



A QUICK GUIDE TO RESEARCHING TAX EXPENDITURES IN LATIN AMERICA

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The goal of any tax system is to raise the resources needed to pay for public services, the public goods and investments paid for by the state. Governments raise revenues by imposing taxes on income, wealth, or activities, such as consumption or telecommunications. Tax expenditures are provisions that reduce the amount of tax that is paid by providing special treatment to a particular class of individual, industry, or activity. Economists call this type of special treatment provided through the tax code a “tax expenditure” to make the point that the economic impact of these provisions - the transfer of public resources in the form of foregone revenue for a particular activity or purpose - is conceptually equivalent to that of direct government spending. Tax expenditures are important because they: 1) are typically subject to less public oversight and are less transparent than “on budget” spending; 2) reduce the revenues available for public spending; and 3) can make the tax system less equitable by providing benefits to the wealthy and forcing governments to rely on indirect taxes that are disproportionately paid by low- and middle-income households to replace the revenues lost through the tax expenditure.

This Quick Guide to Researching Tax Expenditures in Latin America provides an introduction to approaches that can be used to develop a research and advocacy plan for those who are new to analyzing taxes and tax expenditures. This paper focuses on how to define the problem you wish to research and

sources of information that can be used to understand and develop possible solutions to address that problem.

Defining the Problem You Want to Address

The lack of information on who benefits from tax expenditures, their cost, and whether they are effective at achieving their stated goals can be challenging for researchers and may influence your research and advocacy targets. As in any research project, a clear definition of the problem you want to solve will help keep your research manageable and help you identify the information that you will need to make strong and compelling arguments in support of your proposed solution. Potential approaches to a tax expenditure research project include:

- **Transparency and reporting standards.** Is adequate information available to evaluate who benefits from a tax expenditure; the distributional impact of tax expenditures by factors such as income level, sector, or other characteristics; how much they cost; and whether they are uniformly and appropriately administered? This question can be answered by analyzing government tax expenditure reports and related documents and comparing the available

information to regional norms and “best practices.”

- **Cost-effectiveness.** Are tax expenditures in your country evaluated to determine their effectiveness? Do policymakers have the information they need to determine whether alternative approaches might provide equivalent results at a lower cost? This question requires in-depth research that may be beyond the scope of your organization, but it may be available from academic researchers or a public agency, such as the supreme audit institution. An in-depth evaluation can provide valuable insights regarding the costs and benefits of a tax expenditure and whether it is an effective and efficient tool for achieving a stated goal.
- **Periodic review.** Are tax expenditures subjected to periodic review and oversight, ideally as part of the annual budget process? Periodic review allows lawmakers to consider whether a tax expenditure remains a priority for the use of public resources or whether funds could be better spent on public services. This question can be answered by looking at the laws governing individual tax expenditures and the rules governing the budget process.
- **Overall equity and structure of a tax system.** Do most of the benefits from tax expenditures go to the wealthy and/or large corporations? A comprehensive tax expenditure report will include information

on who benefits from special treatment.

Ideally, the reporting will include information by income level, as well as information about the sector/industry for tax expenditures used by businesses. A *distributional analysis* provides information about who benefits from a tax expenditure by income, industry or sector, geography, or another characteristic. This information can be compared to that for the tax system as a whole to gauge whether tax breaks make the system more or less equitable.

- **Impact of lost revenues.** Do the revenues lost to tax expenditures limit governments’ ability to invest in public services or contribute to government debt? Tax expenditure reports should include the cost of each provision in terms of revenues foregone by the budget. To help make the impact of a tax expenditure more tangible to non-experts, you can compare the cost of a tax expenditure and the services that an equivalent amount of revenue could pay for - such as, the tax incentive provided to XYZ Mining Company costs as much as the salaries for 10,000 teachers .
- **Stemming political influence or corruption.** Are certain tax expenditures created to benefit individuals or corporations with political influence? Is there evidence of mismanagement or political corruption? Critics often note that spending through the tax code is less visible and thereby more subject to corruption or mismanagement than spending through “on budget”

projects. This type of evidence may be hard to detect. Sources of information include audit reports, investigative journalism, or reports of civil society and activist groups.

