multiannual
Argentina		x
Brazil	x	
Chile		x
Dominican Rep.	x	
Ecuador	x	
Guatemala		x
Mexico	x	x
Peru	x	
Spain	x	
Uruguay		x

Finally, from the obtained answers it could be verified that the countries mainly focus on measuring the revenue losses that tax expenditures produce, although in very specific provisions, some attempt to measure the revenue gain that would result from its repeal. Furthermore, no country measures the indirect costs that produce tax expenditures, such as administrative costs associated with managing tax expenditures or those produced by tax evasion.

3. Specific aspects

With the questionnaire results, it was possible to build a database of existing tax expenditures in the analyzed countries, for the two (2) tax categories under review, providing a brief description of each. With this database, the GTMGT was able to analyze more specific aspects of the countries practice such as the fiscal cost of tax expenditures and information sources as well as the methods used to make measurements.

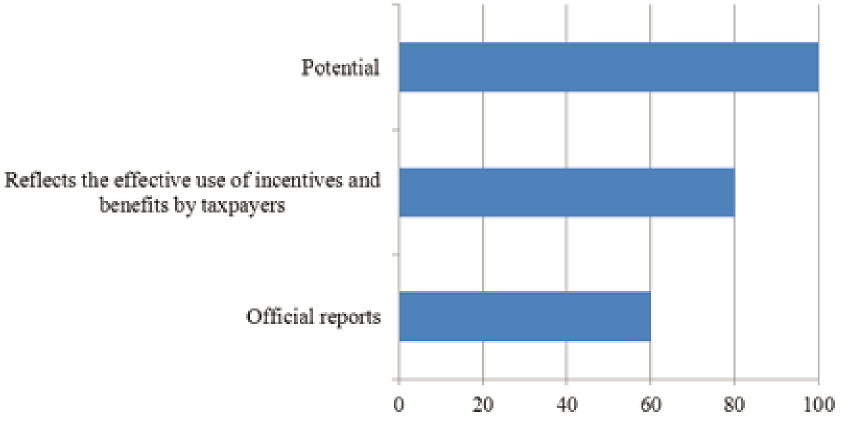
The analysis of this section focuses on the fiscal costs. However, for a correct results interpretation, it is important to first reduce some a priori expectations about them, since they generally are expected to be very high in developing countries.

Consider for this as an example, three (3) different magnitudes of fiscal cost that could result from tax expenditure measurements.

The first reflects the fiscal cost that would result from measuring all tax expenditure considering a reference tax system based on a benchmark and without limitations on access to information. The second reflects the fiscal cost that would result when considering a reference tax system based on tax legislation and use only information contained in returns submitted by taxpayers or third parties prior to the TAs. The last one reflects fiscal costs contained in official reports presented by countries.

The first magnitude, which might be called potential, is the one that all tax economists would like to identify. This is the one that probably the international fiscal community interested in proposing tax reforms in developing countries would like to know. In Graphic No. 1 it is shown as greater than the second, which, using only the information of the returns submitted by taxpayers or third parties to the TAs, reflects the effective use of incentives and benefits for taxpayers[13].

Graphic No.1
Different magnitudes of the fiscal cost: an example
In percentages



None of these magnitudes are to be borne in mind when interpreting the results of this section, but the third one. This one tries to reflect the problems that those responsible for measurements have to face to properly identify tax expenditures and, especially information restrictions they face, that is the main reason why they do not measure certain tax expenditures.

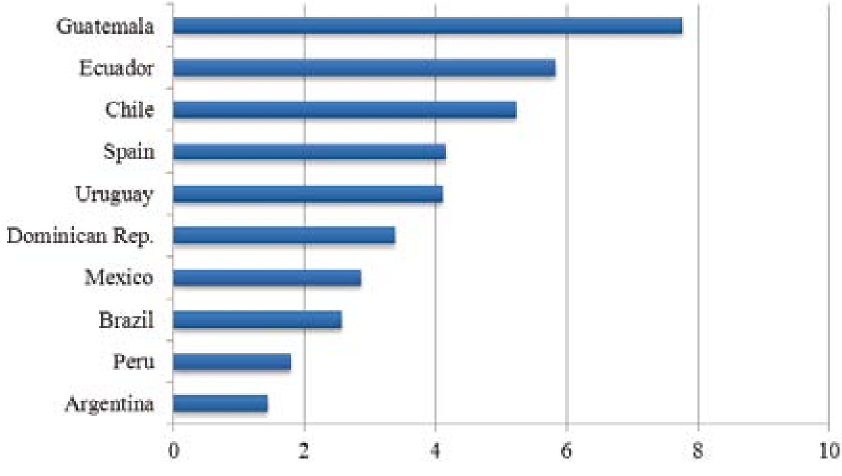
13 *This gap would indicate that, in practice, taxpayers cannot access or refuse access to the incentives or benefits, this being an indicator of low efficiency.*

While many official reports suffer from these problems, it is also the case that some responsible for measuring tasks overestimate the results, including as tax expenditure provisions that strictly are not, with the only purpose of deterring legislators to continue to approve more benefits and tax incentives.

Although the database includes information for several years, the information considered for comparisons of this section corresponds to the year 2010 in the case of Argentina, Brazil, Chile, Spain, Mexico[14], Peru and the Dominican Republic and for 2009 in the case Ecuador, Guatemala and Uruguay. As previously noted, it must be considered that in some countries fiscal costs correspond to projection exercises while in others to effective costs from ex-post evaluations. Comparisons were made in relative fiscal costs in order to avoid complications associated with the use of different currencies and reference tax systems[15].

Going to more specific aspects of the countries practice, Graphic No. 2 shows the fiscal cost in relation to GDP of tax expenditures on Income, Profits and Capital Gains Taxes and General Consumption Taxes considered for the analysis.

Graphic No.2
Fiscal cost in respect to GDP



14 *The information from the SHCP was used.*

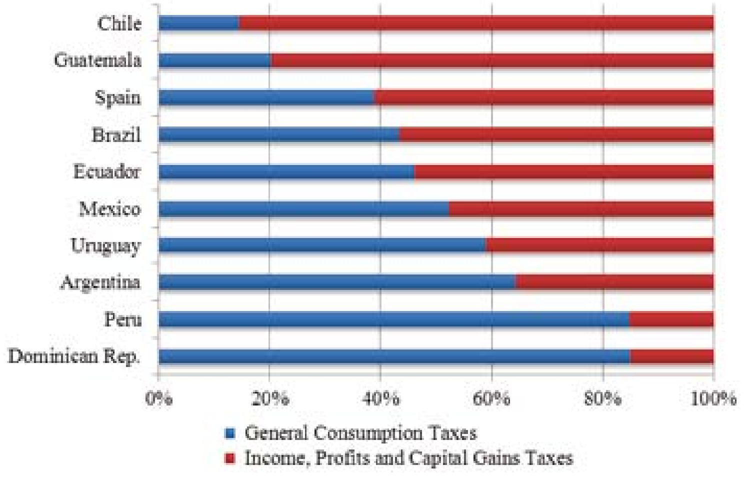
15 *One unresolved issue is the conflict of jurisdictional principle that results when comparing the fiscal costs of tax expenditures of Income, Profits and Capital Gains Taxes, as some analyzed countries follow the principle of territoriality or source and others follow the world income criteria.*

With all the caveats of the case, by all the different reference tax systems used, data sources and methods of measurement, it is possible see that the fiscal cost of tax expenditures is much higher in Guatemala, Spain, Uruguay, Ecuador and Chile, being situated above 4% of their GDP.

The importance of the fiscal cost can also be seen in respect of Central, National or Federal Government Tax Revenues, as appropriate. Using the net collection for the analyzed years, it could be verified that in these countries tax expenditures represent over 30% of revenues, with the exception of Uruguay, where they represent only 22%.

Graphic No. 3 shows the relative importance of each of the two (2) categories of taxes analyzed by the GTMGT. It can be verified that in Chile, Guatemala, Spain, Brazil and Ecuador tax expenditures on Income, Profits and Capital Gains Taxes produce a higher fiscal cost. Otherwise occurs in the Dominican Republic, Peru, Argentina, Uruguay and Mexico, where the fiscal cost from General Consumption Taxes is the most important revenue loss.

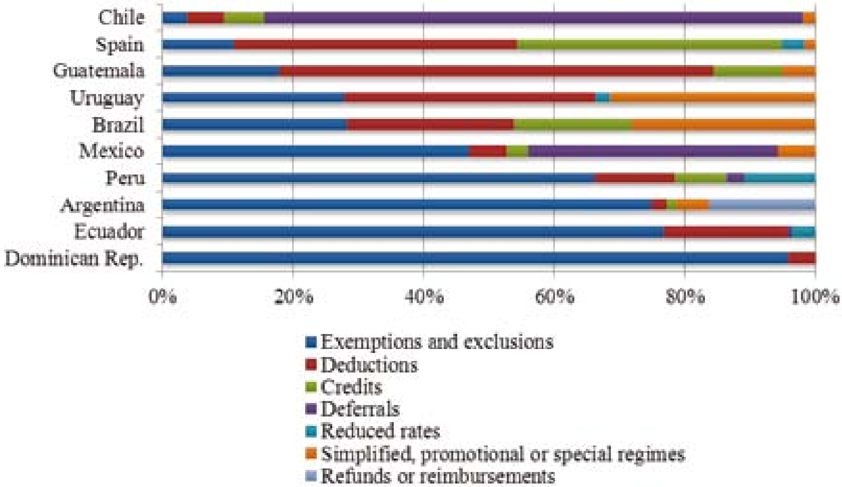
Graphic No.3
Fiscal Cost per Tax Category



In the case of countries where tax expenditures on Income, Profits and Capital Gains Taxes produce a higher fiscal cost, they represent over 30% of the collection of these taxes, with the exception of Brazil, while in countries where tax expenditure on General Consumption Taxes produce a higher fiscal cost, they represent over 30% of the collection of these taxes only in Mexico and Dominican Rep. In Graphic No. 4 it can be verified that, in the case of tax expenditures on

Income, Profits and Capital Gains Taxes, exemptions, exclusions and deductions are those that generally produce a higher fiscal cost in the analyzed countries. Exemptions and exclusions represent over 60% of total costs in Peru, Argentina, Ecuador and the Dominican Republic, while deductions represent over 25% in Guatemala[16], Uruguay, Spain and Brazil.

Graphic No. 4
Income, Profits and Capital Gains Taxes
Fiscal cost by type of tax expenditures

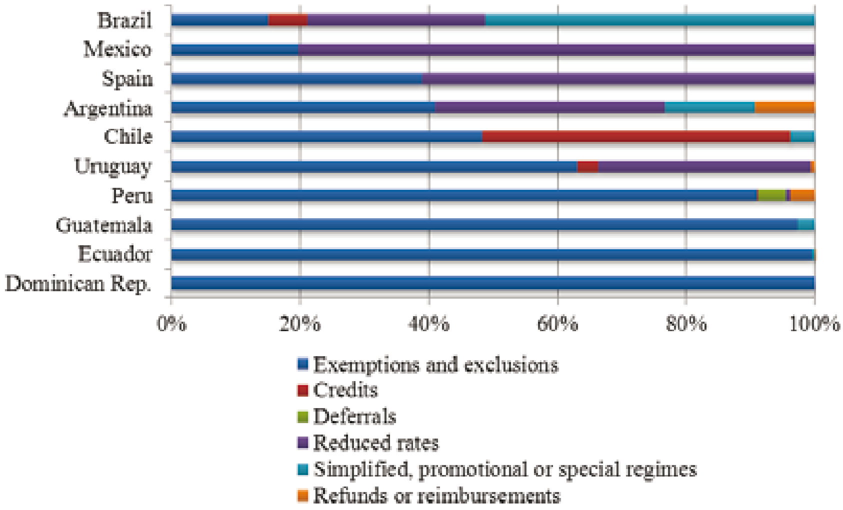


The simplified, promotional or special regimes have a relevant fiscal cost only in Brazil and Uruguay, while the credits have an important one in Spain. Only in Chile and Mexico, the fiscal cost of deferrals is extent. At this point it should be noted that Argentina, Brazil, Guatemala and Uruguay do not consider deferrals as tax expenditures. Finally, the reduced tax rates and refunds or reimbursements do not show a significant fiscal cost in the analyzed countries that measure them.

In case of tax expenditures on General Consumption Taxes, Graphic No. 5 shows that the exemptions, exclusions, and the rates reduced are the types of tax expenditure that, in general, produce a greater revenue loss in the analyzed countries. Exemptions and exclusions represent over 50% of total costs in Uruguay, Peru, Guatemala, Ecuador and Dominican Republic. In these two (2) last countries where it reaches 99.6% and 100%, note that it does not mean there are no other types of tax expenditures, but they fail to be measured.

16 *Concentrate on the non-taxable income of PIT.*

Graphic No. 5
General Consumption Taxes
Fiscal cost by Type of tax expenditures

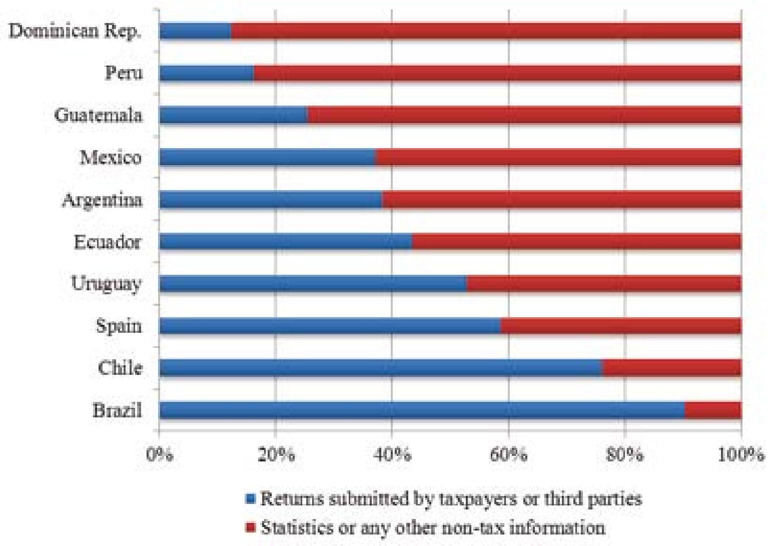


The reduced tax rates represent over 25% of total costs in Brazil, Mexico, Spain, Argentina and Uruguay. At this point it should be noted that in Ecuador, Guatemala, Peru, Chile and Dominican Republic, the VAT only uses one (1) rate. Only in Chile[17], credits have a significant fiscal cost; while in the simplified, promotional or special regimes have an important one in Brazil. Deferrals for the countries that consider tax expenditures, and refunds or rebates do not show a significant fiscal cost in the analyzed countries that measure them. Finally, none of the analyzed countries present tax expenditures of the deduction type.

As for sources of information, the first thing that stands out in Graphic No. 6 is that in Uruguay, Spain, Chile and Brazil most of the fiscal costs resulting from measurements are based on information contained in returns submitted by taxpayers or third parties to the TAs. It is not the case in Argentina, Ecuador, Mexico, Guatemala, Peru and Dominican Republic, where most of the fiscal cost results from measurements using statistical and other non-tax information managed by public or private organizations.

17 [17] *Focused on credits to construction.*

Graphic No. 6
Fiscal Cost by Source of Information

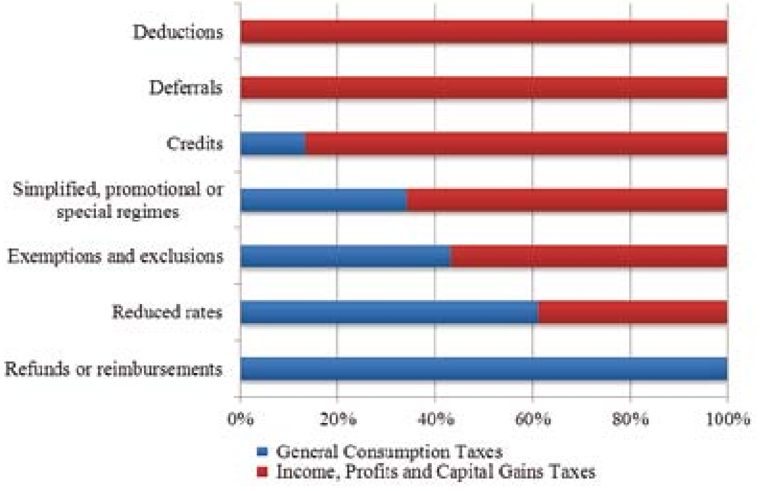


In the case of Argentina and Mexico is reasonable that the higher fiscal cost results from the use of statistics or any other non-tax information, since in these countries the Secretariats or Ministries of Finance are the responsible units for measurement, and in that sense, they cannot access to data protected by the tax secrecy. However, surprisingly, in Ecuador, Guatemala, Peru and Dominican Republic, the largest fiscal cost also comes from the use of such information, although there TAs are responsible for measurement or are part of a joint committee.

The differences in the use of information contained in returns submitted by taxpayers or third parties to the TAs, has much to do with differences in the tax information data collection strategies and in the level of voluntary compliance of countries. In Brazil, Chile and Spain, for example, there are advanced data collection strategies. In Spain and Uruguay, the omission to the submission of returns is very low.

In countries where most of the fiscal cost results from using tax information contained in returns submitted by taxpayers or third parties to the TAs, it can be seen that it focuses primarily on tax expenditures on Income, Profits and Capital Gains taxes, although in Brazil and Uruguay also focuses on the exemptions and exclusions, reduced tax rates and refunds or reimbursements for General Consumption Taxes. See Graphic No. 7.

Graphic No. 7
The use of returns submitted by taxpayers or third parties
Brazil, Chile, Spain and Uruguay
Fiscal cost by tax category



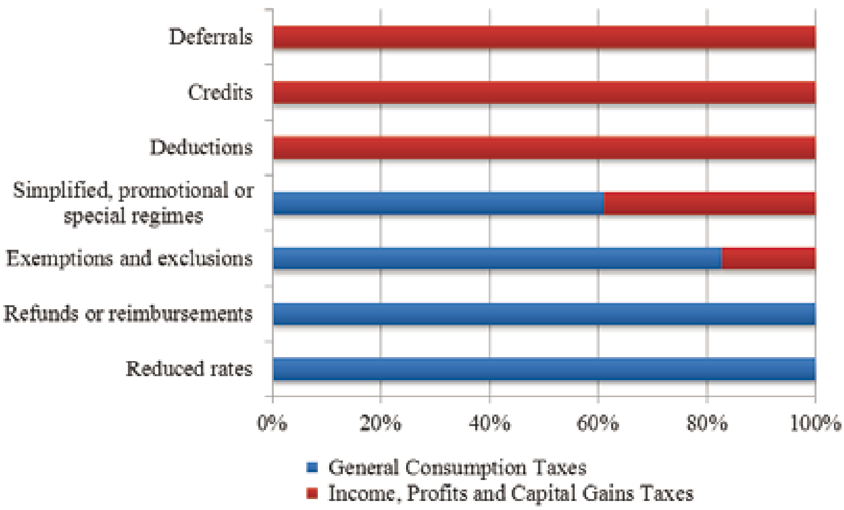
Although the next chapter explains in detail the best practices of countries in the use of tax information contained in returns submitted by taxpayers or third parties to the TAs, what can be said here is that those who most use these data for tax expenditure measurements, show fairly advanced strategies for collecting and processing tax information.

For example, they leave very few taxpayers out of the obligation to submit returns or they insist to submit returns even if withholding regimes are applied. Also, they are stringent with the exempt or excluded operations, demanding to be reported in detail. They also request a significant amount of information to taxpayers, although this increases the costs of compliance.

Finally, to ensure the quality of the information they have taken advantages of the benefits of electronic returns, they have institutionalized data cleaning procedures, have moved toward the use of draft returns and this way reduce problems of self-determination and they have intensified data verification.

In countries where most of the fiscal cost is a results from the use of statistics or other non-tax information managed by public or private organizations, it can be seen that this tax expenditure is concentrated on the type of General Consumption Taxes, although in Mexico and Guatemala it also focuses on deductions, credits and deferrals on Income, Profits and Capital Gains Taxes. See Graphic No. 8.

Graphic No. 8
Statistics or any other non-tax information
Argentina, Ecuador, Guatemala, Mexico, Peru, Dominican Rep.
Fiscal cost by tax category



While it is difficult to find best practices from TAs in the use of statistics or any other non-tax information managed by public or private organizations, as they do not have the responsibility for the development of national statistical systems and the production of official statistics other than the fiscal ones, those who most use these data are countries that show a high degree in statistical practice development.

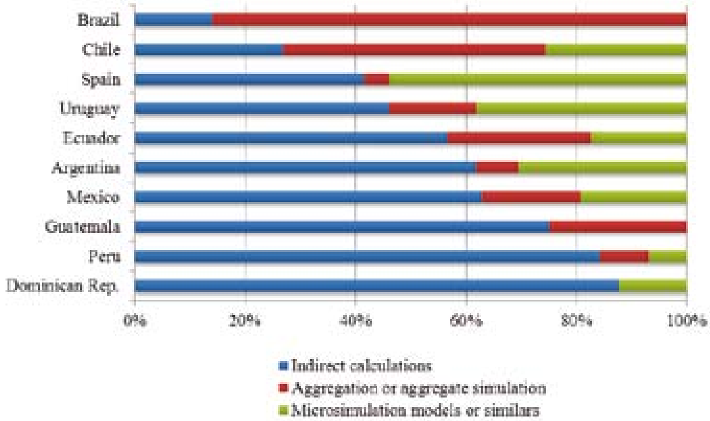
It is clear that greater the coverage and quality of available databases in the country, the higher the chances to use them for tax expenditure measurements, as previously indicated, if the Secretariats or the Ministries of Finance are the units responsible for these tasks, since they cannot access to any other data such as the ones from returns protected by the tax secrecy.

Nevertheless, it should be noted that because this information does not have a tax origin, it suffers from certain deficiencies for tax expenditure measurements, particularly in Latin America, which will be discussed later.

As for the measurement methods, the first thing that stands out in Graphic No. 9 is that in Argentina, Ecuador, Mexico, Guatemala, Peru and the Dominican Republic most of the fiscal costs results from indirect calculations using statistics or any information, administered by public or private organizations.

It is not the case of Brazil, Chile, Spain and Uruguay, where most of the fiscal cost is from aggregation or aggregate simulations that use tax information or micro-simulation models or similar.

Graphic No. 9
Fiscal cost by Measurement Methods



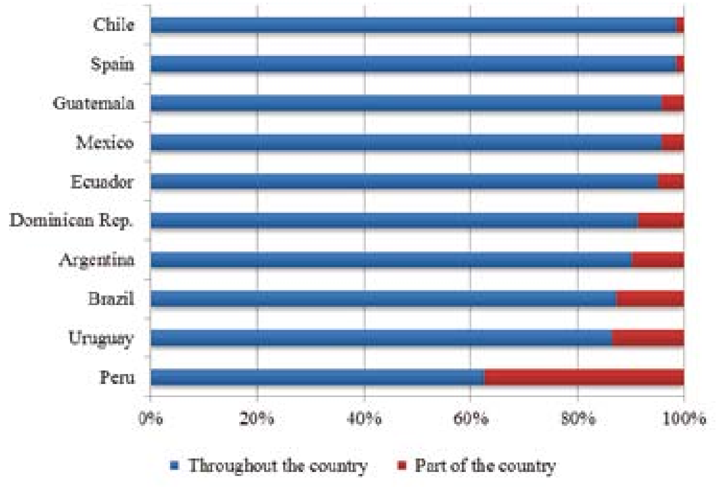
Greater knowledge of advanced quantitative techniques within the public sector can define the measurement method. In Spain in particular, there is not only an excellent strategy for collecting tax information, as noted above, but also those responsible for the tax expenditure measurements have micro-simulation models for the main taxes which facilitates this approach.

In countries where most fiscal costs are from aggregation or aggregate simulations that use tax information or micro-simulation models, these focus primarily on tax expenditures for Income, Profits and Capital Gains Taxes, but also Uruguay focuses on reduced rates and simplified, promotional or special regimes of General Consumption Taxes.

In countries where most of the fiscal cost is from indirect calculations, they focus primarily on tax expenditures of the General Consumption Taxes, while in Mexico and Guatemala they also focus on deductions, credits and deferrals of Income, Profits and Capital Gains Taxes.

In Graphic No. 10 is highlighted the low fiscal significance of tax expenditures that are applied in specific geographic areas. Only in Peru is close to 40% of the total cost, due to the great amount of benefits and incentives for the Amazon. Leaving aside the problems on the lack of information for tax expenditure measurements, this result could indicate a low effectiveness of these provisions for generating regional development in the other countries.

Graphic No. 10
Fiscal cost by geographic area



When the same analysis is exclusively done for CIT tax expenditures –those that have a greater impact on investment– the results show greater fiscal significance of tax expenditures applied to specific geographic areas also in countries such as Spain, Brazil, Guatemala, Uruguay and Dominican Republic.

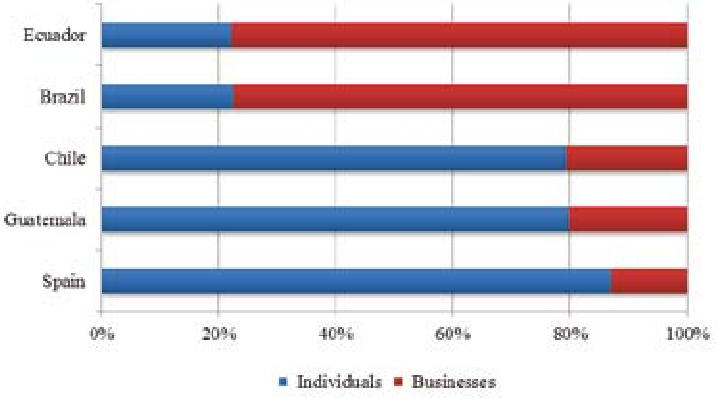
In terms of sectorial distribution of the fiscal cost, Table No. 8 shows that tax expenditures of the analyzed countries with greater fiscal costs operate in sectors such as Social Security and Social Services (including Private Pension Systems and Adoption); Healthcare (including Food and Maternity), Housing and Urban Development (including Building and Infrastructure) and Investment, Decentralization and Regional Development.

In the case of General Consumption Taxes, the tax expenditures that generate greater fiscal cost operate in sectors such as Housing and Urban Development (including Building and Infrastructure), Health and Healthcare (including Food and maternity), Education, Culture (including artistic activities), Research, Development and Innovation (including Science and Technology) and Agriculture (including Agricultural and Livestock) Fisheries and Forestry.

It should be noted that the fiscal cost in these four (4) sectors represent over 65% of the total fiscal cost of tax expenditures of the General Consumption Tax in all countries except Brazil, Spain and Peru. In these countries tax expenditures that generate greater fiscal cost affect the production process since they are associated with sectors such as Industry (including SMEs), Agroindustry and similar and Investment, Decentralization and Regional Development.

For Income, Profits and Capital Gains Taxes, before advancing in the analysis of sectors, it is interesting to note in Graphic No. 11 among the countries where the fiscal cost of these taxes is more important, only Brazil and Ecuador show greater revenue losses from tax expenditures associated with the CIT –those that have a greater impact on investment–. In Chile, Guatemala and Spain the primarily fiscal cost of tax expenditures is in the PIT.

Graphic No. 11
Income, Profits and Capital Gains Taxes
Fiscal cost by type of taxpayer



Tax expenditures on PIT that generate higher fiscal costs are associated with Social Security sectors and Human Services (including Private Pension Systems and Adoption), Employment, Housing and Urban Development (including Building and Infrastructure) and the Financial sector.

The fiscal cost in these four (4) sectors represent over 80% in all countries except for Brazil, Chile, Ecuador and Uruguay. In these countries tax expenditures that generate greater fiscal cost are associated to sectors such as Health and Healthcare (including Food and motherhood), Education, Culture (including artistic activities), Research, Development and Innovation (including Science and Technology), Industry (including SMEs), Agribusiness and similar and Investment, Decentralization and Regional Development.

