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Overview of Tax Expenditures in Latin America: main statistics of the CIAT Database

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Summary

Based on the official reports made by the countries of the region, the Tax Studies and Research Directorate of CIAT maintains and updates the Tax Expenditure Database of Latin America and the Caribbean (TEDLAC).

This database is elaborated from the systematic recording of the information contained in the reports, with an opening to the highest level of disaggregation allowed in each report, plus an analysis of the country regulations that give rise to the exceptions. In total, 6046 items of tax expenditures were recorded in the latest reports of the countries analyzed.

In this document, a general overview of tax expenditures in Latin America is shown, based on the exploration of TEDLAC, displaying the observable results in the dimensions of greatest interest and also presenting the potential for analysis provided by this tool.

The accounting and characterization of the various items follow the recommendations included in the CIAT Manual of Good Practices for the Tax Expenditures Measurement, which allows analyzing the phenomenon from different perspectives.

The identification, quantification and publication of tax expenditures is of great importance, insofar as it allows knowing the size of the phenomenon, the subjects, sectors, regions or activities benefited and is one of the components of the cost-benefit equation, which The person in charge of policy must analyze to know if the benefit granted through this mechanism had the desired effect and if the latter justifies the associated tax sacrifice.

1. Introduction

The state, in order to execute its objectives of government or to respond to circumstantial situations that call for its intervention, uses various instruments to make economic transfers to subjects, sectors or regions in order to assist them. These transfers are usually executed through budget items that are defined in the budgetary laws. They can also be carried out through a reduction in the taxpayers' tax obligations. To benefit a group of individuals through a reduction in the tax burden can be economically equivalent to granting a support by means of a part of budget public expenditure, hence the denomination of *tax expenditures (TE)*.

The United States and Germany were the pioneer countries to include TE reports in the budget. In the case of the United States, the public budget already includes a chapter on TE since 1968, and the denomination of *tax expenditure* is attributed to Stanley Surrey, Deputy Secretary of the Treasury, who was in charge of the identification and quantification of the non-collection by the exceptions that existed in the tax system of that country.¹ In the case of Germany, the tax subsidy and preferences report of 1967 is the first original document in the measurement of tax expenditures in that country.²

The common mechanism of direct expenditures provides greater clarity in public accounts than any other instrument. The budgetary expenses or direct expenditures that the government intends to execute must be studied and approved by the country's Parliament. The need, projected cost, and allocation of resources included in public expenditure programs will therefore be subject to debate and approval through majorities, ensuring a basic threshold of transparency. In addition to the a priori estimate of the expenditures to be budgeted, the executing agencies of these policies and therefore recipients of these funds are responsible for their fulfilment, generally providing mechanisms of accountability, making sure that the execution of the expenditures are within the maximum pre-set limits.

Much of the modifications intended to be introduced in the tax system will be subject to parliamentary review because, in general, it is laws that create, modify or suppress taxes. But while there is an instance of discussion prior to their introduction, there is no agenda for introducing these adjustments

1 Stanley S. Surrey, the Tax Expenditure concept and the Budget reform Act of 1974, 17 B.C.L. Rev. 679 (1976), <http://lawdigitalcommons.bc.edu/bclr/vol17/iss5/1>

2 Subsidy Report of the Federal Government. In accordance with the law to promote the stability and growth of the economy (StabG) of June 1967, the federal government of that country must develop and present that report. The study is of bi-annual elaboration and contains the identification and the cost of the subsidies granted by the federal budget and the tax benefits. The document is presented jointly with the Federal Budget Government project.

as it is the case in the budget and accountability laws and there are not always accountability of tax expenditures. The use of these instruments, in principle, does not provide the same guarantees as direct expenses. Direct expenses are exposed to a higher intensity analysis, review and discussion than tax expenditures and true economic costs are hidden within the sacrificed tax revenues. Although a large part of the countries have implemented the submission of TE reports, the gap between the level of review and transparency of tax expenditure compared to direct expenditures is notorious. Unless the TE is subject to a level of debate equal to direct expenditure, they can give rise to *fiscal opportunism* on the part of governments. Some sectors of economic activity are aware of this fact and prefer to receive benefits through tax incentives rather than through direct subsidies.

The quantification of TEs, therefore, is of enormous importance to the extent that it allows knowing the dimension of the phenomenon, the subjects, sectors, regions or activities benefited, and is one of the components of the cost-benefit equation, that the responsible for the policy should analyze to know if the benefit granted through this mechanism has had the desired effect and justifies the associated tax sacrifice.

TEs will be the economic result of the exceptions to a reference tax or a reference tax system. The tax standard of reference usually includes the structure of rates, the accounting practices accepted, the form and conditions of the deduction of the expenses made, specific rules to facilitate the administration of taxes, among others.

CIAT (2011)³ defines the TEs as the resources that the State ceases to collect because of the existence of incentives or benefits that reduce the tax burden faced by certain taxpayers in relation to a tax system. The term “expenditure” emphasizes the fact that the uncollected resources could have financed explicit public spending programs in favor of those whose tax burden is reduced and, possibly, even in favor of others.

The delimitation of the tax system of reference is a key element in the initial process of these studies and the different methodological options for demarcation of this tax scheme of reference will yield results that are approximately equivalent to the tax sacrifice.

The goal of the tax system is to obtain sufficient income to finance public expenditure, ensuring a fair distribution of the tax burden, minimizing the negative effects of taxes on the economic efficiency, as well as the costs of administration and compliance with tax regulations.

