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**GTED** Global Tax  
Expenditures  
Database

# Tax Expenditures and Development

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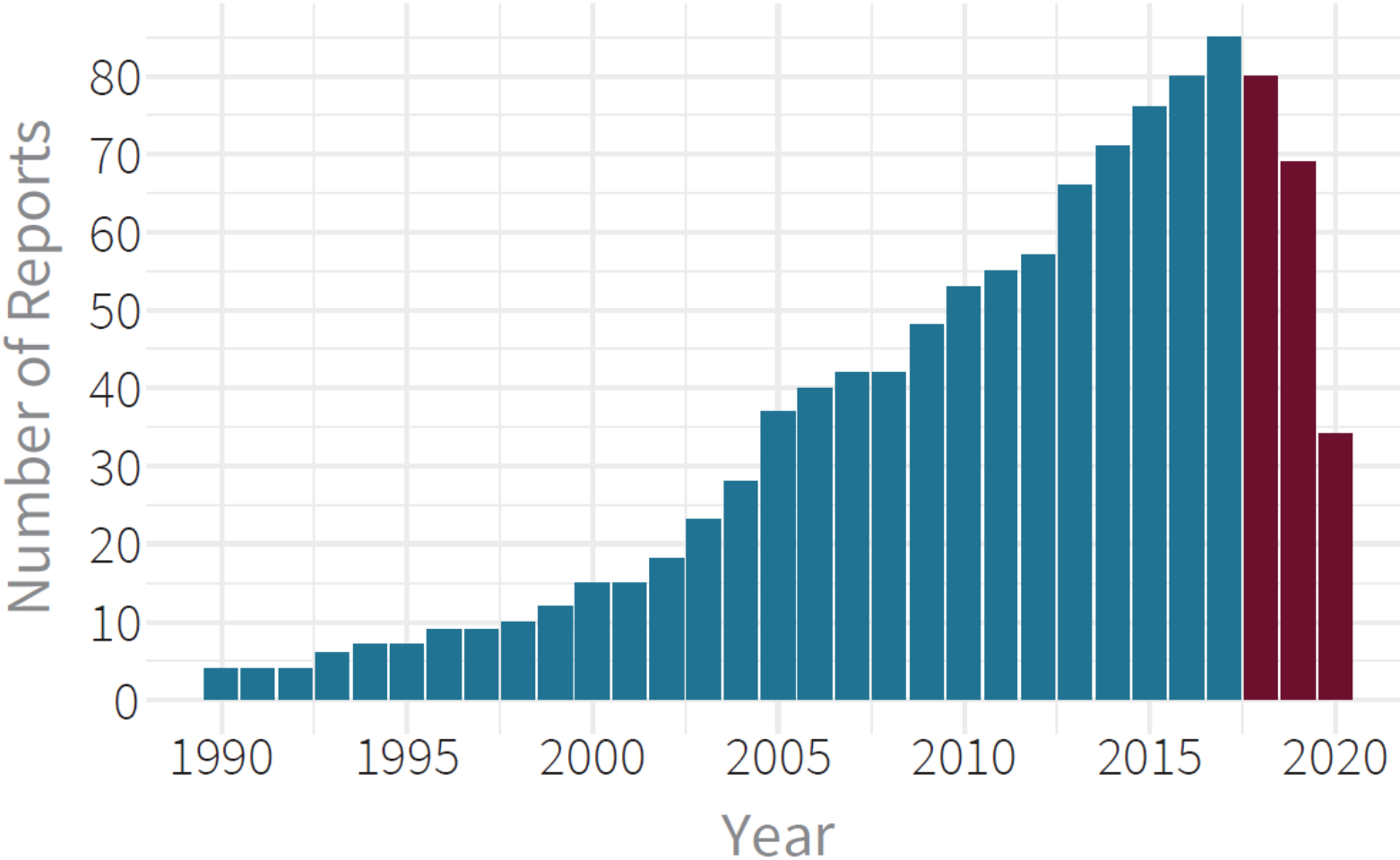
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- What explains differences in tax expenditure **reporting**?
- What explains differences in tax expenditure **use**?

