

Counted But Not Accountable: Tax Expenditure Transparency in Latin America

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KEY POINTS

- Tax expenditures are an important and understudied area of public finance. Across Latin America, tax expenditures are reducing government revenues by between 10 and 20 percent, without a proper assessment of their impact.
- From an accounting perspective, tax expenditure reporting in Latin America looks reasonable. Almost all governments produce and publish an annual report, including some general information on the kinds of tax expenditures that exist and how much they cost. The coverage and detail of these reports, though, varies widely across the region.
- From an accountability perspective, however, things look quite different. Government reports are largely silent about several key aspects of tax expenditures, including their policy objectives and performance measures, and information on beneficiaries and impact. Also, very limited information is provided on the processes through which decisions are taken regarding the introduction, review, and evaluation of tax expenditures.
- To enhance transparency and accountability around tax expenditures, governments should:
 - Promote better integration between tax expenditure reporting and the annual budget process;
 - Include in their tax expenditure reports a detailed list of all tax expenditures with a variety of details; and
 - Streamline the process of approving and reviewing tax expenditures, including impact assessments, making it more transparent and subject to independent scrutiny.

INTRODUCTION

Over the past few years, the International Budget Partnership (IBP) has collaborated with a number of partner organizations across Latin America to promote research, advocacy, and learning on a topic that does not get much attention but that has an important impact on public finances in the region: tax expenditures.¹ Tax expenditures are revenues that governments do not collect because of specific exemptions and exceptions to the tax code, with the aim of benefitting certain groups of taxpayers or certain sectors, or promoting specific activities and behaviors.

The use of tax expenditures is a controversial area of fiscal policy which has gone largely un-scrutinized for a long time but has received increasing attention in recent years. Nothing is wrong with tax expenditures, in principle, as they can be applied to promote a number of important policy objectives such as making the tax system more progressive or promoting investment in poor areas to stimulate development. In practice, however, they are often perceived to be used ineffectively and for political purposes, and as unequally benefitting richer and more powerful actors, without adequate scrutiny and accountability.

In terms of foregone revenues their significance is quite large – in recent years, on average, around 4 percent of GDP across Latin America, or between 10 and 20 percent of total government revenues – making it important for civil society groups to understand how they work, and to push for governments to use them more effectively to promote more equitable development and realize human rights.

In an earlier paper bringing together the preliminary findings from our project, we documented some of the obstacles that various partners faced when carrying out country-level research on tax expenditures.² One of the main challenges was getting adequate access to information on the various aspects of tax expenditures that were important for assessing impact and for illuminating how the process of introducing, reviewing, and evaluating tax expenditures worked in practice, given its often opaque nature.

In order to shed more light on transparency and decision-making practices around tax expenditures across the region, and assist our partners' analysis and advocacy efforts, we designed a mini-survey and asked our partners to complete it so that we could collect additional, more detailed, and structured

¹ For more information, see "Latin America Tax Expenditure Research, Advocacy, and Learning Project," International Budget Partnership, available at <https://www.internationalbudget.org/content/lateral-project/>.

² See de Renzio, Paolo. 2019. "Tax Expenditures in Latin America: A Civil Society Perspective." International Budget Partnership, available at <https://www.internationalbudget.org/publications/tax-expenditures-latin-america-civil-society-perspective/>.

comparable information on the kinds of information that governments regularly publish on tax expenditures.

This brief looks at some more general data on transparency practices on tax expenditures drawing on the results of the 2017 Open Budget Survey, and then presents the results of the mini-survey for Latin America in summary form, to facilitate cross-country comparisons and encourage debate on areas in which governments need to improve on their tax expenditure transparency practices.

TAX EXPENDITURE TRANSPARENCY AROUND THE WORLD: SOME BACKGROUND

It is not easy to come across cross-country information on tax expenditure transparency. Some important efforts have been put in place by the OECD for its member countries, and by the regional body CIAT (Centro Interamericano de Administraciones Tributarias) for Latin America. The Council on Economic Policies in Switzerland is spearheading a global effort to produce a comprehensive global tax expenditure database and has started by looking at G20 and OECD countries.³

Fortunately, the Open Budget Survey (OBS) – produced and published by IBP every two years – includes a question specifically on what governments publish on tax expenditures in their annual budget proposals (see Box 1) and, therefore, provides basic information on tax expenditure transparency for more than 100 countries. Countries' scores are based on the level of detail of the information that they publish on different aspects of tax expenditures. The survey question focuses on measuring the extent to which governments are publishing core information which is defined as “a statement of purpose or policy rationale for each tax expenditure, the intended beneficiaries, and an estimate of the revenue foregone.”