3 Handbook of good practices in the measurement of tax expenditures. An Ibero-American experience. Inter-American Center of Tax Administrations 2011

Transparency is also an objective to consider. According to Mirrlees (2011)⁴ this objective has two dimensions: on the one hand the certainty, or absence of arbitrariness in the determination of the tax obligation and on the other the intelligibility of the tax rules. The introduction of exemptions in the tax system, which give rise to tax expenditures, alter the pre-existing balance in the system: they reduce the revenue capacity, they can alter positively or negatively their redistributive incidence, they cause an economic inefficiency, by introducing an exception that disturbs the neutrality of the system, affects equity by maintaining taxpayers in a position of economic privilege in front of others and produces an increase in the costs of compliance to the extent that they make the tax system more complex, reducing its transparency.

A large part of Latin American countries (LAC) must improve their income/expenditure ratios in ways to reduce their deficits by trying to mitigate the negative effects on growth. Among the factors that affect the improvement of the fiscal position, the capacity to collect and the degree and effectiveness of public expenditure are priorities. In this context and focused on the point we are interested in, it is good to ask ourselves: *how much can improve the collection capacity of our countries?* In addition to quantifying, monitoring and projecting the tax collection, it is essential to estimate, quantify and project both tax evasion and TEs. These three elements will form what has been called *structural collection*, and allow us to know what the *collection benefits* can be, both by reducing non-compliance, and by eliminating the existing exceptions in the system.

4 Mirrlees, James; Adam, Stuart; Besley Timothy; Blundell, Richard; Bond, Stephen; Chote, Robert; Grammie Malcolm; Johnson, Paul; Myles, Gareth; Poterba, James. Tax by Design. Institute of Fiscal Studies. 2011. This work, seeks to present an optimal tax design, for which identifies as basic principles or objectives of the tax system, the collection goals, the redistributive goals, those related to economic efficiency, those related to Equity, in the sense of fair distribution of the tax burden, those related to administration and compliance costs and transparency-related objectives. pp. XXVI-XXVII). For the authors, the first two principles respond to value judgments, while the others to economic considerations.

2. The practice of tax expenditure reports

Presenting reports on TEs improves the tax transparency and a more efficient allocation of resources, to the extent that it provides systematically and from a specific methodology a monetary valuation of the tax cost of each and every policies implemented through this mechanism.

From the compared review of these reports, both of the countries that have experience in their elaboration, such as those of those who most recently adopted this practice, we see that there is no coherence, with respect to the elements that they must include. We can also mention the elements most commonly found in these documents: a general definition of tax expenditure, the description of the frame of reference for each of the taxes under analysis, the description of each one of the items identified as tax expenditure, the compilation of the tax rules that give rise to each benefit, the results found, as well as the TEs' projections for the coming periods. In the case of this last component, it is found mainly in those reports that are part of the budget and accountability laws.

According to the recent report of the EU on TEs (2014)⁵ countries show different classifications of TEs in their reports. Some classify them in relation to the taxable base under study (CIT, IIT, VAT, etc.), while others do so by the types of provisions (reductions, exemptions, deductions, etc.). Some countries in their reports show the disaggregated benefit according to the beneficiary, in order to show the sector of activity or type of taxpayer that benefits. In other reports, the tax sacrifice is considered in terms of the policy goals (housing, low-income people, investment promotion, etc.).

The practice of identification, measurement and periodic submission of TE reports and their equitable treatment with direct costs in respect of the parliamentary discussion process is a first step in monitoring some of the elements that have been highlighted as disadvantages of these instruments. The TE reports contain the cost estimation that each considered exception produces, so then it will be necessary, for an integral analysis of the effectiveness of the policy implemented through this mechanism, to progress in the analysis valuing the benefits obtained by the implementation of the policy in question.

5 Directorate-General for Economic and Financial Affairs. Tax expenditures in direct taxation in EU Member States. European Commission. 2014

From the review of the most recent documentation that has addressed this issue, it is found that authors usually highlight as advantages of using these instruments: their ability to promote certain behavior patterns of the agents, as well as the greater flexibility they provide to the extent that they are not subject to the slow process of debate that opens up on direct costs. It is also argued that in some cases, through TEs, greater equity is achieved or certain inequities of a tax are corrected (this is the case, for example, of the reduced rates in the Value Added Tax). We can also add that the benefits granted through this procedure promote formalization, to the extent that only those who are taxpayers can access it.

In the following figure based fundamentally on the vision of Polackova, Valenduc and Swift (2004)⁶, some of the main advantages and disadvantages of these instruments are summarized.

6 Tax Expenditures – Shedding Light on Government Spending Through the Tax System. Lessons from Developed and Transition Economies. Hana Polackova Brix, Christian M.A. Valenduc, Shicheng Li Swift; Editors. Directions in Development. The World Bank. 2004.

Figure 1. Advantages and disadvantages of TEs

ADVANTAGES	DISADVANTAGES
TEs promote the private sector's participation in the economic and social programs where the government play an important role.	TEs erode the tax bases, limiting the possibilities of reform that would reduce the overall tax rate.
	They increase the complexity of the tax system, by including rules that contain exceptions inside and outside the taxation body. This increase the compliance cost.
TEs encourage private decision-making instead of governmental decision-making.	They make the size of the government difficult to measure, because the TEs are regularly substitutes of the direct expenses: By reaching the goals of the direct expenses through tax expenditures, it is possible to reduce the size of the state in an apparent manner.
	Some TEs are insufficient to cancel the underlying economic forces or are compensated with other national or international tax dispositions, failing to reach their goals.
Through TEs, the need for close government oversight of such spending is reduced. Less bureaucracy is associated with the application of the specific policy.	Many TE schemes are a response to the diverse interest groups instead of attending to the real needs. Such TE schemes would lead to loss of efficiency results favoring some sectors and projects, but not others, thus altering the relative profitability of projects and weakening global investment.
In some cases, a more equitable tax system is achieved through the TEs.	Some fiscal expenditure regimes can operate regressively in the distribution of income after taxes, both vertically and horizontally. In particular, the benefits through deductions in personal income taxes do not include non-taxpayers - who are among the poorest groups in society.
They may encourage a more formal economy, since the taxpayers are those who receive the benefit.	

