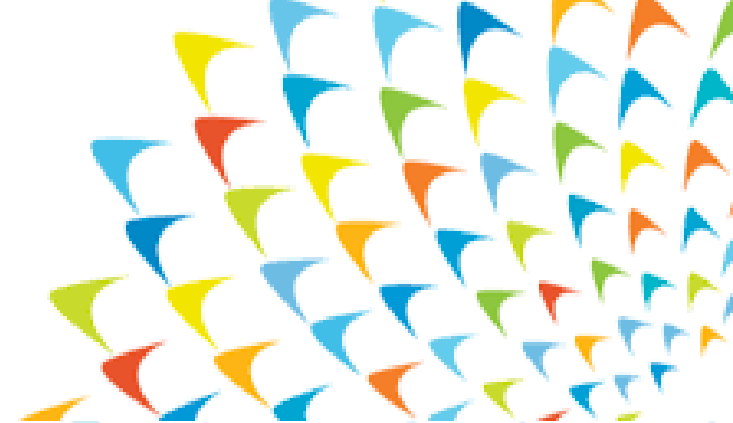




ASIAN DEVELOPMENT BANK

PROSPEROUS  
INCLUSIVE  
RESILIENT  
SUSTAINABLE  
ASIA AND THE PACIFIC



# Tax Expenditure Reform

Perspectives from ADB Technical Support

*Presented by Yuji Miyaki,*  
Public Management Specialist (Taxation)

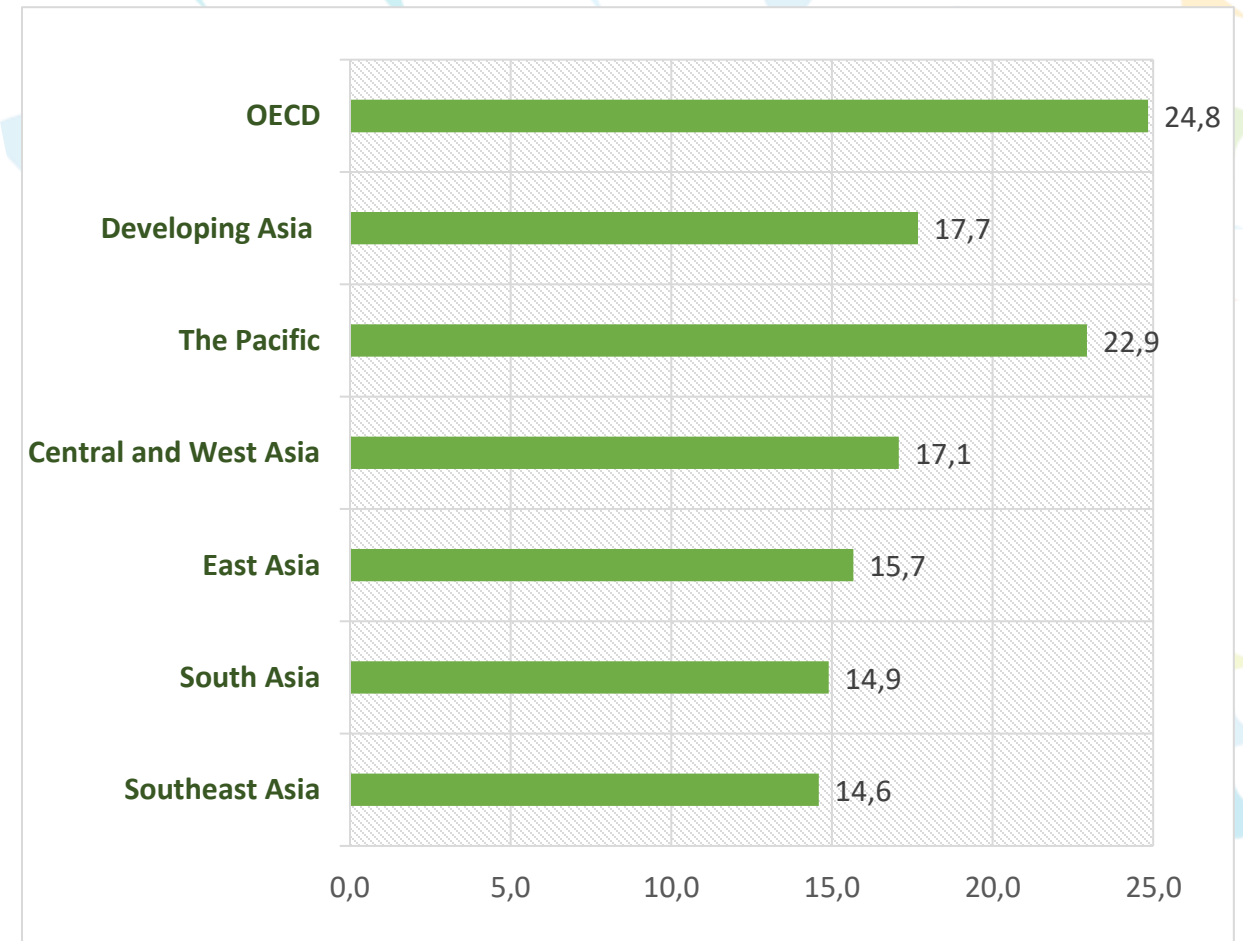
9<sup>th</sup> International DRM Workshop on Tax Expenditures and Domestic Revenue Mobilization  
9-11 November 2021