For a step-by-step guide to evaluating tax expenditures, see [Tax Expenditures: Background and Evaluation Criteria and Questions](#) published by the U.S. Government Accountability Office.

Define Your Scope

Tax expenditures include a diverse range of provisions designed to achieve a variety of policy objectives. There are a number of different types of tax expenditures: allowances and exemptions that reduce the size of the tax base; preferential tax rates; deferrals that delay when taxes are paid, often for many years; deductions that reduced the amount of income that is subject to tax; and credits that reduce the amount of tax that is owed on a dollar-for-dollar basis. You may wish to focus your research on a specific type of tax expenditure, such as tax credits, or to tax expenditures designed to achieve a similar goal, such as investment incentives.

Sources of Information

Basic tax information

Basic information on a country's tax system and the revenues collected from each tax can be found as part of the budget document.

Question 9 of the [2015 Open Budget Survey](#)

(OBS) provides a link to the source of this information for each country in the OBS. A tax system that loses a large share of its revenues through tax expenditures requires higher tax rates to raise the amount needed to support the budget. A comparison of the percentage of revenues lost due to tax expenditures with that of neighboring countries can provide an indication of whether a country's tax system aligns with others within the region.

Tax expenditure reports

The first place to start your research is your country's tax expenditure report. Tax expenditure reports present basic information on tax expenditures, such as the policy goal(s) for each provision, its cost (foregone revenues), and the intended or actual beneficiaries. In some places, the report may be a stand-alone document, while in others, it may be part of a larger budget document. Information on where to find the tax expenditure budget for your country can be found at:

- Question 45 of the [Open Budget Survey 2015](#). Individual country survey questionnaires assess the completeness of governments' tax expenditure reporting practices and provides links to governments documents containing information on tax expenditures. The OBS

can also be used to compare reporting practices across countries.

- The Inter-American Center of Tax Administrations' (CIAT) [Handbook of Best Practices on Tax Expenditure Measurements](#) provides an excellent overview of the conceptual framework used for defining, measuring, and reporting on tax expenditures. It also recommends “best practices” in each of these areas. The report includes a review of the practices of Argentina, Brazil, Chile, the Dominican Republic, Ecuador, Guatemala, Mexico, Peru, and Uruguay. CIAT also publishes a [database](#) on tax expenditures in most countries in the region.

The legal framework for a country's tax system

Understanding the legal framework for the tax system as a whole is important for placing tax expenditures in a broader context and identifying who has the power to make the changes identified in your advocacy goals. This information can answer questions such as who is responsible for administering tax expenditures or whether there are rules and regulations that are adopted to implement provisions established by law. The legal framework also determines whether the legislature has the authority to conduct oversight and whether provisions are temporary or permanent in nature. A good place to look for information on the structure of the tax system is the Ministry of Finance's

website. CIAT also publishes a guide to tax administration, [Taxation and Tax Administration](#), that provides extensive information on tax administration in Latin American countries. Appendix A provides information on the law that establishes the legal obligation for tax expenditure reporting in most countries in the region and Appendix B lists the agency charged with the responsibility for reporting on tax expenditures.

Special reports and evaluations

Special reports may provide an in-depth analysis or evaluation of individual tax expenditures or a category of provisions, such as those benefitting investors in specific geographic areas. In some cases, this type of report may be produced by academic researchers, while in others, the author may be a government agency, such as the supreme audit institution, or a department with programmatic responsibility, such as the mining or environmental authority, or a civil society group. The [Commitment to Equity Project](#) has published research on the overall equity of tax and fiscal systems in a number of Latin America countries that may provide useful context for your research. The [Economic Commission for Latin America and the Caribbean](#) (ECLAT) has also published a

number of [research papers](#) on tax-related policy issues.