Source: Elaborated by the author from the characterization of Polackova et al. (2004)

3. Evaluation and follow-up of the exceptions created by the tax expenditures

In recent years, there has been an emerging tendency for studies evaluating the impact of TE on the variables of interest: investment, employment -among others-, based above all on databases of tax returns and focused mainly on the exceptions implemented in personal and corporate income taxes.

We refer here mainly to the tax expenditures resulting from the so-called *tax incentives* or fiscal incentives, which operate as a form of attraction for the location or promotion of certain investments to the country.

The particular form of each adopted instrument and the various policy objectives that it pursues, makes it necessary to carry out evaluations on a case-by-case basis, and given that the objectives can be as dissimilar as economically promoting a geographical area, a sector of activity, a new investment, promote employment, or alter the distributive incidence of a tax, among several others; the fact of determining the global benefit of the TEs is not an easy task and rather the evaluations are made for a particular item or for a set of exceptions that make up the system of a tax and are aimed at the same objective (for example all measures that seek to promote the growth of investment, or employment). Apart from the uniqueness of each instrument, a problem that frequently appears refers to the difficulty of identifying the TE's effective beneficiary.

The recent publication of UN-CIAT (2018) comprehensively addresses the aspects related to the design and evaluation of tax incentives, focusing on the theoretical issues and the empirical experience of tax incentives.⁷ The paper presents a general theoretical framework on tax incentives, a prototype model of cost-benefit analysis to evaluate tax incentives as well as the detailed description of two cost-benefit evaluations of tax incentives launched in different states of the United States and a cost-benefit analysis for an economic sector of a Central American country.

An outstanding element of this work is the proposal of a list of aspects to be considered at the moment of incorporating a tax incentive into the normative of each country, in order to ensure coherence between the legal framework of a tax incentive and the policy objective. Their interest, according to the authors,

7 Design and evaluation of Tax Incentives in Developing Countries. UN – CIAT 2018. Various authors.

is to serve as an ordered record of elements to be taken into account and especially considered when drafting a tax stimulus program, in order to maximize the clarity of focus and administration.

It is an extensive checklist where the validity of the incentive is analyzed from different perspectives: economic policy (what are the objectives, what is the scope of the benefit); about the responsible authority; details of the base of rules necessary for its enforceability; clear definition of the profile of the beneficiary and the enabling economic activity; the type of assets that qualify as an investment; how the greater / lesser intensity in the use of labor will be computed in the projects promoted; the criteria to identify the activity achieved in companies with a multiplicity of activities; aspects about the information to be provided to control and evaluate the regime; methods of dispute resolution and effects of non-compliance.

The goal of the list is to ensure the correct and clear normative drafting of a fiscal incentive, and that it is coherent with the pursued policy objectives. According to the authors, it can be used in the opposite direction, i.e. as a list of policy decisions that must be taken in order to ensure that the tax policy on which an incentive is based is sufficiently broad and detailed.

Figure 2. Criteria to evaluate the efficiency of TEs

ECONOMIC EFFICIENCY	SOCIAL EFFICIENCY	EFFICIENT OPERATION OF THE TAX POLICY
Internalization of externalities: provide the socially optimal level of goods and services.	Determine the social cost. TEs can be the appropriate instruments, but, it must be verified if other instruments could achieve the same objective at a lower social cost.	The simplicity and stability of the tax system are desirable rules to consider. The introduction of Tax Expenditures often complicates the system.
Minimize the distortions generated by taxes: the introduction or elimination of tax expenditures can affect the pre-existing balance.		
Tax expenditures affect the behavior of economic agents and can distort the allocation of resources. The creation of tax incentives to support a specific sector will impact other sectors of the economy.	The improvement of social equity. This corresponds to the redistributive function of taxes. TEs could be used as a means to reduce income inequality and combat poverty, although they may have undesirable impacts on other public policies.	To keep the transparency and accountability of the tax policy. Tax expenditures are a form, in principle, less transparent of public expenditure.
They can lead to an unwanted mobilization of income by taxpayers. The search to attract income by a government, through tax incentives can be very costly for economic growth.		In terms of fiscal governance, tax expenditures reduce the certainty of the budget process due to their financing without cap. Their budgetary effect depends to a large extent on the degree of use by the beneficiaries.
Clear cost - benefit evaluations can show that - in some cases - TEs are well justified.	On the other hand, TEs can be regressive. In turn, they may not be sufficiently focused, generating unexpected collection losses.	TEs are generally easier to enter than direct expenses. This can distort the prioritization of tax issues and affect the tax allocations.

Source: Created by author, based on the Directorate-General for Economic and Financial Affairs. *Tax expenditures in direct taxation in EU Member States. European Commission. 2014.*

Previous works have considered other criteria to evaluate tax expenditures in a broad sense, beyond those resulting from the tax incentives themselves. According to the EU (2014: Op. Cit., Chapter 3), the economic relevance of the TEs can be assessed through different criteria, emphasizing efficiency. This document identifies three groups of guiding principles for their evaluation and then analyzes how tax expenditures could affect the performance of public policies according to each of these criteria. That the exceptions that give rise to tax expenditures that comply with the criteria of economic efficiency, that are socially efficient and allow a proper functioning of the tax policy.