# Why does DRM matter for Asia and the Pacific?

## Key Messages:

- Governments need to safeguard sufficient financial resources to contain the spread of COVID-19, procure safe and effective vaccines and get the economy back to a sustainable recovery track without losing market confidence.
- Domestic resource mobilization will continue to be a major strategic priority for our developing members in Asia and the Pacific in the aftermath of COVID-19 pandemic, (i) to address debt sustainability; and (ii) to achieve the Sustainable Development Goals.

## Comparison of tax-to-GDP ratios in 2019



Note: Data do not include social security contributions.  
 Source: ADB Key indicator database, OECD 2021 Revenue Statistics, World Bank Open Data, and IMF Article IV Report

# Enhancing DRM requires Long-standing Efforts along with Support from Development Partners

## ADB's Efforts on DRM

- ADB has officially launched an **Asia Pacific Tax Hub** in May 2021, which is envisioned to serve as an **open and inclusive platform** for strategic policy dialogue, knowledge sharing, and development coordination between/among ADB, its members and development partners.
- The Tax Hub will assist our developing members to define differentiated goals on domestic resource mobilization and international tax cooperation, including **three key building blocks**.

## Key Building Blocks



# ADB The importance of rationalizing tax incentives

- ✓ Achieving ADB's Operational Priorities under the Strategy 2030 for a prosperous, inclusive, resilient, and sustainable Asia and the Pacific.
- ✓ Helping DMCs to meet the 2030 targets of the SDGs.

## ADB OP6: Strengthening Governance and Institutional Capacity



- Implementing the Addis Tax Initiative
- Broadening and protecting the domestic tax base through fair and effective tax policies
- Enhancing tax compliance, incl. improved risk management, audit and enforcement, and taxpayer services
- Developing more transparent and efficient tax administration
- Strengthening public finance, expenditure and fiscal policy



**SDG 16.6:** Develop effective, accountable and transparent institutions at all levels



**SDG 17.1 :** Strengthen domestic resource mobilization

# DMCs concerns with tax incentives

In our workshops and surveys, DMCs have frequently identified tax incentives as one of the key policy areas to be addressed when seeking to increase tax revenues

## Common concerns among DMCs:

- Incentives may have been granted by a variety of government bodies outside the Finance Ministry without any institutional oversight
- No structure for measuring the costs of the incentives
- No process for identifying whether they have a beneficial impact
- Lack of transparency in awarding incentives
- Lack of equity
- Poor design leads to “spillage”
- Continuous without a review