³ See Redonda, Agustin and Tom Neubig. 2016. "Assessing Tax Expenditure Reporting in G20 and OECD Economies," Council on Economic Policies (6 November), available at <https://www.cepweb.org/assessing-tax-expenditure-reporting-in-g20-and-oecd-economies/>.

BOX 1. OPEN BUDGET SURVEY (OBS) QUESTION ON TAX EXPENDITURES

Question #45. Does the Executive's Budget Proposal or any supporting budget documentation present information on tax expenditures for at least the budget year? (The core information must include a statement of purpose or policy rationale for each tax expenditure, the intended beneficiaries, and an estimate of the revenue foregone.)

- a) Yes, information beyond the core elements is presented for all tax expenditures.
- b) Yes, the core information is presented for all tax expenditures.
- c) Yes, information is presented, but it excludes some core elements or some tax expenditures.
- d) No, information related to tax expenditures is not presented.
- e) Not applicable/other (please comment).

GUIDELINES: [...] Beyond the core information, some governments may also provide other information about tax expenditures, including for example: the intended beneficiaries by sector and income class (distributional impact); a statement of the estimating assumptions, including the definition of the benchmark against which the foregone revenue is measured; and a discussion of tax expenditures as part of a general discussion of expenditures for those program areas that receive both types of government support (in order to better inform policy choices).

Source: "Open Budget Survey 2017 Questionnaire and Guidelines," International Budget Partnership, available at <https://www.internationalbudget.org/open-budget-survey/downloads/#questionnaires>.

Looking at OBS results, we can see that, on average, governments are much less transparent about tax expenditures than they are on overall budget information. While the average Open Budget Index (OBI) score across the world is 42 out of a maximum score of 100, the average score for the question on tax expenditures is only 23. In some regions, like Eastern Europe or Sub-Saharan Africa, this gap is much larger. For Latin America, the situation is less worrying, as the region has the second highest average OBI score behind Western Europe, and its performance on tax expenditures does not lag that far behind overall transparency (see Table 1).

TABLE 1. TAX EXPENDITURE TRANSPARENCY VS OVERALL BUDGET TRANSPARENCY (2017 OBS), AVERAGE SCORES BY REGION

	Score on Q45*	Overall OBI Score
World	23	42
<i>Western Europe & North America</i>	77	73
<i>Eastern Europe & Central Asia</i>	16	55
<i>Middle East & Northern Africa</i>	10	20
<i>Sub-Saharan Africa</i>	7	25
<i>Latin America & Caribbean</i>	37	50
<i>South Asia</i>	33	46
<i>East Asia & Pacific</i>	25	47

Source: "Open Budget Survey 2017," International Budget Partnership, available at <http://openbudgetsurvey.org>.

* Q45 = Question 45 (see Box 1).

While useful for broad comparisons and as part of a more general assessment of fiscal transparency practices, the key limitation of the information collected in the OBS is that it only provides a summary measure and does not allow for checking and comparing the details of tax expenditure transparency practices in specific countries. In order to address this constraint, and better support our partners' advocacy efforts, we decided to develop a more detailed tool for assessing and comparing tax expenditure transparency practices across Latin America. The mini-survey tool that was utilized is based on a comprehensive review of international norms and standards on the issue, including the IMF and OECD, but also on previous studies that were either carried out or commissioned by IBP itself.⁴ The idea was to capture key types of information that governments should publish on tax expenditures that would allow for an independent assessment of and an informed debate on their effectiveness as a policy tool, including their impact on the distribution of income, a key goal of our regional project.