# Stylised facts: Upward trend in reporting



# Variation in the quality of reporting

## 42 countries worldwide

publish reports with **provision-level** data on a **regular** basis, most of them members of the OECD or the EU

## 46 G20 and OECD countries

**2** do not publish any official tax expenditure information, and **11** only report aggregate estimates

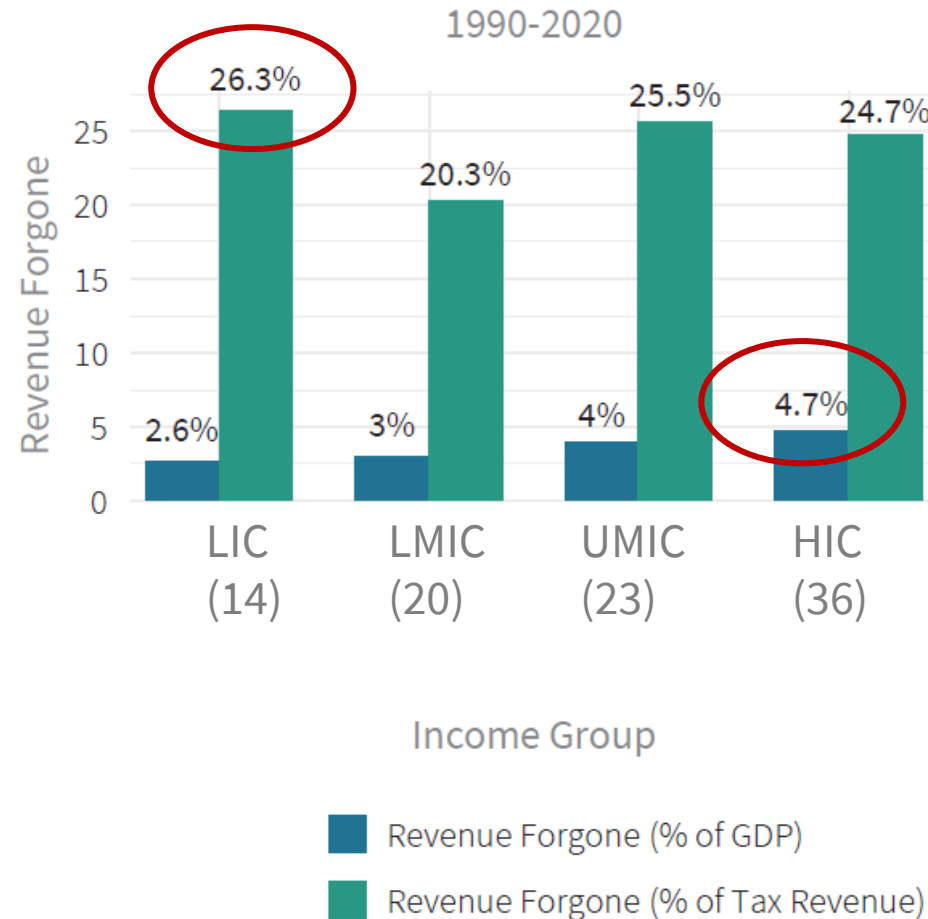
## 27 EU member states

**3** do not report on tax expenditures at all, and **10** only provide aggregate information

## 79 low- and lower-middle income countries

**45** do not report on tax expenditures, and **8** report aggregate estimates only.

# Richer and poorer countries use tax expenditures differently



**Note:** Numbers in brackets indicate the number of countries within each income group that report on both tax and GDP data.