CIT tax expenditures that generate higher fiscal costs are associated with the Foreign Trade sector (including “maquilas” and free trade zones or similar), Social Security and Social Services (which includes Private Pension Systems and adoption), Education, Culture (including artistic activities), Research, Development and Innovation (including Science and Technology), Industry (including SMEs), Agribusiness and similar, Financial sector and Investment, Decentralization and Regional development.

The fiscal cost in these six (6) sectors represent over 60% in all countries except for Mexico and Peru. In these countries tax expenditures that generate greater fiscal cost are associated to sectors such as Agriculture (including Agricultural and Livestock), Fishery and Forestry, Mining and Energy and those of general application.

Finally, it should be noted that with the database of the existing tax expenditures in the analyzed countries enclosed in this Handbook, more comparisons could be made as the ones made in this section. It can be useful, for example, to make an analysis by specific taxes or by types of tax expenditures. The database is fully coding, so it is easily manipulated through any dynamic tables of a standard spreadsheet.

Annex No. 3 explains in detail this codification.

Table No. 8
Fiscal Cost by Sectors
(In percentages)

Sector	Arg	Bra	Chi	Ecu	Spa	Gua	Mex	Per	D.Rep	Uru
State apparatus, Homeland Security and National Defense	0.7		0.4	4.1		2.6	3.2			0.3
Foreign Trade and Tourism	0.0	5.0	1.2	0.6	0.1	4.6	0.7	0.6	8.6	17.0
Social Security and Social Services	9.7	10.7	18.8	3.0	12.1	3.5	16.8	1.7		1.3
Employment		5.4	3.1	2.6	19.2	59.6	4.0	6.4	0.2	0.3
Housing and Urban Development	5.4	3.2	10.0	2.9	17.7	3.0	8.1	0.4	16.6	8.9
Healthcare, Health and Sports	30.3	11.8	5.0	23.6	7.1	10.3	37.9		44.6	22.9
Education, Culture, Research, Development and Innovation	9.1	9.9	3.1	9.2	5.0	4.0	6.8	14.0	2.0	8.1
Agriculture, Fish and Forestry	0.0	10.9	0.9	2.6	6.9		2.0	26.4		5.0
Industry, Agribusiness and similar	10.1	31.3	0.0	0.0	9.5		0.2	0.8	1.0	3.7
Energy and Mining	0.6	0.9	0.1	1.0				2.4		7.0
Transport and Telecommunications	1.4	0.8	0.9	5.0	2.0		2.0	2.5	17.3	3.7
Financial Sector	16.0	1.0	2.4	4.4	0.1	5.1	2.5	6.4	2.6	0.3
Investment, Decentralization and Regional Development	9.7	4.2	50.6	30.8	4.6	1.5	7.4	36.2	0.2	15.6
Politics, Religion, Justice and Foreign Affairs	1.1	0.9	0.0	0.0	0.0	1.7		0.1		
General application	6.0	3.8	1.4	10.0	4.6	4.2	8.6	1.0	5.3	5.8
Others			2.1		11.2			1.0	1.5	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Chapter 4

Best practices

In the previous chapter, general and specific aspects of the countries practice on tax expenditure measurements have been presented. This chapter will analyze the issues related to sources of information and methods of measurement, the most relevant topics for the measurement of revenue losses experienced by the State due to the application of tax expenditures.

1. Source of information

Not in all analyzed countries, the higher fiscal cost of tax expenditures results from measurements that rely on the information contained in the returns submitted by taxpayers or third parties to the TAs. This has to do with differences in the strategies for collecting and processing tax information that countries show.

First of all, is the coverage issue, this means, who are the ones forced to submit returns.

In several legislations is established, for example, thresholds to release taxpayers from the obligation of submitting returns. In the case of the PIT, they are lower in Brazil, Chile and Spain than in Mexico, Peru and Dominican Republic. While the first show thresholds ranging one (1) time per capita GDP, the second ones reach two (2) times or more.

Also, all countries have moved towards withholdings schemes. This reduces or waives the requirement to submit returns by the taxpayer. For example, workers as employees are only obliged to submit returns when they receive non-wage income. Brazil and Spain are the only countries that maintain the obligation of filing even if taxpayers have been subject to withholdings.

It should also be considered that often exempt or excluded operations are not reported to the TAs, but if they do report them they do it in a fairly lax way. Therefore, the revenue loss associated to some large generators of tax expenditures such as farmers, foundations, church, etc., cannot be measured directly using submitted returns. This is not the case in Brazil, where the RFB requires that exempt transactions and exclusions must be reported with the same strictness that taxable transactions do.

The second issue is the depth of the requested information.

Submitted returns are the bases of tax management. With this basis all the elements for the tax determination are achieved. They are also the basis of the information cross-control purposes. But with the returns the data for statistical purposes can also ensure and even serve to build relevant macroeconomic aggregates for the countries.

Contrary to this, many countries in Latin America have tried, in recent decades, to reduce the amount of information required from taxpayers through returns of both individuals and corporations, in line with the purposes of simplification and reducing compliance costs promoted by certain international organizations.

It incites the idea that returns should be short and simple, and some countries are placed unnecessarily on the ledge and leave to seek valuable information. This negatively affects those responsible for tax expenditure measurements since they must turn to other sources of information to perform their tasks.

Again the case of Brazil is highlighted, where the demands of information are very high and there are strict sanctions for non-compliance. In this country, those responsible for tax expenditure measurements are part of the returns design committee. This ensures that they collect the information needed for measurements.

These requirements pose a greater burden of obligations to taxpayers. For example, in the World Bank Report on Paying Taxes 2010, Brazil appears as the Latin American country where more time is needed in a year to prepare and complete returns for main taxes. But, is not this ranking less important if what are achieved are better tax expenditure measurements?

Finally, there is the issue of the quality of tax information.

There is some sensitivity about the use of returns as the main source of tax expenditure measurements. Some scholars suggest that the data contained in them is not reliable because they contain errors or incomplete filling, or more, contains values of income and sales undervalued or overvalued costs and expenses, which generates distortion.

To minimize errors in data entry, countries have taken advantage mainly from electronic returns. The main reason is that they allow automating basic verifications and preventing returns to be stored with inconsistencies in the TAs databases.

Almost all countries show a great advance in the field. According to Barra (2006), Brazil and Spain stand out as pioneers, not only in Latin America but also worldwide. The first introduced the service in 1989 and the second one in 1991.

Electronic returns submitted through the Internet are also being used in all countries. Not only they have served to minimize the errors but have reduced the time that information for examination is available to the TAs. Chile has shown clear leadership in this area since 1998.

In this country, tax expenditure measurements have been improved by the change in the capture of Wages and Salaries returns by the Internet. Since they are submitted in this way, employers report the details of all their workers, allowing fully identify the beneficial owners of certain tax expenditures, so they make more accurate measurements.

Minor is the use of other sources such as fixed or mobile telephone system. Only Chile and Spain show some development in this area.

The reliability of the information contained in returns also requires institutionalizing a data cleaning procedure, with the support of information technology units. This may involve removing or replacing data even in the same operational databases. In Spain, the AEAT has a special team to handle these tasks. This can be cleared automatically (an imputation method) or manually. Extreme values are cleared (maximum and minimums), duplications, a typical data, among others are used.

As for the problems with determination, this is a risk of self-determination schemes, widely accepted by the analyzed countries. As is known, under this approach is the taxpayer or the withholding agents who make the determination of the tax through the returns. The alternative paths, the administrative determination, are more in line with what the TAs could find, but they increase the litigation processes.

Given that the administrative determination is no longer used in the world, the only way for the TAs to ensure a correct determination of taxes is to increase the tax control, either through random verifications or deep audits.

In the last decade the use of draft returns have been an alternative adopted by countries to reduce the problem of self-determination. Spain and Chile are the countries that report higher acceptance rate among the analyzed countries, this means that the percentage of taxpayers who accept what the TAs determine without making any adjustments. In the first case is 44.9% and in the second case is 75%.

The OECD has noted on more than one occasion that the success of the draft returns lies in the quality of the taxpayers registry, in the returns information system that third parties submit, in the degree of process automation of returns of retainers and payers of income and in a withholding system in the source that approximates the obligations to be determined.

It must be noted that the effectiveness of strategies for collection and processing data depend on the degree of taxpayer's voluntary compliance. From analyzed countries, Brazil, Chile and Spain show the lowest levels of omission or due date presentations. In the case of the PIT, they reach 3.0%, 2.3% and 0.3%.

For countries where higher fiscal cost of tax expenditures fall on measurements using statistical or other non- tax information managed by public and private organizations, the success of these depends on its coverage, quality and availability, which is closely linked to the degree of statistical development in the country. In that sense, it is difficult to find the best practices by the TAs.

In Latin America, according to a recent ECLAC report, the 2010 Official Development Statistics in Latin America and the Caribbean, in the last decade the development of national statistical systems and the production of official statistics have advanced.

Argentina, Ecuador, Guatemala, Mexico and Peru show Statistical Capacity Index above the average for Latin America in 2010. This World Bank indicator reflects rating for three (3) categories: statistical practice, data collection and availability for users.

One of the most widely used aggregate statistics for tax expenditure measurements in these countries, including the VAT ones, are the National Accounts. While they all have implemented the United Nations National Accounts System of 1993 recommendations, with the exception of Guatemala, there are still some limitations with the information.

In several of them, used as reference years, outdated statistical basis about with the current economic structure (in terms of both weight and price) or do not have estimates of GDP with sectorial or regional detail necessary to measure some fiscal costs.

Also, very few have developed the balances of assets and liabilities of institutional sectors, including non-financial corporations, households and non-profit institutions, and even from the general government sector.

The Population and Housing Census are also used in measurements. Here, all the countries of Latin America show significant progress.

Other information not based on taxes more used for tax expenditure measurements are those that come from Household Surveys, such as the ones analyzing the Living Conditions, Income and Expenditure and Employment. The advantage of all of them is that, when presenting individual data, allows tax expenditure measurements similar to those they would make with returns submitted by taxpayers or third parties to the TAs.

As pointed out by ECLAC, Mexico and Peru are shown as the most active in this area, followed by Ecuador, Dominican Republic and Argentina, not only by the frequency of surveys, but by their updates.

Unfortunately, often the tax expenditures measurements using Household Surveys differ from those that use National Accounts. For example, in Mexico, the SAT and the SHCP show important differences when dealing with the VAT tax expenditures.

Other statistics used are the Survey of Industrial Production, the ones disseminated by regulatory agencies, Ministries or Secretariats, among others. In Brazil, the information disseminated by the costs management bodies is used very much, which usually has a direct role in their concession, monitoring and evaluation process.

2. Measurement methods

As described in the previous chapter, the largest fiscal cost of tax expenditures benefits from measurements using micro-simulation models, aggregations or aggregate simulations using indirect tax information and indirect calculations using non-tax aggregated data. Here is the experience of three (3) countries in each of these simulation models, seeking the best practices.

Micro-simulation: The Spanish experience[18]

Within the exposed calculation methods, the micro-simulation models have proven to be one of the most appropriate for tax expenditure measurements in Spain. The model allows calculating individually each of the tax provisions under review.

The model consists to measure for each taxpayer a determined theoretically liability excluding tax expenditures, and the real one, with their application. It should be noted that the fact that deductions or payments have been made does not affect the calculations.

Another point that should be specified is the treatment of the year of computation or the imputation of tax expenditure. In General Consumption Taxes, the calendar year coincides with the cash basis. However, in the PIT or CIT, the final return is submitted months after the end of the year, six (6) months in Spain, which causes tax expenditures to be computed to the year that the final return is made.

18 *Provided by the AEAT.*

The micro-simulation phases are:

a. Extracting data from returns.

First of all it should be noted that in order to have such measurement, an initial decision would be taken and such decision would not be to choose for sampling methods. Sampling techniques are useful when there are not powerful computer mechanisms and the number of taxpayers is very high and homogeneous. But thanks to advances in computer resources measurements it can be made with all the returns and obtain faster results.

Extracting data from returns will assume that a database will be built with which they will be working permanently for a year until they have a new database at the end of that year. For it to have a high reliability they should be extracted as late as possible, since it cannot forget that returns from prior years may be continuously presented.

In Spain the Government presented the National Budget draft for 2010 to Congress in September 2009. For tax expenditure measurements, for example, from the PIT, the last available database corresponds to 2007 tax year. Some countries may have a larger gap during this lag of two (2) years, is necessary to overcome it with the following measures detailed below.

No doubt the database is a “snapshot” of the returns for one year and it will not only be useful for tax expenditures measurements, but will be published as statistical information of the exercise by the competent authority.

b. Data cleaning process.

The first thing that the ones responsible for the database should do, is to proceed to apply the filters established by the legislation to remove any inconsistencies or errors that can be committed in completing the returns. The reported data by each taxpayer is collected completely accurate, because in case of errors the competent bodies will penalize it, and another very different thing is to conduct simulation exercises errors that can be moved and easily corrected.

If a taxpayer makes a numerical error (which means in a sum or in an arithmetic operation) or exceeds a limit set on legislation, these errors must be corrected. This comment is appropriate to do since some literature states that the data estimates were made improperly because they were based on returns containing errors. Of course the errors coming from numerical operations or application of the law must be corrected before being introduced to the database.

To reduce this AEAT has:

- Telematics facilities that avoid arithmetic errors and inconsistencies: sending draft returns, software support, and fiscal data downloads, etc.,
- Management and verification returns systems: based on mass crosses with the information provided by third parties, referral to the taxpayers detected, etc., and
- Statistical returns cleaning processes.

Clearly, the importance to be given for setting up the database and that time limitations will exist: the sooner many possible corrections are incorporated, the later the need to make it available to allow using it in order to make new estimates.

The data can also be limited and only select the most important sections from the taxpayer's own returns and those who may have a greater interest for the TAs or to the whole society, in the case of published statistics. The more data you have, the harder will be for management. Furthermore, todays missing data may be needed tomorrow.

Do not forget that the calculation consists to settle taxpayers one by one, by obtaining a determined tax without tax expenditure and one with them. The difference between the two calculations is the measure sought. As far as there is no significant data available (of small size or low interest) it will increase the time to obtain results.

c. Temporary lag

As it was mentioned before, the database that makes the estimates of tax expenditures is formed by returns from the two (2) previous years (or more, depending on the country or on the tax in question). In any case, there is a time lag. The legislative changes that have occurred in previous years as well as the projected data should be considered.

The last two (2) years legislation changes were considered for the estimates of tax expenditures of the current year. The only ones to be added are the ones that the government has adopted during the current year. Probably the department that performs the calculations of tax expenditures was aware and had provided the cost estimates of adopted short-term measures.

The projection data can be based on various estimates:

- Estimates by projecting the evolution of the magnitude observed in previous years. In other words, there is a series of history for each of the reported data. This series allows making necessary projections.

You can even have more recent data through periodic payments (monthly or quarterly) conducted by companies. This allows knowing the recent evolution of certain variables.

- Estimates by the evolution of exogenous variables: prepared by other departments (Institute of Statistics, Economic Policy Department, etc.) they can publish statistical series on the evolution of certain variables: wage trends, labor market trends, profitability financial products, etc.
- Macroeconomic Scenario. When evaluating the estimators, these are influenced by the situation and should collect the last macroeconomic estimates data made by the government. Expected evolution of GDP, population growth, etc.

This way a set of data would have to be transferred and for each return with the factor affected by population growth and income growth. If labor income was being analyzed, the increase factor (or decrease) of the working population would have to be applied and the factor of increase in the amounts of wages.

There may be short-term incentives that alter the estimates. If a new provision is introduced, at first, to have a greater impact and affect that in over time can be diluted. Also, the government could pass a tax law on a temporary basis and, consequently, if it disappears in a certain date in the last minute tax expenditures can be concentrated to a greater extent.

d. Settings in the application of tax expenditures.

Previously it was noted that tax expenditure measurements here consists to settle taxpayers one by one, by obtaining a determined tax without tax expenditure and one with them. The difference between the two calculations is the measure sought.

If the taxpayer has applied in his returns for one or more incentives, the amount of tax expenditures are distributed proportionally to each incentive amount that taxpayer has declared. This division may have a greater degree of difficulty in the PIT or CIT case, as there are incentives that deduct or reduce the tax base and credits.

In any case, it seems clear that the body responsible for the calculation should establish the criteria for appropriate adjustment.

e. Benefits of the database

As it has been mentioned before, the database will allow previous years to have the evolution of the different variables under study. In other words, the evolution of different returns and the similarity or difference on data from external sources can be verified.

Another aspect of great interest is, once the one year definitive database is available, to proceed to contrast the real tax expenditures imputed by the taxpayers, with the estimates or provisions made for two (2) years or for earlier years. This analysis always is useful to improve future implementations. However, it is well known that the evolution of the economy as a whole produces atypical results. If there were tax expenditures related to trading on the stock exchange, is well known that not too long ago, there have been dramatic rises and sudden drops, it seems evident that the income coming from them as tax expenditures will be closely related.

What is certain is that, before preparing a new database for future estimates, it should be analyzed the current data and the changes that have occurred with the initial estimates to thereby correct the proceeding evolutionary factors.

Once the micro-simulation system is exposed, the difficulty that arises with its implementation and ongoing maintenance may be better understood. It certainly has become a huge advantage to have a tool as the one described for the calculation of tax expenditures. It has also sought to dispel some doubts about whether the system complied with sufficient reliability purposes.

A graphic that describes all the steps presented here, which considers the measurement for 2010, is in Annex No. 4.

Aggregations or aggregate simulations: The Brazilian experience[19]

The aggregation or aggregate simulation method is simple mathematical calculations using the information in the returns submitted by taxpayers or third parties to the TAs. Based on partial or total values in specific fields of the tax returns submitted, apply the calculations to obtain the fiscal cost.

Special attention is necessary in forming the data basis from returns. In the case of Brazil, there are procedures that seek to minimize filling errors from taxpayers during the delivery of returns.

A PGD makes electronic critics on data filled by taxpayers, transportation data, automated calculations and issue warning messages to correct information or error messages that prevent the transmission of the returns.

There is a very complete manual to guide the filling, containing the discrimination information to be entered in each field in the returns. After received, the electronic processing, returns go through several parameters that can affect directly the returns for the audit.

19 *Provided by the RFB.*

Examples of aggregations or aggregate simulations are presented below:

a. Exemption from the yield of pensions in the PIT. The benefit is a waiver of a part of the yield from the pension, received from taxpayers over sixty-five (65) years. The source is a field in the returns that taxpayers record the value of the exempt income. On the sum of these values, the rate is applied over the average tax and leads to the tax expenditure measurements.

Table No.9
Pension Income Exemption
R$ 1,00

Value of exempt retirement income (A)	Average rate (B)	Tax expenditure (C=A*B)
81 251 517 957	8,5%	6 905 074 293

b. Exemption of profits taxed with the CIT for companies installed in the North and Northeast regions. The benefit is a waiver of the profits from entrepreneurship installed in the North and Northeast regions, with projects approved by the Superintendents of Regional Development, framed between the priority sectors for the local economy. The source of information is a specific sheet of the returns where the taxpayer shows the benefit of the profits and calculates the value of the exemption. The field with the value of the exemption is the actual tax expenditure.

Table No. 10
Exemption for Regional Development
R$ millions

Exemption (A)	Tax expenditure (B=A)
4 055	4 055

c. University for All Program (Prouni). The benefit is an exemption of income from the provision of education services to private universities that joined the program in return for the offer of scholarships. The source of information is a field of COFINS contribution returns, is one of the Federal Government's General Consumption Tax, where taxpayers report the value of exempt income. The extractions were performed using the list of taxpayers that the Ministry of Education sends the RFB. On the value of the income the COFINS tax rate is applied and then it reaches the tax expenditure.

Table No. 11
Exemption COFINS Prouni
R$ 1,00

Value exempt income (A)	COFINS rates (B)	Tax expenditures (C=A*B)
3 793 150 112	3%	113 794 503

d. Deducting education expenses in the PIT. The benefit is a deduction from the tax calculation base for education expenses. That deduction is limited by an annual amount. The information source is a field on the returns where the PGD transports the consolidated value returns, noting the deductible limit, the expenses reported by taxpayers with education. On the consolidated value half the rate of tax is applied, leading to the tax expenditure measurements.

Table No.12
Education Expenses Deduction
R$1,00

Education spending Value (A)	Average rate (B)	Tax expenditure (C=A*B)
14 670 581 072	8,5%	1 246 763 812

e. Deduction of medical expenses for employees in the CIT. The tax base deduction for the expenses incurred in medical, dental and pharmaceutical expenses to employees. The source of information is a field in the returns that taxpayers record the value of those expenses. On this value, the tax rate is applied and tax expenditure is reached.

Table No. 13
Employee Health Care Deduction
R$ 1,00

Health Care Deduction (A)	Non-deductible part (B)	Rate (C)	Tax expenditure (D=(A-B)*C)
14 670 581 072	61 906 085	25%	2 101 850 302

f. PIT Credits incentive for donations for culture, audiovisual, sports and children's funds. Credit for donations and sponsorships made for projects approved for the encouragement of culture, audiovisual, sports and children's funds. Credit limited to 6% of tax due. The source of information is a field in the returns where the PGD consolidates these donations, noting the value of the credit limit. This value is the actual tax expenditure. It is necessary to make the distribution by type of incentive.

Table No. 14
Donation Credit
R $ 1.00

Type of Credit	Credit Value (A)	Distribution Percentage of donations (B)	Tax expenditure (C=A*B)
Culture	66 551 777	21,7%	14 428 767
Audiovisual activity		2,8%	1 854 057
Children Funds		73,3%	48 775 107
Sports		2,2%	1 493 845
Total	66 551 777	100%	66 551 777

g. CIT credit for the workers food. Tax credit equivalent to the rate application on the cost value of labor food programs approved by the Ministry of Labor. Credit limited to 4% of the tax due. The source of information is a field in the returns where the PGD critics the value submitted by the taxpayer, noting the credit limit. The reported credit value is the actual tax expenditure.

Table No. 15
Workers Credit on food
R$ 1,00

Credit (A)	Tax expenditure (B=A)
333 428 819	333 428 819

h. Zero tax rate PIS / COFINS about books. Reduction to zero of PIS and COFINS rates on the sale of books in general. The source of information is a field on the returns of PIS / COFINS where taxpayers report the values of sales taxed at the rate zero. Withdrawals are made by economic sector and by type of tax regime (cumulative or not cumulative). Above that, value tax rates are applied according to the tax regime and it reaches the tax expenditures value.

Table No. 16
Rate zero PIS/COFINS Books
R$ 1,00

Sales value Zero tax rate non-cumulative (A)	COFINS Rates Non-cumulative (B)	Sales Value Rate Zero Accumulative (C)	COFINS Rate Accumulative (D)	Tax expenditure (E=A*B+C*D)
311 016 917	7,6%	30 508 114	3%	24 552 529

i. National “Simples” Special Regime. The tax rates reductions and changing the calculation basis for taxpayers participating in the National “Simples” Special Regime. The data sources are sales of goods and services, extracted from the taxpayers’ returns and records collection. From the sales value, simulates the taxation scenario according to the alleged presumptive profit (the general system of simplified tax calculation) and compared with the values actually received. The difference between the two is the tax expenditure.

Table No. 17
National "Simples" Special Regime
CIT
R$ Millions

Sales Values (A)	Presumption (B)	Rate (C)	Debt (D=A*B*C)	Effective collection (E)	Tax Expenditure (F=D-E)
375 332	8%	25%	7 507	1 062	6 445

Table No. 18
National "Simples" Special Regime
COFINS
R$ Millions

Sales value (A)	Tax rate (B)	Debt (C=A*B)	Effective Collection (D)	Tax Expenditure (E=C-D)
375 332	3%	11 260	4 054	7 206

Indirect calculations using non-tax information: The Mexican experience[20]

Here are some notes for tax expenditure measurements with the use of both, National Accounts as well as Income and Expenses of Household Survey. Measuring VAT tax expenditures is the first option to be analyzed. Some forms to measure tax expenditures from PIT and CIT are presented below.

a. VAT

This tax is generated in a manner much like the National Accounts are constructed; therefore, their use seems entirely justified. At each stage of the production process it's only paid on added value and the tax payment is credited by the inputs value used.

Tax expenditures are presented in various forms in this tax: exemption with paid refund of tax payments in the acquisition of inputs, also called zero rate, exemption only for value added in one of the stages, reduced tax rates, among others. These provisions may be general or in defined geographic areas.

20 *Provided by the SAT of Mexico.*

There is a picture of total supply and use of goods and services in the National Accounts. In use are two (2) concepts: intermediate demand (inputs) and final demand. The last one is classified as final consumption (private and public), gross fixed capital formation, changes in inventories and exports.

The taxation basis of the VAT focuses only on private final consumption; the intermediate demand tax is credited in later stages of the process. The public final consumption is not commercialized, therefore does not generate the tax, although its intermediate consumption generates tax and it is not credited in later stages. The value of investments included in gross fixed capital formation will also be credited at the time of billing the good to be produced by these assets. Changes in inventories are movements of unsold inventories and exports that are not taxed in the country of origin.

Therefore the analysis focuses on private final consumption[21]. This consumption is about the final goods with all the added value generated along the production process. In the case of VAT, the final consumption is taxed, so theoretically two options can be possible: to reconstruct the entire production process, or take the final value which already contains all the added value.

When it comes to exemption with refund (zero rate scheme), the tax expenditure reaches the entire product. In other words, is the sum of the VAT that constitutes tax expenditure. The simplest thing is to calculate the final product that is intended for final consumption.

If the National Accounts provide a breakdown in the table of final consumption, tax expenditure is calculated with this amount multiplied by the tax rate. It is not necessary to calculate the sum of added value at different stages until the final product.

If the National Accounts do not have the breakdown at the required level, is necessary to use other sources such as the Income and Expenses Household Survey. When a sub-report is usually presented with this source, the amount of consumption should not be used, if the percentage that represents the expense in particular the total expense and the reported expenditure in National Accounts. If the particular consumption is common, the estimate will be quite adequate.

When the product is exempt in only one stage, several options are presented, the most common one is consider tax expenditure, and this is when the exemption is at the last stage of the production process.

21 *To the private consumption is necessary to add the tourism balance to add foreign consumption within the territory and subtracting the national consumption in other countries. National Accounts is called net purchases in foreign markets and has the opposite sign to be used for this estimation.*

As it was previously mentioned, is necessary to estimate the consumption which is exempt, if there is sufficient disaggregation it is simple, otherwise it is necessary to determine a percentage with a survey, as explained above.

A second step is to determine how much of this consumption is exempt. This can be done with the production account in the presented intermediate consumption and the added value with different levels of disaggregation. It should seek the one, which corresponds as closely as possible, and determine the percentage that the aggregate value represents. This percentage will be applied to the final consumption of the exempt product, and then multiplied by the appropriate VAT rate, which gives a tax expenditure estimate for this exemption.

b. PIT and CIT.

National Accounts report magnitudes too aggregated for the total wages paid throughout the economy, the operating surplus, etc. Therefore it does not contain individual data, which are required to determine many necessary aspects for the tax expenditure measurements.

Several groups of taxpayers are located in this tax: companies that can be formed as corporations or small units, often within family, professionals who carry out their work independently, employees and others.

To determine the usefulness of non-tax information in tax expenditure measurements is necessary to observe their nature. They could be in many forms: payment exemption for employees with low income, personal exemptions for some special reason such as medical expenses, retirement income, credits for special family conditions (the disabled, number of components), payment exemption or reduction of rates to companies engaged in specific sectors such as agriculture, education, culture, etc.

For CIT, using as a source of information to the national accounts the best approximation for profit is the operating surplus. Usually the gross and net amount is presented; the difference between both is the depreciation, which calculation differs from the tax point of view.

Information by the institutional sectors of national accounts is used to separate corporation's operating surplus with small economic units. Companies are represented in two institutional sectors: financial and non-financial.

Within the household, small units as well as independent professionals record the production sector. It separates the operating surplus of wages, but presents a unique concept called net mixed income. This group of taxpayers may be classified as individuals, as companies or corporations, which become a problem in the tax expenditures measurements.

