

TaxDev



Practical Challenges and Lessons Learnt from TE Reporting in Rwanda and Uganda

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#TaxDev



Defining a Benchmark Tax System

- Tax expenditures are, broadly defined, any reductions in tax liability compared with some benchmark tax system
- **Legal Approach:** the (actual) tax system in place, excluding provisions that give favourable treatment to particular individuals or activities. (IMF, 2019). [Black & White]
- **Normative Approach:** [Grey Areas]. What criteria used, are they documented and are they systematically applied? Might take into account the national circumstances, etc. Challenging!
- Can perceptions of TEs or 'purpose' of the report influence the scope of the benchmark?

Defining a Benchmark Tax System

■ Uganda

- Benchmark initially defined legal approach (TA mission). Later revised to take normative approach, but criteria were fairly ill defined
- Benchmark is not public, but TE report does report at the provision level (for most provisions – for which data exists), so a *de-facto* benchmark of TEs is public.

■ Rwanda

- Benchmark published as part of the report (including rationale for why certain provisions are, or are not, part of the benchmark; TE's reported at the provision level (so a repository is also public). (Majority of provisions are included in report).
- Repository evolving over time, some provisions' inclusion dependent on **consensus** as TE, as well as **what can be costed!** (transparency purposes, important to report on all even if no data).

Practical requirements for costing

Data

- Mapping available data
- Minimal requirements
- Ease of access

Time and skills

- Availability of staff
- Existing skills base
- Starting early

Common data issues

- **Data gaps**
- **Mis-recorded data**
- **Attributing TE to provisions**

→ Importance of relationship with RA / data holders for feedback loop

→ *All these issues take time to resolve*

Lessons for the analytical approach

1. Start with a simple approach and aim for incremental improvements

- Allow for complexity & add it when data allows

2. Tailor the modelling

- Should be easy to update
- Excel models for the interface
- Data cleaning and management best done elsewhere

Ways TE can be communicated

- Internal report
- Speech / account to Parliament
- Report publication (with budget or separate)
- Public announcements, media engagement, presentation to stakeholders etc.

Interested Parties:

- MoF and RA (technical)
- Ministers (political)
- Legislature/Parliament
- Development partners
- Civil society
- Private sector
- Public

Common misconceptions:

- Tax expenditures = waste / leakage
- **Tax expenditure = exemptions**
- Revenue foregone = revenue gain

- From govt perspective – challenge to overcome these misconceptions!

Shs5 trillion lost in tax exemptions, incentives

Over the last 40 years, tax incentives, although a deviation from the tax system, have since doubled from 40 to 80 per cent, despite their relevance coming under intense scrutiny.

taxes," she said, noting that the design of Uganda's tax incentive regime impacts overall effectiveness, which in the end might force government to put in place regressive tax measures "to make ends meet".

Considerations

1. To be meaningful, consider audience & their interests:
 - Salience e.g. express in terms of budget sectors, target group(s) and objectives
 - Explain what report does and does not measure (e.g. not effectiveness)
 - Access is appropriate e.g. website, TV, radio and/or hard copy, local languages if needed
2. Proactive engagement & education to avoid misinterpretation & misconceptions (avoid aggregate value of 'loss'?)
3. Be prepared for scrutiny and demand for further analysis

- What processes necessary to move from enhanced transparency (TE report) to enhanced accountability (better TE governance)?
- TE reporting a necessary first step but often requires move toward evaluating the benefits of expenditures, ongoing M&E.
- Are institutional arrangements in place to monitor, evaluate TE's? Or, does TE report gather dust?
- Importantly, is there appetite for considering reform of TE processes and policies in country (including granting, monitoring, etc.)?