



# THE GLOBAL TAX EXPENDITURES TRANSPARENCY INDEX

**COMPANION PAPER**

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# LIST OF ABBREVIATIONS

|              |   |              |  |
|--------------|---|--------------|--|
| <b>BMZ</b>   | Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung – German Federal Ministry for Economic Cooperation and Development | <b>MoF</b>   | Ministry of Finance                                    |
| <b>CEP</b>   | Council on Economic Policies  | <b>MTRS</b>  | Medium Term Revenue Strategy                           |
| <b>CIT</b>   | Corporate Income Tax  | <b>MTS</b>   | Medium Term Strategy                                   |
| <b>COFOG</b> | Classification of the Functions of Government   | <b>OBS</b>   | Open Budget Survey                                     |
| <b>DRM</b>   | Domestic Revenue Mobilization   | <b>OECD</b>  | Organisation for Economic Co-operation and Development |
| <b>EBP</b>   | Executive’s Budget Proposal   | <b>PEFA</b>  | Public Expenditure and Financial Accountability        |
| <b>EU</b>    | European Union  | <b>PIT</b>   | Personal Income Tax                                    |
| <b>GST</b>   | Goods and Services Tax  | <b>SDG</b>   | Sustainability Development Goal                        |
| <b>GTED</b>  | Global Tax Expenditures Database  | <b>TADAT</b> | Tax Administration Diagnostic Assessment Tool          |
| <b>GTETI</b> | Global Tax Expenditures Transparency Index  | <b>TE</b>    | Tax expenditure  |
| <b>IDOS</b>  | German Institute of Development and Sustainability  | <b>UNDP</b>  | United Nations Development Programme                   |
| <b>IMF</b>   | International Monetary Fund   | <b>US</b>    | United States  |
|              |   | <b>VAT</b>   | Value Added Tax  |
|              |   | <b>VAT</b>   | Value Added Tax  |

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# ABSTRACT

Tax expenditures (TEs) are benefits granted through the tax system that lower government revenue and the tax liability of beneficiaries. Governments worldwide use TEs to pursue different policy goals such as attracting investment, boosting innovation and mitigating inequality. At the same time, TEs are costly: according to the Global Tax Expenditures Database (GTED), the worldwide average over the 1990-2022 period is 4.1 percent of GDP and 24.5 percent of tax revenue (Redonda et al., 2024). When ill designed, they can be ineffective in reaching their stated goals. They can also be highly distortive and trigger negative externalities.

Yet, despite the fact that TEs have similar effects on public budgets as direct spending programmes, the lack of transparency in the TE field is striking: only 109 out of 218 jurisdictions have reported on TEs at least once since 1990. In addition, the quality, regularity and scope of such reports are highly heterogeneous and, in many cases, do not allow to engage in meaningful discussions on the effectiveness and efficiency of TEs.

The Global Tax Expenditures Transparency Index (GTETI) is the first comparative assessment of TE reporting covering jurisdictions worldwide. It provides a systematic framework to rank jurisdictions according to the regularity, quality and scope of their TE reports, and seeks to increase transparency and accountability in the TE field.

This new version of the Companion Paper introduces the GTETI, outlines the updates made to the index since its launch in October 2023, and provides an in-depth explanation of its five dimensions and 25 indicators. It also discusses the rationale, scope, methodology and assumptions underpinning the GTETI assessment process. The Companion Paper explains the limitations and issues users should bear in mind when consulting the index, which is publicly available free of charge on the Tax Expenditures Lab website, [www.taxexpenditures.org](http://www.taxexpenditures.org).

The normative approach behind the GTETI is illustrated in Appendix 1, where a detailed description of an ideal TE report is provided. Appendix 2 contains the GTETI scoring sheet with a list of all indicators and the required supporting documentation.

## GTETI 1.1 – Update note

This companion paper includes a description of the methodological adjustments made since the launch of the GTETI. Changes do not only affect the internal structure of individual indicators but also the underlying format of GTETI data. While the country documents assessed by the index remain the same as in the previous version (TE reports published until December 31, 2022,

are within scope), the data resulting from the latest methodological updates is improved and enriched with a final round of reviews by indicator (“horizontal review”) to ensure consistency across all assessed jurisdictions. All changes introduced in version 1.1 of the GTETI, published on December 3, 2024, are discussed in detail in Appendix 3.