# Richer and poorer countries use tax expenditures differently

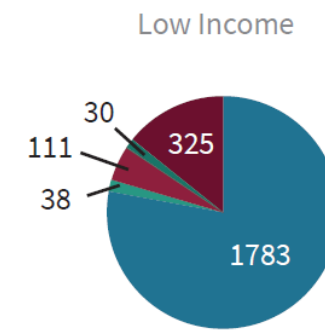
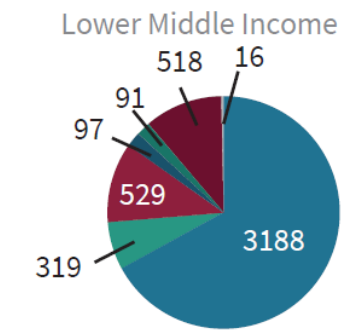
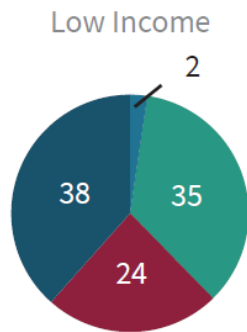
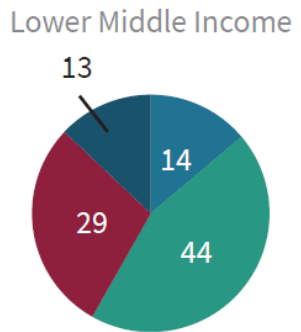
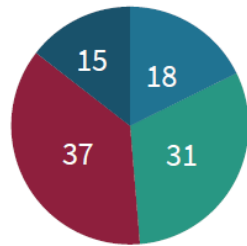
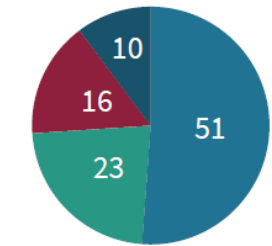
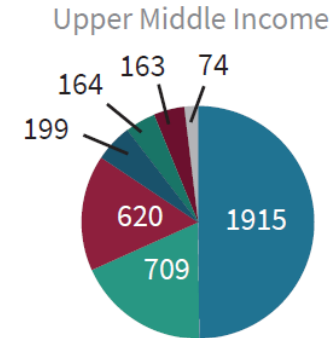
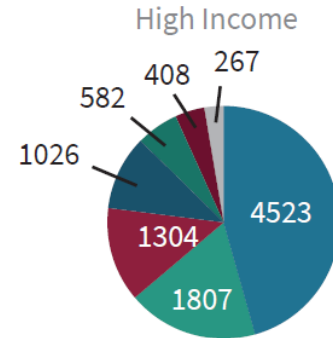
Provisions (per cent / numbers) according to

Beneficiaries

Types of Tax Expenditure

High Income

Upper Middle Income



Beneficiary Group

- Households
- Businesses
- Not stated/unclear
- Other/multiple

Type of Tax Expenditure

- Exemption
- Deduction
- Reduced/zero rate
- Tax credits, rebates and refunds
- Other/multiple
- Not stated/unclear
- Deferral

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## Differences in tax expenditure reporting

- **Dependent variable:**
  - TE reporting (dummy) & aggregate vs. disaggregate reporting (dummy)
- **Main explanatory variables:**
  - GDP per capita
  - State capacity
  - Democracy
  - Corruption
  - Statutory Tax Rates

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## Differences in tax expenditure use

- **Dependent variable:**
  - Revenue forgone (as % of GDP) & revenue forgone (as % of tax revenue)
- **Main explanatory variables:**
  - GDP per capita
  - State Capacity
  - Corruption
  - Reliance on natural resources
  - Inequality levels

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## Differences in **patterns** of tax expenditure use

- **Dependent variables:**
  - Share of TE in goods and services/ with households as beneficiaries/ with exemption as TE type/ with the policy objective to increase investment
- **Main explanatory variables:**
  - State capacity
  - Statutory tax rates
  - Size of informal economy
  - Market concentration rates