The non-profit private institutions are also an institutional sector of particular interest to the measurements, being subject to special conditions from the tax point of view.

A variable of great interest is the amount of wages paid, however, since it is an aggregate is not very useful for tax expenditure measurements. When the tax expenditure is presented to all employees, the national accounts generally indicate the number of workers, making it possible to multiply this support by all employees.

Chapter 5

Proposal conventions

As it was stated in the introduction, a secondary purpose pursued by this Handbook was to move towards the standardization of tax expenditures measurements, including a discussion about their identification and proposing the adoption of certain conventions, particularly in terms of what is defined as tax expenditures, measurement purposes, the reference tax systems to be consider and sources of information and measurement methods to be used.

While further discussion is needed to standardize more complex aspects such as information sources and measurement methods, the interaction between all GTMGT members, have allowed making progress towards the desired direction. Until the completion of this Handbook, it was well known that some methodological changes have occurred in Ecuador and in Chile was under discussion.

1. Tax expenditure concept

From the definitions used by the analyzed countries, it is clear that a provision is considered tax expenditure when it generates a revenue loss and constitutes a deviation from a general tax provision. More over, the State objective for pursuing an economic or social policy or increase the taxpayer's economic capacity are also features that define a tax expenditure.

OECD (2002) defined tax expenditure as *estimated costs in the revenue produced by the preferential treatment to specific activities. Meanwhile, Kraan (2004) defined tax expenditure as a transfer of public resources that is achieved by reducing tax obligations with respect to a reference tax, rather than by a direct expenditure.*

The 2007 IMF version of the Manual on Fiscal Transparency defines tax expenditure as r*evenue forgone as a result of certain provisions of the tax code, such as exemptions from the tax base, deductions from gross income, tax credits are deducted from tax obligations, tax rate reductions and tax deferrals (such as depreciation rate).*

The glossary of this document adds that tax expenditure are *concessions or exemptions from a "normal" tax structure that reduces government revenue collection and as the government's policy purposes can be achieved alternatively through subsidies or other direct payments, it is considered equivalent to a budget expenditure.*

Viewing the practice of countries and the OECD and the IMF proposals, the GTMGT recommends defining tax expenditure as resources foregone by the State, by the existence of incentives or benefits that reduce the direct or indirect tax burden of certain taxpayers in relation to a reference tax system, in order to meet certain economic or social policy objectives.

2 Measurement purposes

Being tax expenditure measurement an activity that is part of the budget process, it is logical that the best interests of the countries lies in measuring the revenue loss they generate. OECD (2002) emphasizes this fact and points out that the *tax expenditure major cost should be presented as supplementary information on the National Budget, pointing as far as possible, the functional area that should be incorporated to facilitate budgetary decisions.*

It have been verified that this practice is also related to the major challenges faced by the ones responsible in developing countries to find specialized information to measure the gain in revenue that would result from the repeal of tax expenditures. When this is the case, it has verified that official reports tend to mix these results with the revenue losses measurement.

It is also true, that for very specific provisions, some countries attempt to quantify the gain of revenue that would result from the repeal of tax expenditures. When this is the case, could have been verified that official reports tend to mix these results with measurements that compute the revenue loss.

For example, Chile, Uruguay and Peru, incorporate the negative effect on the revenue that would result in the elimination of certain exemptions from VAT on intermediate goods or services to taxpayers who acquire them in later phases, when it activates the tax credit. Being technically correct, these results are mixed with tax expenditure measurements that generate pure revenue losses.

Similarly, these mixtures occur when using default estimates to measure the expected gains with the elimination of tax expenditures. While it may be appropriate to low down legislators' expectations that would result from elimination, it is important that in the official reports these results do not appear together with measures that only seek to measure the revenue losses.

As discussed in Chapter 2, some provisions even if they appear to be tax expenditures in reality they are not because they generate a revenue gain, such as exemptions or exclusions from VAT on intermediate goods or services which are intended to produce final goods or services taxed. Therefore, they should not be included in the official reports presented to legislators.

Some countries consider them negative tax expenditures and compensate gains with the revenue losses associated with other tax expenditures. While this treatment seems symmetrical, as being the purpose of measurements the revenue losses measure, this practice would undervalue the total results and double the positive impact of the National Budget collection.

Finally, some countries have considered the interactions produced by the superposition of tax expenditures. In Chile and Peru, for example, insulates well the fiscal cost of various exemptions from VAT and Income Tax that operate on the same geographical area and economic sector, thus avoiding an overvaluation of the revenue loss experienced by the State.

In that sense, GTMGT recommended that the main tax expenditure measurements purpose is to measure the revenue loss as a result of its application, taking care not to include negative tax expenditures, in other words, provisions such as exemptions, exclusions or differentiated tax rates that produce a revenue gain, and considering the interactions produced by the superposition of tax expenditures.

Also, only if those responsible for the measurements have specialized information that would allow them to measure the revenue gain that would result from the repeal of tax expenditures or the magnitude of resources required to replace the tax expenditures for subsidies or transfers these should be carried out. In doing so, the results should be presented separately in the official reports.

3. Reference tax system

All the analyzed countries identify tax expenditures from a reference tax system based on the legislation, whether of a tax nature or not. Only few countries consider a reference tax system based on a benchmark for some special cases. Chile, in particular, considers it for to retained profits.

Many scholars believe that the selection of a reference system based on tax legislation prevents the measurement of tax expenditures from being comparable across countries. This is because the Law can still get through from the internationally accepted doctrine, leaving out of the tax expenditure provisions list, tax expenditures that in other countries would be considered as such or vice versa.

However, today, in developing countries there is a convergence towards an internationally accepted doctrine.

The VAT legislation is quite similar in most countries regarding personal, territorial and temporal event aspects. There is also consensus on the method for determining the tax liability. Almost all countries use the credit invoice method. Perhaps the biggest differences lie in the number of rates that are used.

Unlike what happens with VAT, PITs or CITs are more heterogeneous across countries. However, several provisions may share certain legislative logic. For example, all those that allows to tax the net income and not the gross income, as the deductions for costs and expenses related to the activity that generates income.

There are also provisions that maintain the symmetry of the tax like the carry forward of losses and credit balances from previous fiscal years.

When the jurisdictional principle of taxation is the worldwide income, unilateral or bilateral provisions to avoid double taxation such as international tax credits or the DTA application are just the way it ensures that this principle is achieved[22].

It has also being verified that countries generally prefer to adopt a reference tax system based on the legislation for practicality reasons in measuring tasks. On this point, scholars should not lose sight that the measurement of tax expenditures is an activity that is part of the budget process and in that sense; it must provide information for better legislators understanding.

Therefore, the GTMGT recommend that the reference tax system used to identify tax expenditures should come from reading the legislation, so that the lower tax burden would be verified against with the one supported by the taxpayer which would have had to endure after applying the general law.

However, when domestic legislation greatly escapes from the internationally accepted doctrine, a tax system based on a benchmark could be used.

If there is a measurement that cannot be missed is the one that considers a reference tax system based on legislation. When those responsible for these tasks may acquire more experience, their measurements could be improved by identifying tax expenditures on a reference tax system based on a benchmark.

4. Source of Information

One of the most important decisions in the tax expenditure measurements is the source of the information used. As it has been verified, there are basically only two (2): those that are managed by the TAs and those that are not. The operational availability of data for measuring activities of tax expenditure is the most important advantage of tax information.

Unlike this, the non-tax information suffers from not always being in line with the main tax variables necessary for the tax expenditure measurements.

22 *Provided that the tax is not limited to residence. When this is the case (for instance, through a DTA) even this limitation may be justified if there is a strong connection to the source State, which grants them all or part of the collection.*

In National Accounts, for example, include activities within the production that do not contribute to the generation of a taxable base, such as free services by the government and the consumption (in this the corresponding income of homeownership in some countries).

On the other hand, the information is presented in major macroeconomic aggregates that do not allow knowing individual behaviors. Also, when regional data is presented, they are usually highly aggregated, which does not allow making specific calculations in geographical areas with benefits or tax incentives.

In the case of other aggregate statistics such as Business, Agricultural or Services Census, often handle a frequency that does not responds to the information needs of those responsible for the tax expenditure measurements. This is because the collection of such information is costly. This requires making extrapolations that strip quality from the measurements.

In the case of Household Income and Expenditure Surveys, which do provide individualized information, apart from the representativeness problems associated with the selection of the sample, highlighting the bias problems in data entry. Usually there is a large bias to the right; in other words, they underestimate the real households income.

Surveys take a number of households, ranked them in terms of income and divided into ten groups containing the same number of households each, which are the deciles. Due to the high bias observed in the top decile, it is underrepresented and the obtained inferences do not represent the full decile.

For all these limitations from the non-tax information, GTMGT recommend to use the data contained in the returns submitted by the taxpayers or third parties to the TA for measuring tax expenditures, so for this collection strategies and tax information processing should be promoted as outlined in Chapter 4, section 1 of this Handbook.

5. Measurement methods

It was verified that the countries mainly focus on three (3) methods: aggregations or aggregate simulations that use tax information, indirect calculations using statistics or any other non-tax information of aggregated character, managed by public or private organizations, and micro simulation models or similar that use individualized information, be it tax information or not.

Those with greater advanced quantitative techniques knowledge within the public sector exploit the advantages of micro-simulation models. When this is the case, is because there is availability of individual data, whether they are tax information or not.

The superiority of this method is that it opens the possibility to measure not only the revenue losses by the application of tax expenditures but also the revenue gain that would result from the repeal of tax expenditures or the magnitude of resources that would be necessary to replace the tax expenditures for subsidies or transfers.

For example, at the 2010 Studies Areas Network and Tax Research meeting, which were supported by the IEF and the OECD, the Latin America countries experiences were presented as well as the main recommendations on the matter from the organizations. Only with advanced methods, the TAs will provide better recommendations to policy makers[23].

Those who are collecting and processing successful tax information strategies, take advantage of additional or aggregate models that use this information. As explained above, these consist of simple mathematical calculations using partial or total values from specific returns submitted by taxpayers or third parties to the TAs.

This method is most appropriate for countries that use reference tax systems based on the legislation.

Those who do not have quality tax information depend on the operational availability of statistics and any other information, aggregated character, administered by public or private organizations and usually use indirect estimates to measure tax expenditures.

Although the measurements purpose of all the analyzed countries, without exception, is to measure the revenue loss that supports the State resulting from the tax expenditure application, it has been verified that some countries instead of making fiscal cost projections to be included in the National Budget, they make ex-post evaluations from ended fiscal years.

For fiscal costs international comparisons generated by tax expenditures, this could create some complications because the measurements are made at different times and therefore face different availability of information. For example, those who make ex-post evaluations have accurate information on returns, GDP, exchange rates, etc. making more accurate measurements.

Also, it was observed that some countries make measurements for several years, whether they are projections or ex-post evaluations. Normally these are two (2) or three (3) years, although it also includes more years. It is clear that when it comes to projections, the reliability of the measurements is significantly reduced.

23 *Through the CIAT, the SRI of Ecuador is about to start receiving technical assistance from the IEF and the countries of Latin America in general, benefit from workshops trainings on the subject provided by the OECD.*

It should be noted that when this is the case, it opens spaces to set aside tax expenditure deferral type, since they are only tax obligations postponed payments, so this is not a resources loss for the State, but only a financial loss.

Finally, a very good practice that could be verified is the revision of the measurements made in the past. Some are done only by certain legal requirements, but others by their own will.

Viewing the countries practice, the GTMGT recommends to promote the use of methods that exploit mainly tax information such as aggregations or aggregate simulations or micro-simulation models, for which is necessary to strengthen the collecting strategies and data processing contained in the returns submitted by taxpayers or third parties to the TAs, as mentioned in Chapter 4, section 1 of this Handbook.

Measurements must compute the revenue loss for the year or subsequent years, if they are considered multi-year budgets, and not exceed three (3) years. This mean that the projection exercises should be prefer rather than the ex-post evaluations. Hand in hand with this, these projections should be revised when the fiscal years have expired, so that those responsible for analyzing the measurement precision of their projections, thus improving the methods for the future.

Although it could not be verified as a practice of the analyzed countries, the GTMGT recommended that the official reports indicate the reliability of the measurements as very good, good or regular, so that legislators have stronger evidence for making decisions, being very good those measurements based on returns submitted by taxpayers or third parties to the TA or by using micro-simulation models.

6. Institutional support and management

In addition to the proposed conventions in the previous sections, others can be made in terms of human resources, institutional management and information technology.

As for human resources, the GTMGT recommend form one (1) team of at least one (1) computer expert, one (1) statistician and one (1) tax expert. These personnel must be doomed to these tasks throughout the year and not only for the dates on which the National Budget is prepared. It also requires the constant theoretical and updating this staff practical knowledge.

It is also recommended that part of the committees responsible for the design of returns required by taxpayers or third parties, as their participation will ensure any information request necessary to make an accurate tax expenditure measurement using the proposed methods in the previous section.

This team should maintain a good and complete documentation of the whole measurement process, to be easily developed by others and also by transparency. It is necessary to maintain the database of existing tax expenditures. This logbook should even be for public access. Also, an information sources record and measurement methods should be used.

To facilitate access to non-tax information, the planning units should consider signing agreements for information exchange or for interagency cooperation with other public or private entities that manage, especially when there are barriers to access to information, the existence of rules that allow the securities secrecy, statistical confidentiality and banking secrecy.

While it is clear that most TAs are in charge of the measurements, a model at the discretion of GTMGT is also successful in addressing these tasks is the formation of joint committees between TAs officials, the Ministries or Treasury Departments and other government entities. The involvement of all relevant government units is essential, since the tax expenditure measurement is a crosscutting issue.

The joint committees overcome access problems associated with tax secrecy.

The formation of joint committees in charge of the measurement of tax expenditures can be extended to invite a recognized group of experts from the academy. In some countries, official estimates are contrasted with independent measurements from the universities.

It is encouraging that some countries do not require a legal obligation for tax expenditure measurement, since it means that practices to improve fiscal transparency requires no more than the will of the officials in charge of fiscal policy. However, the GTMGT recommends the introduction of constitutional or legal obligations to give institutions the tax expenditure measurements.

Finally, there are technological issues that continue to be important. On one hand, it would be appropriate to count with a platform for information processing with statistical, studies and simulations purposes different to the production environment. When the information volumes are important and when electronic services to taxpayers with online transaction processing is provided, it is likely that the massive use of data and computational resources for analysis could compromise the response times and the service level agreements with the administrations.

This platform, generally supported by technology-oriented business intelligence has its own costs, both hardware and software tools that are necessary for the extracting, transforming and loading data to the query environment process, to which the statistical tools such as the online[24] analytical processing tool must be added. These on-line tools give us the ability to create cubes with appropriate dimensions for tax expenditures sectorial analysis.

An additional challenge is to maintain in reasonable time, the information for the studies up dated. For example, a statement data from a couple of years ago might at first appear stable, but it also should be replaced for statistical purposes or for analysis when it is replaced by the taxpayer or settlements are given due to the Administrations action that adjust data elements for determining the tax base or the use of benefits.

The process must also be framed in an appropriate corporate security policy, the returns data are important for the analysis, but the administration should ensure that levels of access to both aggregate information, and particularly individual information, are those corresponding to the defined security policy and that policy is implemented in the systems and is actively monitored.

By using these tools and the knowledge gained from the analysis of previous cases, it would be possible for governments to develop simulation models to estimate the potential impact of a new benefit on specific elements that could be compared with estimates made by other methods.

7. Facilitating the tax expenditures evaluation

The cost-benefit analysis of tax expenditures should be a routine task for the governments of developing countries, if the purpose is to identify tax benefits and incentives that may not be meeting their objectives, despite of having a high fiscal cost. After analyzing the advantages and disadvantages of tax expenditures, reforms that would eliminate or rationalize them could be promoted, in order to introduce greater efficiency, transparency and fairness in the tax systems.

The relationship between tax incentives and investment, particularly FDI, has received considerable attention from the international tax community, having led to various theories and empirical evidence, although it has been very oriented to the case of OECD countries members.

Some authors consider that in these countries, tax incentives for investment have been effective only when they have been accompanied by legal stability, skilled workforce, good infrastructure and of trade openness.

24 *OLAP.*

Klemm and Van Parys (2009) have also recently presented evidence for developing countries, concluding that while tax incentives attract FDI, they do not promote capital gross formation or growth, by the presence of a displacement effect.

Also the effectiveness of tax expenditures of VATs and PITs to introduce progressivity in the tax system has been extensively evaluated.

In the first case, it's taken for granted, for example, that VAT is regressive in Latin America due to the proliferation of exemptions, exclusions and reduced tax rates, leading some to propose the generalization of the tax base and the use of transfers conditions for the populations poorest deciles through a so called personalized VAT[25].

In the second case, although most accept legal progressivity of PIT in Latin America, also most agree that it is not sufficient to reduce inequality levels expected from these taxes.

While the TAs are largely responsible for the tax expenditures measurements in Latin America, they are not competent to make such cost-benefit analysis. But they can facilitate the work of the authorities responsible for them (Secretariats or Ministries of Finance, mainly), providing additional information as part of the official reports of tax expenditures.

The GTMGT considered that they should be strengthened to guide the cost-benefit analysis indicated, by presenting the fiscal costs of tax incentives and benefits in much greater detail and with common use economic or social indicators that could explain to legislators if tax expenditures are meeting their purposes. While they would not replace rigorous studies such as those mentioned above, they represent an advance in the field.

Currently, there is no standard format of presentation of the official reports. Always focused on the fiscal costs, countries often describe their tax systems first and then list the current tax expenditures, sometimes grouped by tax, type of provision, economic sector through which they operate or the geographical area in which they apply. Only a few have information on the impact of tax expenditures by deciles of income or expenditure.

While an effort from larger organizations than CIAT, such as the IMF or the OECD, should consider to consolidate a single reporting format in the world as it has been previously proposed for various public finances accounts, the GTMGT considered appropriate to propose a CIAT Model Report of Tax Expenditure Measurements, which would contain the elements identified in the preceding paragraphs.

25 *See Barreix et al. (2010b).*

New regulation to rationalize tax expenditures should be promoted in countries in order to support the adoption of the proposed report. For example, it would be appropriate to require its presentation every time there is a legislative proposal to extend the tax incentives or benefits validity.

This report model is presented in Annex No.5.

After an introductory section that reviews the laws that compelled the measurement of tax expenditures, the definition thereof, the reference tax system used, among others, the proposal requires to indicate the type of measurement used (projection or ex-post evaluation) and the fiscal year (s) for which the measurement is made, as well as shed light on the quality of tax and non-tax information used.

To present the fiscal costs of incentives and tax benefits along with common use economic and social indicators that could be explain to legislators if tax expenditures are meeting their purposes, the proposal seeks to link the economic or social policy objectives of the State with the areas through which they operate.

Since tax expenditure replaces an explicit direct spending of the National Budget, the same sectorial classification (the well-known budget sheets) can be used to present information on tax expenditures in the same way. The GTMGT identified up to sixteen (16) budgetary sheets or economic activities that can be used for these purposes.

These were used to display the distribution of fiscal costs by sector in Chapter 3.

In some cases, it is not possible to attribute the benefits and tax incentives for a single sector because either they are for general application or they operate through economic activities that have no representation in the National Budget.

As the sector, in which tax expenditure operates does not necessarily indicate that this sector is the beneficial owner of the provision, it is also necessary to try to find the individual or group of individuals behind the lens of social or economic policy of the State.

For example, a VAT exemption or exclusion operates through a liable person –a company of any industry– but are always the ultimate consumers of goods or services that enjoy the preferential treatment the true beneficial owners of the provision.

In this regard, beneficial owners should also be considered such as patients, students (all levels), those who rent or purchase a house, handicapped and disabled (including people with special abilities), general consumers, workers, senior citizens (or who will be in the future), the most vulnerable in society, children, soldiers, police officers (or former military or former police officers), athletes, tourists, savers, investors, exporters farmers, small businesses and entrepreneurs in general.

This information could not be covered by the GTMGT during the database construction of existing tax expenditures in the analyzed countries, but it is essential for the proposed report.

The advantage to present the tax expenditure information by sector and by beneficial ownership is that it facilitates the identification of common use economic or social indicators, which could give an idea to the legislators if they are meeting the desired purposes.

This task necessarily required the involvement of Secretariats or Ministries of the Executive Power to which may be charged tax expenditures since they manage privileged statistical information for monitoring management, which would be extremely useful for reporting purposes presented here.

As in the case of beneficial owners, this information could not be covered by the GTMGT.

Finally, the proposal requires reporting tax expenditures that having been identified cannot be measured due to lack of information and estimates of their impact by the income or expense decile. It also requires separate presentation of measurements that pursue goals other than revenue losses and administrative costs associated with managing tax expenditures.

Next steps

The publication of this Handbook is the end of a first stage in a long agenda on tax expenditures. The GTMGT hopes that the Handbook can serve as a reference for those responsible for these tasks in countries just beginning to make measurements.

Although there has been much progress in Latin America, there is still room for the Handbook to be used specially by Central America and the Caribbean countries. It also hopes that its recommendations may be considered in countries with more experience in order to advance its standardization.

In that sense, CIAT Executive Secretariat expects to translate this document into English, Portuguese and French.

It is also necessary that in the following years when CIAT member countries would consider to update this document, broaden the analyzed taxes coverage, including Excise Taxes and Property Taxes.

It would also be necessary to analyze tax expenditures of Imports Duties, in particular, if they are not from trade agreements, but from arrangements with large investments.

It is also necessary to support the efforts of organizations such as the IDB and IMF to incorporate tax expenditures in the Subnational Government level. While this has escaped the jurisdiction of the GTMGT, it is recommended that joint efforts be undertaken, especially in federal countries like Argentina, Brazil and Mexico or highly decentralized unitary countries like Colombia.

Finally, with the support of international cooperation CIAT expects to launch a comprehensive technical assistance and training program on the subject in the countries that request it.

Bibliography

AEAT, *Report on tax benefits 2010 and 2011.*

Barra, Patricio (2006), *Individual Income Tax Management*, 1rst. Edition from the Research Scholarship CIAT-AEAT-IEF.

Barreix, Alberto, Bés, Martin y Roca, Jerónimo (2010a), Fiscal Equity in *Central America, Panama y Dominican Rep.*

Barreix, Alberto, Bés, Martín y Roca, Jerónimo (2010b), Personalized VAT: *Increasing the collection and compensating the poorest.*

Burton, Mark y Steward, Miranda (2011), *Promoting Budget Transparency Through Tax Expenditure Management: A Report on Country Experience for Civil Society Advocates,* University of Melbourne Law School's Legal Studies Research Paper N° 544.

ECLAC (2010), *Report on the Development for Official Statistics in Latin America and the Caribbean.*

DGI from Uruguay, *Tax expenditure estimates 2005-2008 y 2005-2009.*

DIPRES from Chile, Report on Public Finance. *Law project of Public Sector Budget for 2010.* Chapter 3.

Ebrill, Liam, Keen, Michael, Bodin, Jean-Paul y Summers, Victoria (2001), *The Modern VAT.*

IMF (2008), *Manual on Fiscal Transparency.*

Jiménez, Juan Pablo y Podestá, Andrea (2009), *Investment incentives and tax expenditures in Latin America*, Macroeconomics series ECLAC No. 77.

Jorratt, Michel (2009), *Tax Expenditure Analysis and Proposed Tax Incentives for Investment and Employment in Ecuador.*

Klemm, Alexander y van Parys, Stefan (2009). *Empirical evidence on the Effects of Tax Incentives, IMF Working Paper No. 09/136.*

Kraan, Dirk-Jan (2004), "Off-budget and Tax Expenditures," *OECD Journal on Budgeting,* Volume 1, Number 1, pp. 121-142.

MECON, *Estimated Tax Expenditures in Argentina. Years 2008-2010 and 2009-2011.*

Dominican Republic Ministry of Finance. *Estimated Tax Expenditures for the years 2010 and 2011.*

OCDE (2002), "Budget Practices for Budget Transparency," *OECD Journal on Budgeting,* Volume 1, Number 3, pp. 7-14.

OCDE (2010), *Choosing a Broad Base - Low Rate Approach to Taxation*, OECD Tax Policy Studies Nº 19.

RFB, *Tax expenditure reports 2010 and 2011.*

Roca, Jerónimo (2010).*Effectiveness and efficiency evaluation of the tax benefits,* BID Discussion Paper No. 136.

SAT de Guatemala, *Estimation of Tax Expenditure of Central Government* 2005-2008 and 2005-2009.

SHCP, *Tax Expenditure Budget 2010.*

SUNAT, *Tax Expenditure Report 2010 and 2011*

Surrey, S.S (1973), *Pathways to tax reform: the concept of tax expenditures.*

Surrey, S.S. y McDaniel, P.R. (1985), *Tax Expenditures.*

Villela, L. (2006), Tax Expenditures: measurement of erosion of the tax base, p. 93-98 *in The Potential Collection as a Goal of Tax Administration,* CIAT General Assembly, No. 40, Florianópolis, Santa Catarina State, Brazil .

Villela, L., Lemgruber, A. y Jorratt, M. (2009), *Tax expenditure budgets: concepts and implementation challenges*, IDB Working Paper No. 131.

Zee, Howell (2005). *Individuals of Income Tax Reform: Concepts, issues and comparative evolution of countries*, IMF Working Paper No. 05/87.

Annexes

Annex No. 1

Considered taxes for analyzed countries

Argentina

Income, Profits and Capital Gains Taxes

- Income Tax, contained in Law No. 20628, Law on Income Tax, which was amended text approved by Decree No. 649-97 (published in the Official Gazette on 08.06.1997) and amended rules.
- Tax on Minimum Presumed Income contained in Law No. 25,063 (published in the Official Gazette on 30.12.1998) and amended rules.

General Consumption Taxes

- VAT contained in the VAT Act, amended text in 1997, approved by Decree 280-97 (published in the Official Gazette on 15.04.1997) and amended rules.

Brazil

Income, Profits and Capital Gains Taxes

- Income Tax (Imposto sobre a Renda)
- CSLL (Social Contribution on Liquid Profit)

General Consumption Taxes

- COFINS (Contribution for financing the social security)
- PIS and PASEP (Contribution for the Social integration Program or Contribution for the formation of the public server)

Chile

Income, Profits and Capital Gains Taxes

- Income Tax contained in Item No. 1 of Decree Law No. 824 (published in the Official Gazette on 12.31.1974) and amended rules.

General Consumption Taxes

- Sales Tax Services, contained in Decree Law No. 825-replaced by Decree Law No. 1606 (published in the Official Gazette on 12.03.1976) retaining the same number, and amending regulations.

Dominican Rep.

Income, Profits and Capital Gains Taxes

- Income Tax contained in Title II of the Tax Code approved by Law No. 11-92 and amending regulations.

General Consumption Taxes

- ITBIS contained in Title III of the Tax Code approved by Law No. 11-92 and amending regulations.

Ecuador

Income, Profits and Capital Gains Taxes

- Income Tax[26], contained in Title I of the Internal Tax Regime Law, whose coding was approved by Resolution No. 26 (published in the Supplement to Official Gazette No. 463 of 17.11.2004) and amending regulations.

General Consumption Taxes

- VAT, contained in Title II of the Internal Tax Regime Law, which coding was approved by Resolution No. 26 (published in the Supplement to Official Gazette No. 463 of 17.11.2004) and amending regulations.

Guatemala

Income, Profits and Capital Gains Taxes

- Income Tax contained in Decree No. 26-92 and amending regulations.
- Tax on Financial Products, contained in Decree No. 26-95 and amending regulations.
- Tax Inheritances, legacies and donations, contained in Decree No. 431 of 1947 and amended rules.
- Solidarity Tax, contained in Decree No. 73-08 and amending regulations.

General Consumption Taxes

- VAT, contained in Decree No. 27-92 and amending regulations.

Mexico

Income, Profits and Capital Gains Taxes

- Income Tax contained in the Law of Income Tax (published in the Official Journal of the Federation on 01.01.2002) and amended rules.