# 1 INTRODUCTION

Tax expenditures (TEs) - also called tax breaks, tax reliefs, tax subsidies, etc. - are deviations from a benchmark or standard tax system that provide preferential tax treatment to individuals or businesses. Governments worldwide use TEs widely to pursue different policy goals such as attracting investment, boosting innovation, greening the economy and mitigating inequality. Indeed, when well designed, they can be powerful policy instruments, contributing to governments' growth and development strategies, including the Sustainability Development Goals (SDGs).<sup>1</sup>

At the same time, TEs reduce tax revenue collection, and hence can have a significant impact on public coffers. Rationalizing the use of TEs has a direct effect on tax revenue collection as well as domestic revenue mobilization (DRM) (Celani et al., 2022).

According to the Global Tax Expenditures Database (GTED), over the 1990 to 2022 period covered by the database, the global average revenue forgone due to TEs for the 109 reporting countries stood at 4.1 percent of GDP and 24.5 percent of tax revenue, with figures reaching 9 percent of GDP or more in countries such as Czechia, Finland, Jordan, Puerto Rico, Russia and the Netherlands (Redonda et al., 2024).

Considering the magnitude of TEs, the lack of transparency in the field is striking. On the one hand, as shown by the GTED, the number of countries reporting on TEs has been growing steadily over the years from 4 in 1990 to 96 in 2019. On the other hand, there are still 109 non-reporting jurisdictions that have never issued an official TE report during the period covered by the GTED. Equally worrisome, the scope and detail of most existing reports leave significant room for improvement (Aliu et al., 2023). For instance,

information about the fiscal cost (revenue forgone) as well as the policy goals of TEs is often not disclosed. Likewise, many jurisdictions only report aggregated revenue forgone data – mostly by type of tax – and do not reveal the legal basis of the TEs they use. Not only has such opacity a negative impact on transparency and accountability towards citizens, but it also hinders comprehensive TE evaluations and, ultimately, works against sound TE policy making.

Few studies compare TE reporting across countries and their scope is often limited. OECD (2010) assesses TE reports of 22 member countries. Burton and Stewart (2011) examine the processes and experiences of TE management, including a systematic analysis of TE reporting, but only for Brazil, Chile, India and South Africa. More recently, Kassim and Mansour (2018) evaluate TE reports of 21 developing and transition economies, using a matrix of dimensions that characterize good practices in TE reporting, and Redonda and Neubig (2018) apply a similar approach to the (by then) 43 G20 and OECD economies. Finally, based on GTED data, von Haldenwang et al. (2021; 2023) provide global analyses of the significant variation in the quality of TE reporting across countries.

The Global Tax Expenditures Transparency Index (GTETI) moves the discussion about transparency of TEs to the next level. The GTETI is the first comparative assessment of TE reporting that covers jurisdictions worldwide. Building on the data collection and classification developed to construct the GTED, the GTETI provides a systematic framework to rank jurisdictions according to the quality of their TE reporting. Jurisdictions are not compared according to the amount of revenue forgone they report, or the many ways they use TEs. Rather, they are assessed on five dimensions that provide a comprehensive and detailed picture of the

<sup>1</sup> In 2021 the United Nations Development Program (UNDP) launched the Tax for SDGs Initiative, which includes a component on TEs, seeking to work with governments so that they can better align their TE systems with the SDGs – see here: <https://www.taxforsdgs.org/about>.

quality and scope of TE reporting: (1) *Public availability*, (2) *Institutional framework*, (3) *Methodology and scope*, (4) *Descriptive TE data*, and (5) *TE assessment*.

The GTETI is based on the latest available TE report issued by each country before the cutoff date of December 31, 2022. It follows a normative approach, by which the quality and scope of real-life TE reporting is assessed against an ideal TE report. Following this approach, while scoring countries according to the size of revenue forgone or the definition of the benchmark tax system can be highly complex and controversial, the way that the relevant information on TEs should be reported can be assessed in an objective way and, hence, countries can be scored over their performance in this area.

Since this is a key feature within the GTETI methodology, the normative approach is discussed in more detail in the following sections. For instance, the full score that can be achieved for each indicator is described in Sections 2.1., 2.2., 2.3., 2.4. and 2.5. Further, Appendix 1 discusses the different parts and features an ideal TE report should have and presents a template that can be useful for governments starting the process of TE reporting or looking into ways to improve their TE reports.