In addition to the greater transparency provided by the publication of the TE reports, it is advisable to incorporate certain clauses in relation to the term of validity and the maximum amounts of benefit to be granted at the time of the creation of the exceptions. We can mention as a good practice the rules for creating exceptions that include the date of expiration of the benefit, or a maximum number of periods of their application by a taxpayer after that the hypothesis that gave rise to the benefit occurred. Anyway, from the analysis of the normative that create tax expenditures in the countries, to find the expiration date of the benefits is not a frequent occurrence.⁸

The definition of expiration dates of the tax benefit granted, the a priori determination of maximum benefits limits that can be used individually, as well as the maximum amounts of benefits that are granted are also measures of fiscal prudence. With these additions in the normative texts of creating an exception in the body of a tax, the non-perpetuity of the benefit is guaranteed as well as a priori control of the sacrifice that can be executed through this mechanism, giving it a treatment more equivalent to a budget expenditure item, which by nature has a maximum amount of utilization.

8 TEDLAC includes two variables related to the periods of use or benefit from the "Valid From" exceptions that report from which date the exception is valid and "Validity Until" - which informs until when the exception is operative. From the exploitation of TEDLAC, it can be seen that a large part of the tax expenditures do not include an expiration date.

4. The Panorama in Latin America

From the official reports made by the countries, the CIAT Directorate of Tax Studies and Research has developed a database of the tax benefits and incentives included in the reports of 17 countries in the region (TEDLAC). This is formed from the systematic recording of the information contained in the reports, with the opening to the highest level of disaggregation allowed in each report. In total, 6046 items of tax expenditure were recorded in the last reports of the countries analyzed:

The TEDLAC contains the following fields;

Table 1. Fields included in the TEDLAC

FIELD	DESCRIPTION
Country	Name of country reported
Tax Category	Values from 1 to 9 (See Annex)
Name of the tax	Name and acronym of the tax in that country
Type of Tax Expenditure	Values from 1 to 7 (See Annex)
Tax incentive	Mark if it is an Incentive (I) or a Tax Benefit (B)
Normative source	Describe the normative source of the exception
Name of the Measure	Name that takes the measure
Description of the measure	More detailed description of the exemption
Validity from	Start year of the exception
Valid until	Expiration year of the exception
Budgetary sector associated	Alphabetical Classification (See Annex)
Specific Geographic Area	Specifies in which part of the territory the benefit applies
Exercise	Year that the Tax Expenditure is being reported
Method of measurement	Describe the measurement method applied in the study
Information sources	Describes the sources of information used for the estimate
Currency	Currency and unit of measure in which the values are expressed
Tax Expenditure amount	Value of tax expenditure
Tax Collection	Amount collected from that tax in that year ¹
Total collection	Amount of total collection of that year ¹
GDP of period	Value in comparable currency of the GDP of that year ²
Source	Report that gives rise to the registration
Update	Indicates when this data was registered, reviewed or updated by CIAT

Notes: 1 Statistics of total collection and by type of tax for each country extracted from OECD.Stat

2 GDP World statistics from the collections of WEO and IMF

Exploring the TEDLAC allows us to know the relationship between the tax expenditure and the GDP of each country, its evolution throughout the periods included in the analysis, their distribution according to the categories of taxes most relevant where exceptions were found (Value added taxes, personal and corporate income taxes, selective taxes, foreign trade taxes, property taxes, etc.). It is also possible to know the amount and accumulated amounts of collection losses attributable to each of the types of tax expenditures (exemptions, reduced aliquots, deductions, credits, etc.).

The information, as it is prepared, also enables the distribution of tax expenditure according to the budget sectors most associated to the measure under analysis, classification that follows the proposal included in the CIAT Handbook⁹ (Education; Health and sanitation; Housing; Development and Decentralization; Agriculture; Industrial activities; Energy and mining; etc.). In the registration process, each tax expenditures item was classified as a tax benefit or as a tax incentive. Among the first category we find all the tax expenditures associated with the social public expenditure, while those tax expenditures that are presented in order to promote a specific economic activity were classified as tax incentives.¹⁰

The results of the total tax expenditure of each country in relation to the gross domestic product are presented below. As will be seen, the results differ between countries. It should be borne in mind that this contrast of results is a reference since the countries' work differs in the scope of their study both as regards the amount of taxes included in the analysis and the greater or lesser extent of the reference tax and its correlation with a lower or higher tax expenditure estimation base. On the other hand, the total Tax Expenditure S / GDP would imply that all exceptions would be "lifted" at the same time and that there would be no overlapping effect between the different measures.

9 Handbook of Best Practices on Tax Expenditures Measurement. An Ibero-American experience. Inter-American Center of Tax Administrations 2011

10 On the concepts of tax benefits and incentives, the document Handbook of Tax Expenditures, prepared by the Center for Tax Studies of Ecuador, states: "Tax benefits are legal provisions that suppose the exemption or a reduction of the payable tax and whose purpose is to provide more favorable treatment to certain taxpayers (subjective causes) or consumption (objective causes). This positive discrimination is based on reasons of public interest, equity and social justice ..." Regarding tax incentives, the document adds: "Tax incentives are legal provisions that suppose the exemption or a reduction of the payable tax and whose purpose is promote certain objectives related to productive policies such as investments, generation of stable and quality employment, prioritize national production and certain consumption, containment of final prices, etc. "

Table 2. Tax expenditure as a percentage of each country's GDP (last three years)