Information on individual projects or companies

In most countries, finding information on the specific firms or projects that benefit from a tax expenditure may be difficult to find. Some places to look for this type of information include media reports and research by civil society groups or academics. You may be able to obtain information using access to information laws. Corporate financial statements, such as annual reports and investment filings, may also provide some insights. For additional information on this type of research, see Chapter 3 of Action Aid's [Tax Justice Advocacy: A Toolkit for Civil Society](#).

Bringing it All Together

Examples of tax expenditure research project include:

- Fundar's recent report, [Privilegios Fiscales: Beneficios inexplicables para unos cuantos](#), combines both regional and country-specific data, including data obtained through Mexico's new Access to Public Information law, to examine issues related tax credits and tax debts.
- ICEFI's recent book, [La eficacia de los incentivos tributarios a la inversion en Centroamerica](#), reviews the research literature on the effectiveness of investment

incentives and provides data on the experience of Central American countries.

- INESC's [Renuncias Tributarias: Os Impactos No Financiamento Das Politicas Sociais No Brasil](#) examines the impact of tax expenditures on the resources available for public spending.

This Guide was prepared by Jean Ross for the International Budget Partnership's Latin America Tax Expenditure Research, Advocacy, and Learning (LATERAL) project. Jean was the founding executive director of the California Budget Project (renamed the California Budget and Policy Center) and has worked on tax policy in government and philanthropy.

The goal of the LATERAL project is to support civil society work to increase the transparency, equity, and accountability of tax expenditure policies at the country and regional levels in Latin America. Through LATERAL, the International Budget Partnership, partnering with ten Latin American civil society organizations (CSOs), seeks to promote policy reform by shedding light on the impact of tax expenditures on inequality across the region, raising public awareness of the importance of the issue, and pursuing a coordinated advocacy effort both within individual countries and at the regional level.

LATERAL is an innovative, collaborative research, capacity building, and advocacy initiative launched by IBP and CSO partners in 2016. With coordination and assistance from IBP, our ten civil society partners have undertaken analyses comparing tax expenditure policies and practices across the region, and examining the impact of these policies and practices on inequality. The LATERAL project has built an energized regional community, where CSO members learn from and help each other improve

research, advocacy, and communication around tax issues.

The LATERAL project partners are:

- *ACIJ - Asociación Civil por la Igualdad y la Justicia (Argentina)*
- *CAD - Ciudadanos al Día (Peru)*
- *Dejusticia (Colombia)*
- *ICEFI - Instituto Centroamericano de Estudios Fiscales (Guatemala)*
- *INESC - Instituto de Estudos Socioeconômicos (Brazil)*
- *ISD - Iniciativa Social para la Democracia (El Salvador)*
- *Fundación Solidaridad (Dominican Republic)*
- *Fundar - Centro de Análisis e Investigación (Mexico)*
- *Grupo Faro (Ecuador)*
- *Sonora Ciudadana (Mexico)*

Annex. 1

Tax Expenditure Reporting Requirements

	Year in which the measurement started to be institutionalized*	Are the tax expenditures reports attached to the budget proposal?	Are the tax expenditures reports public?
Argentina**	1999	Yes	Yes
Bolivia	2013	No	Yes
Brazil**	1989	Yes	Yes
Chile	2001	Yes	Yes
Colombia	2004	Yes	Yes
Costa Rica	2011	No	Yes
Ecuador	2010	Yes	Yes
El Salvador	2013	No	No
Guatemala	2002	Yes	Yes
Honduras***	-	-	-
Mexico**	2002	Yes	Yes
Nicaragua***	-	-	-
Panama***	-	-	-
Paraguay	2015	Yes	Yes
Peru	2002	Yes	Yes
Dominican Rep.	2008	Yes	Yes
Uruguay	2008	No	Yes
Venezuela**	-	-	-

Notes: *That is to say, a continuous effort of the country's authorities.