# Now is the time for reform of tax incentives



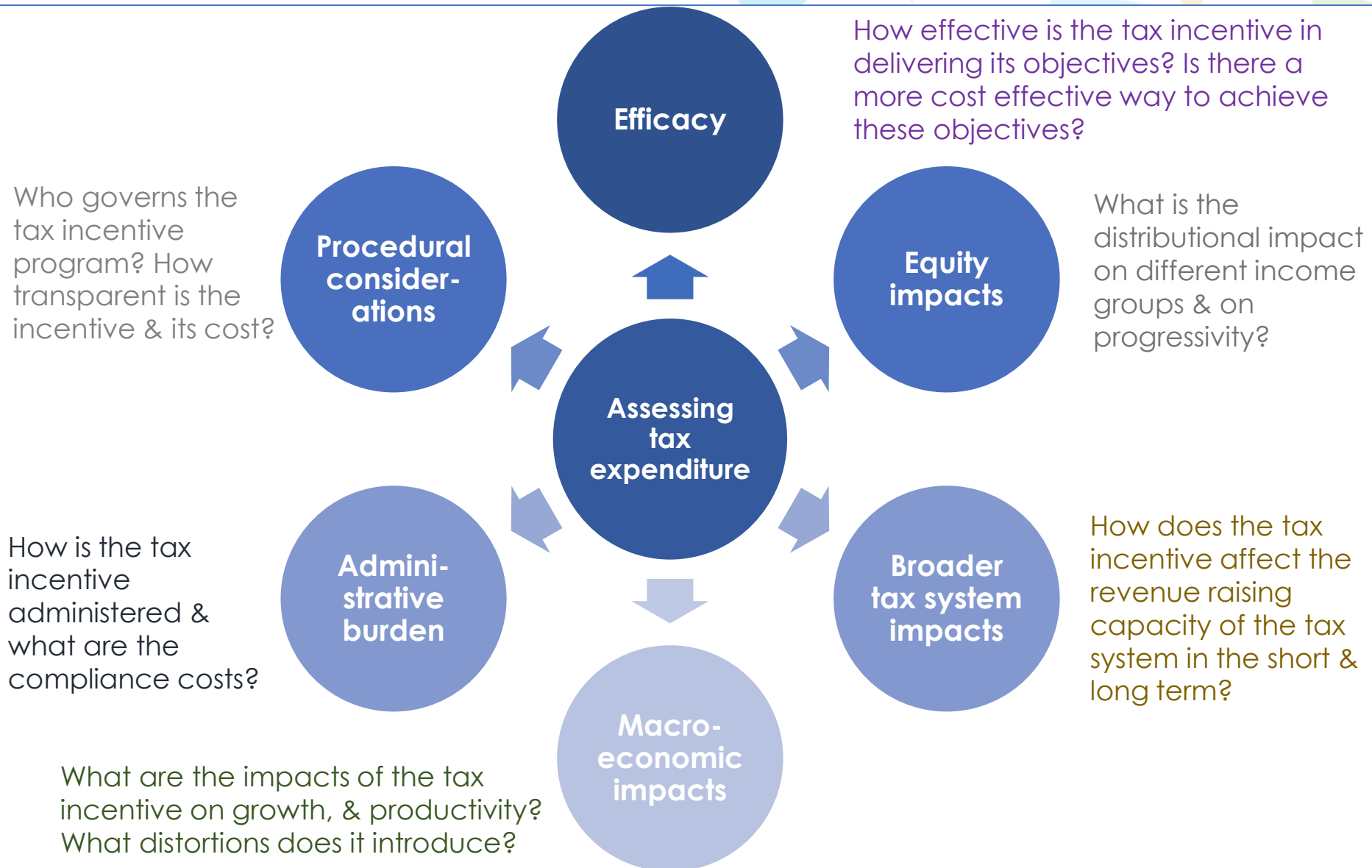
High visibility of the reform of tax incentives in the Philippines has increased interest in Asia

Increased profile on incentives from the BEPS Inclusive Framework actions on Harmful Tax Practices

ADB work with DMCs (alongside OECD) to promote evidence-based policy making



# Expenditure assessment: Key questions



# Reporting tax expenditures



Transparency...

Data availability...

Administrative capacity and capability...

Inter-agency cooperation and coordination...

Political will...