We worked with ten partners from our own project and three other organizations linked to the *Red de Justicia Fiscal de América Latina y el Caribe* – a regional network of CSOs working on fiscal reforms – to fill in the mini-survey questionnaire for 15 countries in the region during the months of October and

⁴ These include: *Fiscal Transparency Handbook (2018)*, International Monetary Fund, available at <https://www.elibrary.imf.org/view/IMF069/24788-9781484331859/24788-9781484331859/24788-9781484331859.xml>; "A Guide to Transparency in Public Finances: Looking Beyond the Budget," International Budget Partnership, available at <https://www.internationalbudget.org/publications/a-guide-to-transparency-in-public-finances-looking-beyond-the-budget/>; and Burton, Mark and Miranda Stewart. 2011. "Promoting Budget Transparency Through Tax Expenditure Management: A Report on Country Experience for Civil Society Advocates." Research Paper No. 544, University of Melbourne Law School Legal Studies, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1864324##.

November 2018.⁵ We also decided to add information on Canada as an OECD country that publishes very comprehensive tax expenditure reports. The results of this process are presented in the next section.

TAX EXPENDITURE TRANSPARENCY IN LATIN AMERICA: TAKING A CLOSER LOOK

Each partner collaborating in the mini-survey was asked to answer a set of questions based on the latest tax expenditure report available in each country. The three areas covered included: the key characteristics of reporting arrangements on tax expenditures; the provision of general information on overall tax expenditures; and the provision of more detailed information on individual tax expenditures. We discuss each of these areas in more detail below.

KEY CHARACTERISTICS OF TAX EXPENDITURE REPORTING ARRANGEMENTS

The first part of the mini-survey was designed to get a sense of how governments report on tax expenditures and to determine whether such reporting had any significant links with the annual budget cycle. Summary results are presented in Table 2.

The positive finding is that for all but one of those covered in the mini-survey, governments regularly publish annual information on tax expenditures. The exception is Nicaragua, where the only tax expenditure report published by the government dates back to 2010. In Honduras, the first such report was published in 2018, but based on fiscal responsibility legislation introduced in 2016, similar reports are supposed to be published on a yearly basis going forward. This demonstrates that most of the governments in the region are committed to at least some level of disclosure and to regular reporting on tax expenditures.

Reporting arrangements, however, vary a lot from country to country. Some governments publish relatively comprehensive ad hoc reports, while others include chapters or sections on tax expenditures in other budget documents, such as medium-term fiscal frameworks or budget proposals. Reporting varies a lot in length and depth as well, ranging from the three pages included in Paraguay's budget proposal and the less than 20 pages of documents produced by Argentina, Bolivia, and Honduras, to the hundreds of pages of comprehensive reporting produced in Mexico, and to, especially, Brazil, which stands out in the

⁵ The countries are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, and Peru. See the full list of partner organizations in Annex 2.

region for the most detailed and exhaustive tax expenditure information – an effort not far from the model provided by Canada, which publishes a 300+ page report accompanied by an Excel spreadsheet and a machine-readable version of the information.

The number of years covered by tax expenditure reporting also varies substantially. Some countries – Ecuador, Guatemala, Honduras, and Paraguay – report just on a single year, while others, notably Bolivia, Brazil, and Colombia, provide longer historical perspectives. Only half of the countries, however, provide forward-looking estimates for tax expenditures for the upcoming financial year – which can be discussed as part of the budget process – while the rest only publish data from previous years, most likely due to the difficulties of coming up with reliable estimates. Interestingly, in its budget proposal, Guatemala is the only country that includes in its budget proposal projections for tax expenditures well beyond the upcoming fiscal year – e.g., for the 2019 budget proposal, summary projections cover the period 2019-2023; not even Canada does this.

Another important issue that deserves attention is the fact that tax expenditure reporting has clear and direct linkages to the budget cycle in only five of the countries covered. In these countries, information on tax expenditures includes forward-looking estimates and is included in documents discussed as part of the budget proposal for the upcoming financial year. In the remaining countries, tax expenditure information does not directly feed into discussions about annual budgets. In some cases, this is due to reports being published separately and at different times from when discussions around the budget proposal happen – as in Bolivia, Colombia, and Mexico – while in other cases, this is related to delays in producing information on past tax expenditures and to the lack of future projections. Even in countries where information on tax expenditures is included in annual budget documents, like Argentina or Paraguay, it is often presented in formats or in a level of detail that does not facilitate informed debates or provide clear links to annual budget policies.