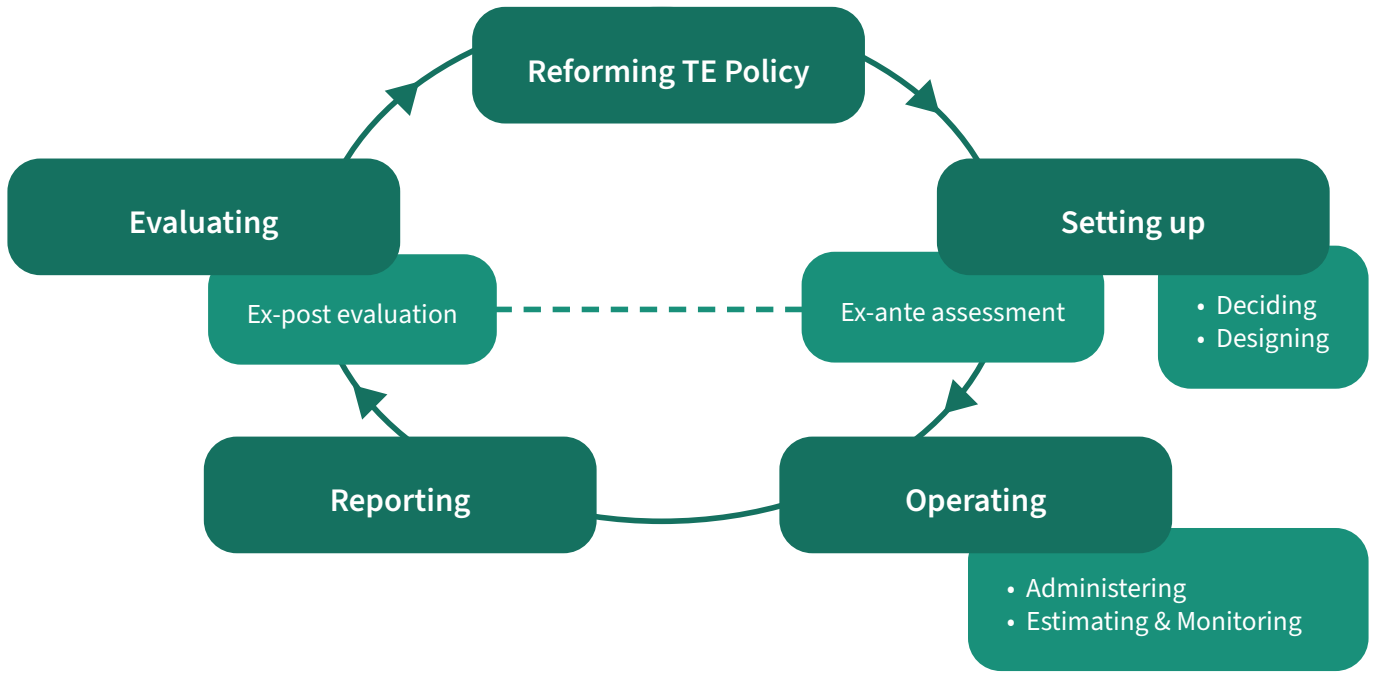
The GTETI aims at increasing transparency and accountability within the TE field, promoting public debate and encouraging governments to improve their TE reporting as a first necessary (though certainly not sufficient) step towards comprehensive evidence-based TE policy making. Consequently, the normative approach introduced here does not only relate to TE

reporting. Rather, we understand good reporting to be an integral part of what can be described as the “tax expenditure policy cycle”. This cycle illustrates the policy-making process underlying the use of TEs by distinguishing five stages. It covers the setup of TEs, their operation, as well as reporting, evaluation and TE policy reform. Viewed from this holistic perspective, it becomes clear that an effective TE management system relies on thorough TE reporting.

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The rest of the paper is structured as follows: Section 2 provides a detailed description of the GTETI and its five dimensions. It also discusses indicator-specific assumptions and technical challenges. Section 3 presents the key underlying assumptions and methodological choices of the GTETI, including scoring. Lastly, Section 4 describes the process to run a GTETI Assessment.

**Figure 1.1: The Tax Expenditure Policy Cycle**



Source: Redonda et al. (2023)

## 2 FIVE DIMENSIONS AND 25 INDICATORS

The GTETI is structured across five dimensions, each containing five indicators. This section provides a detailed discussion of the five dimensions, their respective indicators as well as the requirements for the highest score. It discusses specific assumptions and technical issues faced at the indicator level to ensure consistency across all assessed jurisdictions and, in some cases, to simplify the methodology based on the principle of parsimony.