General Consumption Taxes

- VAT contained in the VAT Law (published in the Official Journal of the Federation on 29.12.1978) and amended rules.

26 *Harmonized with the European Union*

Peru

Income, Profits and Capital Gains Taxes

- Income Tax contained in the consolidated text of the Income Tax Law, approved by Supreme Decree N º 179-2004-EF (published in El Peruano on 8/12/2004) and amended rules.

General Consumption Taxes

- VAT contained in the TUO of the IGV and ISC, approved by Supreme Decree N º 055-99-EF (published in El Peruano on 8/12/2004) and amended rules.

Spain

Income, Profits and Capital Gains Taxes

- Income Tax of Individuals
- Corporate Income Tax
- Income Tax of Non-Resident

General Consumption Taxes

- Value Added Tax[27]

Uruguay

Income, Profits and Capital Gains Taxes

- IRAE contained in Title 4 of the Text of the Rules of Competition of the DGI, approved by Decree No. 338/996 and amending regulations.
- PIT contained in Title 7 of the Text of the Rules of Competition of the DGI, approved by Decree No. 338/996 and amending regulations.

General Consumption Taxes

- VAT, contained in Title 10 of the Text of the Rules of Competition of the DGI, approved by Decree No. 338/996 and amending regulations.

27 *Harmonized with the European Union*

Annex No. 2

Tax expenditures definitions used by countries

Argentina

Tax expenditures are the amount of revenue forgone the treasury granting tax treatment that departs from the general provisions of tax legislation. The most common types are the exemptions, deductions from the tax base and reduced tax rates[28].

Brazil

Tax expenditures are government indirect costs, made through the tax system by pursuing economic and social objectives. These are found explicitly in the tax law, they are an exception to the reference tax system, reducing the potential income and, consequently, increasing the taxpayers' economic availability. They have a compensatory nature, when the government does not adequately serve the public services of their responsibility or as an incentive, when the government intends to develop a sector or region.

Chile

Is designated as tax expenditure to the amount of revenue the State loses by granting tax treatment that departs from generally established in tax legislation that is intended to benefit, promote or encourage certain activities, sector, branch, region, or groups of taxpayers. It results in the granting of tax exemptions or deductions, differential rates, deferrals and accelerated depreciation, among other mechanisms.

Dominican Republic

Amount of revenue that the Treasury forgone by granting preferential tax treatment that departs from established tax law, in order to benefit particular areas or taxpayers.

Ecuador

Tax expenditures represents the sacrifice or resigns in tax revenue for the purposes of exemptions, deductions, credits, incentives or special tax regimes, established by law in order to facilitate or encourage certain sectors, activities, territories or agents the economy.

28 *From 2006, a long-term approach is introduced, considering only the definite cases leading to revenue loss.*

Guatemala

Tax expenditure is associated with to what the government ceases to receive by granting special tax treatment, presented as an exception to the tax rule applicable to taxpayers in general.

Mexico

The amount that the federal treasury does not collects from differentiated rates in the different taxes, exemptions, subsidies and tax credits, debt forgiveness, facilities, incentives, deductions allowed, treatments and special regimes established in the various laws that apply to tax matters in the federal level.

Peru

Any tax measure that results in tax revenue losses for the State and the corresponding reduction in the tax burden of the taxpayer, which had not occurred under the application of general tax law.

Spain

It can be defined as an expression for declining tax revenues that presumably will occur throughout the year as a result of the availability of tax incentives oriented to achieve certain economic and social policy purposes.

Uruguay

The general definition of tax expenditure that is used is that revenue loss that would be generated by tax treatment deviated from the normal tax structure.

Annex No. 3

Code used for the database of current tax expenditures in the countries

In the case of tax categories, there are considered three (3) codes: "1" for General Consumption Taxes, "2" for Income, Profits and Capital Gains Taxes levied on individuals and "3" for Income, Profits and Capital Gains Taxes levied on companies and corporations.

In the case of the types of tax expenditures, there are considered seven (7) codes: "1" for exemptions and exclusions, "2" for deductions, "3" for credits, "4" for deferrals, "5" for reduced rates, "6" for simplified, special or promotional regimes and "7" for refunds or reimbursements.

For coding, the names used for the different types of tax expenditures were considered. For example, exclusions are known as "inafectos" in Peru, as immunities in Brazil and non-liable operations in Spain. Exemptions are called "exoneraciones" in Peru and Uruguay, and exemptions in Brazil and limited exemptions in Spain. The most confusing case is the one from Ecuador that in VAT legislation calls exemptions as rate zero. The deductions are known as calculation bases deductions in Brazil and as reductions in Spain. In the case of credits in Spain are known as the gross tax deduction and in Brazil as tax deductions due to credit or presumed credit. Finally, refunds or reimbursements are known in Uruguay as tax credits.

For each tax expenditure, a generic name has been given and as far as it was possible, a brief description has been done. It was optionally noted the regulations that created it. Similarly, it has been tried to specify tax expenditures enactment year and the year lapse. When this does not exist, it has been listed as an indefinite term.

In the case of sectors, sixteen (16) budgetary spread sheets or economic activities according to the following coding have been considered: "A" for the State Apparatus, Homeland Security and National Defense, "B" for Foreign Trade (includes "maquilas" and free trade zones or similar) and tourism (including gambling and similar), "C" for Social Security and Social Services (includes Private Pension Systems and adoptions), "D" for employees, "E" Housing and Urban Development (including Building and Infrastructure), "F" Health and Sanitation (includes food and maternity) and Sports, "G" for Education, culture (including art activities) and Research, Development and Innovation (including Science and Technology), "H" for Agriculture (including Agricultural and Livestock), Fisheries and Forestry, "I" for industry (SMEs), agribusiness and similar, "J" Energy and Mining, "K" for Transport and Telecommunications (including post mails), "L" for the Financial Sector (includes capital markets, insurance, leasing), “M” for Investment, Decentralization and Regional Development, “N” for Politics, Religion, Justice and Foreign Affairs, “O” for all sectors (including trade, services, environment and philanthropy) and “P” for any other sector.

For the geographic area, three (3) possible situations are considered: the whole country, most of the country29 and part of the country.

Each tax expenditure is presented with its own fiscal cost. This is presented in millions from the local currency. For Argentina, Spain, Peru, Mexico and Brazil, this includes costs for fiscal years 2010 and 2011, only Chile and the Dominican Republic in 2010 and for Ecuador, Uruguay and Guatemala, 2008 and 2009. The fiscal costs should consider reflecting projection exercises for all countries except Ecuador, Uruguay and Guatemala that evaluating fiscal years ended.

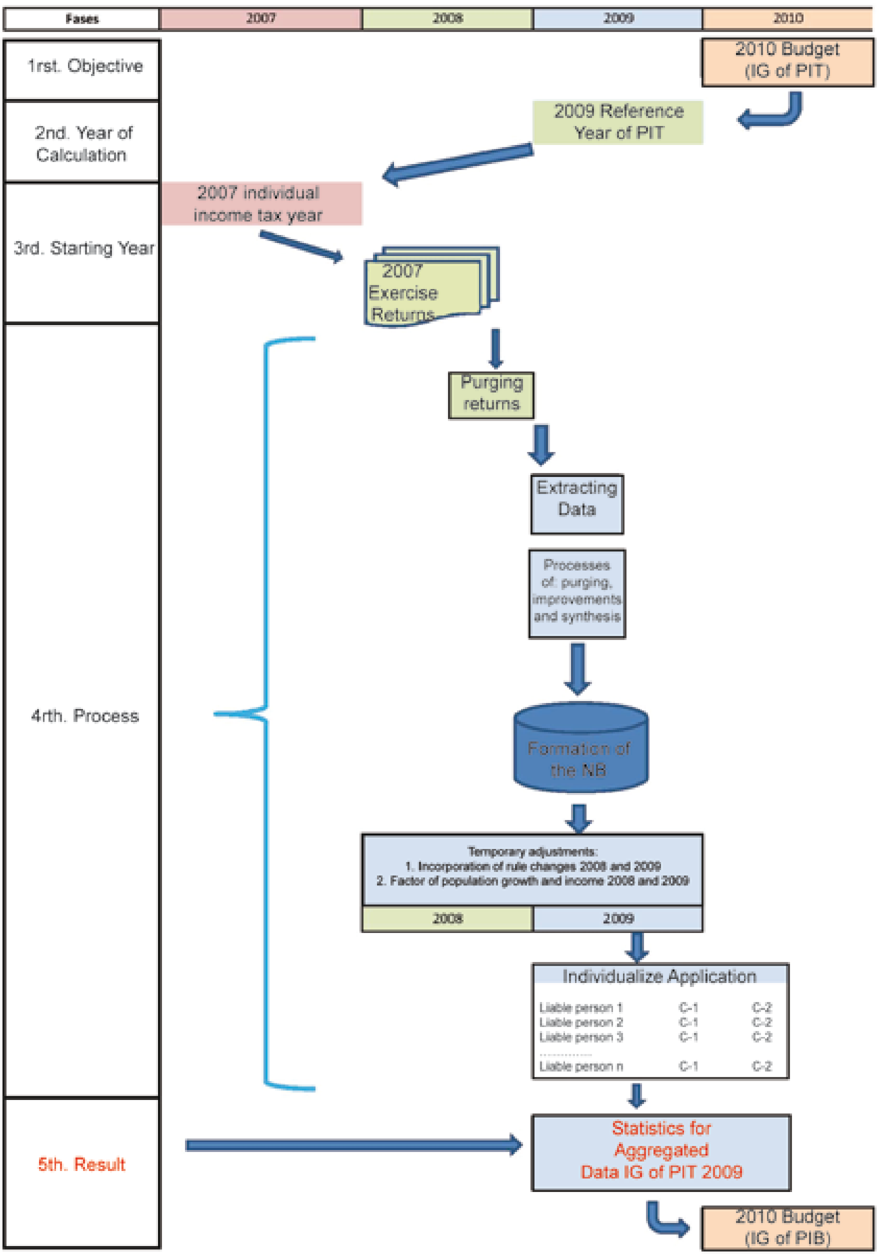
For information sources, it has been considered five (5) codes: “1” for returns submitted by taxpayers to the TAs, “2” for returns filed by third parties to the TAs, “3” statistics or other information managed by public or private organizations such as Census, National Accounts, Household Surveys, etc., “4” for other sources and “C” for combinations between them.

For measurement methods, it has been considered five (5) codes: “1” for similar micro-simulation models using individual data, “2” for aggregations or aggregate simulations using tax information, “3” for indirect calculations using statistics or other information of added character, managed by public or private organizations, “C” for combinations between them and “N” for tax expenditures which fiscal cost is not measured.

29 *Very typical from Spain.*

Annex No. 4

Micro-simulation phases: 2010 example



Annex No. 5

CIAT Model Report of
Tax Expenditure Measurements

INTER-AMERICAN CENTER OF TAX ADMINISTRATIONS

TAX EXPENDITURE
MEASUREMENTS REPORT

Country
Responsible(s) organization(s)

INTRODUCTION

1. If it exists, indicate the legislative provision, which requires the tax expenditure measurements.
2. Explain the current tax system in your country.
3. Point out the definition of tax expenditures used throughout this report.
4. Point the reference tax system (s) that has been used to identify tax expenditures contained in this report.
5. Point out the taxes for which tax expenditures have been identified.
6. Identify those cases where major conceptual problems have been determined whether a provision constitutes tax expenditure or not.

FIRST PART

7. Indicate whether the fiscal costs presented in this report is the type of projection or rather ex-post evaluation type.
8. Indicate the tax year (s) for which the tax expenditure measurement is made.
9. Describe the quality of tax information and what it means for tax expenditure measurements.
10. Describe the quality of the non-tax information and what it means for tax expenditure measurements.

11. Point out the main limitations for information access that in measuring tax expenditures, both inside and outside your organization.
12. Highlight best practices in the tax expenditure measurement process that your country follows.

SECOND PART

13. List the tax expenditures for which you have measured the revenue loss that the State generates, considering the following detail[30]:

    a. Tax category
    b. Type of tax expenditure
    c. Description of the provision
    d. The provisions legal base
    e. Context that open the introduction of the provision
    f. Validity (from/to)
    g. The State economic and social policy[31]
    h. Sector (budgetary spread sheet or economic activity)
    i. Effective beneficiary[32]
    j. Benefit geographic area
    k. Quantitative indicator to measure the effectiveness of tax expenditures
    l. Qualitative indicator to measure the effectiveness of tax expenditures
    m. Tax year that the measurement corresponds
    n. Fiscal Cost (in millions of local currency)
    o. GDP at the time when the measurement was made
    p. Type of measurement (projection or ex-post evaluation)
    q. Measurement method
    r. Briefly explain the measurement method
    s. Measurement quality[33]
    t. Information sources used
    u. Briefly describe the source of information

30 *The code list referred to in Annex No. 3 should be used for the filling of this section.*
31 *The need for more efficient and progressive tax systems, improve social welfare levels, promote regional or sectorial development through increased investment, human capital accumulation and environmental care.*
32 *Sick people, students (all levels), those who rent or purchase a house, a room, relatives, handicapped and disabled (including people with special abilities), general consumers, workers, retirees (or who will be in the future), the most vulnerable of society, children, military, police or former military or former police officers, athletes, tourists, savers, investors, exporters, farmers, small businessmen, entrepreneurs and others in general.*
33 *Very good, good or regular. See section 5, chapter 5.*

14. In the case of exemptions or exclusions, please additionally indicate for each tax expenditure the following information:

    a. Tax base exempt or exclude (in millions of local currency)
    b. Tax not determined (in millions of local currency)

15. In the case of deductions, provide further tax expenditure for each the following information:

    a. Tax base before application of the deduction (in millions of local currency)
    b. Tax base after the application of the deduction (in millions of local currency)
    c. Tax not determined (in millions of local currency)

16. In the case of credits, indicate for each tax expenditure the following information:

    a. Tax liability before the credit application (in millions of local currency)
    b. Tax liability after the credit application (in millions of local currency)

17. In the case of reduced tax rates, provide for each tax expenditure the following information:

    a. Tax base on which the reduced tax rate is applied (local currency in millions)
    b. General rate (in percentages)
    c. Reduced rate (in percentages)
    d. Tax not determined (in millions of local currency)

18. In the case of deferrals, indicate for each tax expenditure the following information:

    a. If the measurement only considers the provisions financial effect or the total cost.
    b. If the financial effect is considered, indicate the years the collection was postponed.

THIRD PART

19. Indicate the tax expenditures that despite having been identified have not been measured.
20. Present additional estimates of the impact of tax expenditures by deciles of income or expense if applicable.
21. Indicate the measurement of tax expenditures that do not intend to know the revenue loss supported by the State for its implementation, but the revenue gain that would result from its repeal or the magnitude of resources required to replace them with subsidies or transfers.
22. Present the revenue gains generated by the negative tax expenditures if applicable.
23. Indicate the administrative costs associated with managing tax expenditures.
24. Point out the evasion or avoidance forms that make their way by the existence of tax expenditures, present its fiscal cost if applicable.

Annex No. 6
Tax Expenditures - General Consumption Taxes [1]

Type of tax expenditure	Country	Tax provisions
Reduced tax rate	Argentina	Sales, excluding the exempted, creation, construction on request and final import of newspapers, magazines and periodicals. L. 20.631 (t.o. 1997). 28 inc. g).
Reduced tax rate	Argentina	Sales, article 3 of the VAT law and the final importation of beef, fruits and fresh vegetables. L. 20.631 (t.o. art. 28 inc. a).
Reduced tax rate	Argentina	Revenues obtained from the sale of advertising space in the cases of editors of newspapers, magazines and periodicals whose turnover in the calendar year immediately preceding the related fiscal period is less than $ 43.2 mill.
Reduced tax rate	Argentina	Medical and paramedical Healthcare services contracted by cooperatives, mutual institutions and prepaid health systems, which are not exempt. Law. 20 631 (t.o. 1997) art. 28 in c.
Reduced tax rate	Argentina	Passenger transport services (land, sea or air) made in the country, except for taxis or routes not exceeding 100 km (exempt) L. 20 631 (to 1997) art. 28 Inc. h).
Reduced tax rate	Argentina	Works and actions made on owned or non owned buildings intended for housing. Law 20.631 (to. 1997) art. 28 in. h).

1 *Year 2009 for Ecuador, Guatemala and Uruguay and year 2010 for the other countries.*

Type of tax expenditure	Country	Tax provisions
Reduced tax rate	Argentina	Bread, biscuits, bakery bills and / or pastries and cookies and cakes, made exclusively from wheat flour. Law. 20.631 (t.o. 1997) art. 28 inc. (a) pt. 7.
Reduced tax rate	Argentina	Sale and importation of works of Art.
Reduced tax rate	Brazil	The contribution payable by the producer or importer of petrochemical naphtha, applied to gross receipts from the sale of this product to petrochemical plants, will be calculated at a rate of 1% (one percent), resulting from the acquisition or import from naphtha petrochemical.
Reduced tax rate	Brazil	Coefficient for reduced tax rate for importations or production of biodiesel.
Reduced tax rate	Brazil	Arrangements remain subject to payment of revenues arising from the cumulative contribution of the execution by management, construction contract or subcontract works.
Reduced tax rate	Brazil	Are subject to the payment of cumulative contribution revenues resulting from the application by the administration, contracts or subcontracts of construction works.
Reduced tax rate	Brazil	The reduction to 0 (zero), of the contribution rate levied on gross receipts from domestic sales and import of paper for printing newspapers and magazines.
Reduced tax rate	Brazil	The reduction to 0 (zero), of the contribution rate to imports and gross sales in the domestic market for agro products.

Type of tax expenditure	Country	Tax provisions
Reduced tax rate	Brazil	The reduction to 0 (zero) contribution rates levied on the gross proceeds from the sale in the domestic market, vehicles and boats for transportation to the schools of basic education in rural areas, when purchased by the Union, States, municipalities and Federal District.
Reduced tax rate	Brazil	The reduction to 0 (zero) of PIS incidents in the import and domestic sale of books in general.
Reduced tax rate	Brazil	The reduction to zero of the contribution rate levied on the sale of natural gas and coal to produce electricity.
Reduced tax rate	Brazil	The reduction to zero of the contribution levied on income from domestic sales and the import operation of chemicals classified by law.
Reduced tax rate	Brazil	The reduction to zero in contribution rates levied on domestic sale or import of materials and equipment, parts and components for use in the construction, maintenance, modernization and conversion of ships and aircraft.
Reduced tax rate	Brazil	Reduction of 1.65% and 0.65% to zero tax rates on production of the plant or its equivalent, when the acquisition in the domestic market is done by the legal beneficiary of PATVD.
Reduced tax rate	Brazil	Reduction of 1.65% and 0.65% to zero tax rates on production of the plant or its equivalent, when the acquisition in the domestic market is done by a legal beneficiary of PADIS.
Reduced tax rate	Brazil	Reduction of 10.2% / 47.4% to 0 (zero) the contribution rate in case of import of Liquefied Natural Gas - LNG.

Type of tax expenditure	Country	Tax provisions
Reduced tax rate	Brazil	Reduction of 7.6% to 3% of zero rates of tax on output from the plant or equivalent, when the acquisition in the domestic market is made by a legal beneficiary of the PADIS
Reduced tax rate	Brazil	Reduction of 7.6% and 3% to zero the rates of tax on output from the plant or equivalent, when the acquisition in the domestic market is made by a legal beneficiary of PATVD.
Reduced tax rate	Spain	Reduced rate from January to June 2010: food, water, medicines for animal use, glasses, houses, flowers, passenger transport, hotels and restaurants, cleaning of roads and gardens, show tickets, hairdressers and housing construction . (Article 91 of the Law 37/1992 of the VAT).
Reduced tax rate	Spain	Reduced rate from January to June 2010: food, water, medicines for animal use, glasses, houses, flowers, passenger transport, hotels and restaurants, cleaning of roads and gardens, show tickets, hairdressers and housing construction . (Article 91 of the Law 37/1992 of the VAT).
Reduced tax rate	Spain	REDUCED tax rate of 4% Bread, flour, cheese, fruits, vegetables, books, newspapers, magazines, public housing of public promotion (see full text of Article 91.Dos of Law 37/1992 of VAT).
Reduced tax rate	Mexico	Food .
Reduced tax rate	Mexico	Books, newspapers and magazines.

Type of tax expenditure	Country	Tax provisions
Reduced tax rate	Mexico	Medicines.
Reduced tax rate	Mexico	Other products.
Reduced tax rate	Mexico	Regime of “maquiladoras”.
Reduced tax rate	Mexico	Service or supply of potable water for domestic use.
Reduced tax rate	Mexico	Hotel Services and related services to foreign conferences, conventions, exhibitions and fairs.
Reduced tax rate	Mexico	Rate of 11% in the rest of the borders.
Reduced tax rate	Mexico	Rate of 11% in the Baja California border region.
Reduced tax rate	Mexico	Rate of 11% in the Baja California Sur border region.
Reduced tax rate	Mexico	Rate of 11% in the Quintana Roo border region.
Reduced tax rate	Peru	Rate of 0% in the ISC for used vehicles which have been reconditioned or repaired in the CETICOS.

Type of tax expenditure	Country	Tax provisions
Reduced tax rate	Uruguay	As of July 1, 2007 health services came to be taxed for VAT at the minimum rate (D Literal Art. (18 title 10 of the TO 1996); until that date they were exempted.
Reduced tax rate	Uruguay	Difference in rates on hotel services provided to Uruguayans in high season.
Reduced tax rate	Uruguay	Until 06/30/2007 passenger transport was taxed to the minimum rate (law 17.651 on 04-06-2003), establishing a system of credit for the VAT NET.
Reduced tax rate	Uruguay	Law 17.934 (Dist.) 537/005) establishes a nine-point reduction in the VAT rate applicable to operations of services among which the gastronomical, the leasing of vehicles without a driver, the lease of real estate brokerage services, when these operations are paid using credit cards.
Reduced tax rate	Uruguay	Sales of electricity made by UTE to the municipal authorities are taxed at the minimum rate away from the general regime applied to this energy that is taxed at the basic rate (F Lit, Art 18, Title 10, TO 1996).
Reduced tax rate	Uruguay	Goods out of the norm to be taxed at the basic rate are detailed mainly in the TO 1996 - Title - 10 Art 18. Include foods (bread, fish, meat, edible oils, rice, cereal flour and by-products of milling, pasta and noodles, salt for domestic uses, sugar, grass, coffee, tea, plain soap, edible fats).
Reduced tax rate	Uruguay	Goods not covered by the norm to be taxed at the basic rate are detailed mainly in the TO 1996 - Title - 10 Art 18. Includes medications (and certain medical specialties), health services, hosting services, etc.
Reduced tax rate	Uruguay	Goods not covered by the norm to be taxed at the basic rate are detailed mainly in the TO 1996 - Title - 10 Art 18. Include hosting services.

Type of tax expenditure	Country	Tax provisions
Credit	Brazil	Special regime for anticipated tax credit assumed for companies producing or importing drugs.
Credit	Chile	Article 21 of D.L. No. 910 of 1975 states that construction companies are entitled to deduct the amount of their estimated monthly payments required by the Law on Income Tax, the VAT 0.65 debit which must determine the sale of tangible property built by them for housing and construction contracts in general other than for administration of such property. This law was amended in 2008 and began to apply to homes built from July 2009 to limit this benefit to households whose value does not exceed the 4500 UF and the total amount of the franchise may not exceed 225 UF.
Credit	Chile	The Law No. 20,255 contains several changes to Article 23 of Decree No. 3.500 of 1980, stating in the final paragraph of the legal precept that the AFPs are entitled to a credit against the First Category of Tax Income Act by the Value Added Tax which they support for the services of outsourcing that they contract under the rules of this decree law.
Credit	Peru	Amazon - Special Tax Credit.
Credit	Uruguay	Since the entry into force of law 17.651 of 04/06/2006 the passenger service is no longer exempt and becomes taxed at the minimum rate.
Credit	Uruguay	The agricultural taxpayer that settles IRA can deduct from the tax the payments to IMEBA, the deductions that would have been made during the year and the VAT incurred on purchases made (Art. 12 Title 10 from TO 1996).
Refund or reimbursement	Argentina	Partial refund of VAT on purchases with debit and credit card.

Type of tax expenditure	Country	Tax provisions
Refund or reimbursement	Ecuador	Local purchase or importation of goods or the demand for services by the Guayaquil Welfare Board, ISSE, Fe y Alegría, Transit Commission of Guayas, SOLCA, Ecuadorian Red Cross and Oswaldo Loor Foundation (return to the beneficiary).
Refund or reimbursement	Ecuador	Vehicle sales to disabled with orthopedic adaptations, special medical equipment, raw materials for prosthesis and orthosis (return to the beneficiary).
Refund or reimbursement	Peru	Activities related to the exploration - domestic purchases.
Refund or reimbursement	Peru	Return of the IGV tax for purchases made by diplomatic missions, consular and international organizations.
Refund or reimbursement	Peru	Records of payments - payment of services provided by Corpac and Enapu to private entities in the receipt of donations.
Refund or reimbursement	Peru	Payment documents - handicapped and general firefighters service.
Refund or reimbursement	Peru	Documents settling debts - Municipalities Act 28938.
Refund or reimbursement	Peru	Donations from abroad - International Technical Cooperation.
Refund or reimbursement	Peru	Mining - return to holders of mining license- phase exploration.