COUNTRY	t= last year	t-2	t-1	t
Argentina	2017	2,6%	2,7%	3,0%
Bolivia	2013	1,0%	1,2%	1,3%
Brazil	2017	4,7%	4,3%	4,3%
Chile	2017	4,4%	3,4%	3,5%
Colombia	2014		0,6%	0,7%
Costa Rica	2016	5,0%	4,9%	5,3%
Ecuador	2014	4,7%	4,7%	4,1%
El Salvador	2013	3,1%	2,9%	3,0%
Guatemala	2016	2,5%	2,5%	2,3%
Jamaica	2016	4,4%	4,4%	3,6%
Mexico	2018	3,3%	3,7%	3,3%
Nicaragua	2013	4,6%	5,0%	5,4%
Panama	2012			2,6%
Paraguay	2016	1,9%	1,7%	1,7%
Peru	2017	2,3%	2,1%	2,2%
Dominican Republic	2017	6,6%	6,6%	6,4%
Uruguay	2014	6,6%	6,4%	6,3%
Average		3,8%	3,6%	3,5%

Sources: Tax expenditure database – CIAT 2016
GDP: GDP World statistics from the collections of WEO and IMF

The average tax expenditure on GDP for the analyzed countries was 3.5% in the last period of analysis. We must be cautious when making cross-country comparisons as the different estimation methodologies, the interpretation in each study of the scope of tax expenditure to be quantified as well as the greater or lesser tax inclusion in each study, will yield different results. 8 of the countries analyzed have reports with tax expenditure projection, which allows to have records of tax expenditures until to 2016 inclusive.¹¹ The other countries measure the expenditure carried out in previous years (usually by the accrued criterion).¹²

¹¹ In the case of Paraguay, the estimation of tax expenses that gives rise to this registration of BDGT, was carried out by CIAT in April-July of 2015 and contained the projections of tax expenditure for that year and 2016.

¹² In the case of Uruguay, from the recent adoption of the Accountability Act, the country must present from 01/2018 an annual reports of tax expenditure including the projection of the tax expenditures of the financial year considered.

Table 3. Tax expenditure as a percentage of each country's GDP.
By category of tax analyzed (last period)

COUNTRY	GENERAL TAXES ON CONSUMPTION	INDIVIDUAL INCOME TAXES	CORPORATE INCOME TAXES	EXCISE TAXES ON FUELS	EXCISE TAXES VARIOUS	FOREIGN TRADE TAXES	OTHERS	OVERALL TOTAL
Argentina	1,5%	0,3%	0,4%	0,3%	0,1%	0,1%	0,4%	3,0%
Bolivia	1,0%		0,1%			0,1%	0,1%	1,3%
Brasil	0,9%	0,8%	0,9%		0,4%	0,1%	1,2%	4,3%
Chile	0,7%	1,8%	0,9%	0,0%			0,0%	3,5%
Colombia			0,7%				0,0%	0,7%
Costa Rica	3,1%	1,1%	0,9%	0,1%		0,1%	0,0%	5,3%
Ecuador	2,1%	0,7%	1,2%	0,0%	0,0%	0,0%	0,0%	4,1%
El Salvador	1,5%	0,5%	1,0%				0,0%	3,0%
Guatemala	1,4%	0,1%	0,7%	0,0%	0,0%	0,0%	0,0%	2,3%
Jamaica	1,9%	0,0%	0,1%		0,3%	1,2%	0,0%	3,6%
México	1,5%	0,9%	0,6%	0,2%	0,0%		0,0%	3,3%
Nicaragua	4,2%	0,0%	0,3%	0,0%		0,9%	0,0%	5,4%
Panamá	2,6%						0,0%	2,6%
Paraguay	1,1%	0,1%	0,2%			0,2%	0,0%	1,7%
Perú	1,7%	0,2%	0,2%	0,0%		0,1%	0,0%	2,2%
Rep. Dominicana	3,0%	0,1%	0,6%	0,8%	0,3%	0,7%	0,9%	6,4%
Uruguay	3,1%	0,5%	1,5%	0,0%	0,0%		1,2%	6,3%
Average	2,0%	0,5%	0,6%	0,2%	0,2%	0,3%	0,2%	3,5%

Source: Tax Expenditures database- CIAT

GDP: GDP World statistics from the collections of WEO and IMF

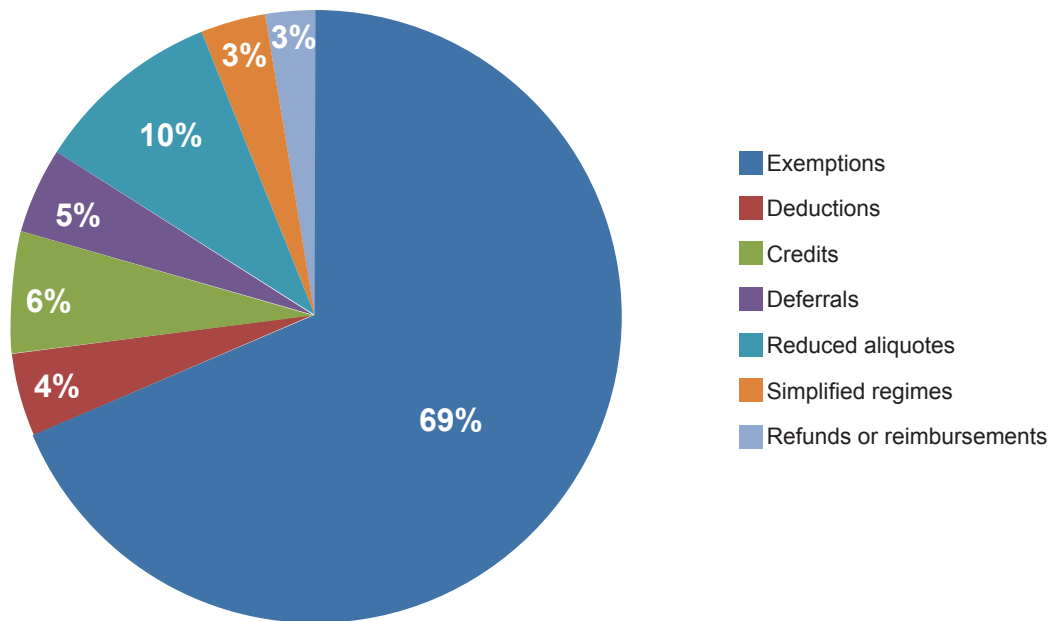
As mentioned earlier, the CIAT Manual presents a display by type of tax that allow the results to be visualized for the main taxes. In this update, and after reading the country reports, it was considered pertinent to have a wider classification of taxes so the code table was disaggregated, creating 9 categories (see annex). The following table shows, for the last exercise of each country, the breakdown of the total tax expenditure in relation to the GDP opened for each of these categories of taxes.