TABLE 2. TAX EXPENDITURE (TE) REPORTS: FREQUENCY, LINKS WITH THE ANNUAL BUDGET CYCLE, TIME COVERAGE

Country	Year of publication	Frequency of publication	Link with budget cycle	Years covered	Comments
Argentina	2018	Annual	Yes	2016- 2019	Section with information on TEs is included in budget speech, including projections.
Bolivia	2018	Annual	No	2005-2016	Published separately as <i>Boletín Económico</i> .
Brazil	2018	Annual	Yes	2013- 2019	Detailed TE report and projections are annexed to budget proposal. Additional information is available on revenue body website.
Chile	2018	Annual	Yes	2017- 2019	Chapter on TEs is included in budget proposal and contains projections.
Colombia	2018	Annual	No	2010-2017	TE report as chapter in Medium-Term Fiscal Framework, which is not part of the budget proposal.
Costa Rica	2018	Annual	No	2010-2017	A short mention of past TE data is included in the budget proposal, but only for information.
Dominican Republic	2018	Annual	Yes	2018- 2019	A TE report with projections is annexed to the budget proposal.
Ecuador	2018	Annual	No	2017	Study published independently by Internal Revenue Service.
El Salvador	2018	Annual	No	2009-2016	Chapter on TEs included in Medium-Term Fiscal Framework, including past data only.
Guatemala	2018	Annual	Partly	2017 2018-2023	A TE study is published independently by revenue body. Some summary projections are included in the budget proposal.
Honduras	2018	Annual (?)	Partly	2017	First TE report published as part of 2019 budget proposal but containing only past data.
Mexico	2018	Annual	No	2018- 2019	A report is published in June of each year, including estimates for the following year. But these are not part of budget discussions.
Nicaragua	2010	One-off	No	2004-2010	The only report available is from 2010. No further reports have been published since.
Paraguay	2018	Annual	Yes	2019	Information on TEs is included in the budget proposal with projections, although it is very limited.
Peru	2018	Annual	Partly	2018- 2019	A detailed report is published by the revenue body. Some summary info is included in the MTEF, which is linked to the budget proposal.
<i>Canada</i>	<i>2018</i>	<i>Annual</i>	<i>Yes</i>	<i>2012-2019</i>	<i>TE Report is published at the same time as – and referred to in – the budget proposal, and it includes projections.</i>

Source: LATERAL mini-survey on tax expenditure transparency practices

GENERAL INFORMATION ABOUT TAX EXPENDITURES

The second part of the mini-survey looks at the different types of summary information that governments should publish about tax expenditures in general. These include:

- 1) a general definition of tax expenditures;
- 2) a list of all tax expenditures;
- 3) a total estimate of revenue loss from tax expenditures;
- 4) a breakdown of tax expenditures by type of tax expenditure or by type of tax;
- 5) a breakdown of tax expenditures by sector/function; and
- 6) an explanation of the process for approving new tax expenditures and reviewing/evaluating existing ones.

As can be seen in Table 3, most of the countries covered include in their reports a general definition of tax expenditures, some kind of list of tax expenditures, and a total estimate of their cost in terms of revenue loss. In some countries, reports are limited to aggregate information on tax expenditures – as in Honduras and Paraguay – or to information on tax expenditures related to certain types of taxes only – like VAT and income tax in Colombia, or a few more categories in the cases of Argentina and El Salvador – but without covering the whole spectrum of tax expenditures. The issue of coverage is in fact questionable. The lists of tax expenditures that governments provide vary a great deal in length and detail, calling into question whether actual coverage is full or only partial. In some cases, reports do declare that they cover only a sub-set of tax expenditures, but where governments do not make that clear, it is hard to ascertain whether all tax expenditures are actually covered or not. Ecuador's tax expenditure report, for example, has a two-page annex with what looks like a list of tax expenditures divided by the type of tax that they relate to. Similar lists in countries like Brazil, Mexico, and Canada can run in the several tens, if not hundreds, of pages. Is it the case that Ecuador has a much smaller number of tax expenditures, or is it reporting only on some of them? An answer to this question cannot always be clearly identified from the reports.