### 2.1. Public availability

This dimension assesses the public availability of TE reports. The first two indicators deal with the frequency, regularity and timeliness of TE reporting. TE reporting can be a process with a steep learning curve. In most cases, the quality of TE reports increases over time and the best TE reports are, in general, issued by those who have been reporting for the longest periods. Hence, *regularity* is crucial. TE reports should be issued without gaps since the publication of the first report. When it comes to the frequency of TE reporting, TE reports should be published annually to inform policymakers about the latest changes with regard to TEs and ensure a smooth integration of TE policy with broader fiscal policy, including the budget cycle (read more about this in Section 2.2.). Reports issued every other year (as in Germany, for instance) do not fully accomplish this goal. For similar reasons, the timeliness of data provided is key. As mentioned before, TE reporting is

not only important as a means to improve transparency and accountability, but also as part of the TE policy cycle. Hence, if a report published in year *t* only provides data for year *t-3* (or before), the value of such data for policymaking purposes will be limited.

Besides TE reports being an important tool for decision makers, they should be publicly available, visible and designed in a reader-friendly manner so that other stakeholders can access them and understand the information provided in the report. Indicators, 1.3. *Visibility*, 1.4. *Online accessibility* and 1.5. *Reader-friendliness* tackle these issues. 1.3. *Visibility* measures the extent to which the relevant authorities (Ministry of Finance, tax authority, Parliament, etc.) involved in the TE policy cycle promote the visibility of the TE report, for instance, by issuing a dedicated press release or by creating an online repository where all TE reports are hosted so that stakeholders can keep track of changes over time. 1.4. *Online accessibility* measures how easy it is to access the TE report (and the underlying data) on the websites hosting it. Ideally, underlying data should be available in formats that facilitate data analysis, such as comma-separated values (.csv) or Excel (.xls), among others. Finally, 1.5. *Reader-friendliness* assesses whether all TE information is consolidated in a single document or rather spread across different reports. It also assesses if the TE report includes an executive summary and if acronyms are sufficiently explained. In addition, it assesses if there is a version of the TE report suitable for visually impaired individuals.



**Table 2.1: Public availability – Indicators overview and maximum score**

|      | Indicator name           | Description   | Maximum score   |
|------|--------------------------|---|---|
| 1.1. | Frequency and Regularity | The indicator evaluates the frequency at which TE reports have been issued, and if there are gaps in the reporting, i.e. years where no TE report was issued. The time span covers TE reports published within the last 10 years from the data cutoff date.   | The TE report is published annually and regularly, i.e. without gaps after the publication of the first report.   |
| 1.2. | Timeliness               | The indicator assesses whether, at the moment of publication (year t), the TE report contains the most up to date TE data, i.e. at least data for the previous year (year t-1).   | The TE report provides, at least, data for the most recent fiscal year.   |
| 1.3. | Visibility               | The indicator measures the extent to which the relevant authorities (Ministry of Finance, tax authority, Parliament, etc.) promote the visibility of TE reports, for instance, by issuing a dedicated press release, or by creating a repository where all TE reports are hosted.   | There is a press release dedicated to the publication of the latest TE report and an online repository where all TE reports are hosted.   |
| 1.4. | Online Accessibility     | The indicator evaluates the ease with which TE reports (and the underlying data) can be found on official websites.   | The TE report can be reached with less than 5 clicks from the homepage, data are available in data analysis format (e.g. xls, csv, etc.), and the TE report can be found by searching the official website using the usual term for “tax expenditure” in the language of the assessed jurisdiction. |
| 1.5. | Reader-friendliness      | The indicator evaluates the format in which TE data is published, checking key characteristics such as whether the information is consolidated in a single document or spread across different reports, if the report includes a summary and if acronyms are explained. It also assesses if countries publish a version of the TE report that facilitates understanding by visually impaired individuals. | The TE report is consolidated in one single document, contains a summary, clearly explains the acronyms used throughout the document, and is issued in a format that facilitates its use by visually impaired individuals (or there is a version of it in such a format).                           |

**2.1.1. Key assumptions, methodological choices, and other issues**

- Indicators 1.1. *Frequency and regularity* and 1.2. *Timeliness* use the publication date as the main reference to assess reporting regularity and timeliness of data included in the report. The date of publication represents the specific moment in which the TE report is made available. Other potentially relevant time references such as country-specific

fiscal years are considered to determine if - at the moment of publication - data for a fiscal year could potentially be available (even if only as preliminary estimates).