It can be noted that the tax expenditure is generally executed on the general taxes on consumption (this classification includes essentially the VAT of the countries). On average these represent 2.0% of GDP. Following in importance are the income taxes, both individuals and corporate. In each country the interrelationships between one and other income taxes have different levels, and even in several countries the income taxation system has a single tax figure that reaches both individuals and companies. This gives rise to greater difficulties at the time of assessing certain exceptions to the extent that it may be not clear if they are a benefit to individuals, to businesses, or to both.

With a lesser importance in relation to the total of TEs, we find the taxes on foreign trade, and the excise taxes in which we count separately those tax expenditures related to the hydrocarbons. The “other” column includes Social Security contributions, property taxes as well as a diversity of specific figures that could not be classified in the main tax groups.

When we refer to tax expenditures, we usually relate them to tax exemptions, neglecting that some tax exceptions use different forms than the exemption itself. In fact, the exceptions identified as TE can take on a variety of forms. In this regard, the CIAT Handbook establishes that TEs originates in provisions such as exemptions, exclusions, reduced aliquots, deductions, credits, deferments, simplified regimes, special or promotional regimes and refunds or reimbursements.

Graph 1. Distribution of tax expenditures depending on the type of exception identified. All countries analyzed (last period)



Exemptions, or **exonerations**, are situations expressly envisaged in the tax regulations that exempt certain economic facts which, having fulfilled all the hypothesis to verify the taxable fact, would be subject to the tax. We can cite here those circulations of goods and services expressly exempted from the tax obligation, or those incomes exonerated both of the tax on the business or personal income. The exploration of the information contained in the TEDLAC allows us to observe that this is the most common form of exception adopted in the various tax systems, and is the one that most impacts economically on the total estimated tax sacrifice.

Another typical form of exceptions that will lead to the TE are the **reduced aliquots**. With reduced aliquots we mean that the tax under analysis identifies a general rate for the generality of the economic facts on which it falls and exceptionally establishes lower rates for certain specific cases; The sales of certain goods, the operations in which certain subjects are specifically involved, the activities carried out in certain geographical regions, among others.

The typical example of reduced aliquots is found in value-added taxes or general sales taxes. These are generally used in order to reduce the natural, or design, reescalation of these instruments and generally have an objective nature, i.e. a reduced aliquot is applied to the circulation of certain goods or to the provision of certain services. The reduced aliquots can also be used for the implementation of other types of policies, for example: the reduction of VAT aliquots in the purchase-sales of new properties, seeks to minimize the fiscal cost of the operation through an establishment of a minimum tax that allows absorbing the VAT included in the inputs for the construction of the home without impacting more in the price. These instruments are also used to promote the consumption of meritorious goods.

The use of this variant of benefit has been also observed in income taxes, either to promote investment in certain sectors of activity, or geographical areas, or as a mechanism for reducing the burden on small companies.

Following the types of exceptions we find **the deductions**. These are amounts that are subtracted from the tax base. It will also be important here to know the approach adopted for the delimitation of the frame of reference. In the case of the income tax of legal entities it is generally accepted that the computable income is the gross income to which all the expenses necessary for obtaining of the income and the conservation of the source are subtracted: cost of the incorporated inputs, salaries, contributions to social security, leases of plant or equipment, normal depreciation of fixed assets, among others. In the countries' studies, these deductions integrate the framework and will not be considered as TE.

Credits are the amounts that are allowed to be deducted from the assessed tax, or from the tax aliquot. The choice between the use of this instrument rather than an additional deduction on the taxable amount, depending on the parameters established, will be decisive in the generation of the tax and the consequent dimension of tax expenditure. The use of credits is usually seen in both income taxes and value-added taxes. In many cases this tool is used in situations of support to a particular sector of economic activity, or geographic area. It is also common to observe these benefits as one of the mechanisms to attract investment, especially foreign, given its simplified application form and therefore the ease of communication of benefits to potential investors.

The **deferred taxes**, in the different forms that they can adopt, are another type of exception included in the tax normative (usually in the CIT) which generally has effects on the financial flows of companies but not in the long term result, since deferred taxes or the anticipated expenditures (which produce a similar effect and are computed in this category), reduce the burden on the present exercises but oblige the taxpayer to cope with the tax in future periods.