For countries where coverage is limited, inevitably, an estimate of the overall cost of tax expenditures is not available. But even in places where reporting is extensive, total cost estimates may be missing. For example, Mexico does not provide an aggregate estimate for the cost of tax expenditures, citing the fact that individual estimates are not accurate enough because they are based on a partial equilibrium analysis that does not take into account the impact of tax expenditures on other economic variables and on taxpayers' behavior. Canada, on the other hand, does not provide cost estimates for a significant

number of individual tax expenditures, indicating that “no data is available to support a meaningful estimate or projection.” It, therefore, does not report a total cost estimate either.

More detailed breakdowns of tax expenditures are not always available. Most countries do classify tax expenditures based on which tax they refer to or on the type of tax expenditure (whether it is an exemption, a credit, a deferral, etc.). Only about half of them, however, provide a sectoral breakdown of some sort, even if that can look very different from place to place. In some cases, such breakdown is provided only for some specific types of tax expenditures (e.g. Colombia and Mexico), or based on categories that are too broad to be useful (e.g. Ecuador). Brazil is the only case where tax expenditures are also comprehensively broken down by their geographical distribution, which allows for an assessment of which regions benefit most from incentives and exemptions of different kinds. These different types of breakdowns are particularly useful when trying to assess the potential impact of tax expenditures, and their importance vis-à-vis direct spending, for example, in specific sectors or regions.

Another piece of information that is completely lacking, and that would be very useful for various stakeholders, is detail about the process of approving, reviewing, and evaluating tax expenditures. No government provided any general information about this, making it difficult to get a better sense of how governments make decisions on tax expenditures, and of what kinds of evidence are produced and utilized in these decision-making processes. Even the Canadian report is mostly silent about this, although it includes a section explaining some of the changes that were introduced to tax expenditures in the previous year, and some of the rationale behind them.

TABLE 3. TAX EXPENDITURE (TE) REPORTS: GENERAL INFORMATION INCLUDED

Country	Definition of TEs	Full list of TEs	Total cost estimate	Breakdown by TE/tax type	Breakdown by sector/function	Approval and evaluation
Argentina	Yes	Partly	Partly	Yes	No	No
Bolivia	Yes	Yes	Yes	Yes	Yes	No
Brazil	Yes	Yes	Yes	Yes	Yes	No
Chile	Yes	Partly	Partly	Yes	Yes	No
Colombia	Yes	Partly	Partly	Partly	Partly	No
Costa Rica	Partly	Partly	Yes	Partly	No	No
Dominican Republic	Yes	Yes	Yes	Partly	Yes	No
Ecuador	Yes	Yes	Yes	Partly	Partly	No
El Salvador	Yes	Partly	Partly	Yes	Yes	No
Guatemala	Yes	Yes	Yes	No	No	No
Honduras	Yes	No	Yes	No	Yes	No
Mexico	Yes	Yes	No	Yes	Partly	No
Nicaragua*						
Paraguay	Yes	No	Yes	Yes	No	No
Peru	Yes	Partly	Yes	Yes	Yes	No
<i>Canada</i>	Yes	Yes	No	Yes	Yes	Partly

Source: LATERAL mini-survey on tax expenditure transparency practices

* No recent or regular TE reports available.

SPECIFIC INFORMATION ABOUT TAX EXPENDITURES

The third and last part of the mini-survey looked at more specific types of information that governments should publish on individual tax expenditures, which are useful above and beyond the more general information covered in the previous section. These are:

- 1) the type of tax expenditure (e.g. exemption, a credit, reduced rate, etc.);
- 2) the legal basis for the tax expenditure (e.g. law, decree, other);
- 3) the estimated cost/revenue foregone for the upcoming year and for current/previous years;
- 4) the definition of the benchmark system against which the tax expenditure is measured, and the method used to measure its cost;
- 5) the duration/expiration date or “sunset clause” (if it has one);
- 6) the policy rationale and justification for the tax expenditure;
- 7) specific performance indicator(s) against which the tax expenditure should be evaluated;
- 8) the intended beneficiaries (including a list of past ones);
- 9) the impact on income distribution; and
- 10) when it was last reviewed and/or when the next review will happen, and the results of any recent evaluations.