**Data Type:** Panel Data



**Period Covered:** 1990-2019



**Countries Covered:**

100 TE Reporting and 118 TE  
Non-Reporting



**Statistical methods to be used:**

**Tax expenditure reporting:**

- Logit/probit regressions

**Tax expenditure use:**

- OLS Fixed-effect panel regressions
- Instrumental variable regressions



Boxplots using 5-year averages (2015-2019)

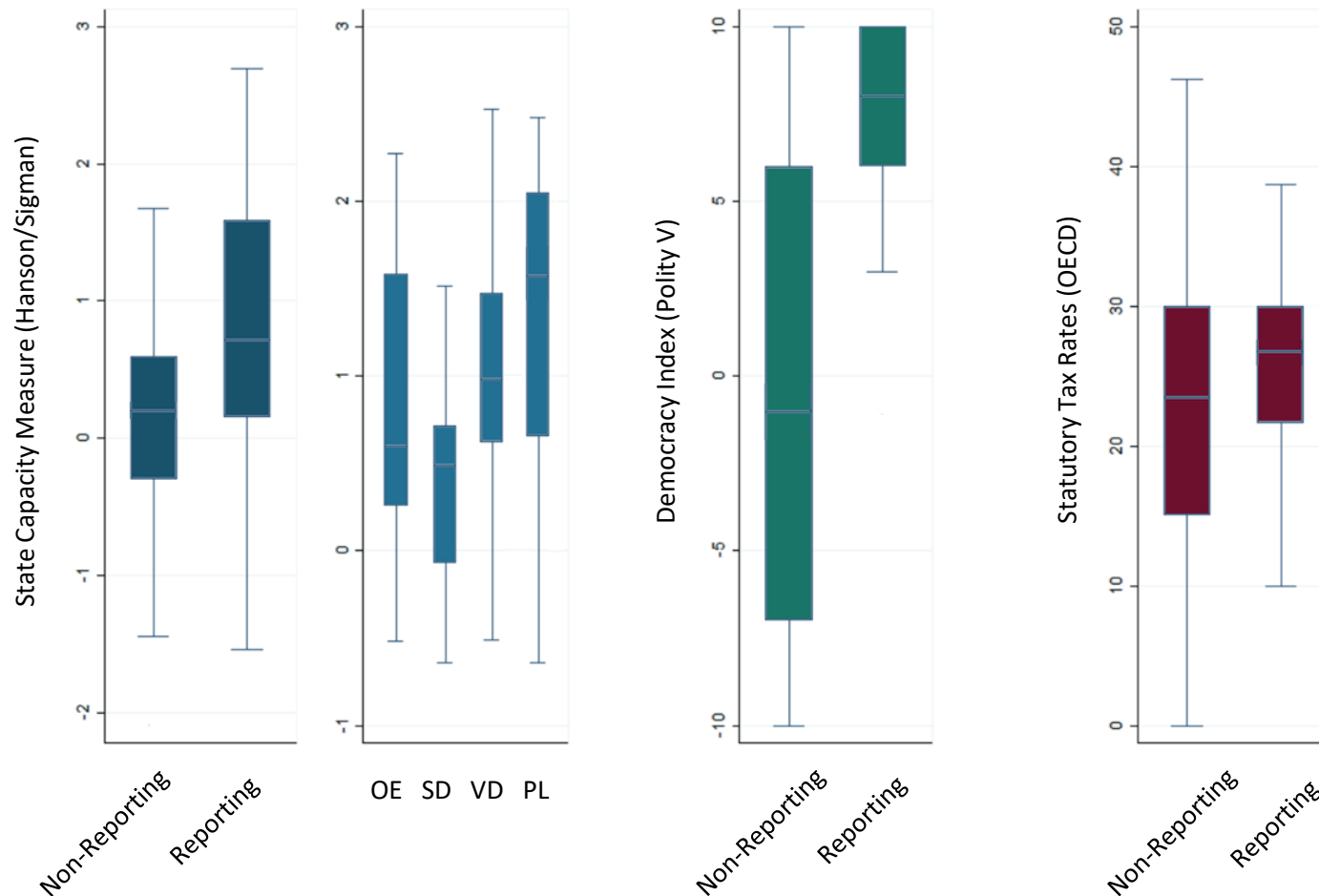
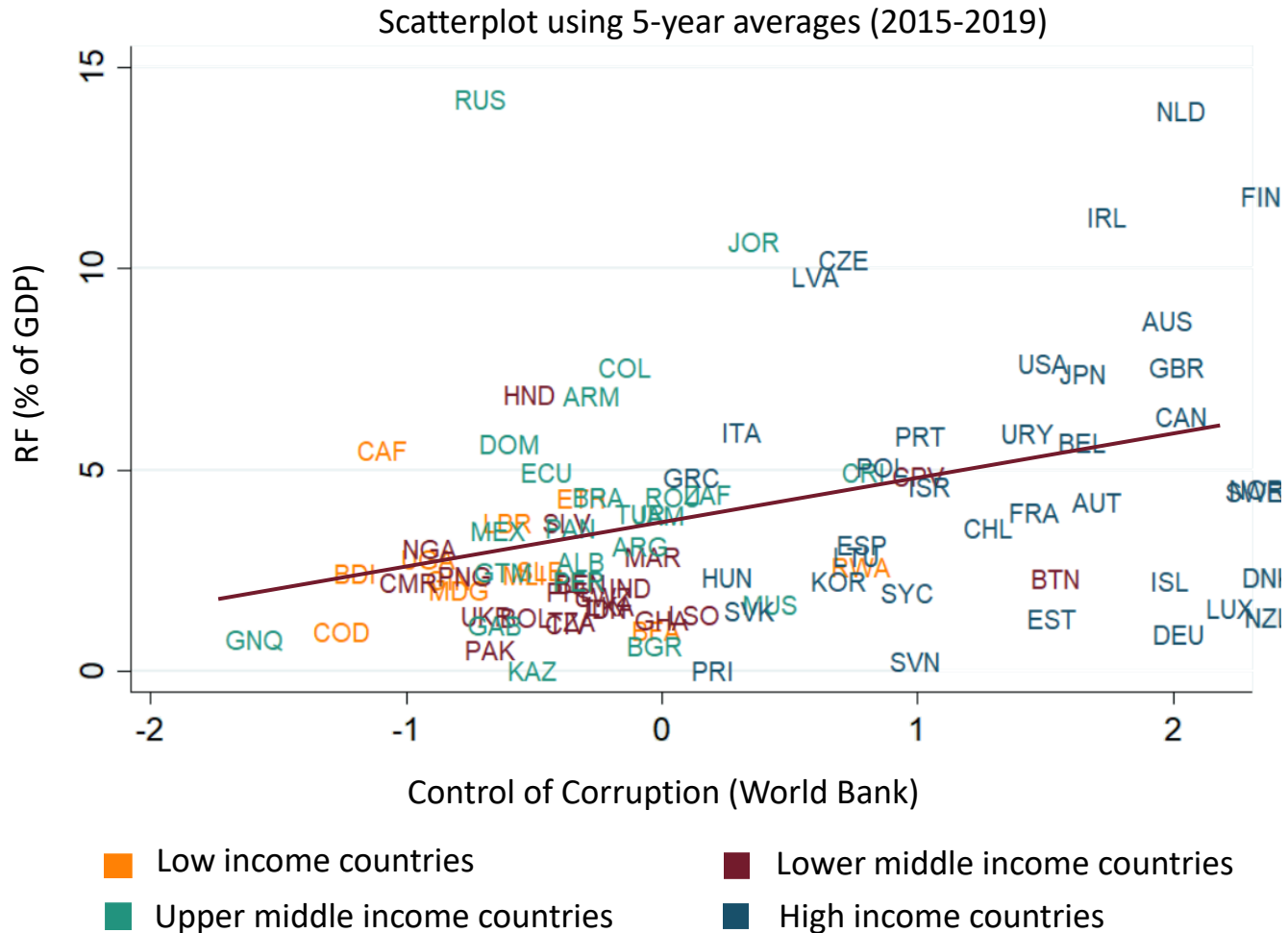