It should be borne in mind that these exceptions, if a long-term approach to the estimate is followed, will not be considered as TE to the extent that the collection does not effective in the application exercises of the benefit will be recovered in subsequent periods. Most countries do not include these exceptions as TE.¹³

¹³ The reports of tax expenditures of Chile are those that contain a greater participation of this type of exception, representing the deferred the 68% of the tax expenditure measured in its study.

Another form identified in the CIAT Manual are **the simplified regimes**, special or promotional, which consist of provisions covering one or more taxes, typically operate on small taxpayers, as well as in geographical areas with comparative disadvantages compared to the rest of the country or specific economic sectors.

One aspect to bear in mind is that many times the design objective of a simplified regime is simply to reduce the complexity for certain subjects in order to reduce management costs for the administration, as well as the cost of determination for the taxpayers who can protect themselves. These schemes are undoubtedly exceptional if compared to the reference tax system, but do not necessarily imply a lower collection or associated loss of collection. In the Mexico report, for example, the revenue losses from taxpayers covered by a simplified regime are compensated by the collection of such a regime.

Finally, **refunds** or **reimbursements** in accordance with the CIAT Handbook, are exceptions that financially advance or compensate taxpayers. The case may be cited for certain tax refunds, which are granted as a benefit in relation to the subsequent observation of compliance with some pre-arranged guideline with taxpayers. It also establishes a form of refund in some cases when it comes to exporters for the part of the indirect taxes that could not be fully implemented through the VAT refund mechanism.

The exploration of the TEDLAC allows us to observe that more than 69% of the tax expenditures found refer to exonerations themselves, followed by the reduced aliquots with 10%.

5. Tax expenditures reports consulted

COUNTRY	SOURCE
Argentina	ESTIMACIÓN DE LOS GASTOS TRIBUTARIOS EN LA REPÚBLICA ARGENTINA - PARA LOS AÑOS 2015 A 2017 - Informe elaborado por la Dirección Nacional de Investigaciones y Análisis Fiscal, Secretaría de Hacienda, Ministerio de Economía y Finanzas Públicas, Presidencia de la Nación.
Argentina	ESTIMACIÓN DE LOS GASTOS TRIBUTARIOS EN LA REPÚBLICA ARGENTINA - PARA LOS AÑOS 2014 A 2016 - Informe elaborado por la Dirección Nacional de Investigaciones y Análisis Fiscal, Secretaría de Hacienda, Ministerio de Economía y Finanzas Públicas, Presidencia de la Nación.
Argentina	Estimación de los Gastos Tributarios en la República Argentina. Años 2011-2013. Informe elaborado por la Dirección Nacional de Investigaciones y Análisis Fiscal, Secretaría de Hacienda, Ministerio de Economía y Finanzas Públicas, Presidencia de la Nación.
Argentina	ESTIMACIÓN DE LOS GASTOS TRIBUTARIOS PARA LOS AÑOS 2010 A 2012 - Informe elaborado por la Dirección Nacional de Investigaciones y Análisis Fiscal, Secretaría de Hacienda, Ministerio de Economía y Finanzas Públicas, Presidencia de la Nación. Valores ajustados por Presupuesto - Resumen PRESIDENCIA DE LA NACIÓN Ministerio de Economía y Finanzas Públicas Secretaría de Hacienda Subsecretaría de Presupuesto Oficina Nacional de Presupuesto.
Argentina	ESTIMACIÓN DE LOS GASTOS TRIBUTARIOS - PARA LOS AÑOS 2010 A 2012 - Informe elaborado por la Dirección Nacional de Investigaciones y Análisis Fiscal, Secretaría de Hacienda, Ministerio de Economía y Finanzas Públicas, Presidencia de la Nación.
Bolivia	Boletín de Ingresos y gastos tributarios No 5 - Ministerio de Económica y Finanzas Públicas. Estado Plurinacional de Bolivia.
Brasil	Demonstrativo dos Gastos Tributarios PLOA 2017 (DGT 2017) - Centro de Estudos Tributarios e Aduaneiros - Receita Federal.

COUNTRY	SOURCE
Brasil	Demostrativo dos Gastos Tributarios PLOA 2016 (DGT 2016) - Centro de Estudos Tributarios e Aduaneiros - Receita Federal.
Brasil	Demostrativo dos Gastos Tributarios PLOA 2015 (DGT 2015) - Centro de Estudos Tributarios e Aduaneiros - Receita Federal.
Brasil	Demostrativo dos Gastos Tributarios PLOA 2014 (DGT 2014) - Centro de Estudos Tributarios e Aduaneiros - Receita Federal.
Chile	Anexo reporte Gasto Tributario 2015 a 2017 - Subdirección de Gestión Estratégica y Estudios Tributarios - Servicio de Impuestos Internos - Septiembre 2016.
Chile	Gasto Tributario 2012 - 2014 - Subdirección de Estudios - Servicio de Impuestos Internos - Septiembre 2014 - METODOLOGIA TRADICIONAL - Valores ajustados por informe 2016.
Colombia	El gasto tributario en Colombia. Beneficios en el impuesto sobre la renta y CREE – personas jurídicas Años gravables 2013 - 2014 - Coordinación de Estudios Económicos Subdirección de Gestión de Análisis Operacional Dirección de Gestión Organizacional.
Costa Rica	Costa Rica / El gasto tributario, Metodología y Estimación. Año 2014. Dirección General de Hacienda (DGH) División de Política Fiscal (DPF) Agosto 2015. Contiene Serie 2010 - 2014 y Proyecciones 2015 y 2016. 2014 único año con apertura por ítems.
Costa Rica	Costa Rica / El gasto tributario, Metodología y Estimación. Año 2014. Dirección General de Hacienda (DGH) División de Política Fiscal (DPF) Agosto 2015. Contiene Serie 2010 - 2014 y Proyecciones 2015 y 2016. 2014 único año con apertura por ítems.+ El gasto tributario, Metodología y Estimación. Año 2016.
Ecuador	Manual Gasto Tributario 2014 - Departamento de Estudios Tributarios - Centro de Estudios Fiscales - Este documento presenta la metodología utilizada para calcular el gasto tributario en el país, así como las principales cifras de las estimaciones y la normativa que lo rige. Octubre 2015.
Ecuador	Manual Gasto Tributario 2013 - Departamento de Estudios Tributarios - Centro de Estudios Fiscales - Este documento presenta la metodología utilizada para calcular el gasto tributario en el país, así como las principales cifras de las estimaciones y la normativa que lo rige.