Table 4 summarizes the findings from this part of the mini-survey. Again, most governments tend to fare reasonably well on some of the more basic types of information, linked to the classification of each tax expenditure, the indication of its legal basis, the estimation of the revenue loss it generates and the measurement method that was used in the calculations. Even in these areas, however, there are a number of exceptions. For example, many governments do not include future projections in their calculations of cost estimates for each tax expenditure but, rather, only past data on revenue losses linked to each. In fact, only Brazil and the Dominican Republic provide estimates of the revenue loss linked to each and every tax expenditure for the upcoming fiscal year and for past years.

Furthermore, some countries provide insufficient details on the measurement methods that they use to calculate such revenue losses or limited and scattered information on the legal basis for each tax expenditure. This is particularly important to independent monitoring purposes, given that many important details of tax expenditures are hidden in the fine print of the relevant laws, decrees, and regulations, which are not always readily available and accessible. Having explicit references to the relevant legal framework for each tax expenditure can greatly facilitate independent monitoring. Countries that provide long lists with specific details for each tax expenditure – like Brazil, Mexico, and Canada – provide easy

access to this information. Mexico goes even further, including weblinks to relevant legal documents for each tax expenditure.

Another important issue related to the legal framework is the definition of the duration and expiry of each tax expenditure provision. Setting a limited time frame for specific tax breaks is one way to ensure a timely review of their effectiveness. Therefore, providing information to the public on this specific parameter of tax expenditures is considered very important. Unfortunately, only a few countries do include such information in their tax expenditure reports. Only Brazil does it for all individual tax expenditures, while others include only information on tax expenditures that are about to expire.

Several other specific types of information that are particularly important for assessing the effectiveness and impact of tax expenditures were hardly ever included in the reports that were reviewed for the mini-survey. For one, tax expenditure reports provide very limited or no detail on the policy purposes that individual tax expenditures are supposed to pursue, even though in some cases, i.e., Brazil and the Dominican Republic, these can be partially, and often implicitly, gleaned by looking at the basic description provided of some of the tax expenditures. Canada is the only country that includes a brief statement of the policy objective for each of its tax expenditures, while Mexico provides links to documents from which it is possible to glean the policy justification for a number of tax expenditure measures.

Reports also contain no indication of the performance measures that should be monitored to assess the effectiveness of the tax expenditures and their impact on income distribution. The only exceptions here are, once again, Mexico, which includes in its report an assessment of the distribution of the benefits of some tax expenditures by income decile, and Canada, which includes a chapter evaluating one or more tax expenditures every year, including their impact on equity. Some of our partners suggested that the general lack of information related to policy and performance might be related to the fact that tax expenditure reports are often produced by revenue administration agencies, which see their contribution on tax expenditures more from a technical and accounting perspective and, consequently, are either not interested or do not have the mandate to discuss more general policy aspects. Policy questions, however, are very important for accountability purposes, and should be the focus of other publications produced by the relevant government institutions.

The almost complete lack of information on the individual beneficiaries of tax expenditures is another important gap. Revenue authorities often cite tax secrecy and privacy requirements as a justification for such lack of transparency, but these arguments often do not stand up to scrutiny. Why should the public not know the names of large corporations which receive significant tax breaks, when often individual

recipients of much smaller government grants are known and public? Yet, in none of the countries that we looked at is information on individual beneficiaries of specific tax expenditures published. In a few cases – Dominican Republic, Guatemala, and Canada – broad categories of beneficiaries are provided, but that is far from satisfactory from an accountability perspective.

Finally, none of the tax expenditure reports include any information whatsoever on provisions for past or future reviews of individual tax expenditures, or on the results of any evaluations carried out, with the exception of Canada which, as already mentioned, dedicates the last chapter of its report to the evaluation of specific tax expenditures, and provides some information on past reviews for each tax expenditure. In practice, without such information, it is impossible to know whether such reviews and evaluations are carried out at all, but all evidence points to the fact that they are not a common occurrence.

