Tax Expenditures and Development

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Main research questions

- 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- **46 G20 and OECD countries**: 2 do not publish any official tax expenditure information, and **11** only report aggregate estimates.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.

![Bar chart showing revenue forgone as a percentage of GDP and tax revenue for LIC, LMIC, UMIC, and HIC countries from 1990-2020.]

**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
- High Income
- Upper Middle Income
- Lower Middle Income
- Low Income

Types of Tax Expenditure
- High Income
- Upper Middle Income
- Lower Middle Income
- Low Income

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Research design

1. 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

2. 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

3. 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
Research design, cont.

**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
Preliminary findings

Boxplots using 5-year averages (2015-2019)

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.
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.
Next Steps

1. Finalize the choice of variables
2. Finalize the methodological design
3. Run the Regressions
4. Draw Policy implications