Type of tax expenditure	Country	Tax provisions
Refund or reimbursement	Peru	Tax refund.
Refund or reimbursement	Peru	Tax refund - law democratization of the book.
Refund or reimbursement	Uruguay	Art. 70 of Title 10 TO 1996, which agreed a credit to the agencies that are not contributors to the Value Added Tax in the amount the referred tax included in purchases of goods and services necessary for the implementation of projects financed by international organizations and the amount financed by them.
Deferral	Chile	The seventh clause of the article 64 empowers the SII to authorize the VAT payment, which is due at the first sale in the country of vehicles for passenger transport with capacity of more than 15 seats including the driver, in equal monthly installments, quarterly or semi, but within a maximum period of 60 months from the date of issuance of the invoice.
Deferral	Ecuador	The taxable subjects of VAT declare the tax on transactions made monthly within one month of performed, except those for which they granted within one month or more for payment in which case. they may present the statement in the subsequent month made in the manner and terms established in the regulations.
Deferral	Peru	General Regime and Early Recovery Sector.
Exemption or exclusion	Argentina	The services provided by social work governed by Law No. 23,660, institutions, organizations and associations included in items f), g) m) of Article 20 of the Law of Income Tax, in the 1986 texts and its amendment , by political institutions, non-profit and legally recognized, and by colleges and professional advice, when such services relate directly to their specific purposes. Law 20.631 (t.o. 1997) Art. 7 inc. (h) pt. 6.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Argentina	Liquid or powdered milk, whole or skimmed milk without additives, when the buyer is a final consumer, the State, the provinces, municipalities or the autonomous city of Buenos Aires or their dependencies, school canteens or university canteens, social work or entities included in the clauses e). f) g) and m of the art. 20 of the law of income tax, text ordered in 1997 and its amendments. Law 20.631 (t.o. 1997) Art. 7 inc. (f).
Exemption or exclusion	Argentina	Medical specialties for human use in the case of resale by pharmacies and other institutions approved by the competent body, as these specialties have taxed the tax on the first sale made in the country by the importer, manufacturer or by respective tenants in the case of custom manufacturing. Law 20.631 (t.o. 1997) Art. 7 inc. f).
Exemption or exclusion	Argentina	Books, brochures and print and retail of newspapers, magazines and periodicals, unless it is made by individuals whose activity is publishing- Law 20.631 (t.o. 1997) Art. 7 inc. a).
Exemption or exclusion	Argentina	Theatrical entertainments in nature within the requirements of the 24800 law and the consideration for admission to concerts and musical recitals when it is solely for access to the event. Law 20.631 (t.o. 1997) Art. 7 inc. (h) pt. 10%.
Exemption or exclusion	Argentina	Shows and sports meetings, for the income that constitute the fee required for access to these shows. Law 20.631 (t.o. 1997) Art. 7 inc. (h) pt. 11.
Exemption or exclusion	Argentina	Interest on loans for purchase, construction or improvement of housing for household. Law 20.631 (t.o. 1997) Art. 7 inc. (h) pt. 16 AP. 8.
Exemption or exclusion	Argentina	Interest on loans or banking and financial transactions when the policy holder is the National State, Provinces, Municipalities or the City of Buenos Aires. Law 20.631 (t.o. 1997) Art. 7 inc. (h) pt. 16 ap. 9.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Argentina	Intermediation services provided by agencies lottery and other games or gambling operated by the National Treasury, provincial and municipal institutions or belonging to them, following their participation in the sale of tickets and the like which give the right to intervene in such games. Law 20.631 (t.o. 1997) Art. 7 inc. (h) pt. 15.
Exemption or exclusion	Argentina	Services rendered by private educational institutions incorporated into the official curricula related to education at all levels. It includes tutorials taught outside of educational institutions on matters included in the official curricula at nurseries and children education services provided to disabled by recognized private schools. Law 20.631 (t.o. 1997) Art. 7 inc. h) pts. 3 and 4.
Exemption or exclusion	Argentina	Industrial promotion. Decrees 2054/92, 804/96, 1553/98 and 2009/04: VAT exemption.
Exemption or exclusion	Argentina	Health care services, medical and paramedical services that charities must forwards payments to providers, law 20.631 (t.o. 1997) Art. 7 inc. (h) pt. 7.
Exemption or exclusion	Brazil	Sales of machinery, equipment and other goods in the domestic market when purchased directly by the beneficiaries of the contributor and intended for its fixed assets for use in ports in the execution of services, loading, unloading and moving goods. Exemption after 5 years of the occurrence of the event.
Exemption or exclusion	Brazil	Non-profit entities, exempt Civil association, recreational and philanthropic.
Exemption or exclusion	Brazil	Non-profit entities, exempt Scientific.
Exemption or exclusion	Brazil	Non-profit entities, exempt Cultural.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Brazil	Non-profit entities, exempt Social assistance institutions.
Exemption or exclusion	Brazil	Non-profit entities, exempt Institution of education.
Exemption or exclusion	Brazil	Exemption of contributions to private higher education institution, with or without lucrative ends that join PROUNI.
Exemption or exclusion	Brazil	Exemption from contribution on the import of trophies, medals, plaques, figurines, badges, pennants, flags and other memorabilia event received in cultural, scientific or sports official conducted abroad or to freely distributed as prizes in sporting event held in the country.
Exemption or exclusion	Brazil	Exemption from paying tax on imports of machinery, equipment, apparatus and instruments, and parts and spare parts, accessories, raw materials and intermediate products imported by science and technology institutions and scientists and researchers.
Exemption or exclusion	Brazil	Closed private pension.
Exemption or exclusion	Brazil	Suspension of the contribution on the sale or importation of machinery, apparatus, instruments and equipment, new, when such goods are acquired by Brazilian Naval Shipyard, in the case of purchase or import of capital goods listed in the regulations for the incorporation of its fixed assets to use in construction activities, maintenance, modernization, conversion and repair of vessels.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Chile	Article 16 letter e) of the VAT law excludes from tax the value of tips recharged in the prices of goods and services in the following establishments: hotels, guesthouses, hostels, boarding houses, restaurants, social clubs, sources of soda, tea rooms and coffee bars, taverns, bars, nightclubs, cabarets, discotheques, drive-in, and other similar businesses.
Exemption or exclusion	Chile	Decree No. 1244 of 1975, Article 4, exempts from the taxes contained in Titles II and III of the VAT on sales made by vendors who are domiciled or resident in the department of Easter Island and fall on property in that department as well as tax exemption of service tax then - after taxes - to services provided by persons domiciled or resident in that department.
Exemption or exclusion	Chile	The No. 1 of point E of Article 12 of the VAT law provides an exemption for income received for tickets to these shows and meetings: a) Artistic, scientific or cultural theater, music, poetry, dance and song, when by its artistic and cultural quality they are sponsored by the Ministry of Education; b) sporting c) Those who hold full and exclusive benefit of the Fire Department, Red Cross, Chile, National Committee Nursery and Christmas Foundation Ibanez Graciela Letelier (CEMA CHILE) and charities with legal status, exemption is applicable only up to 12 functions per year, d) Circus presented by companies or integrated sets exclusively by artists.
Exemption or exclusion	Chile	The No. 10 of point E of Article 12 of the VAT Act provides an exemption for interests arising from transactions and financial instruments and credit of any kind. However, are not covered by this exemption, as pointed out by No. 1 of Article 15 of the VAT law, interest, adjustments and financing expenses (including moratorium interest) of sales in forward transactions, if they become enforceable or are perceived early in the tax period.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Chile	The No. 11 of point E of Article 12 of the VAT law provides an exemption for the lease of real property. Moreover, the letter g) of Article 8 of the VAT Law establishes as taxable the lease of real estate taxed when they are furnished, or have facilities or machines that allow the exercise of commercial or industrial activity. Notwithstanding this, Article 17 of Law on VAT provides for this case a reduction to taxable income equal to 11% of the appraisal, in order to replicate the exemption for the lease associated with the property.
Exemption or exclusion	Chile	The No. 15 of point E of Article 12 of the VAT law provides an exemption for adjustable life insurance premiums.
Exemption or exclusion	Chile	The No. 2 of Article 2 of the Law on VAT defines as taxable the services which are referred to in No. 3 and 4 of Article 20 of the Law of Income Tax (DL 824) and involving an action or provision by a person made for another and for which he receives remuneration. By exclusion, this provision establishes as non-taxable the services that are not covered by the above reference, within which falls a set of services that are not affected by VAT, such as education or counseling services, cleaning, and security, among others. The definition of affected services described in the previous section also excludes the salaries are related to agricultural services provided by farmers.
Exemption or exclusion	Chile	The No. 3 of Article 13 of the VAT Law (DL 825, Sales Tax on Services) provides an exemption on income earned by shipping companies, airlines, railways and urban mobilization, long distance, inter-provincial and rural, in case they come from passenger transport. Additionally, the No. 2 point E of Article 12 of the same law grants a specific exemption on international airfares.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Chile	The No. 4 of point E of Article 12 of the VAT law provides an exemption to the insurance premiums to cover damage caused by earthquakes and fires that originate in an earthquake. The No. 5 of point E of Article 12 of the VAT law provides an exemption to the insurance premiums hired by the Air Federation of Chile, the airline clubs and Chilean companies in commercial aviation. Also exempt from VAT the insurance premiums that cover risks of hulls of ships and transport of goods, and the reinsurance premiums.
Exemption or exclusion	Chile	No. 4 of Article 13 of the VAT law provides an exemption for establishments of education, which is limited to income from the teaching activity itself.
Exemption or exclusion	Chile	The No. 5 of Article 13 of the law on VAT provides an exemption for hospitals run by the State or universities recognized by it, for the income they receive in their area. In turn, the No. 6 of Article 13 of the VAT Act provides an exemption for services provided to third parties by the Social Security Service, the National Health Service Employees and the National Health Service, all currently grouped in Fonasa. The No. 7 of this Article extends the exemption to individuals or corporations that replace previous institutions and, under Article 21 of Law 18,933; it means they are the ISAPRES. If the ISAPRES, benefiting from the exemption, provide services through third parties under an agreement, the exemption also benefits the third party but only to the tariff of Fonasa in which they are enrolled.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Chile	The No. 1 of Section B of Article 12 of Decree No. 825, exempts from VAT on imports for war machines, weapons, components or parts for manufacturing or assembly plants, ammunition and other supplies, made by the Ministry of Defense or by institutions and companies to perform tasks relating to national defense, safeguarding public order and security or police. It also exempts from VAT the national or nationalized parts used in manufacturing or assembly plants of the goods mentioned in their admission or readmission from Free Trade Zones to the rest of the country. Moreover, Article 101 of Law No. 18,948, Organic Law of the Armed Forces, February 1990, exempts from taxation, so also VAT, “the acts, contracts or agreements relating to the acquisition, administration and disposal of goods or services involving revolving funds for procurement of the Armed Forces “, which are exempt from tax both imports and the purchase of domestic goods and services made with these funds. Article 19 of Decree Law 1.244 of 1975 exempts from value added tax (VAT) on sales and services performed by Factories and Arsenals of the Army (FAMAE) and Arsenals of the shipyard and the Navy (ASMAR) to the Ministry of National Defense and other institutions or subsidiaries of the Secretary of State. Similarly, the National Aeronautics Company (ENAER) through its Organic Law has adopted this same franchise (Law No. 18,297, 1984).
Exemption or exclusion	Chile	Under what is stated in No. 7 of Article 13 of the VAT Act, cited above, are exempt from tax all income received by the Pension Health Institutions (ISAPRES) with a ceiling of 7% of legal trading for health and applied to the taxable wage cap of 60 UF, equivalent to 4.2 UF. That is, any additional income earned by that amount by ISAPRES is taxed with VAT. However, to facilitate exemption, these incomes should pay benefits and health benefits of those established by law (law 18.469) and bestowed on members which in turn are trading at a social insurance scheme.
Exemption or exclusion	Chile	Resale of new real estate is exempt VAT for not complying with the requirements of Article 2 of the Law on Sales Tax and Services to be considered a sale.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Chile	This distinction is made in services, in accordance with the input-product matrix (MIP) that separates it from the business services (referred to as professional services provided to individuals and the public sector). However, the legal basis is the same as described in the previous section.
Exemption or exclusion	Ecuador	In addition to those provided for in the numbers 4 and 5 of Article 55 of the Law on Internal Taxation, transfers and imports of agricultural assets contained in Annex 1 of this decree will have zero percent rate of value added tax. Transfers and imports of raw materials and inputs used to produce fertilizers, insecticides, pesticides, fungicides, herbicides, agricultural oil used against the black Sigatoka disease, pesticides and veterinary products under the list consisting in Annex 2 to this decree will also have zero rate of value added tax.
Exemption or exclusion	Ecuador	Edible oils, except olive oil, oatmeal, cornstarch and flour for human consumption, National Canned tuna, mackerel, sardines and trout, bread and noodles, salt, butter and margarine.
Exemption or exclusion	Ecuador	Aircraft, planes and helicopters destined for the commercial transportation of passengers, cargo and services.
Exemption or exclusion	Ecuador	Assets acquired by state institutions and public enterprises that receive income exempt from income tax.
Exemption or exclusion	Ecuador	Goods and services purchased by the elderly (return to the beneficiary).
Exemption or exclusion	Ecuador	Donations to public sector entities and institutions and associations of private charity, culture, education, research, health and sports, legally constituted.
Exemption or exclusion	Ecuador	The toll charged for the use of roads and bridges.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Ecuador	Electrical energy.
Exemption or exclusion	Ecuador	Public shows.
Exemption or exclusion	Ecuador	Book printing.
Exemption or exclusion	Ecuador	Fluorescent lamps.
Exemption or exclusion	Ecuador	Not processed natural milk, pasteurized, homogenized or powder-produced milk, cheeses and yogurts. Infant formula, infant protein.
Exemption or exclusion	Ecuador	Individual or group insurance life and health reinsurance, medical assistance and personal accidents, as well as mandatory insurance for road traffic accidents.
Exemption or exclusion	Ecuador	The lottery systems Guayaquil Welfare Board and "Fe y Alegría".
Exemption or exclusion	Ecuador	Foreign visitors are entitled to refunds of VAT provided that each invoice has a value of not less than fifty dollars of the United States of America U.S. $ 50.00.
Exemption or exclusion	Ecuador	Medicines and drugs for human use, according to the Decree lists established annually by the President of the Republic, as well as raw materials and supplies imported or purchased in the domestic market to produce them.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Ecuador	Bond paper, newsprint, magazines, books and supplementary material is co-marketed with books.
Exemption or exclusion	Ecuador	Agricultural food products, poultry, livestock, beekeeping, rabbits, bio aquatic, forestry, meat and charcuterie in a natural state, and fish kept in their natural state, i.e. those who have not undergone processing, process or treatment that involves modification of nature. The only cooling, chilling or freezing for preservation, the milled, ginning, milling, extraction by mechanical or chemical means for the production of edible oil, slaughtering, cutting and packaging are not considered processing.
Exemption or exclusion	Ecuador	Certified seeds, bulbs, plants, cuttings and living roots. Fish meal and balanced diet, dishes prepared with molasses or sugar, and other preparations used as food for animals bred for human alimentation. Fertilizers, insecticides, pesticides, fungicides, herbicides, agricultural oil used against the black Sigatoka disease, pesticides and veterinary products and raw materials and inputs, imported or purchased in the domestic market to produce, according to the lists established by Decree of the President of the Republic.
Exemption or exclusion	Ecuador	Administrative services provided by the state and public sector entities which are required to pay a price or rate as services provided by the Civil Registration, licensing, registrations, permits and other.
Exemption or exclusion	Ecuador	Air fumigation services.
Exemption or exclusion	Ecuador	Renting or leasing of property dedicated exclusively to housing, under the conditions established in the regulations.
Exemption or exclusion	Ecuador	Education services at all levels.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Ecuador	Child-care facilities and nursing homes.
Exemption or exclusion	Ecuador	Refrigeration, chilling and freezing to preserve food products.
Exemption or exclusion	Ecuador	Health services, including prepaid medical services and drug manufacturing.
Exemption or exclusion	Ecuador	National terrestrial and aquatic transport of passengers and cargo services, as well as international cargo transportation and cargo transportation to and from the province of Galapagos. It also includes the transportation of crude oil and natural gas by pipelines.
Exemption or exclusion	Ecuador	Securities and financial services provided by entities legally authorized to provide them.
Exemption or exclusion	Ecuador	Funeral services.
Exemption or exclusion	Ecuador	Assets acquired by state institutions and public enterprises that receive income exempt from income tax.
Exemption or exclusion	Ecuador	Services provided personally by the artisans.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Ecuador	Services provided by social clubs, professional associations, chambers of commerce, trade unions and the like, which charge their members fees, tax rates or membership contributions.
Exemption or exclusion	Ecuador	Public services of electricity, drinking water, sewage and garbage collection.
Exemption or exclusion	Ecuador	Religious Services.
Exemption or exclusion	Ecuador	Tractor Tire up to 200 hp including kangaroo types and used in rice cultivation, plows, harrows, furrow and weirs, combines, planters, lawn mowers, portable sprayers, sprinklers and sprinkler irrigation equipment and other agricultural items and parts to be established by the President of the Republic by decree.
Exemption or exclusion	Ecuador	Transfer of securities values.
Exemption or exclusion	Ecuador	Hybrid vehicles.
Exemption or exclusion	Spain	Are exempt from VAT, for calculation purposes, services such as postal, private health, welfare, educational, private, the transfer of personal of religious organizations, services of charities and political parties, sports , cultural, financial, professionals (artists, performers, ...) (Insurance, residential leases, transfers of rural land, the second and subsequent delivery of buildings, lotteries, betting and gambling are not a tax expenditure in Spain,. (Article 91 of the Law 37/1992 of the VAT).

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Guatemala	Those homes with a maximum of 60 square meters of construction, as well as plots urbanized with basic services and maximum of 120 square meters area.
Exemption or exclusion	Guatemala	Schools registration, tuition fees, rights of exams and transportation provided to school, provided that it is not paid by third.
Exemption or exclusion	Guatemala	VAT exemption for legally authorized universities.
Exemption or exclusion	Guatemala	VAT exemption for the cooperative sector with its partners.
Exemption or exclusion	Guatemala	VAT exemption for transfers of title to real estate, legacies and donations from estates on death.
Exemption or exclusion	Guatemala	Exemption of VAT to the supervised financial system (banks, finance and insurance) and stock market exchange.
Exemption or exclusion	Guatemala	Includes the Guatemalan Olympic Committee, the Autonomous Sports Confederation of Guatemala and the Guatemalan Social Security Institute.
Exemption or exclusion	Guatemala	Purchases made by officials and employees abroad and diplomatic missions and international organizations are exempt from VAT.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Guatemala	Imports of goods made by cooperatives, federations and confederations; individual persons or legal entities; Guatemalan officials and employees diplomatic and consular; diplomatic missions and international agencies. It also includes federations and confederations of cooperatives, officials and employees abroad and diplomatic missions and international organizations.
Exemption or exclusion	Guatemala	Interests from debt securities are exempt from VAT. Whenever traded through a stock exchange duly approved and registered under the current legislation.
Exemption or exclusion	Guatemala	Services provided by associations, foundations and educational institutions, welfare or social service and religious. Contributions and donations to associations, foundations and institutions, educational, cultural or social service assistance and religious. Payments for the right to become a member and periodic fees to associations or social institutions, trade unions, cultural, scientific, educational and sports, as well as professional associations and political parties.
Exemption or exclusion	Guatemala	After the expiration of the trust and upon return of the goods subject to administration by the trustee to the trustor does not pay VAT on the transfer of ownership of such property.
Exemption or exclusion	Guatemala	Sales of VAT free generic and natural drugs.
Exemption or exclusion	Guatemala	Retail Sales on cantonal or municipal market, under Q. 100.00 do not pay VAT. Includes sales of meat, fish, seafood, fruits and vegetables, cereals, legumes and grains to final consumers.
Exemption or exclusion	Mexico	Disposal of business premises.
Exemption or exclusion	Mexico	Public shows.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Mexico	Includes sale, rent and interest payments on home mortgages.
Exemption or exclusion	Mexico	Terrestrial public transport of persons.
Exemption or exclusion	Mexico	Education services.
Exemption or exclusion	Mexico	Medical services.
Exemption or exclusion	Peru	Activities related to the exploration – imports.
Exemption or exclusion	Peru	Appendix I: Agricultural Inputs.
Exemption or exclusion	Peru	Appendix I: First sale of real estate whose value does not exceed the 35 ITU.
Exemption or exclusion	Peru	Appendix I: Agricultural products.
Exemption or exclusion	Peru	Appendix I: The life insurance policies.
Exemption or exclusion	Peru	Appendix I: The income earned by the Fund MIVIVIENDA for the credit transactions performed with banks and financial services companies.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Peru	Appendix I: Public transport of passengers within the country, except for air transport.
Exemption or exclusion	Peru	Appendix I: Services of credit by banks.
Exemption or exclusion	Peru	Appendix II: Credit services by municipal saving and credit facilities.
Exemption or exclusion	Peru	Appendix II: Credit services provided by rural saving and credit facilities.
Exemption or exclusion	Peru	Appendix II: Services of credit provided by EDPYMES.
Exemption or exclusion	Peru	Appendix II: Services of credit by financial companies.
Exemption or exclusion	Peru	Donations to religious organizations and social welfare.
Exemption or exclusion	Peru	Exemption from VAT in the Amazon.
Exemption or exclusion	Peru	IGV: Overlay of sales tax on agricultural products between Appendix I of the VAT Act and the Act on Amazon.
Exemption or exclusion	Peru	Import of cancer drugs, HIV and diabetes drugs.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Peru	Import of medical samples.
Exemption or exclusion	Peru	Import and services by the Public or Private Educational Institutions.
Exemption or exclusion	Peru	Import and sale of books and publishing products - Democratization Book Act.
Exemption or exclusion	Peru	Imports to the Amazon region.
Exemption or exclusion	Peru	Migration Incentive.
Exemption or exclusion	Peru	The construction and repair of the units of the naval forces that carry out the industrial services of the Navy.
Exemption or exclusion	Peru	The importation or sale of diesel or residual oil to companies of electricity generation and distribution.
Exemption or exclusion	Peru	The transfer, import and supply of services for cultural and sports institutions.
Exemption or exclusion	Peru	Royalties paid by the appropriate licensing contracts in Hydrocarbons.
Exemption or exclusion	Peru	Gambling and games such as lotteries, bingos, raffles, lot drawings, horse racing events.
Exemption or exclusion	Peru	The services of the AFP and insurance for workers belonging to SPFP.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Peru	Overlap between the regime of exemptions for electrical companies and the Amazon provisions.
Exemption or exclusion	Peru	Sale of fuel by oil companies to the marketing or end consumers located in the Amazon region.
Exemption or exclusion	Dominican Republic	Diverse activities.
Exemption or exclusion	Dominican Republic	Food.
Exemption or exclusion	Dominican Republic	Education.
Exemption or exclusion	Dominican Republic.	Health.
Exemption or exclusion	Dominican Republic	Services.
Exemption or exclusion	Dominican Republic	Transport.
Exemption or exclusion	Dominican Republic	Housing.
Exemption or exclusion	Uruguay	Article 20 Title 10 TO 1996 provides exemption from VAT for sales made by taxpayers within the single tax regime.
Exemption or exclusion	Uruguay	The TO 1996, Title 10 in Section 1 D Lit (Lit TO E above) of art. 19 provides for exemption from VAT on the disposal of agricultural machinery and accessories.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Uruguay	In Title 3 and Decree 220/98 - Article 82 is collected the exemption granted by law 13,640 concerning the activities of the Honorary Committee for the Fund Administrator of the Eradication of Unhealthy Rural Housing (MEVIR) and the owners or tenants of housing built under this regime.
Exemption or exclusion	Uruguay	In exercise of the option given by the literal N of paragraph 1 of Article 19 of Title 10 of the Amended Text 1996, Dec 332/007 establishes exemption from poultry from 11 September 2007 to 31 December of that year. This tax treatment has been extended to the present.
Exemption or exclusion	Uruguay	This is a generic exemption established in the article 69 of the Constitution (TO 1996 title. 3 Chapter 1 article 1.) and which reaches all cultural and educational institutions.
Exemption or exclusion	Uruguay	This exemption remained enforced until June 30, 2007, and set out in Paragraph D of Article 20 10 Title, TO 1996. From the rule of law 18.083 this exemption is eliminated and the sales are going to be taxed, but a simplified regime for the settlement through a fixed monthly amount per company is established.
Exemption or exclusion	Uruguay	This exemption shall apply where required by the executive branch, which is authorized to include this good among those taxed at the minimum rate (TO 1996 - Title 10 - Article 19 - Number 1 - Literal L).
Exemption or exclusion	Uruguay	Are exempt from VAT disposal of newspapers, periodicals, magazines and brochures. Standard: TO 1996 - title 10 - article 19 - Numeral 1 - Literal H.
Exemption or exclusion	Uruguay	VAT Exemption on the import of machinery and equipment. It includes exemptions on imported machinery and equipment for projects declared of national interest (Art. 22 Title 10 of the sorted text (TO) 1996) as well as the import of machinery for forestry.
Exemption or exclusion	Uruguay	Exemption from VAT on insurance premiums charged by insurance disability and death to the AFAPs.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Uruguay	Exemption from VAT on the commission received by the AFAP by the administration of pension funds.
Exemption or exclusion	Uruguay	The law creating the National Post and Decentralized State Commercial Service granted the exemption of all types of national taxes, excluding social security contributions, this is contained in Title 3 TO 1996 Chap. 3 article fifty-third.
Exemption or exclusion	Uruguay	The rule in effect until June 30, 2007 provided for the exemption from VAT the supply of water without restrictions, from the effective date of the NST (TO 1996 - Title 10, Art.19, No.1 literals I, O and P) water supply that exceeds the limits set by the Executive, happens to be taxed at the basic rate.
Exemption or exclusion	Uruguay	Alienation of mutton will be exempt from VAT, the exemption will apply when prescribed by the Executive and for periods not exceeding ninety days each time. From the date of NST effectiveness the time limit on it is removed. Standard: TO 1996 - Title 10 - Article 19 - Number 1 - Literal J (L TO prior to the rule of law 18083).
Exemption or exclusion	Uruguay	Real estate leases services are exempt from VAT according to the provisions of Title 10 TO 1996 - Article 19 - Number 2 - Paragraph C.
Exemption or exclusion	Uruguay	Services provided by hotels outside of high season are exempt from VAT pursuant TO 1996 translated title 10 Article 19 paragraph 2 Literal I.
Exemption or exclusion	Uruguay	Standard: Title 3 art. 10 Article 72 to 78. This is a generic exemption concerning the print shops, publishers and bookstores, in the part of their business relating to the printing and sale of books, pamphlets and magazines of literary, scientific, artistic, educational and instructional materials. The scope of the exemption is for the taxes on the sales, capital, entries, activities, services and businesses, with an exception for the income tax.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Uruguay	Are exempt from VAT the disposals of fuels derived from petroleum (standard: TO 1996 - title 10 - article 19 - Numeral 1 - Literal E.) By law 17 615 December 2002 the transfers of diesel are taxed at the minimum rate, and from May 1, 2007 they are the base rate.
Exemption or exclusion	Uruguay	Are exempt from VAT fees perceived by agents and brokers of the direction of lotteries. Standard: TO 1996 - title 10 - article 19 - Numeral 2 - Literal B.
Exemption or exclusion	Uruguay	Sales of certain types of milk are exempted Standard: TO 1996 - Title 10 - Article 19 - Number 1 - Literal F (H in TO prior to the rule of law 18083).
Exemption or exclusion	Uruguay	Interests on housing loans are waived. This exemption is provided in the TO 1996 - Title 10 - Article 19 - Number 2 - Literal E.
Exemption or exclusion	Uruguay	Commissions arising from intervention in the buying and selling of public values are exonerated from VAT. Standard: TO 1996 - Title 10 - Article 19 - Number 2 - Literal I (Literal K in TO prior to the rule of law 18083).
Exemption or exclusion	Uruguay	According to the Numeral 2 Literal K article 19 of Title 10 TO 1996 gambling existing on the date of enactment of Law No. 16.697 of April 25, 1995, bills, tickets and other documents relating to gambling, other than “5 Gold “and the” 5 Golden Junior “will be exempt from VAT. In the case of these last few games, the taxable amount shall consist of the price of the bet.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Uruguay	Accordance with the existing standard (TO 1996 title 10 article Numeral 1 G 19 Literal, Literal I at TO before the rule of law 18 083) the sale of goods to be used in agricultural production and raw materials for its processing are exempt from VAT. The Executive is who determines the list of goods and raw materials included in this literal and can be set for the goods mentioned therein, a rebate of value added tax included in purchases and imports in place in the absence of sufficient domestic production.
Simplified, special or promotional regime	Argentina	Promotion of SMEs. L. 24.467. Exemption from VAT on all operative which develop mutual guarantee societies.
Simplified, special or promotional regime	Argentina	Economic promotion of Tierra del Fuego. Law 19.640. Release of VAT purchases and sales.
Simplified, special or promotional regime	Brazil	Specific tax rates for contribution related to the gross revenue earned by a legal entity established in the industrial Free zone of Manaus in the area of Free Trade Agreement, resulting from own production sales.
Simplified, special or promotional regime	Brazil	Reduction to 0 (zero) of contribution rates on gross operating revenues from sales of goods for consumption or manufacture in ZFM or LAC, for legal entities established outside the ZFM, or ALC.

Type of tax expenditure	Country	Tax provisions
Simplified, special or promotional regime	Brazil	Reduction of 1.65% to 0.65% to 0 (zero) of contribution rates on gross operating revenues from the sale of raw materials, intermediate products and packaging materials, produced in the Manaus Free Zone, for use in the process of industrialization.
Simplified, special or promotional regime	Brazil	Reduction from 7.6% to 3% to 0 (zero) of contribution rates on gross operating revenues from the sale of raw materials, intermediate products and packaging materials, produced in the Manaus Free Zone, for use in the process of industrialization.
Simplified, special or promotional regime	Brazil	Differential tax regime for Micro and Small Enterprises.
Simplified, special or promotional regime	Brazil	Suspension of imports of the contribution made by companies located in the Manaus Free Trade Zone of raw materials, intermediate products and packaging materials, for use in the process of industrialization.
Simplified, special or promotional regime	Brazil	Suspension of contribution levied on goods intended for incorporation into new fixed assets of legal entities established as importer in Manaus Free Zone, 18 months after the merger of the immobilized asset becomes exempt.