Chart displays data for 100 reporting and 118 non-reporting countries

## TE Reporting

- Most variables show the expected correlation direction, and some show a strong correlation.
- **Democracy** levels have, by far, the **highest correlation** with TE reporting.
- **State Capacity** is an important indicator of both **reporting status and the type of data** reported.
- The **statutory tax rates** of reporting countries are much more **concentrated around the mean** than those of non-reporting countries.

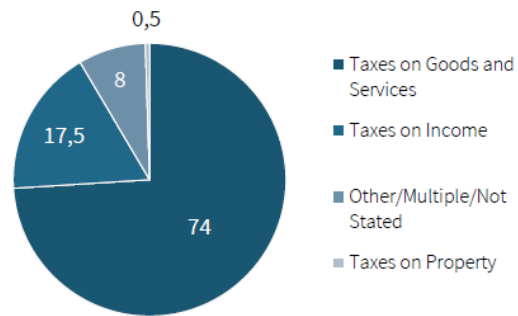
# Preliminary findings, cont.



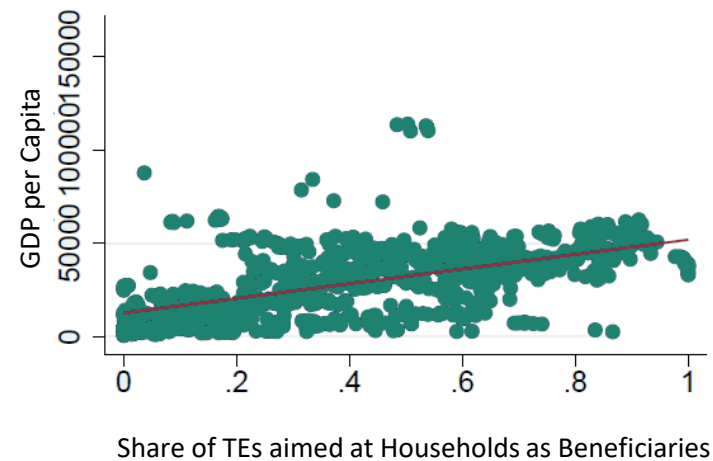
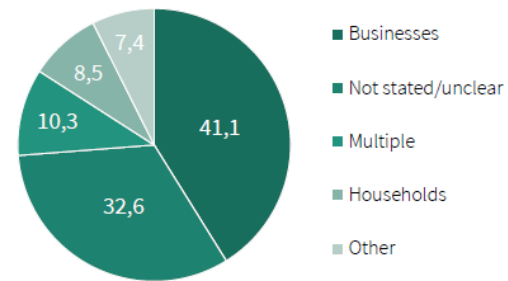
## TE Use

- Most variables show the expected correlation direction.
- Corruption levels** show a relatively high **negative correlation** with the amount of revenue forgone reported by countries.
- Reliance on natural resources** also shows a positive correlation with revenue forgone.
  - The relationship is stronger when **revenue forgone as a percentage of tax revenue** is used as the dependent variable.

TE Tax Base Breakdown of LICs and LMICs



TE Beneficiary Breakdown of LICs and LMICs



## Patterns of TE Use

- The usage of TEs on **taxes on goods and services** increases with lower GDP per capita.
- The usage of **exemptions and investment-related TEs** is also more pronounced in countries with lower GDP per capita.
- Conversely, the usage of **TEs for households** increases with higher GDP per capita.