**Federal government level.

***There are works of independent consultants or international organizations.

Source: CIAT and country authorities

	Is there a legal obligation to measure the tax expenditures?	Description of the legislation (in Spanish)
Argentina*	Yes	Art. 26 de la Ley de Administración Financiera y de los Sistemas de Control del Sector Público Nacional, Ley 24156 (1992)
Bolivia	No	
Brazil*	Yes	Art. 65 de la Constitución Federal y Art. 5 de la Ley de Responsabilidad Fiscal, Ley 101 (2000)
Chile	Yes	Art. 19 de la Constitución
Colombia	Yes	Art. 87 de la Ley 788 (2002) y Ley de Responsabilidad Fiscal, Ley 819 (2003)
Costa Rica	No	
Ecuador	Yes	Art. 94 Código Orgánico de Planificación y Finanzas Públicas (2010)
El Salvador	No	
Guatemala	Yes	Pacto Fiscal para un futuro con Paz y Desarrollo (2000)
Honduras**	No	

Mexico*	Yes	Ley de Ingresos de la Federación para cada ejercicio fiscal
Nicaragua	Yes	Art. 286 de la Ley de Concertación Tributaria, Ley 822 (2012)
Panama	No	
Paraguay	Yes	Art. 11 de la Ley 5061 (2013)
Peru	Yes	Art. 12 de la Ley de Responsabilidad Fiscal, Ley 27958 (2003)
Dominican Rep.	Yes	Art. 36 de la Ley Orgánica del Presupuesto para el Sector Público, Ley 423 (2006)
Uruguay	No	
Venezuela*	No	

Notes: *Federal government level

**The Fiscal Responsibility Law - Decreto 25-2016 (2016) - has established the obligation to measures from 2017 on.

Source: CIAT and country authorities

Entities Responsible for Tax Expenditures Measurements

	Tax Administrations	Ministries of Finance	Name of the entities (in Spanish)
Argentina*		x	Dirección Nacional de Investigaciones y Análisis Fiscal de la Secretaría de Hacienda del Ministerio de Economía y Finanzas Públicas
Bolivia		x	Dirección General de Estudios Tributarios del Ministerio de Economía y Finanzas Públicas
Brazil*, **	x		Centro de Estudios Tributarios y Aduaneros de la Receita Federal de Brasil
Chile	x		Subdirección de Estudios del Servicio de Impuestos Internos
Colombia	x		Coordinación de Estudios Económicos de la Subdirección de Gestión de Análisis Operacional de la Dirección de Gestión Organizacional de la DIAN
Costa Rica		x	División de Política Fiscal de la Dirección General de Hacienda del Ministerio de Hacienda
Ecuador	x		Centro de Estudios Fiscales del Servicio de Rentas Internas
El Salvador	x		Unidad de Estudios Tributarios de la DGII
Guatemala	x		Departamento de Estudios, Análisis y Estadísticas Tributarias de la Superintendencia de Administración Tributaria
Honduras***, ****			
Mexico*		x	Secretaría de Hacienda y Crédito Público
Nicaragua***			
Panama***			
Paraguay	x		Asesoría Económica de la Secretaría de Estado de Tributación
Peru	x		Intendencia Nacional de Estudios Económicos y Estadística de la Superintendencia Nacional de Aduanas y de Administración Tributaria
Dominican Rep.****		x	Dirección General de Política y Legislación Tributaria del Ministerio de Hacienda
Uruguay	x		Asesoría Económica de la Dirección General Impositiva
Venezuela*			

Notes: *Federal Government level.

**The Federal Court of Accounts (TCU) is involved in the audit of the tax expenditures.

***There are works of independent consultants or international organizations.

****The Fiscal Responsibility Law - Decreto 25-2016 (2016) - has established the obligation to measure from 2017 on.

*****Strictly, it is an inter-institutional commission coordinated by the Ministry of Finance.

Source: CIAT and country authorities