Type of tax expenditure	Country	Tax provisions
Simplified, special or promotional regime	Brazil	Suspension of the requirement of the contribution levied on domestic sales, where such goods or building materials are purchased by corporate beneficiary of REIDI.
Simplified, special or promotional regime	Chile	The legislation contained in the DFL 341 of 1977 (revised text of the DL 1055 and 1,233 in 1975, DL 1611, 1976, and DL 1698 of 1977) states that the species placed in free zones for consumption in the same or for to re-export are exempt from VAT.
Simplified, special or promotional regime	Ecuador	Sales and supplies of services carried out by business users and managers of export processing zones.
Simplified, special or promotional regime	Guatemala	Where purchases are inputs totally used to add value to re-exports

Annex No. 7

Tax expenditures to taxes on income, profits and capital gains applicable to individuals [2]

Type of tax expenditure	Country	Tax provisions
Reduced tax rate	Spain.	Application of the tax scale: In divorce cases the amounts paid for the children are taxed separately from the base. The scale applies, on the one hand, to the quantities for children and, on the other hand, to the rest of the general average basis (art. 64 law).
Reduced tax rate	Uruguay	Deposits to more than one year. The general rate levied on income from Category I (income from capital) is 12%. All rents taxed at a lower rate are regarded as generators of tax expenditure. In this case, the income is taxed at 3%.
Reduced tax rate	Uruguay	Deposits to one year or less in MN. The general rate levied on income from Category I (income from capital) is 12%. All rents taxed at a lower rate are regarded as generators of tax expenditure. In this case, the income is taxed at 5%.
Reduced tax rate	Uruguay	Copyright. The general rate levied on income from Category I (income from capital) is 12%. All rents taxed at a lower rate are regarded as generators of tax expenditure. In this case, the income is taxed at 7%.
Reduced tax rate	Uruguay	Distribution of utilities rates differences. The general rate levied on income from Category I (income from capital) is 12%. All rents taxed at a lower rate are regarded as generators of tax expenditure. In this case, the distribution of utilities is taxed at 7%.

2 *Year 2009 for Ecuador, Guatemala and Uruguay and year 2010 for other countries.*

Type of tax expenditure	Country	Tax provisions
Reduced tax rate	Uruguay	Financial obligations to more than 3 years. The general rate levied on income from Category I (income from capital) is 12%. All rents taxed at a lower rate are regarded as generators of tax expenditure. In this case, the income is taxed at 3%.
Credit	Brazil	Deduction of income tax, contributions made to funds controlled by the Municipal Councils, State and the Council on the rights of children and adolescents.
Credit	Brazil	Deduction of IT due to the employer contribution paid by the employer for the social security of the domestic worker incident on the remuneration of the employee.
Credit	Brazil	Deduction of the amounts of IT due to the sponsorship for the production of Brazilian films of independent production.
Credit	Brazil	IT deduction because of donations or sponsorship of Cultural Projects.
Credit	Brazil	Deduction of the IT for amounts spent by way of donation, in direct support to sports and sports-related projects.
Credit	Chile	Article 57 bis of the LIR allows to defer the Complementary global tax for that portion of income that was saved in financial instruments as determined by law, until the dissaving of these amounts. The benefit operates as a credit against that tax at the time of saving, equivalent to net savings for the year multiplied by 15% and a debit to reimburse for such taxes when the deficit equal to 15% applied on negative net savings identified at the year end.
Credit	Chile	Article 69 of Law 18,681 of 1987 allows tax payers of the Complementary Global Tax who declare actual income to reduced 50% of cash donations that made to the state universities and private or public professional institutes recognized by the state, with an annual cap of 14,000 UTM.

Type of tax expenditure	Country	Tax provisions
Credit	Chile	The Article 8 of Law 18.985 of 1990 allows tax payers of the Complementary Global Tax who declare actual income to reduced 50% of cash donations that made to the state universities and private or public professional institutes recognized by the state, and to the non profit organizations whose objects are exclusively the investigation, development and cultural diffusion of the art, and to other institutions or entities specified by law. The credit can not exceed 2% of the taxable amount of the tax year or 14,000-UTM.
Credit	Chile	The DL 701 of 1974 created a tax incentive to the exploitation of forests, consisting of the exemption, by way of a loan, of 50% of the global complementary tax affecting owners, partners or shareholders for income, retirement or distributions made from the forestry companies invoking the said statute. This benefit is maintained by the plantations made prior to the publication of Law No. 19.561s, prior to 16.05.98, according to article transitional 5 of that law.
Credit	Chile	Law 19.712 of 2001 (Sports Law) establishes a tax benefit for those individuals or corporations, first category taxpayers on the basis of full accounting, or Global Complementary, testifying on the basis of actual income, when they make financial donations to the Institute of Sport or to finance sports projects supported by it, which is a credit against taxes of 50% of the donation.
Credit	Spain	Taxpayers carrying out economic activities shall apply them incentives and corporate investment incentives under the law of corporate income tax with rates and deduction limits almost equal (art. (68.2 Act).
Credit	Spain	Credit (or deduction) saving-company account. To promote entrepreneurship, taxpayers can enter a credit (or deduction) of 15% invested in the account, with a limit of 9,000 euros (plus other requirements). Deduction (or credit) may not exceed 1,350 euros (Article 68.6).

Type of tax expenditure	Country	Tax provisions
Credit	Spain	Credit (or deduction) of the 10% share of donations to charities (establish certain requirements, among others, a limit of 10% of the taxpayer base, article 68.3 Law).
Credit	Spain	Credit (or deduction) of the maternity fee. Women who have a job (they are discharged and listed in the Social Security system) and have a child (or adopted), may lessen up to 1,200 euros per year (Social Security contributions exceed this amount) for each child under three years. (Article 81 law).
Credit	Spain	Credit (or deduction) for those who get income obtained in Ceuta and Melilla to be resident in these cities deduct the 50% share of the fees applicable to the income which has been obtained in these cities (Article 68).
Credit	Spain	Some companies (in particular toll road concessions, etc.). This issued titles of long-term loan, conserve this benefit. The taxpayers, holders of such securities, perceived interests, can apply a credit (or deduction) of 22.8% (The bonus is 95% above the 24% and refers to provisions prior to 1979 and is governed in the 11th Transitional Regulation of the Legislative Royal Decree 4 / 2004 Income Tax).
Credit	Spain	Taxpayers referred to in Article 2 of Law 35/2007 of November 15, will lessen the amount of the tax differential in 2,500 euros per year for each child born or adopted in the tax period, provided they meet any of a list of conditions.
Credit	Spain	Taxpayers can deduct the 10.05 percent of the amounts paid during the tax period for the rental of their residence, provided that their taxable income is less than 24,020 per year. The maximum base of this deduction will be: a) When the tax base is equal to or less than 12,000 per year: 9.015 euros per year. b) When the tax base is comprised between 12.000,01 and 24.020 euros per year: 9.015 euros less the result of multiplying by 0.75 the difference between the tax base and 12,000 euros per year.

Type of tax expenditure	Country	Tax provisions
Credit	Spain	Taxpayers who receive income from work or economic activity returns will be deducted 400 euros per year.
Credit	Spain	Taxpayers have a 15% credit (or deduction) by acquisitions abroad, to preserve and rehabilitate historic buildings (with certain requirements in accordance with article 68.5 law).
Credit	Spain	For the amount paid for the home purchase (which should be the residence of the taxpayer, in addition to other requirements) can be deduced 10.05%. The maximum of this deduction basis will be 9.015 euros per year, and as a result, the maximum deduction reaches 906 (article 68.1).
Credit	Spain	Transitional period of returns on savings and insurance policies: With the previous law they applied a deduction (or reduction) at the base of 40% and the rest — 60 per cent - added to the base to which applied the progressive scale. With the new law to the savings income a flat rate of 18% is applied in 2010. This compensation is established so as not to disrupt with the change in law (thirteenth transitional provision law).
Credit	Guatemala	The taxpayer as an employee is entitled to deduct up to 12% of the net income obtained by presenting the payroll with details of the VAT on their purchases associated with details of suppliers.
Credit	Mexico	Accreditation of the tolls paid for in the road network.
Credit	Mexico	Fiscal stimulus to the Federal States, municipalities and territorial federal district boundaries, including its decentralized agencies, consisting of an accreditation from the 60 % and 30% for the 2010 and 2011 fiscal years, respectively, of the surplus to compare the monthly average of the ISR entered by their workers in fiscal year 2007 and the ISR to enter in the month for the fiscal years 2010 and 2011, when this last amount is greater.

Type of tax expenditure	Country	Tax provisions
Deduction	Argentina	Subjects can deduct the interest on mortgage loans that they had been granted for the purchase or construction of new buildings intended to be the residence of the taxpayer or of the cause in the case of undivided successions, up to the amount of locally pesos ($ 20,000) per year. Law 25.402 art. 81 inc. (a) 3° paragraph.
Deduction	Brazil	Deduction from taxable income of payments made to doctors, dentists, psychologists, physiotherapists, speech therapists, occupational therapists and hospitals, as well as from laboratory tests and radiological services.
Deduction	Brazil	Deduction from taxable income the costs incurred in the taxpayer's regular instruction and / or their dependents, to the individual annual limit of R $ 2,592.29.
Deduction	Chile	Article 17 of Decree 3500 allows for a lowering of the Single Tax Second Category tax base contributions that dependent workers make to pension funds. This rate according to the law is made up of 10% on a maximum taxable income monthly of 60 UF, aimed at the pension fund plus an additional percentage to a Commission for the AFP and invalidity insurance. On the other hand, article 50 of the LIR provides that self-employed persons who declare actual expenditures are also entitled to make the deduction for the made effective contributions.
Deduction	Chile	Article 53 of the Law 19.728 established that the contribution to the unemployment insurance set by this law in its component of worker's charge is deductible for the purposes of the second category taxes. It also established that the charge component of the employer and the provided allowance is deductible for tax purposes of the First Category. Along with this, the legal provision established that contributions increases made to the unemployment fund shall not constitute income for purposes of the income tax act. Article 50, in addition, the mentioned act provides that funds and transfers that are carried out under the single account for severance pay, do not constitute income.

Type of tax expenditure	Country	Tax provisions
Deduction	Chile	The DL 3.500 of 1980 provides that contributions made to health workers salaries are deductible from taxable income or for the determination of personal taxes affecting such income. The legal health contribution is equivalent to 7% on a maximum taxable monthly income of 60 UF; however, workers can also make additional contributions subject to health deduction, but as a whole can not exceed 4.2 UF.
Deduction	Chile	The 19.622 law of 1999 provides that natural persons may deduct from the tax base for the tax on dependent labor or the Global Complementary tax, fees that are paid in the year, with mortgage bonds, subscribed with banks and financial institutions agents and mortgage administrators that operate nationwide. See above for the case of new homes qualifying for DFL2 of 1959 acquisitions. Dividends can be lowered, with certain maximum ceilings, during the period of debt duration.
Deduction	Chile	Law 19,753 established as a franchise the tax base rebate of a percentage of interest paid on mortgages. The total deduction may not exceed 8 annual UTA. The base rebate would be equal to 100% of interest paid in the year to taxpayers whose annual incomes do not exceed 90 UTA, and a percentage decreasing to zero for taxpayers with annual incomes between 90 and 150 UTA. The rebate is applicable only for a taxpayer. However, he may qualify for it for one or more homes purchased through mortgage loans. This franchise is exclusive with respect to earnings per dividend DFL2.
Deduction	Chile	The owners or partners of companies, where firms are taxed based on actual rents determined through complete accounting, can remove from their tax base the contributions they have learned to an AFP on a maximum monthly taxable income of 60 UF, this taxable base being established for withdrawals made from their companies or firms to which they belong.

Type of tax expenditure	Country	Tax provisions
Deduction	Chile	Self-employed workers who do not report actual expenditures may downgrade 30% from their gross honoraria, as alleged expenses, with a ceiling of 15 UTA. Self-employed workers who do not report actual expenses can lower from their gross fees 30% of them, as presumed expenses, with a maximum of 15 UTA. Self-employed workers who do not report actual expenses may downgrade 30% from their gross honoraria, as alleged expenses, with a ceiling of 15 UTA.
Deduction	Ecuador	Contributions to the Ecuadorian Social Security Institute. The taxable income from work as an employee consists of the ordinary and extraordinary income that is taxed, less the value of personal contributions to IESS.
Deduction	Ecuador	Individuals can deduct up to 50% of their total taxable income, not exceeding an amount equivalent to 1.3 times the basic fraction tax relief on income of individuals, personal expenses without VAT and ICE, as well as their spouses and minor children or disabled, who receive no taxable income and are dependents of the taxpayer. Personal expenses that are deductible correspond to those made in respect of: lease or interest payments for house purchase, education, health, and others as determined by regulations. The regulation will determine the type of spending to deduce and its maximum amount, sustained in the referred documents on the sales and retention receipt regulation, in which the contributor beneficiary of this deduction is properly identified. The costs of higher education may also be deduced whether personal expenses as well as those of the spouse, children of any age or other persons that are economically dependent on the taxpayer.
Deduction	Spain	Workers deduction (or reduction) of the active base of disabled workers. The amount of 3.264 euros or the amount of 7242 euros per year is subtracted if the degree of disability is higher than 65 percent (Article 20.3 of Law).

Type of tax expenditure	Country	Tax provisions
Deduction	Spain	Deduction (or reduction) of the base for workers over 65 years who prolong their work: they can lessen (depending on income and certain requirements) from 2652-4080 euros (point to Article 20.2 of the law).
Deduction	Spain	Deduction (or reduction) of the basis for individuals engaged in business activities: a deduction of 2652 euros and 4080 euros can reach (must meet certain requirements set forth in Article 32.2 of Law).
Deduction	Spain	Deduction (or reduction) of the basis for households with children 3,400 euros, for the amount of units mono-parental the amount is 2150 euros (Article 84.2.3. No Law).
Deduction	Spain	Deduction (or reduction) of the basis for contributions to political parties. Membership fees may be subject to reduction in taxable income to a maximum of 600 euros per year. (Article 61 bis).
Deduction	Spain	Deduction (or reduction) of the base by moving to another city: The taxpayer unemployed who accept a job in a new town (with certain conditions) can deduce between 2652 (if they earn more than € 13,260) and € 4,080 (if you earn less than 9180), according to their income from employment (Article 20.2 b of the law).
Deduction	Spain	Deduction (or reduction) of untaxed earnings (deducted in calculating net income) of labor: a deduction of 2652 euros (for incomes over 13,260 euros) and can reach 4080 euros (earning less than 9080 euros) (as to Article 32.2 of the law).
Deduction	Spain	Deduction (or reduction) of the amount of houses rentals: The owner of the obtained rental deducts 50%. If the house is occupied by a young (16 to 35 years) the deduction is 100% (Article 23 law).

Type of tax expenditure	Country	Tax provisions
Deduction	Spain	Contributions to the protected assets of the person with disabilities made by people who have the same relationship of kinship in direct or collateral to the third degree, as well as the spouse of the person with disabilities or those that they had charge in care or foster care, will be entitled to reduce the taxable amount of the contributor, with a maximum ceiling of 10,000 euros per year.
Deduction	Spain	Inputs have a 30% limit on work performance or business activities and 10,000 euros per year (for over 50 years, the limits are 50% and 12,500€) (article 52 law).
Deduction	Guatemala	The taxpayer as an employee is authorized to deduct the minimum income Q36, 000.
Deduction	Guatemala	The net income from bonuses and special bonuses (bonus 14) obtained by the taxpayer as an employee are deducted.
Deduction	Guatemala	The payments made by taxpayers for alimonies, medical and laboratory expenses, donations and fees to professional associations, are deducted from the net income obtained.
Deduction	Guatemala	The payments that taxpayers do for social security are deducted from net income to the taxpayer as an employee.
Deduction	Mexico	Supplementation retirement subaccount for supplementary retirement plan accounts or personal retirement and voluntary contributions, without exceeding 5 annual minimum wages (SMA) and 10% of taxable revenues.
Deduction	Mexico	Additional deduction of 5% of the cost of sales for taxpayers to donate basic human subsistence goods in food and health.
Deduction	Mexico	Tax credit for the rescue of several areas of historic centers or monuments.

Type of tax expenditure	Country	Tax provisions
Deduction	Mexico.	Deposits in special accounts for savings, as well as premiums from insurance contracts and pension plan investment company shares, not exceeding $ 152,000 00.
Deduction	Mexico	Not onerous or remunerative donations.
Deduction	Mexico	Funeral expenses.
Deduction	Mexico	School transportation costs.
Deduction	Mexico	Medical fees, dental and other hospital costs.
Deduction	Mexico	Interest on mortgage loans.
Deduction	Mexico	Insurance premiums for medical expenses.
Deduction	Peru	Expenses for donations granted to National Public Sector, non-profit entities and Catholic Church.
Deduction	Peru	Investment in subjects located in the Amazon.
Deduction	Dominican Republic	Deduction of up to 10% of the Net Taxable Income of educational expenses for children or the taxpayer.
Deduction	Uruguay	Those who get income from work outside the employment relationship, compute as income for tax purposes 70% of revenues.

Type of tax expenditure	Country	Tax provisions
Deferral	Chile	Collective voluntary pension savings.
Deferral	Chile	According to Article 18 of Decree 3,500, pensions obtained from the AFP system are affecting the unique tax of second category generally levied on wages and salaries.
Deferral	Chile	Effect multiple deferrals.
Deferral	Chile	Article 14 of the LIR requires taxpayers to withdraw profits of enterprises or companies which they belong to reinvest in other businesses or companies that have complete accounting and record FUT, within less than 20 days, such rents acquire character of reinvested earnings and are not affected by taxes or Additional Complementary until they are withdrawn or distributed for final consumption. Therefore, such income only affects the First Category Tax rate with 16% (year 2003), which is a tax credit against personal taxes mentioned above.
Deferral	Chile	Article 14 of the LIR stipulates that sole business owners, partners and shareholders of companies that determine their income based on full accounting, contribute to the Complementary or additional Global Taxes only through withdrawals remittances, or dividends received from companies. Meanwhile, the profits generated by companies currently pay only 16% (2003) as First Category tax which constitutes a tax credit against the above-mentioned personal taxes when revenues are withdrawn or distributed.
Deferral	Chile	Article 18 of Decree 3500 provides that the income generated by the contributions of the pension funds do not constitute income, while they are not delivered as pensions to members.

Type of tax expenditure	Country	Tax provisions
Deferral	Chile	Article 18 of Decree 3500 allows for a lowering from the Single Tax Second Category the tax base contributions that dependent workers make to pension funds. These rates are made up of 10% on a maximum taxable income monthly of 60 UF, aimed at the pension fund plus an additional percentage (presently about 2.4%) to a Commission for the AFP and invalidity insurance. On the other hand, article 50 of the LIR provides that self-employed persons who declare actual expenditures are also entitled to make the deduction for the made effective contributions.
Deferral	Chile	Article 18 of DL 3500 which allows to reduce the tax base of the Single Tax Second Category the quotations that workers enter in pension funds managed by the AFP, also supports this deduction for deposits made by the employer in capitalization account of worker called 'Agreed Deposits'. Moreover, according to Article 42 bis of the LIR (introduced by Law 19,768 of 2001 and amended by Law 20,255 of 2007), voluntary pension savings deposits, savings deposits and voluntary collective pension contributions No. 2 of Title III of Decree 3.500 of 1980, may be deducted from the Category II single tax a monthly total of 50 UF, or through annual tax reassessment with a cap 600 UF. If the amounts are not intended to improve or anticipating retirement, and are removed, a special tax applies. To tax the withdrawals, a rate three percentage points above the one determined by multiplying by the factor 1.1 is defined. The product, expressed as a percentage, obtained by dividing by the redesigned amount of the withdrawal made the difference between the amount of tax determined on Complementary remunerations for the year including the adjusted amount of retirement and the amount of the same tax determined without regard to such withdrawal.

Type of tax expenditure	Country	Tax provisions
Deferral	Chile	Article 18 of DL 3500 which allows to reduce the tax base of the Single Tax Second Category the quotations that workers enter in pension funds managed by the AFP, also supports this deduction for the deposits made by the employer in a capitalization account of workers, called 'Agreed Deposits'. Moreover, according to Article 42 bis of the LIR (introduced by Law 19,768 of 2001 and amended by Law 20,255 of 2007), voluntary pension savings deposits, savings deposits and voluntary collective pension contributions No. 2 of Title III of Decree 3.500 of 1980, may be deducted from the Category II single tax a monthly total of 50 UF, or through annual tax reassessment with a cap 600 UF. If the amounts are not intended to improve or anticipate retirement, and are removed, a special tax applies. To tax the withdrawals, a rate three percentage points above the one determined by multiplying by the factor 1.1 is defined. The product, expressed as a percentage, obtained by dividing by the redesigned amount of the withdrawal made the difference between the amount of tax determined on Complementary remunerations for the year including the adjusted amount of retirement and the amount of the same tax determined without regard to such withdrawal.

Type of tax expenditure	Country	Tax provisions
Deferral	Chile	Article 18 of DL 3.500 which allows to reduce the tax base of the Single Tax Second Category the quotations that workers enter in pension funds managed by the AFP, also supports this deduction for the deposits made by the employer in a capitalization account of workers, called 'Agreed Deposits'. Moreover, according to Article 42 bis of the LIR (introduced by Law 19,768 of 2001 and amended by Law 20,255 of 2007), voluntary pension savings deposits, savings deposits and voluntary collective pension contributions No. 2 of Title III of Decree 3.500 of 1980, may be deducted from the Category II single tax a monthly total of 50 UF, or through annual tax reassessment with a cap of 600 UF. If the amounts are not intended to improve or anticipate retirement, and are removed, a special tax applies. To tax the withdrawals, a rate three percentage points above the one determined by multiplying by the factor 1.1 is defined. The product, expressed as a percentage, obtained by dividing by the redesigned amount of the withdrawal made the difference between the amount of tax determined on Complementary remunerations for the year including the adjusted amount of retirement and the amount of the same tax determined without regard to such withdrawal.
Exemption or exclusion	Argentina	Earnings of $ 10,000 from the exploitation of copyright and the remaining proceeds from rights protected by the Law 11,723, provided that the tax falls directly on the authors or their heirs, the respective works are duly registered in the National Directorate of Copyright, that the benefit comes from the release, performance, exhibition, sale, translation or other form of reproduction and is not derived from work done on request. Act 20.628 art. 20 inc. j).
Exemption or exclusion	Argentina	Earnings derived from securities issued or to be broadcast in the future by official entities when there is a general or special law which required or when resolved it the power executive law 20.628 article 20 inc. k).
Exemption or exclusion	Argentina	Law 20.628 art. 20 inc. h) k).

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Argentina	Law 20.628 art. 20 inc. p).
Exemption or exclusion	Argentina	Results from trading operations, exchange, barter or disposal of shares, stocks, bonds and other securities obtained by individuals who are not subject to 3 ° category Mutual Funds and Trust, which are not listed on stock exchanges or securities markets, when the aforementioned subjects are resident in the country. Law 20.628 art. 20 inc. w), D. 493/2001 and D.2284/91.
Exemption or exclusion	Brazil	Income distributed to individuals is exempt, provided they have passed five (5) years from the acquisition of quota by the investor.
Exemption or exclusion	Brazil	Income distributed to individuals is exempt, provided they have passed five (5) years from the acquisition of quota by the investor.
Exemption or exclusion	Brazil	Exempt Income from savings accounts.
Exemption or exclusion	Brazil	Exempt Income from retirement due to serious illness or work accident.
Exemption or exclusion	Brazil	Exempt Income from compensation for labor contract rescinded.
Exemption or exclusion	Brazil	Exempt Income from retirement installments received by claimants aged 65 or more.
Exemption or exclusion	Brazil	Income coming from annuity for death or disability is exempt.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Chile	According to Article 20 No. 1 letter f of the LIR, are exempt from the Global Complementary Tax the rents from real estate tax valuation which appraisal is less than or equal to 40 UTA, provided they are obtained by dependent workers or small taxpayers , who receive no other income involving taxes.
Exemption or exclusion	Chile	Article 22 of DL 3500 Complementary exempts up to an amount of 30 UTM per year the returns included in the withdrawals made voluntary savings accounts of the AFP respecting the general rules of the LIR, provided that such income is obtained for small taxpayers and dependent workers.
Exemption or exclusion	Chile	Article 32 of Law No. 18.815 provides that the benefits obtained from national investment funds that are lower or equal to 20 annual UTM are exempt from the global complementary tax, provided that they are obtained by dependent workers or small contributors, not receiving other income subject to tax.
Exemption or exclusion	Chile	Article 40 No. 6 exempts from the First Class Tax individual companies, not operating under the simplified regime of article 14 bis, whose net revenues determined for tax purposes does not exceed 1 UTA.
Exemption or exclusion	Chile	Article 57 of LIR provides that the benefits obtained from national investment funds that are lower or equal to 30 annual UTM are exempt from the Global complementary tax, provided that they are obtained by dependent workers or small contributors, not receiving other income subject to tax.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Chile	Article 57 of LIR provides that the benefits obtained from national investment funds that are lower or equal to 20 annual UTM are exempt from the Global complementary tax, provided that they are obtained by dependent workers or small contributors, not receiving other income subject to tax.
Exemption or exclusion	Chile	The DFL 2 of 1959 by Article 15 exempts from income tax on income derived from the operation of affordable housing constructed in accordance with the provisions of such statute. I.e. the rents arising from the rental of these homes are exempt from taxes of first category such as the Global Complementary or additional Tax, irrespective of the person who exploits them.
Exemption or exclusion	Chile	Article 1 number 3 of Act 19 768 of November 2001 states that it exempts from income tax the highest value obtained on disposal of shares issued by stock companies with stock market activity.. This measure extends to any investor (resident or foreign) to the extent that had been established by Law 19,738 before July 2001, which only operated for institutional foreign investors.
Exemption or exclusion	Ecuador	Income received by persons over sixty-five years, in an amount equal to twice the basic fraction of the tax-exempt income.
Exemption or exclusion	Ecuador	Allowances or stipends, for fellowships for research funding, expertise or training in higher education institutions and government entities or foreign national and international agencies.
Exemption or exclusion	Ecuador	The Thirteenth and Fourteenth month's payments.
Exemption or exclusion	Ecuador	Capital gains, profits, profits or income distributed by mutual funds, trust funds, unemployment and trade to their beneficiaries, provided these funds and business trusts have complied with their obligations as taxpayers paying the income related tax.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Ecuador	Ecuadorian citizens and foreigners who leave the country carrying cash to a basic exempt fraction on income of natural persons shall be exempt from this tax, otherwise they will be taxed.
Exemption or exclusion	Ecuador	The income generated by the occasional sales of real estate, stocks or shares. For purposes of this law shall be considered as occasional alienation one that does not correspond to the ordinary course of business or the taxpayer’s regular activities.
Exemption or exclusion	Ecuador	Interest received by individuals for their savings deposits paid by entities in view of the country’s financial system.
Exemption or exclusion	Ecuador	Those obtained by people with disabilities, qualified by the competent body, in an amount equal to three times the basic fraction taxable with rate zero of the income tax payment.
Exemption or exclusion	Ecuador	The benefits obtained by workers as severance bonus and compensation for unfair dismissal, in not exceeding the part determined by the Labor Code. All bonuses and compensation that exceeds the values determined in the Labor Code, including those provided in collective agreements will be subject to income tax.
Exemption or exclusion	Ecuador	Income from lottery prizes or sweepstakes sponsored by the Guayaquil Welfare Board and “Fe y Alegria”.
Exemption or exclusion	Ecuador	Beneficiaries of the Social Security Institute, for all kinds of benefits provided by this entity, employer pensions Jubilee as the Labor Code, and t members of the security forces and ISSPOL ISSFA, and state pensioners.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Ecuador	Yields on fixed deposits of one year or more, paid by domestic financial institutions to individuals and companies, except financial system institutions, as well as income earned by individuals or companies from investments in securities in bonds, term of one year or more, which are traded through stock exchanges in the country.
Exemption or exclusion	Ecuador	Agricultural mandate. Deductions for special laws.
Exemption or exclusion	Ecuador	Jubilee pensions and other income received by the beneficiaries of the Social Security Institute, for all kinds of benefits provided by this entity.
Exemption or exclusion	Spain	The Sales of the usual residence provides (usually) a benefit. This benefit is exempt if the total amount earned is reinvested in the acquisition of a new residence; the law lays down certain requirements (Article 38).
Exemption or exclusion	Spain	Aids received by those affected by AIDS (human immunodeficiency virus) (Article 7.b law) are exempted.
Exemption or exclusion	Spain	Exempt public aid for birth, adoption, foster care or care of minor children (Article 7. Letter z).
Exemption or exclusion	Spain	Exempt public scholarships to study in Spain or abroad (Article 7.j).
Exemption or exclusion	Spain	Exempt special bonuses paid by the Spanish state participation in international peacekeeping or humanitarian mission, when fulfilling certain requirements (Article 7).
Exemption or exclusion	Spain	Exempt workers 'severance pay, the maximum mandatory amount (and specific requirements) required under the law of the Workers' Statute (Article 7).