COUNTRY	SOURCE
Ecuador	Manual Gasto Tributario 2012 - Departamento de Estudios Tributarios - Centro de Estudios Fiscales - Este documento presenta la metodología utilizada para calcular el gasto tributario en el país, así como las principales cifras de las estimaciones y la normativa que lo rige.
El Salvador	GASTO TRIBUTARIO: AÑO 2013: IVA Y RENTA. Unidad de Estudios Tributarios. Dirección General de Impuestos Internos. Diciembre 2015.
El Salvador	GASTO TRIBUTARIO: AÑOS 2011 - 2012: IVA Y RENTA. Unidad de Estudios Tributarios. Dirección General de Impuestos Internos. Diciembre 2014.
Guatemala	https://portal.sat.gob.gt/portal/analisis-estudios-tributarios/#1506976607233-cfdb5baf-4926
Guatemala	Estadísticas de Gastos Tributarios. Disponibles en: http://portal.sat.gob.gt/sitio/index.php/estadisticas/47-estadisticas-tributarias/7897-analisis-y-estudios-tributarios.html
Jamaica	Tax Expenditure Estimates 2014-2016. Ministry of Finance and the Public Service. Taxation Policy Division, Jamaica, West Indies. February 2018.
México	Presupuesto de Gastos Fiscales 2017. Secretaría de Hacienda y Crédito Público. Incluye gastos tributarios 2017 y 2018.
México	Presupuesto de Gastos Fiscales 2016. Secretaría de Hacienda y Crédito Público. Incluye gastos tributarios 2016 y 2017 & Presupuesto de Gastos Fiscales 2015. Secretaría de Hacienda y Crédito Público. Incluye gastos tributarios 2015 y 2016.
México	Presupuesto de Gastos Fiscales 2015. Secretaría de Hacienda y Crédito Público. Incluye gastos tributarios 2015 y 2016.
México	Presupuesto de Gastos Fiscales 2013. Secretaría de Hacienda y Crédito Público. Incluye gastos tributarios 2013 y 2014.
Nicaragua	Gasto Tributario y Evasión del IVA e IR: 2010-2013, Alma Cortés Selva, Ministerio de Hacienda y Crédito Público Dirección de Estudios Económicos Managua, Nicaragua
Panamá	Estimación del gasto tributario en Panamá, mediante el señalamiento de pautas y criterios para el establecimiento de una metodología de medición. Michel Jorratt De Luis - Marzo de 2014.

COUNTRY	SOURCE
Paraguay	Informe de Gasto Tributario en Paraguay 2013 - 2014 y Proyecciones de Gasto Tributario 2015 - 2016. CIAT - SAT - GIZ.
Perú	Informe N° 17-2016-SUNAT/5A0000 / Estimación del impacto de los principales Gastos Tributarios 2017.
Perú	Informe N° 016-2015-SUNAT /5A0000 + Papeles de trabajo del estudio de gasto tributario de Perú.
República Dominicana	MINISTERIO DE HACIENDA Gastos Tributarios en República Dominicana Estimación para el Presupuesto General del Estado del año 2017.
República Dominicana	MINISTERIO DE HACIENDA Gastos Tributarios en República Dominicana Estimación para el Presupuesto General del Estado del año 2015 y 2016.
Uruguay	Informe de gasto Tributario 2012 - 2014. Departamento de Estudios Económico - Tributarios - DGI.

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7. Annex

Glossary of categories used in the TEDLAC

I) Categories of Taxes considered

- 1 General consumption taxes
- 2 Individual Income Tax
- 3 Corporate income tax
- 4 Fuel-selective taxes
- 5 Miscellaneous selective taxes
- 6 Foreign Trade taxes
- 7 Property taxes
- 8 Social contributions
- 9 Other

II) Types of Tax Expenditures considered

- 1 Exemptions and exclusions
- 2 Deductions
- 3 Credits
- 4 Deferrals
- 5 Reduced aliquots
- 6 Simplified, special or promotional regimes
- 7 Refunds or reimbursements

III) Glossary of budget sectors associated with tax expenditures

- A State apparatus, internal security and national defense,
- B Foreign trade (includes Textile and tax free and similar zones) and tourism (includes gambling and similar)
- C Social Security and social services (includes private pension and adoption systems). Associations and foundations.
- D Employment
- E Housing and Urban development (includes construction and infrastructure)
- F Health and sanitation (includes food and maternity) and sports
- G Education, culture (includes artistic activities) and research, development and innovation (includes science and technology)
- H Agriculture (includes farming), fishing and forestry
- I Industry (SMEs), agroindustry and the like
- J Energy and mining
- K Transport and Telecommunications (includes emails)
- L Financial Sector (including capital market, insurance, leasing)
- M Investment, Decentralization and Regional Development
- N Politics, Religion, Justice and External Relations
- O All sectors (including trade, services, environment and Fi activities)
- P Any other sector.



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