# The Philippines - Fiscal incentive reform

## Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

Rationalizing tax incentives  
(sunset provisions)

Institutional oversight by the Fiscal  
Incentives Review Board (FIRB)

Regular monitoring and evaluation of  
tax incentives (CBA)

Establishing one-stop shop centers

Signed into law on 26 March 2021  
(effective 11 April 2021)

## Lessons from the Philippines' reform



Developing political  
momentum takes a long  
time



Persistent, thorough and  
insightful economic analysis



Overcoming limitations in  
data availability

# Azerbaijan – building skills for economic modelling and analysis

A total of 219 tax incentives in the form of tax holidays, reduced tax rates, special economic zones, exemption of income and various deduction exists in the fiscal system

Supporting Azerbaijan  
Strategy for TE reform

Quantify and  
rationalize  
tax  
expenditures

Developing methodology to  
estimate economic benefits

Establishing register of  
corporate beneficiaries

Training staff

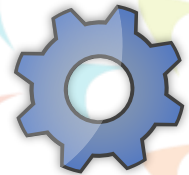
Building models for  
revenue analysis

Marginal Costs of Public Funds

Measures welfare gains of TE  
provided under all major taxes

Micro-simulation models

Measures revenue foregone and  
the distribution of benefits from TE  
under major taxes



# Armenia – Rationalizing tax incentives

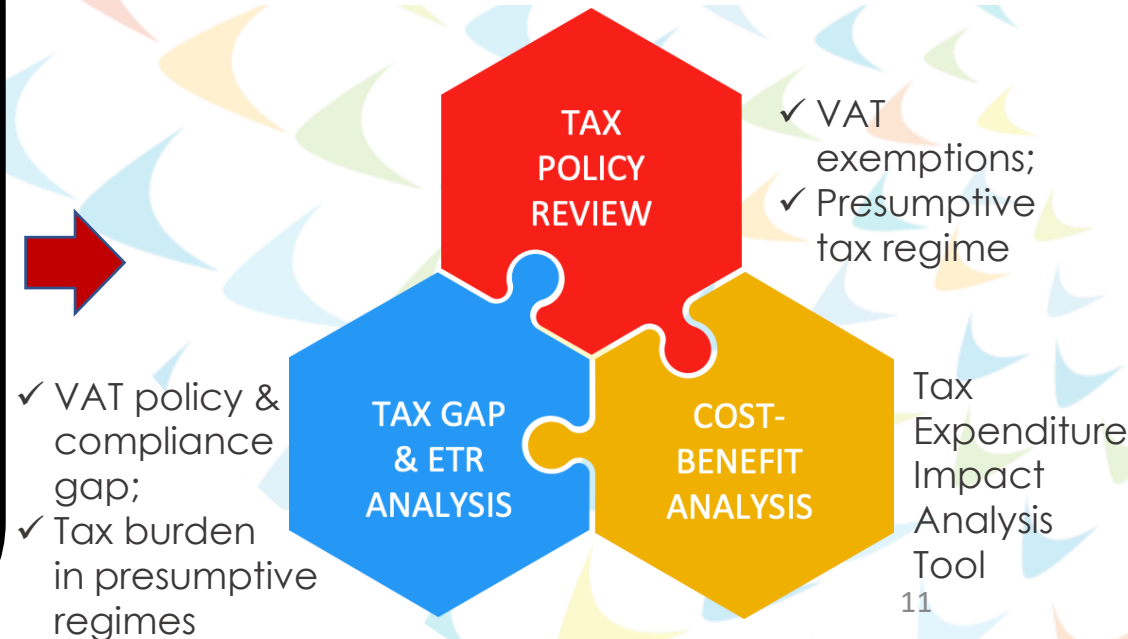
- Economic downturn due to COVID-19 pandemic and conflict
- GDP dropped by 7.6% in 2020
- Fiscal deficit widened to around 5.5% of GDP in 2020

## Armenia Government's Tax Reform Strategy



- Broadening tax base, reducing untargeted tax incentives.
- Reducing the tax burden gap between general and alternative tax systems.
- Addressing the shadow economy; improving culture of voluntary compliance.
- Reducing inequality: adequate taxation of visible wealth and property.
- Improving/modernizing tax administration
- Enhancing international cooperation in tax matters.