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Spain	Exempt disability pensions, permanent disability perceived by the State (Article 7. Letters f and g).
Exemption or exclusion	Spain	Exempts pension based on the Civil War from 1936 to 1939 (article 7. Letter c).
Exemption or exclusion	Spain	Exempt public economic benefits for family care and care for people in situations of dependency (Article 7. Letter x law).
Exemption or exclusion	Spain	Exempt benefits received for burial or funeral, with the limit of the total expenses incurred (Article 7. R letter of the law).
Exemption or exclusion	Spain	Exempt allowances unemployment when they are received in the form of lump sum payment to encourage the creation of auto companies, with a limit of 12.020 euros, with certain requirements (article 7. letter n of the law).
Exemption or exclusion	Spain	Public benefits from acts of terrorism, and pensions awarded for acts of terrorism are exempt (Article 7. A of the law).
Exemption or exclusion	Spain	Public benefits and pensions for orphans under the age of twenty years or disabled are exempt also are exempt public benefits for maternity, childbirth or adoption (Article 7. Letter h).
Exemption or exclusion	Spain	Incomes received by the disabled and provided by family members, to constitute a property (with certain requirements laid down in Article 7. Letter of the law w) are exempt.
Exemption or exclusion	Spain	Awards from lotteries organized by the State, Autonomous Communities, Red Cross and the Spanish National Blind Organization (Article 7.) are exempt.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Spain	Literary awards and artistic or scientific awards of relevance (with certain requirements) and the Prince of Asturias awards (Article 7. Letter L of the law) are exempt.
Exemption or exclusion	Spain	Employment income received for work actually performed abroad, under certain conditions (Article 7. Letter p law) is exempt.
Exemption or exclusion	Spain	Compensation paid to individuals by public authorities for damages are exempt. (Art. 7. q. law).
Exemption or exclusion	Spain	Reduced public benefits for placement of disabled persons, older than 65 or minors.
Exemption or exclusion	Spain	Financial aids to athletes in high-level sports from Superior Council (article 7.m law) are considered exempt.
Exemption or exclusion	Guatemala	Income tax on the compensation received by the taxpayer as a result of death or disability resulting from accidents and insurance payments paid by the taxpayer are exempt.
Exemption or exclusion	Guatemala	Income tax payments as individuals in the employment of public officials abroad, as well as travel and entertainment expenses of officials traveling on official are exempt.
Exemption or exclusion	Guatemala	The income obtained by the taxpayers as payment for social security benefits associated with insurance payments are exempt from income tax.
Exemption or exclusion	Guatemala	By constitutional mandate the Universities legally authorized to work in the country do not pay income tax.
Exemption or exclusion	Guatemala	Any income earned by inheritance, legacy or donation is exempt from the payment of the IRS.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Mexico	1 minimum wage for each Sunday worked.
Exemption or exclusion	Mexico	50% of the extra hours and up to 5 minimum wages for each week of service.
Exemption or exclusion	Mexico	INFONAVIT contributions, withdrawals for expenses of marriage or unemployment, among others.
Exemption or exclusion	Mexico	Workers social security contributions paid by employers.
Exemption or exclusion	Mexico	Savings banks and savings funds.
Exemption or exclusion	Mexico	Copyright for up to 20 SMA.
Exemption or exclusion	Mexico	Sale of shares on the Stock Exchange.
Exemption or exclusion	Mexico	Disposal of home.
Exemption or exclusion	Mexico	Disposition of plot rights and communal rights.
Exemption or exclusion	Mexico	Up to 1 general minimum wage workers from the geographical area increased to 30 days.
Exemption or exclusion	Mexico	Up to 15 days of minimum wage.
Exemption or exclusion	Mexico	Up to 15 days of minimum wage.
Exemption or exclusion	Mexico	Interests.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Mexico	Interests perceived by the SIEFORES.
Exemption or exclusion	Mexico	Retirement pensions or retirement assets.
Exemption or exclusion	Mexico	Prizes for science literary or artistic contests or promoting civic values.
Exemption or exclusion	Mexico	Seniority premiums, retirement and severance.
Exemption or exclusion	Mexico	Reimbursement of medical expenses.
Exemption or exclusion	Mexico	Frozen rents.
Exemption or exclusion	Mexico	Disability benefits, educational grants, kindergartens, cultural and sports activities.
Exemption or exclusion	Peru	Compensation for time served – CTS.
Exemption or exclusion	Peru	Capital gains on the stock market.
Exemption or exclusion	Peru	Unaffected 3% payment to enter the System Management of Private Pension Funds (SAFP).
Exemption or exclusion	Peru	Interest on savings and credit cooperatives.
Exemption or exclusion	Peru	Interest on deposits.
Exemption or exclusion	Peru	Interest on securities - treasury bonds and CDBCRP.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Peru	Copyright royalties.
Exemption or exclusion	Dominican Republic	Exemptions from the IRS to professional services in manufacturing industries.
Exemption or exclusion	Dominican Republic	Exemptions from the IRS in stock market.
Exemption or exclusion	Uruguay	Some amounts set annually under which income tax payers are not required to file the affidavit and pay the tax balance.
Exemption or exclusion	Uruguay	Certain transactions relating to the sale of property are exempt from income tax when selling a property is made for the subsequent purchase of another, both being household of the taxpayer and the operations do not exceed certain amount.
Exemption or exclusion	Uruguay	Income from lease of property is exempt from income tax provided that certain objective conditions are met.
Exemption or exclusion	Uruguay	Profits distributed by personal societies whose incomes do not exceed a certain amount are exempt from income tax.
Simplified, special or promotional regime	Chile	According to Law No. 18,392 of 1985, owners or partners of firms located in Region XII limits established by the law itself may lower from their Global Complementary or Additional tax credit for first category associated with withdrawals or dividends, even when companies are exempt from the First Category.

Type of tax expenditure	Country	Tax provisions
Simplified, special or promotional regime	Chile	According to Law No. 19,149 of 1992, owners or partners in companies located physically in the towns of Porvenir and Primavera, located in the territory of Region XII, may lower their Global Complementary or Additional tax credit for the first category credit associated with withdrawals or dividends, even when companies are exempt from the First Category.
Simplified, special or promotional regime	Chile	The rent is determined as a percentage (10%) of the tax valuation of the property.
Simplified, special or promotional regime	Chile	The rent is determined as a percentage (10%) on the current value of each vehicle in place set by the SII on 1 January each year under certain conditions.
Simplified, special or promotional regime	Chile	The rent is determined as a percentage (10%) on the current value of each vehicle in place set by the SII on 1 January each year under certain conditions.
Simplified, special or promotional regime	Chile	The rent is determined as a percentage of annual sales, depending on the average price during the year of copper, gold and silver as the mineral in question (4%, 6%, 10%, or 20 %) under certain conditions.
Simplified, special or promotional regime	Chile	The rent is determined as a percentage of land tax assessment that exploits (10% owner or beneficial owner of the property, 4% in any other manner) under certain conditions.
Simplified, special or promotional regime	Spain	Entrepreneurs engaged in fishing in Canary apply a discount of 50% of the total tax liability for income derived from fish products (meeting the requirements of Law 19/1994 of the Canary Islands Fiscal Regime, Article 26).

Type of tax expenditure	Country	Tax provisions
Simplified, special or promotional regime	Spain	Canary resident entrepreneurs can form an investment reserve and contribute to the limit of 90% of the profit that is not being circulated, as it comes from establishments located in the Canaries. (Law 19/1994 of the economic regime and Prosecutor of the Canary Islands, article 27).
Simplified, special or promotional regime	Mexico	Taxpayers engaged in agriculture, livestock, fisheries or forestry. Exemption for 40 S.M.A.
Simplified, special or promotional regime	Mexico	Cash basis regime for individuals with business and professionals.
Simplified, special or promotional regime	Mexico	Regime for small taxpayers (REPECOS) subject to a fixed rate.
Simplified, special or promotional regime	Uruguay	Who are parts of a nuclear family may choose to liquidate the tax under this modality.

Annex No. 8

Tax expenditures to taxes on income, profits and capital gains applicable to businesses or companies [3]

Type of tax expenditure	Country	Tax provisions
Reduced tax rate	Brazil	Reduction 100% (from 25% to zero) of the IR and rates levied on the additional operating income, sales made by a legal beneficiary of PADIS.
Reduced tax rate	Ecuador	Companies that reinvest their profits in the country may obtain a reduction of 10 percentage points of income tax rate on the amount reinvested, as long as the intended acquisition of new machinery or equipment used for new activity and carry out a corresponding increase in capital.
Reduced tax rate	Spain	The rates (other than those listed elsewhere) are: 25% general mutual insurance companies, mutual accidents, the mutual guarantee companies, etc., 20% specially protected cooperatives and 10% non-profit entities (Article 28 of Legislative Royal Decree 4 / 2004 Tax Corporation).
Reduced tax rate	Spain	Tax type: 1% Investment funds and regulated investment companies provided that the number of members or shareholders required are greater than 100 (article 28 of Royal Legislative Decree 4 / 2004 Income Tax).
Reduced tax rate	Spain	Tax rate: 25% for the portion of taxable income up to EUR 120,202.41, the remainder of taxable income taxed at 30%. If the company creates jobs the above types are reduced to 20% and 25%. Are considered Small and Medium Enterprises (SMEs) those with a turnover of less than 5 million euros and less than 25 workers (Article 114 and 12 additional provision of Royal Decree 4 / 2004 Income Tax)

3 *Year 2009 for Ecuador, Guatemala and Uruguay and year 2010 for the other countries.*

Type of tax expenditure	Country	Tax provisions
Reduced tax rate	Peru	Rate 0%.
Reduced tax rate	Peru	Rate 10%.
Reduced tax rate	Peru	Rate of 10% for companies in border areas.
Reduced tax rate	Peru	Rate 15%.
Reduced tax rate	Peru	Rate of 15% for the aquaculture.
Reduced tax rate	Peru	Rate 5%.
Credit	Argentina	Promotion scheme in the software industry. Law 25.922: 60% reduction in income tax on earnings.
Credit	Brazil	Application of percentage of IR in Regional Development Funds.
Credit	Brazil	Full deduction of the remuneration paid to the employee during the 60 days extension of maternity leave.
Credit	Brazil	Deduction of income tax for contributions made to funds controlled by the Municipal, State and National Councils for the Rights of the Child and Adolescent.

Type of tax expenditure	Country	Tax provisions
Credit	Brazil	Deduction of tax due to an amount equivalent to the application of the rate applicable on the total operating expenses held in the Workers' Food Program .
Credit	Brazil	Deduction of the amounts of IT due to the sponsorship for the production of Brazilian films of independent production.
Credit	Brazil	Deduction for the IR portion of the expenses in research and technology development in industry and agriculture.
Credit	Brazil	IT deduction because of donations or sponsorship of Cultural Projects.
Credit	Brazil	Deduction of amounts spent by way of donation, in direct support to sports and sport related projects.
Credit	Brazil	Industrial or agricultural enterprise that has been installed, enlarged, modernized and diversified in the area of SUDENE and SUDAM.
Credit	Chile	According to Law 19.518 companies engaged in occupational training programs in accordance with the provisions of that body of law can deduct the cost of First Category owed or paid for the financing of such programs, when they have been made within the country. The lower amounts can not exceed 1% of taxable remuneration paid to staff pension purposes in the course of carrying out the training. If the above limit is less than 13 UTM, companies can deduct on account of such credit to this maximum of (13 UTM).
Credit	Chile	Article 13 of Law No. 18,768 requires exporters to pay additional tax of Articles 59 and 60 of the LIR, either, with a rate of 35% or 20% for hiring technical consultancies abroad that are integrated into cost of goods or services exported, such tax may be recovered as a personal payment annually, attributable to taxes that affect the taxpayer exporter in the tax year in question.

Type of tax expenditure	Country	Tax provisions
Credit	Chile	Article 20 No. 1 of the LIR stipulates that companies can deduct the First Category tax the amounts paid by way of property taxes. It should be noted that Law 19.578 of 1998 temporarily suspended the credit for tax years 1999 to 2003, except for companies in the agricultural sector and exploitation of non-agricultural real estate. This suspension acquired a definitive nature with the 19.738 Law of 2001. In short, this credit applies only to companies in the agricultural sector and exploitation of non-agricultural property.
Credit	Chile	Article 20 No. 1 of the LIR stipulates that companies can deduct from the First Category tax the amounts paid by way of property taxes. It should be noted that Law 19.578 of 1998 temporarily suspended the credit for tax years 1999 to 2003, except for companies in the agricultural sector and exploitation of non-agricultural real estate. This suspension acquired a definitive nature with the 19.738 Law of 2001. In short, this credit applies only to companies in the agricultural sector and exploitation of non-agricultural property.
Credit	Chile	Article 31 N ° 7 of the LIR supports deduction as an expense of donations in any species whose sole purpose is conducting primary or secondary, technical, vocational or university education programs in the country, whether private or public as long as they do not exceed 2% of taxable income, or 1.6 per thousand of the company's equity at end of year determined in accordance with article 41 of the LIR. It also expressly permits the deduction of donations to the Fire Department of the Republic, the National Solidarity Fund, Fund for Community Water Supply and Equipment, Housing Communal SENAME and housing Committees.

Type of tax expenditure	Country	Tax provisions
Credit	Chile	The article 33 bis of the LIR provides that taxpayers who claim effective income through full accounting are entitled to a credit equivalent to 4% of the value of physical assets of the fixed assets, acquired new or completed during the exercise. The 19.578 Act of 1998 extended this benefit to allow that the tax exercise 1999-2003 surplus of credit arising in a particular period may be reduced from the tax in the following exercises. The percentage of the credit has increased progressively being currently 8% until tax year 2012. Then it will return to 4%.
Credit	Chile	Article 69 of Law 18.681 of 1987 allows tax payers who complete a tax statement through complete or simplified accounting can lower as a credit against the first category tax 50% of cash donations they make to state universities and private or public professional institutes recognized by the state, with an annual cap of 14,000 UTM. In addition, the law provides that a party who can not be accredited as a credit may be deducted as a tax expenditure for the year, subject to the same limits laid down in Article 31 N ° 7 of the LIR.
Credit	Chile	Article 8 of Law 18.985 of 1990 allows tax payers who file their income through full accounting can reduce the rate against the First Category tax, 50% of donations in cash to the state universities and professional institutes, individuals recognized by the state, corporations and non profit foundations or organization whose sole purpose is the research, development and dissemination of culture and art, and other institutions or entities that the law says. The credit can not exceed 2% of the taxable amount of the tax year or 14,000-UTM.
Credit	Chile	The law 20.365 published in August 2009 provides a tax exemption that allows construction companies to deduct from the amount of their interim payments required by the law on Income Tax, a credit equal to all or part of the value of the Solar Heating Systems and their installation mounted on tangible property for room built for them, according to the rules and under the limits and conditions set forth in the law.

Type of tax expenditure	Country	Tax provisions
Credit	Chile	The law 18.885 establishes a series of measures to regulate the existing donations of legal entities entitled to tax benefits (donations to universities and professional institutes for educational grants, donations and grants for cultural and sporting purposes) and extends other social and public purposes. Among other measures, this law establishes a general limit for donations, and forces to allocate one third of the donation to a social support established fund, forcing donors and grantees to provide background to the SII. Given that this law came into operation in 2003, donations which apply to the new legal framework will do so from the 2004 income operation.
Credit	Chile	The law 16.606 of 1999 requires First category taxpayers who declare effective income determined by full accounting, shall, until 31 December 2008, receive a tax credit for investments made in Regions XI and XII and the Palena province, for the production of goods or services in these regions and provinces. The percentage of credit to be applied to the amount of investment depends on the categories and amounts of projects; the percentage fluctuates between 10% and 40%.
Credit	Chile	The Law 19.712 of 2001 (Sports Law) establishes a tax benefit for those individuals or corporations, first category taxpayers or Global complementary taxpayers, on the basis of full accounting, testifying on the basis of actual income, when they make financial donations to the Sport Institute or to finance sports projects supported by it. The benefit is a tax credit of 50% of the donation. The total credit for donations of a single taxpayer may not exceed 2% of the year taxable income or 2% of the Complementary taxable income, nor exceed the amount equivalent to 14,000 UTM year. Moreover, the part of the donation that can not be used as a credit will be considered a necessary expense to produce income. In addition, the mentioned donations are exempted from the tax on inheritances and donations.

Type of tax expenditure	Country	Tax provisions
Credit	Chile	Law No. 19,420 of 1995 provides a tax credit for investments in the provinces of Arica and Parinacota for the production of goods or services in those provinces. The credit is equivalent to 30% or 40%, according to the investment project in question, the value of physical assets of the fixed assets corresponding to buildings, machinery and equipment, including buildings intended solely for commercial exploitation with tourist purposes.
Credit	Chile	Law No. 20,241, published on January 19, 2008 in the Official Journal, provides a tax incentive for first-class taxpayers (companies) which declare actual income under full accounting, a credit equivalent to 35% of payments made in research and development contracts concluded with research centers accredited by CORFO ("Corporacion de Fomento" in Spanish). The annual amount of this credit may not exceed 15% of annual gross income of each taxpayer, or the equivalent of 5,000 UTM according to the value of the unit at the end of the respective year.
Credit	Chile	Law No. 20.351 was published in May 2009 and provides an extra incentive transitional training costs for companies that have not reduced the number of employed workers one month after the publication of the law. The first instrument is the creation of an incentive to the retention and training where companies can deduct from their monthly interim payments (PPM) 2.5 times the amount of monthly credit for training expenses incurred for workers whose compensation does not to exceed $ 380.000. It also creates an incentive for training during the pre-contract of people who are on track to become employees of a company. This increases the maximum amount of tax benefit allocated to this type of training by 25%.
Credit	Spain	Bonus share of 99% for income by exportation of film production, audiovisual, books and pamphlets (must meet other requirements laid down in Article 34 of Royal Legislative Decree 4 / 2004).

Type of tax expenditure	Country	Tax provisions
Credit	Spain	50% reduction of tax liability for income earned in Ceuta and Melilla, if the companies operate effectively in these cities (Article 33 of Legislative Royal Decree 4 / 2004).
Credit	Spain	80% Bonus of the full fee to specially protected agricultural cooperatives (established in article 14 of law 19/1995 and the law 20, 1990).
Credit	Spain	85% Bonus of the whole amount that corresponds to the income from the lease of houses (companies must meet certain requirements, and also the homes). If they are leasing housing for the disabled, the bonus will be 90% (Article 53 and 54 of Royal Decree 4 / 2004.
Credit	Spain	Credit (or deduction) of the quota: 12% (if the company is taxed at the rate of 30%, 7% if taxed at 25% and 2% if taxed at 20%) of proceeds from the transmission property assets of the company as well as the transmission of the capital of other companies. All the assets should be invested in shares or other actives (other requirements laid down in article 42 of the Royal Decree legislative 4/2004 of the corporate income tax must be fulfilled).
Credit	Spain	Credit (or quota deduction) for export activities: 12.5% of the amount of investment to create branches abroad or share acquisition (minimum 25% of capital) of foreign companies related to export or tourist services in Spain (must meet other requirements laid down in Article 37 of Royal Decree 4 / 2004).
Credit	Spain	Credit (or deduction) of the 1% quota for the costs of staff professional training. If the expense exceeds the average of the previous 2 years, the excess would apply the 2% deduction. In addition, this and other deductions have a common limit of 35% or 50% of the tax rate (requirements in Article 40 of Legislative Royal Decree 4 / 2004).

Type of tax expenditure	Country	Tax provisions
Credit	Spain	Credit (or deduction) of a 15% quota for investments and expenses for the promotion of information technology and communication (acquisition of systems, staff training, electronic commerce, etc. and fulfilling certain requirements, as established Article 36 of Royal Decree 4 / 2004).
Credit	Spain	Credit (or deduction) of the 2% quota for investments and expenses on premises to provide the service of junior kindergarten for children of employees of the entity. In addition, this and other deductions have a common limit of 35% or 50% of the quota (requirements in Article 38.6 of Legislative Royal Decree 4 / 2004).
Credit	Spain	Credit (or deduction) of quota for the non-profit organizations: 35% of the contributions, the basis of this deduction may not exceed 10% of the tax base for the tax period. (Specific regulations for donations to nonprofit entities are regulated by Law 49/2002).
Credit	Spain	Credit (or deduction) of the quota for activities of research, development and innovation (R+D) technology: 30% of the costs for this concept are deducted (must meet other requirements laid down in Article 35 of Royal Decree 4 / 2004).
Credit	Spain	Credit (or deduction) of the quotas for employer contributions to pension plans, reduced to 2% of the amount of contributions to pension plans for workers with salaries below € 27,000 (there is a limit of 35% of the quota and must meet other requirements set forth in Article 43 of Legislative Royal Decree 4 / 2004).
Credit	Spain	Credit (or deduction) of the quota for job creation for disabled workers: Allows an amount 6,000 euros deduction from the quota per person / year increase in average disabled workforce, with a permanent contract (there is a limit of 35% of the fee and must meet other requirements set forth in Article 41 of Royal Decree 4 / 2004).

Type of tax expenditure	Country	Tax provisions
Credit	Spain	Credit (or deduction) of the quota for environmental investments, apply the 2% of investment to prevent pollution (air, water and waste) in new vehicles that reduce air pollution and in tangible assets for the use of renewable energy sources(sun, wind, biogas, etc. ..). In addition, this and other deductions have a joint limit of 35% or 50% of the quota (should conform to the provisions of article 39 of the Royal Decree legislative 4/2004 of the corporate income tax).
Credit	Spain	Credit or deduction of quota: 2 per cent of investments in navigation systems and vehicle location via satellite into industrial or commercial vehicles in road transport. Also investments in public transport adapted to facilitate access to disabled (there are limits and other requirements see Article 38.4 of Royal Decree 4 / 2004 Income Tax).
Credit	Spain	Credit (or deduction) of quota: 5% for investment in publishing books that allow the production of a physical medium prior to serial industrial production (Article 38 of Royal Decree 4 / 2004).
Credit	Spain	Credit (or deduction) of quotas for investments in film production, apply the 18% of costs in Spanish production film and audiovisual series (must be adjusted to the provisions of Article 38 of Royal Decree 4 / 2004 on Corporate taxation).
Credit	Spain	Credit (or deduction) of quotas investments in film production, apply the 15% of costs in Spanish production film and audiovisual series (must be set also to the provisions of Article 38 of Royal Decree 4 / 2004 on corporate tax).
Credit	Spain	Agricultural and fisheries subsidies of the European Community are exempted: for the complete cessation of activity (to be met other requirements of the third additional provision of Royal Decree 4 / 2004)

Type of tax expenditure	Country	Tax provisions
Credit	Spain	Financial transactions with quotas subsidy: Some companies (in particular toll road concessions, etc.). that issued long-term loan securities, they keep the benefit in which the companies owners of these securities that receive interest may apply a credit (or deduction) of 22.8% (The bonus is 95% on the 24% and refers to provisions prior to 1979 and is collected in the 11th transitional provision of Royal Decree 4 / 2004 Corporate Tax)
Credit	Spain	For the year 2010 the following events are included: Barcelona World Race, Bicentenary of the 1812 Constitution and 2007 Guadalupe's Jubilee Year and many more. (There are specific rules for each event; among other the additional provision no 53 of the Law 26/2009).
Credit	Spain	Outstanding balances: this concept is included in the credits (or deductions) of outstanding quotas of different modes or previous years exceeding certain limits. These balances are transferred to subsequent years (Transitional Provisions third, fourth, fifth and eighth of Royal Decree 4 / 2004 Income Tax).
Credit	Mexico	Encouraging productive investment projects in the national cinema.
Credit	Mexico	Tax incentive for taxpayers' manufacturers, assemblers or authorized distributors of buses and trucks in order to modernize the fleet trucking industry and passengers. A) Tractor fifth wheel type, single-unit trucks 2-axle 3-axle single-unit trucks, integral and conventional 30 seats buses and platforms or chassis for them. B) New vehicles designed to carry 15 passengers or more, as well as platforms and chassis for them. C) Stimulation equivalent to the amount of IT derived from the accumulated income for the amount received for the used vehicle.

Type of tax expenditure	Country	Tax provisions
Credit	Mexico	Fiscal stimulus to unionized workers equivalent to the TI corresponding to social security quotas that, added to other income obtained by the same pattern by a subordinate personal service, exceed an amount equivalent to 7 times the minimum wage.
Credit	Mexico	Fiscal stimulus consisting of a tax credit of 80% income tax that must be held and entered, to residents in Mexico using aircraft leased from abroad to be exploited commercially, which temporary is granted use by residents abroad, provided the contract establishes that the amount of ISR it causes will be covered by the resident in Mexico.
Credit	Peru	Credit for reinvestment of private educational institutions.
Credit	Peru	Tax credit for reinvestment in the favor of publishing companies - book law.
Credit	Peru	Reinvestment in the Amazon.
Deduction	Argentina	Promotion of mining - law 24.196. Deduction of 100% of investment costs of prospecting, exploration, studies and other work aimed at determining their economical and technical viability.
Deduction	Brazil	The radio and television forced to broadcast propaganda, may exclude from net income for purposes of determining taxable income, equivalent to eight-tenths of the result of multiplying the price of marketable space by the time it would be effectively used by the issuer programming devoted to commercial advertising in the period of free electoral propaganda.

Type of tax expenditure	Country	Tax provisions
Deduction	Brazil	Education as an operating expense of spending on scientific or technological research, including experiments to create or improve products, processes, formulas and production techniques management or sale.
Deduction	Brazil	Deduction of contributions paid by legal entities for the plan PAIT (Advisory and procedure initiation points) instituted.
Deduction	Brazil	Deduction of donations as an operating expense made to nonprofit organizations and Civil Society Organizations in the public interest.
Deduction	Brazil	Deduction as operating expenses of the donations made to educational and investigation institutions.
Deduction	Brazil	Deduction as operating expense of part of the donations or sponsoring of cultural projects.
Deduction	Brazil	Deduction as operating expense of part of the donations or sponsoring of independent Brazilian cinematographic works and projects.
Deduction	Brazil	Deduction as operating expense of no mandatory costs presented to provide complementary benefits or welfare related provisions for employees or executives of the juridical entity.
Deduction	Brazil	Deduction of operating expenses in costs for companies with medical, dental, pharmaceutical and social services.
Deduction	Brazil	Deduction of actual income and CSLL tax basis for investments in technological research and innovation.

Type of tax expenditure	Country	Tax provisions
Deduction	Brazil	Deduction of actual income and CSLL tax basis for expenses and investments in technological research and innovation.
Deduction	Brazil	Exclusion of net costs and expenses for training of staff who works in the development of computer programs (software) companies in the sectors of information technology - IT and information technology and communication - ITC, also subject to the normal deduction.
Deduction	Chile	Article 31 N ° 7 of the LIR supports deduction as an expense of donations in any species whose sole purpose is conducting primary or secondary, technical, vocational or university education programs in the country, whether private or public as long as they do not exceed 2% of taxable income, or 1.6 per thousand of the company's equity at end of year determined in accordance with article 41 of the LIR. It also expressly permits the deduction of donations to the Fire Department of the Republic, the National Solidarity Fund, Fund for Community Water Supply and Equipment, Housing Communal SENAME and housing Committees.
Deduction	Chile	Article 69 of Law 18.681 of 1987 allows tax payers who complete a tax statement through complete or simplified accounting can lower as a first category tax credit 50% of cash donations they make to state universities and private or public professional institutes recognized by the state, with an annual cap of 14,000 UTM. In addition, the Law provides that the part of the donations which are not creditable can be deducted as yearly expenses, subject to the same limits established by article 31 No7 of the LIR, as mentioned in the previous point.