TABLE 4. TAX EXPENDITURE (TE) REPORTS: SPECIFIC INFORMATION INCLUDED

Country	TE type	Legal basis	Revenue loss	Meas. method	Sunset clause	Policy rationale	Perf. indicator	Beneficiaries	Distr. impact	Review & Evaluation
Argentina	Yes	Partly	Partly	Partly	No	No	No	No	No	No
Bolivia	Yes	Yes	Partly	Yes	No	Partly	No	No	No	No
Brazil	Yes	Yes	Yes	Yes	Yes	Partly	No	No	No	No
Chile	Partly	No	Partly	Yes	No	No	No	No	No	No
Colombia	Partly	Partly	Partly	Partly	No	No	No	No	No	No
Costa Rica	Yes	Partly	Partly	Partly	No	No	No	No	No	No
Dominican Republic	Partly	Yes	Yes	Yes	Partly	Partly	No	Partly	No	No
El Salvador	Yes	Partly	Partly	Yes	No	No	No	No	No	No*
Ecuador	Yes	Yes	Partly	Yes	No	No	No	No	No	No
Guatemala	Partly	Yes	Partly	Yes	No	No	No	Partly	No	No
Honduras	Partly	Partly	Partly	Yes	No	No	No	No	No	No
Mexico	Yes	Yes	Partly	Yes	Partly	Partly	No	No	Partly	No
Nicaragua**										
Paraguay	Partly	No	Partly	Partly	No	No	No	No	No	No
Peru	Yes	Partly	Partly	Yes	Partly	No	No	No	No	No
<i>Canada</i>	Yes	Yes	<i>Partly</i>	Yes	No	Yes	No	<i>Partly</i>	<i>Partly</i>	<i>Partly</i>

Source: LATERAL mini-survey on tax expenditure transparency practices.

* A study was published in 2018 by the Ministry of Finance to evaluate the impact of certain fiscal incentives.

** No recent or regular TE reports available.

CONCLUSIONS

This brief presents the findings of a mini-survey on tax expenditure transparency practices in Latin America, resulting from a collaboration between a number of organizations in the region and IBP over the past few years, working to promote research, advocacy, and learning on tax expenditures, their impact on fiscal policies, in general, and on inequality more specifically.

The mini-survey builds upon previous efforts – by IBP, including through the Open Budget Survey, and on existing international norms and standards – to develop an independent assessment of the kinds of tax expenditure reports that governments produce on a regular basis, and an evaluation of their contents in terms of both general and more specific information on tax expenditures.

While the situation across Latin America regarding publicly available information on tax expenditures can be considered much better than in other regions – and OBS data confirm this – the picture that emerges from the mini-survey can be summarized as follows:

- 1) In most of the countries covered, governments regularly publish annual tax expenditure reports, but these vary greatly in length and detail, and many of them have only weak links to the annual budget process, often only including past information.
- 2) Tax expenditure reports do a reasonable job at providing general information on tax expenditures, including listing them and providing cost estimates, although the level of detail in terms of breakdown by type or sector can vary significantly from country to country.
- 3) Existing reports on individual tax expenditures lack a lot of very important types of information. Missing data includes relatively simple issues such as providing details of the legal basis for each tax expenditure, its policy justification, duration, and expiry date, to more complicated aspects like performance measurement, listing beneficiaries, and assessing distributional impact.
- 4) Just as important from an accountability perspective, information on the process through which tax expenditures are formulated, approved, reviewed, and evaluated – including information on the role of different actors – is all but absent from the tax expenditure reports we reviewed across the region. Separate studies looking at the impact of tax expenditures are similarly lacking.

In summary, while current practices around tax expenditure transparency across Latin America may seem sufficient from an accounting perspective, providing some general information and overall estimates of

how much tax expenditures cost, they are clearly lacking from an accountability perspective, with very limited information related to their policy purposes, their beneficiaries, their performance and impact, and the process through which they should be reviewed and evaluated. This makes it very difficult to have an informed debate about their role as a fiscal policy instrument and about their effectiveness and impact, and reinforces the possibility of their misuse and abuse for political purposes.

The mini-survey has also helped identify some interesting areas for improvements, either based on existing good practices or on clearly identified gaps in current practices. Here are some of the most important ones:

- 1) Governments should promote a better integration between tax expenditure reporting and the annual budget process, ensuring that adequate levels of information on tax expenditures, including projections for the upcoming year, are included in the budget proposal or related documents, and organized in a way that facilitates comparison with regular budget information. This could usefully include a breakdown by sector/function, and by responsible agency.
- 2) Governments should include in their tax expenditure reports a detailed list of all tax expenditures, following the examples provided by Brazil, the Dominican Republic, Mexico, and Canada. These could be presented in table format and should include a variety of details (e.g. their policy justification, expected beneficiaries, legal basis, date of expiry, and estimated cost, if available).
- 3) Governments should streamline and better explain the process of approving and reviewing tax expenditures – including the roles that different actors play – and publish all relevant information regarding the periodic review and evaluation of different tax expenditures, both relative to their impact on intended policy objectives and on income distribution. Legislatures and supreme audit institutions can play an important role in this area as well, given their approval, oversight, and accountability functions.