## ADB DRMFT TA-support



# Tax Expenditure Impact Analysis Tool

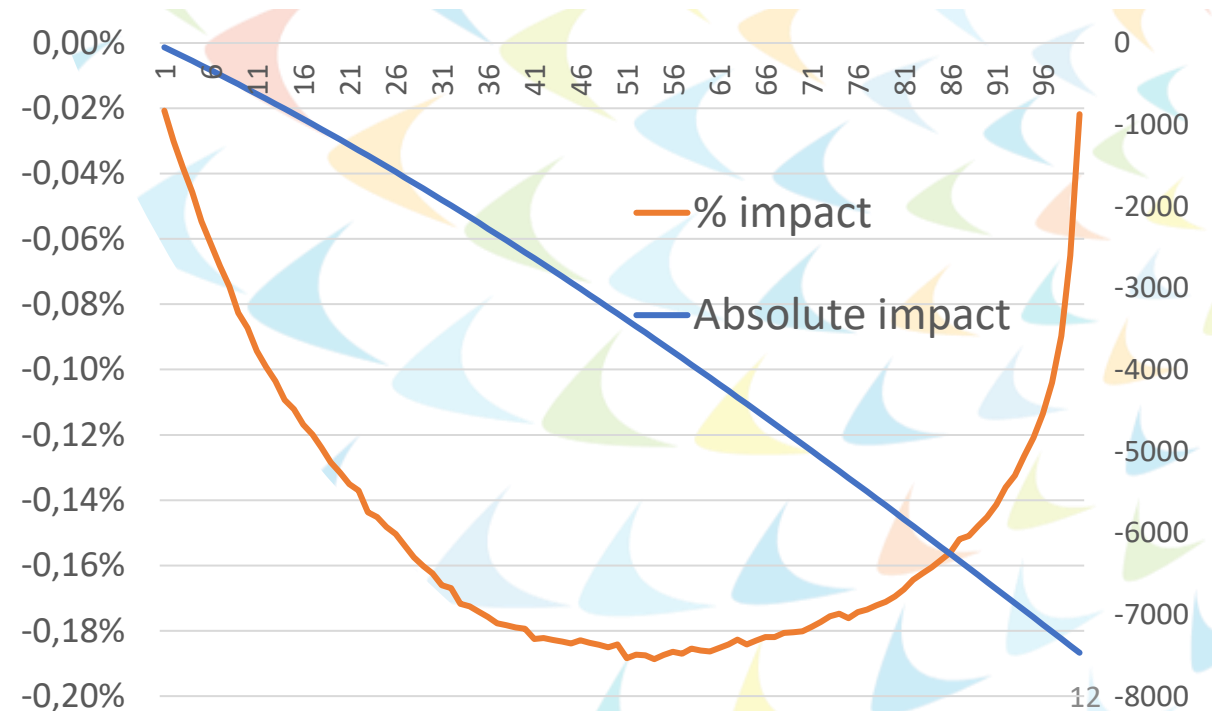
- ✓ Analytical framework to assess the fiscal and social economic impact of VAT exemptions and zero-rating.
- ✓ Provides methodology for measuring the impact on consumption and household income.

We use income distribution data for Armenia to get 100 centiles of income.

Critical assumptions:

- Price pass-through – determines impact on consumer prices
- Price Elasticity of Demand and how this varies across income groups – determines change in consumption for different income levels
- Consumption profile of the product – determines existing consumption of the product and thus the impact on real income of the price change.

## Example: Welfare impact by absolute and % terms



# Good practices for developing countries

1. Make public a statement of all tax incentives for investment and their objectives within a governing framework.
2. Provide tax incentives for investment through tax laws only
3. Consolidate all tax incentives for investment under the authority of one government body, where possible.
4. Ensure tax incentives for investment are ratified through the law making body or parliament.
5. Administer tax incentives for investment in a transparent manner
6. Calculate the amount of revenue forgone attributable to tax incentives for investment and publicly release a statement of tax expenditure
7. Carry out periodic review of the continuance of existing tax incentives by assessing the extent to which they meet the stated objectives
8. Highlight the largest beneficiaries of tax incentives for investment by specific tax provision in a regular statement of tax expenditures, where possible
9. Collect data systematically to underpin the statement of tax expenditures for investment and to monitor the overall effects and effectiveness of individual tax incentive
10. Enhance regional cooperation to avoid harmful tax competition

# Bringing it together...

## Capacity building

- ❖ Improving skills in evidence-based policy making
- ❖ Strengthening institutional structures and processes

## Transparency

- ❖ National tax statistics
- ❖ Tax expenditure reporting



## Peer-to-peer learning

- ❖ Outreach and knowledge sharing
- ❖ International best practices, toolkits and database

## Political

- ❖ Stakeholder management and communication strategy
- ❖ Political support
- ❖ Sequencing and building momentum



# THANK YOU!

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