Type of tax expenditure	Country	Tax provisions
Deduction	Chile	The Article 8 of Law 18.985 of 1990 allows tax payers who file their income through full account detailing, to reduce the rate against the First Category tax, 50% of donations in cash to the state universities and professional institutes, individuals recognized by the state, corporations and non profit foundations or organization whose sole purpose is the research, development and dissemination of culture and art, and other institutions or entities that the law says. Law 19,721 of 2001 (Act Valdes II) gave further recognition as a deductible expense for the non-creditable donation.
Deduction	Chile	The law 18.885 establishes a series of measures to regulate the existing donations of legal entities entitled to tax benefits (donations to universities and professional institutes for educational scholarship, donations and grants for cultural and sporting purposes) and extends other social and public purposes. Among other measures, this law establishes a general limit for donations, and forces to allocate one third of the donation to a social support established fund, forcing donors and grantees to provide background to the SII. Given that this law came into operation in 2003, donations which apply to the new legal framework will do so from the 2004 income operation.
Deduction	Chile	The Law 18.885 establishes, in its article 8, the possibility to deduct from taxable net income money donations to political parties registered in the Electoral service or political training institutes defined in the Act. This deduction operates under the adjustments provided for in the law on tax income and with a series of requirements and limits. Given that this law came into operation in 2003, donations which apply to the new legal framework will do so since the 2004 income operation.

Type of tax expenditure	Country	Tax provisions
Deduction	Chile	The Law 19.712 of 2001 (Sports Law) establishes a tax benefit for those individuals or corporations, first category taxpayers or Global complementary taxpayers, on basis of full account detailing, testifying on the basis of actual income, when they make financial donations to the Sport Institute or to finance sports projects supported by it. Moreover, the part of the donation that can not be used as a credit will be considered a necessary expense to produce income. In addition, the mentioned donations are exempted from the tax on inheritances and donations.
Deduction	Ecuador	Deduction for special laws.
Deduction	Ecuador	The deductions for wages and social benefits on which the contribution to the Social Security Institute, for a net increase of jobs due to the direct hiring of workers, will be deducted at 100% and 50% more for disabled.
Deduction	Ecuador	Societies, individuals who must render accounts and undivided successions bound to bring accounting can compensate for losses incurred in the taxation year with taxable profits acquired within the five following tax periods, unless it exceeds at each session 25% of the profits obtained. To this effect shall be considered as profits or losses the resulting differences between taxed income that are not exempt minus the costs and deductible expenses.
Deduction	Mexico	100% Of the income tax paid by workers with different capacities.
Deduction	Mexico	25% of the salary paid to 65 years old workers, or older, and to workers with different capacities.
Deduction	Mexico	Not onerous or remunerative donations granted to authorized beneficiaries.

Type of tax expenditure	Country	Tax provisions
Deduction	Mexico	Payments for the use or enjoyment of cars up for $250.00 per day per vehicle.
Deduction	Peru	Expenses for donations granted to National Public Sector, non-profit entities and Catholic Church.
Deduction	Peru	Investment in subjects located in the Amazon.
Deduction	Peru	Investment of owners of mining activity in infrastructure, constituting public service.
Deduction	Peru	Reinvestment of profits by mining companies.
Deduction	Dominican Republic	Deductible donations.
Deduction	Uruguay	Through Decree 204/008 of April 2008, the Executive uses the powers granted in Article 2 of Law 18,261 and provides that, for the years ending between June 30, 2007 and May 31 2008 the inflation adjustment in the settlement of IRIC and IRAs is optional.
Deduction	Uruguay	In November 2007 a new regulation of the investment law changed the criteria for abatement of IRAE compared with the effective so far and can now deduct the amounts invested directly from the current year tax payable up to a certain percentage.

Type of tax expenditure	Country	Tax provisions
Deduction	Uruguay	Regulations(article) (78 and 79 of Title 4 TO 1996) allows to deduct 75% of a donation to the agencies of education (primary, secondary, technical and vocational, teacher education, University and other dependent on these institutes) as payment of IRAE and the remaining 25% as a deductible expense in calculating the tax.
Deduction	Uruguay	Articles 53 and 54 of Title 4 of the 1996 TO allow to deduct from the income generated in the period up to 40% of investment in machinery and equipment and up to 20% of investment in real estate for some sectors (hospitality and industry and agricultural).
Deduction	Uruguay	Articles 58 to 64 of Title 4 of the 1996 TO establish a regime of special deductions to the income by the contributions of capital to companies that request, the Executive Branch being empowered to implement this benefit.
Deduction	Uruguay	Taxpayers may choose to adjust for inflation, to implement the variation in price to the consumer (CPI) index or to the index of prices to the producer of national products (IPPN).
Deduction	Uruguay	To promote employment it is allowed to deduct in increased form the positive variations in some indicators that emerge from the amount of salaries paid or the number of employees of an exercise with respect to the previous (Art 57 bis Dec 150/007 and paragraph 2 of the Art 23 Title 4 TO 1996 G Lit).
Refund or reimbursement	Argentina	Refund to the sales of capital goods manufactures in the country: The benefit is the perception of a tax bonus to be applied to the payment of taxes on earnings, the alleged minimum profit tax, tax to the value added (VAT), inland revenue, as balance of affidavit and advances. D. 379/2001.

Type of tax expenditure	Country	Tax provisions
Deferral	Chile	According to the principles of financial accounting, leasing assets should be accounted for as fixed assets of the lessee company, allowing this to lower as expenses the depreciation of assets and the interests involved in the installments of the contract. However, tax laws allow that for purposes of determining taxable net income, all the quotas of the contract be deduced as spending, insofar as the goods are activated only at the time of the last fee and the value thereof, which can then be depreciated. This treatment is a tax deferral, since usually the length of leases is much less than the life of the purchased assets. However, it must be stated that when a property is acquired through a lease, the tax treatment even allows as tax deductible the value of the land, which is not exactly a tax deferral, but rather a deduction and permanent taxes rebate.
Deferral	Chile	Article 31 N ° 5 of the LIR provides a mechanism for accelerated depreciation which consists in an annual fee for depreciation of the assets restrained as necessary expense required to produce income, determined according to the lifetime set by the internal revenue service for such good.
Deferral	Chile	Income tax Act allows that the costs of organization and implementation; expenditure on investment and development; and expenses incurred in the promotion and product placement, will be deducted instantly from the utility. In financial accounting, however, these investments are amortized over several periods. In addition, intangible assets as key rights, trademarks, patents and similar, are amortized in financial accounting but are not deductible as an expense in the tax accounting, resulting in a higher tax payment be reversed when these assets are sold.

Type of tax expenditure	Country	Tax provisions
Deferral	Chile	Other temporary differences between financial accounting and tax accounting may exist , such as: Manufacturing costs (indirect labor and indirect materials, can be deducted as an expense in the period, while in financial accounting these expenses form part of the cost of production, transforming them into spending only when products are sold); Anticipated income (income earned prior to the delivery of the goods or the provision of services should be recognized as tax revenue of the period in which perceived, while financially they recognized as such in the period in which accrue); Provisions (for bad debts, for holidays, for compensation for years of service, of obsolescence of stocks, etc.); Allocation of residual value of fixed assets for accounting purposes; accounting for forest reserve, accounting for adjustment of insurance companies investments at market value, etc.
Deferral	Ecuador	In cases of obsolescence, intensive use, accelerated deterioration or other duly justified reasons, the respective Regional Director of the internal revenue service may allow depreciation in higher percentages than the specified annual percentages, which shall be fixed in the resolution that he shall render for the effect. Depreciation accelerated exclusively for new goods, and with a lifespan of at least five years may be considered.
Deferral	Ecuador	New companies or newly formed societies are subject to the payment of this advance after the second year of effective operation, being understood as the initiation of their productive and commercial process. When the production process so requires, this period may be extended, prior authorization of the Director of the service of Inland Revenue, in accordance with previously established. Construction or real estate companies selling land or buildings to third parties and companies of short duration are exempted from this treatment if they achieve their object in one period of less than two years, in which they will begin to pay the advance that corresponds from the immediate financial year following the one in which they initiate their operations.

Type of tax expenditure	Country	Tax provisions
Deferral	Spain	Small size companies may implement freedom of depreciation or any entity for the purchase of specific assets (buildings owned by limited companies, mining assets, fixed assets for research, etc.). They can proceed with accelerated depreciation. Among the requirements imposed, in some cases, is the increasing of the workforce. This tax expenditure is calculated as an impairment of the tax base for the financial year (article 11.2; and for small businesses articles 109 to 113 of the Royal Decree legislative 4/2004).
Deferral	Mexico	Taxpayers engaged in agriculture, livestock, fisheries or forestry. Advance Deduction of land devoted to agricultural activities.
Deferral	Mexico	Taxpayers engaged in agriculture, livestock, fisheries or forestry. Deduction of investments in the intermediate regime.
Deferral	Mexico	Taxpayers engaged in agriculture, livestock, fisheries or forestry. Immediate deduction on investment in fixed assets.
Deferral	Mexico	Taxpayers engaged in land transportation Deduction of investments in the intermediate regime.
Deferral	Mexico	Taxpayers engaged in land transportation Immediate deduction on investment in fixed assets.
Deferral	Mexico	Of land for real estate developers in the exercise in which they acquire them.
Deferral	Mexico	Immediate deduction on investment in fixed assets.

Type of tax expenditure	Country	Tax provisions
Deferral	Mexico	Deductions for contributions to pension funds and retirement.
Deferral	Mexico	Tax consolidation regime.
Deferral	Peru	10% Real estate depreciation of lodging facilities.
Deferral	Peru	Up to 20% of fixed assets depreciation and up to 10% in real estate.
Deferral	Peru	Depreciation of up to 20% of hydraulic infrastructure and irrigation.
Exemption or exclusion	Argentina	Earnings derived from securities issued or to be broadcast in the future by official entities when there is a general or special law which require or when the power executive resolve it law 20.628 article 20 inc. k).
Exemption or exclusion	Argentina	Earnings obtained by associations, foundations and civil bodies, provided that such profits and social heritage are intended for the purpose of their creation and in no case are distributed among the partners. Resources from the operation of public entertainment, gambling, horse careers, and similar activities are excluded. Law 20.628 art. 20 inc. f).
Exemption or exclusion	Argentina	Industrial promotion. Decrees 2054/92, 804/96, 1553/98 and 2009/04: Capital Gain tax Exemption.
Exemption or exclusion	Argentina	Non industrial promotion. Law 22,021 and its amendments: Extension of Capital Gain tax Exemption.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Argentina	Non industrial promotion. Law 22,021 and its amendments: Extension of Capital Gain tax Exemption.
Exemption or exclusion	Brazil	Industrial or agricultural enterprise that has been installed, enlarged, modernized and diversified in the area of SUDENE and SUDAM.
Exemption or exclusion	Brazil	Non-profit entities, Social assistance institutions.
Exemption or exclusion	Brazil	Non-profit entities, exempt Institutions of education.
Exemption or exclusion	Brazil	Non-profit entities, exempt Civil association, recreational and philanthropic.
Exemption or exclusion	Brazil	Non-profit entities, exempt Saving and Loans associations (housing).
Exemption or exclusion	Brazil	Non-profit entities, exempt Scientific.
Exemption or exclusion	Brazil	Non-profit entities, exempt Cultural.
Exemption or exclusion	Brazil	Exemption of contributions to private higher education institution, with or without lucrative ends That join PROUNI.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Brazil	Tax exemption to private higher education institution, with or without lucrative ends That join the PROUNI.
Exemption or exclusion	Brazil	Closed private pensions.
Exemption or exclusion	Chile	According to article 1 number 6 of the 19.768 Act, is exempt from tax of 4% the interests in operations where the debtor is a financial institution established in the country, provided that the associated resources have been used to place a credit abroad.
Exemption or exclusion	Chile	Article 40 No. 6 exempts from the First Class Tax individual companies, not operating under the simplified regime of article 14 bis, or under 14 ter regimes, whose net revenues determined for tax purposes do not exceed 1 UTA.
Exemption or exclusion	Chile	The sole article of Law 13,713 of 1959 states that are exempt from any tax or contribution to the University of Chile and other universities recognized by the state on income from its activities in higher education, all in accordance with the provisions by Article 14 of Decree No. 1604 of 1976.
Exemption or exclusion	Chile	The No. 4 of Article 39 of the LIR, in accordance with the provisions in the final paragraph of that Article, exempts from First Class the interests earned by taxpayers engaged in activities covered by Article 20 N ° 1, i.e. , people who exploit real estate and non-agricultural, whether taxed on the basis of alleged or actual income.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Chile	The number 3 of Article 39 of the LIR stipulates that income from non-agricultural real estate, for taxpayers other than SA, are exempt from the First Category, provided that the actual income generated does not exceed 11% of its tax valuation. However, these incomes are subject to the Global Complementary or Additional tax.
Exemption or exclusion	Chile	Law 20.198 published in 2007 in its first transitional article features an exceptional regime to determine the taxation of capital gains obtained on the disposal of certain actions related to venture capital. income to obtained capital gains from funds intended to invest in high-risk innovative projects with high expected return to be either new or plans to be in an incipient stage exploitation will not be considered as taxable income . This tax incentive is aimed at both venture capital investors who decide to invest through mutual funds and the shareholders entering a society of venture capital at an early stage.
Exemption or exclusion	Ecuador	Legally constituted private nonprofit institutions defined as such by regulation; provided that their assets and income are intended for their specific purposes and only in the part that is directly invested in them.
Exemption or exclusion	Ecuador	Capital gains, profits, profits or income distributed by mutual funds, trust funds, unemployment and trade to their beneficiaries, provided these funds and business trusts have complied with their obligations as taxpayers paying the income related tax.
Exemption or exclusion	Ecuador	Dividends and profits, calculated after payment of income tax, distributed, paid or credited by national societies, in favor of other national societies or individuals, domestic or foreign, resident or not in Ecuador.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Ecuador	The income generated by the occasional sales of real estate, stocks or shares. For purposes of this Act shall be considered as occasional alienation one that does not correspond to the ordinary course of business or the taxpayer's regular activities.
Exemption or exclusion	Ecuador	The incomes of Ecuadorian origin which are perceived by enterprises with or without domicile in the Ecuador are exempt from the payment of taxes in strict relation to what is established by international conventions of tax reciprocity, equivalent tax exemptions for businesses and for avoidance of double international taxation.
Exemption or exclusion	Ecuador	Those obtained by the state institutions. However, public sector enterprises shall be subject to income tax different from other public services, competing or not with the private sector, to exploit commercial, industrial, agricultural, mining, tourism activities, transportation and services in general.
Exemption or exclusion	Ecuador	Incomes perceived by the State institutes of higher education covered by the law on higher education.
Exemption or exclusion	Ecuador	Yields on fixed deposits of one year or more, paid by domestic financial institutions to individuals and companies, except financial system institutions, as well as income earned by individuals or companies from investments in securities in bonds, term of one year or more, which are traded through stock exchanges in the country.
Exemption or exclusion	Ecuador	Agricultural mandate.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Guatemala	Exemption of income obtained by the agencies of the State.
Exemption or exclusion	Guatemala	Exemption of the IT for the capital gains of the public debt, in the cases that apply.
Exemption or exclusion	Guatemala	Legal entities that engage in business activities, for the first four months of operation, do not pay tax.
Exemption or exclusion	Guatemala	Legal entities that engage in business activities, with profits margins below 4% of gross income, do not pay the tax.
Exemption or exclusion	Guatemala	The income received by the institutions authorized by the concept of financial instrument (mortgage bonds).
Exemption or exclusion	Guatemala	The interests of the state institutions accounts do not pay the tax imposed on this income, with the exception of legal persons of mixed capital.
Exemption or exclusion	Guatemala	The interests of the accounts of the universities and educational centers do not pay this income tax.
Exemption or exclusion	Guatemala	By constitutional mandate, the institutions dedicated to providing pre-primary, primary and secondary schools (excluding universities) will not pay income tax.
Exemption or exclusion	Guatemala	By their nonprofit nature are exempt from income tax payment.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Guatemala	By their nonprofit nature they are exempt from the income tax payment.
Exemption or exclusion	Guatemala	Transactions made between members of the cooperative are exonerated and are exempt those that are made with third parties.
Exemption or exclusion	Guatemala	Provided that the law of their creation have expressly granted them exemption from all kinds of taxes.
Exemption or exclusion	Mexico	Interests paid to the federal states, municipalities, political parties, decentralized organizations and donors
Exemption or exclusion	Peru	Profit for investment programs in the Amazon.
Exemption or exclusion	Peru	The companies that are formed or established in the ZOFRATACNA and develop industrial, agro-industrial, tolling service activities.
Exemption or exclusion	Peru	Private nonprofit universities.
Exemption or exclusion	Dominican Republic	Border development.
Exemption or exclusion	Dominican Republic	Non-profit institutions.
Exemption or exclusion	Dominican Republic	Textile manufacturing.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Dominican Republic	Other industries.
Exemption or exclusion	Dominican Republic	Tourism.
Exemption or exclusion	Dominican Republic	Export processing zones.
Exemption or exclusion	Uruguay	Dec. 84/1999.
Exemption or exclusion	Uruguay	Chapter XII of Title 4 of TO 1996 incorporates the rules relating to exemptions that benefit to the forestry activity. There is a certain set of forestry activities that have their incomes exempt for the purposes of IRAE. There are other activities related to the industrial processing of timber harvested that are covered by the same exemption.
Exemption or exclusion	Uruguay	(El Lit A) of the art. Title 4 of the 1996 TO 52, establishes the exemption on income corresponding to the maritime and air transport companies. In the case of foreign companies the exemption applies always that in the country of their nationality, the Uruguayan companies of same object, enjoy the same franchise.
Exemption or exclusion	Uruguay	(El Lit J) of the art. 52 of Title 4, TO 1996, exempts income derived by the collective health care institutions (IAMC) and civil associations such quality without reversing out the same activities. In both cases, it is required that entities are nonprofit.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Uruguay	The Lit T) of the art. 52 of Title 4 TO 1996, exempts the income earned by the foundation created with the Institute Pasteur in Paris in accordance with the law 17 792 of July 14, 2004, while in a direct relation to their object.
Exemption or exclusion	Uruguay	The second paragraph of Lit A) of Article 52 of Title 4 of TO 1996 empowers the Executive to exempt foreign companies of ground transportation from their income tax to the condition of reciprocity in their country of origin.
Exemption or exclusion	Uruguay	This is a generic exemption established in the article 69 of the Constitution of the Republic (TO 1996 title. 3 Chapter 1 article 1.)) And which reaches all cultural and educational institutions.
Exemption or exclusion	Uruguay	This exemption on income is based in the literal R) of Article 52 of Title 4 TO 1996.
Exemption or exclusion	Uruguay	These companies are of minor economic dimension than those under item E (mentioned above). The regulation specifies that they should provide a monthly fixed payment of contributions to social security and all the existing national taxes.
Exemption or exclusion	Uruguay	Enterprises of reduced economic dimension, within the Lit e. of the art. 52 Title 4 of the 1996 TO, they are from exempt from the IRAE since 1/07/07 Until that time they had a simplified income tax liquidation through a fixed monthly payment.

Type of tax expenditure	Country	Tax provisions
Exemption or exclusion	Uruguay	Income derived by the activity of production of software and services linked to them, as determined by the executive branch, are exempt from IRAE provided that these activities are entirely exploited abroad (Lit Title Art 52 S 4 TO 1996).
Simplified, special or promotional regime	Argentina	Promotion of SMEs. L. 24.467. Deduction on contributions of capital gains tax from capital injection and those intended for the venture capitals, partners Fund protectors and participants in mutual fund societies.
Simplified, special or promotional regime	Argentina	Promotion of SMEs. L. 24.467. Exemption from income tax of mutual guarantee societies.
Simplified, special or promotional regime	Argentina	Economic promotion of Tierra del Fuego. Law 19.640. Extension of Capital Gain tax Exemption.
Simplified, special or promotional regime	Brazil	Differential tax regime for Micro and Small Enterprises.

Type of tax expenditure	Country	Tax provisions
Simplified, special or promotional regime	Chile	The Year 2007 was published the law No. 20.170 that incorporates a new article marked as article 14 ter to the income law. This article states that companies whose sales and services of their business over the past three business years have not exceeded an annual average of 5,000 UTM, may choose to report and pay the First Category Tax and Global Complementary or Additional Tax, as applicable on the basis of their annual net income earned (revenue minus expenses) and immediately deduct them as investment expenses and purchases. Taxpayers covered by this article are freed of keeping a FUT registry, make monetary correction, physical assets of the fixed assets depreciate, practice annual inventories and draw up the annual balance sheet total.
Simplified, special or promotional regime	Chile	Article 14 bis of the income tax Act, stipulates that companies whose sales and services in the last three commercial exercises have not exceeded an annual average of 5,000 UTM can opt to pay the tax of first category, the supplementary Global tax or tax additional on all withdrawals or distributions made without distinction of origin or source, or if it is or not of income exempt or not subject to tax. Taxpayers covered by this article are freed of keeping a FUT registry, make monetary correction, physical assets of the fixed assets depreciate, practice annual inventories and draw up the annual balance sheet total.
Simplified, special or promotional regime	Chile	The DS 341 exempts form First Class tax enterprises located in export processing zones of Iquique and Punta Arenas, for the profits generated in those areas. However, these rents are subject with single taxation of article 21 of the LIR and supplementary or additional, comprehensive without the right to apply the credit for first category tax by the exemption enjoyed by this tribute.

Type of tax expenditure	Country	Tax provisions
Simplified, special or promotional regime	Chile	The law N ° 18.392, 1985 exempts from the first category tax for a period of 50 years, the companies that are physically installed in the territory of the XII region whose boundaries are specified by the law, and to develop exclusively industrial, mining, activities of exploitation of the riches of the sea, transport and tourism. However exempt from the first category tax, these rents are entitled to credit per this tribute against Global complementary or additional taxes, equivalent to the first category tax which would have corresponded to declare and pay (fictional credit).
Simplified, special or promotional regime	Chile	The law N ° 18.149, 1992 exempts from the first category tax for a period of 44 years, the companies that are physically installed in the municipalities of Porvenir and Primavera, located in the territory of the XII region, and which develop exclusively industrial, agro industrial, agricultural, ranching, mining, marine resources exploitation, transport and tourism activities. . However exempt from the first category tax, these rents are entitled to credit per this tribute against Global complementary or additional taxes, equivalent to the first category tax which would have corresponded to declare and pay (fictional credit).
Simplified, special or promotional regime	Chile	The law also establishes alleged income taxation in the exploitation of real estate non-agricultural properties. In effect, taxpayers who give real estate in non-agricultural lease of their property, the rents being less than or equal to 11% of tax valuation, may choose to declare a deemed income equal to 7% of current property tax assessment to January 1 of each year or pay tax on effective income is if it is less than the presumed income set by law. In any case, notes that under the provisions of No. 3 of Article 39 of the LIR rents listed above are exempt from the First Category tax, affecting only the Global Complementary Tax or Additional Tax.

Type of tax expenditure	Country	Tax provisions
Simplified, special or promotional regime	Chile	Are eligible to these regime cargo carriers whose annual services are less than 3,000 UTM. The alleged income is equal to 10% of the current value in place of the vehicle determined by the SLL to January 1 of each year. On that income tax is applied first category, the level of business and Global Complementary Tax or additional tax at the level of the owners or partners.
Simplified, special or promotional regime	Chile	Are eligible to this regime any passenger transport companies, whatever the amount of their income. The alleged income is equal to 10% of the current value in place of the vehicle determined by the SLL on January 1 of each year. On that income tax is applied the first category tax, at the level of business and the Global Complementary Tax or additional tax at the level of the owners or partners.
Simplified, special or promotional regime	Chile	Are eligible for this scheme, the mining companies with annual sales not exceeding 36,000 tons of non-ferrous metal ore or UTA 6000 (beginning with tax year 2002, the limit is reduced to 2,000 UTA as required by Law 19,738 of 2001). In the case of copper producers, the alleged income is equal to 4% of the net value of the sale, provided that the average price of a pound of copper in the respective year does not exceed 209, 79 US cents. If the price exceeds that value, apply rates fluctuating between 6% and 20% of net sales, according to a scale established in No. 1 of Article 34 of the Law on Income Tax. On that presumptive income is applied the first category tax, at the level of business and the Global Complementary Tax or additional tax at the level of the owners or partners.

Type of tax expenditure	Country	Tax provisions
Simplified, special or promotional regime	Chile	Farmers whose annual net sales do not exceed 8000 UTM and have no other income taxed under the regime of real income as measured by full accounting are eligible for this scheme. In the case of companies, communities, cooperatives and other legal entities, they must be formed only by natural persons to qualify for the imputed income regime. The imputed income in the case of the owner or beneficial owner of the property is equal to 10% of the property tax valuation in effect on January 1 of each year. When the property is leased or operated in any other manner, the lessee is presumed an income equal to 4% of the appraisal, while the landlord declared the rent as effective income attested by the respective contract. On that presumptive income is applied the first category tax, at the level of business and the Global Complementary Tax or additional tax at the level of the owners or partners.
Simplified, special or promotional regime	Ecuador	RISE.
Simplified, special or promotional regime	Spain	Bonus on 90% share of the tax base that comes from the exploitation developed in the Canary Islands by the shipping companies (Article 76 of Law 19/1994 of Economic and Fiscal Regime of the Canary Islands).
Simplified, special or promotional regime	Spain	Bonus: 50% of the quota to employers established in the Canary islands and income derived from farming livestock and fishing (meeting the requirements of Article 26 of Law 19/1994 on Canary Islands Economic and Fiscal regime).

Type of tax expenditure	Country	Tax provisions
Simplified, special or promotional regime	Spain	Deduction (or reduction) of the base to form an investment reserve in the Canary Islands: minus 90% of undistributed profit and proceed from premises situated in the Canaries. (See Law 19/1994 specific regulation of the Canary Islands Economic and Fiscal regime).
Simplified, special or promotional regime	Spain	To encourage activity in the Canary Islands, the entities with tax domicile or permanent establishment in the Canaries have the added incentive credit (or deduction) of the fee the same as those applied in the rest of Spain (discussed in other sections of this document) but increased by 80% (there are limits and other requirements set out in Article 94 of Law 20/1991 Canary Islands Economic and Fiscal regime).
Simplified, special or promotional regime	Guatemala	Legal entities operating in free zones activities and maquiladoras do not pay solidarity tax.
Simplified, special or promotional regime	Guatemala	Exempt from payment of income tax free zones and maquiladoras legally established in the country.

Type of tax expenditure	Country	Tax provisions
Simplified, special or promotional regime	Mexico	Taxpayers engaged in agriculture, livestock, fisheries or forestry. Exemption of 20 S.M.A. for each partner or member with a limit of 200 times the general minimum wage (S.M.G) of Mexico City.
Simplified, special or promotional regime	Mexico	Taxpayers engaged in agriculture, livestock, fisheries or forestry. Reduction of 30% on income tax.
Simplified, special or promotional regime	Mexico	Partial exemption of the ISR for maquiladora to estimate the tax utility as 3% of the assets total value or the total amount of costs and expenses of operation and reduction of the base to exclude inventory.
Simplified, special or promotional regime	Uruguay	Users of the free zones are exempt from all national existing tribute or to be created, even of those that by law require specific exemption, with respect to activities to develop in the same location (article) 19. Law 15,921 - article 143 Chap. (29 Title 3 TO 1996).

All the material contained in this publication was prepared, set up and printed at the Publications Center of the CIAT Executive Secretariat, P.O. Box 0834 – 02129. Panama, Republic of Panama.

This publication includes 100 copies