We hope that these findings can help shed light on an important and often under-researched area of public finance, and help our partner organizations in their advocacy efforts aimed not only at increasing levels of transparency and accountability around tax expenditures, but also at improving their effectiveness and impact as fiscal policy tools, including in reducing inequality. This will require a better informed debate, both at country level and internationally, to which we hope that this brief can contribute.

ANNEX 1. LIST OF OFFICIAL DOCUMENTS CONSULTED BY COUNTRY

Country	Documents
Argentina	<u>Estimación de los gastos tributarios en la República Argentina para los años 2016 a 2018</u> <u>Mensaje de remisión del proyecto de ley presupuesto del Poder Ejecutivo al Congreso de la Nación</u>
Bolivia	<u>Boletín Económico – Ingresos y Gastos Tributarios 2017</u>
Brazil	<u>Demonstrativo de Gastos Tributários – Bases Efetivas - Ano Calendário 2015 – Série 2013 a 2018</u> <u>Demonstrativo de Gastos Tributários – Projeções que acompanham PLOA (Projeto de Lei orçamentária) - 2019</u>
Chile	<u>Informe de Finanzas Públicas 2019</u>
Colombia	<u>Marco Fiscal de Mediano Plazo 2018</u>
Costa Rica	<u>El Gasto Tributario, Metodología y Estimación. Año 2017</u>
Dominican Republic	<u>Anexo 4 Gastos Tributarios 2019 del Proyecto de Ley de Presupuesto General del Estado</u>
Ecuador	<u>Manual gasto tributario 2017</u>
El Salvador	<u>Marco Fiscal de Mediano y Largo Plazo 2018-2028</u>
Guatemala	<u>Estimación del Gasto Tributario de los principales impuestos administrados por la SAT</u> <u>Aspectos Metodológicos del Gasto Tributario</u> <u>Estimación de la Devolución de Crédito Fiscal y Gasto Tributario</u>
Honduras	<u>Gasto Tributario de Honduras Periodo 2017</u>
Mexico	<u>Presupuesto de Gastos Fiscales 2018</u>
Nicaragua	<u>El Gasto Tributario en Nicaragua</u>
Paraguay	<u>Informe de Finanzas Públicas Proyecto PGN 2019</u>
Peru	<u>Gastos Tributarios 2019</u> <u>Marco Macroeconómico Multianual 2019-2022</u>
Canada	<u>Report on Federal Tax Expenditures - Concepts, Estimates and Evaluations 2018</u>

ANNEX 2. LIST OF PARTNER ORGANIZATIONS

Argentina	Asociación Civil por la Igualdad y la Justicia (ACIJ) *
Bolivia	Fundación Jubileo
Brazil	Instituto de Estudos Socioeconômicos (Inesc) *
Colombia	Dejusticia *
Costa Rica	Instituto Centroamericano de Estudios Fiscales (ICEFI) *
Dominican Republic	Fundación Solidaridad *
Ecuador	Fundación para el Avance, las Reformas y las Oportunidades (Grupo FARO) *
El Salvador	Iniciativa Social para la Democracia (ISD) *
Guatemala	Instituto Centroamericano de Estudios Fiscales (ICEFI) *
Honduras	Instituto Centroamericano de Estudios Fiscales (ICEFI) *
Mexico	Fundar Centro de Análisis e Investigación *
Nicaragua	Instituto Nicaragüense de Investigaciones y Estudios Tributarios (INIET)
Paraguay	Decidamos
Peru	Ciudadanos al Día (CAD) *

The mini-surveys for Chile and Canada were filled in by IBP.

* These organizations are partners in the LATERAL project. Others are part of the *Red de Justicia Fiscal de América Latina y el Caribe*.

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LATERAL PROJECT PARTNERS



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COLLABORATION