- Indicator 1.4. *Online accessibility* regards the accessibility of TE reports on official websites, assessing how easy it is to find the TE report using these websites’ own functionalities. Search engines such as Google, Bing, DuckduckGo, etc.

are not considered here. Individuals across the globe use a variety of search engines to obtain online information. Using a single or just a few search engines would discriminate against others. Moreover, many search engines provide answers tailored to the user’s previous searches, and thus the search results of GTETI consultants would be considerably different from the results presented to an individual without a search record related to TEs. Additionally, a comprehensive search would need to consider the official language(s) used in the relevant jurisdiction since search engines tend to perform differently in different languages, potentially rendering discriminatory outcomes. Against this background, Indicator 1.4. *Online accessibility* uses local language expressions for “tax expenditure” (such as for instance “gastos tributarios” in Spanish), to search for TE reports on official websites.

- With regard to Indicator 1.5. *Reader-friendliness*, a key decision is the identification of the “main TE report” wherever multiple reports of TE data exist. The main TE report is identified by assessing the scope of revenue forgone data across the different official documents or if it is clearly indicated that this is the main TE report. After having identified the main TE report, the indicator assesses whether TE reporting is consolidated by analysing if there is revenue forgone data in any separate document not referenced in the “main TE report” (see below, Section 3.6). For instance, in countries such as Algeria and Switzerland TE reporting is not consolidated and hence, interested stakeholders need to access different reports and documents, and are then left with the task of combining or consolidating the information to obtain a comprehensive picture of the state of TEs. To identify the main TE report, we consider: (i) the total revenue forgone covered by each report, (ii) the fiscal years covered in the report, and (iii) the level of disaggregation of revenue forgone data.<sup>2</sup>
- Importantly, in 1.5. *Reader-friendliness*, TE reporting is considered to be fully consolidated if all available revenue forgone data is contained or referenced in the main TE report. However, even if TE reporting is not considered to be consolidated, we do take into account any document with relevant TE information that is made available on the same webpage as the TE report and clearly associated with it. Therefore, in cases where unreferenced documents are clearly published “side-by-side” with the main TE report, these documents (e.g. methodology descriptions, files in data analysis format, etc.) will be considered in the GTETI assessment, even if TE reporting may not receive the full score on this specific indicator. The fact that a document is part of the same budgetary exercise as the „main TE report“ is not sufficient to conclude that the document is clearly linked to the TE report. The connection or link must be visible on the publishing website.
- Accessibility for visually impaired individuals is considered an important feature of an ideal TE report. In the context of Indicator 1.5. *Reader-friendliness*, we identified three key features that enhance accessibility for visually impaired individuals: (i) the TE report (or a version of it) is available in a format that allows the font size to easily be adjusted (e.g. html), (ii) the structure of the report is made explicit using sequential numbering , and (iii) colours are used to guide the reader through the document and facilitate reading tables and charts (e.g. section colour, alternating line colours, etc.). If these three accessibility features are provided, we consider that the TE report is available in a format that facilitates the understanding for visually impaired individuals.

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<sup>2</sup> Where the assessment of these factors can lead to different conclusions, the GTETI team reaches out to the relevant government to confirm which of the available TE reports is considered to be the principal one. In the absence of any official communication, the GTETI team decides which TE report to consider as the main report.

## 2.2. Institutional framework

Dimension 2 analyses the institutional framework behind TE reporting. The first two indicators consider the legal requirement to report on TEs, which is crucial to minimize discretion. Indicator 2.1. *Legal reporting requirement* assesses if the requirement clearly states the frequency and timing of reporting. It should also be required by law to submit the TE report to the parliament in order for TEs to be scrutinized along with public spending and to inform the decision-making process. This is captured by Indicator 2.2. *Submission to parliament*.

Indicators 2.3. *Reporting responsibility*, 2.4. *Budget cycle integration* and 2.5. *Medium-term strategy integration* assess the institutional framework, including links to the budget cycle as well as the medium-term strategy (MTS).<sup>3</sup> 2.3. *Reporting responsibility* assesses if the responsible institution for TE reporting is clearly stated in the TE report and in the legal requirement to report on TEs. This is essential, among other

things, to ensure accountability of the TE reporting process. The other two indicators seek to capture the integration with broader fiscal policy. The integration of TE reporting with the fiscal policy strategy of the government is vital from both a revenue and spending perspective. Given the size of TEs, accounting for their budgetary impact is crucial. Hence, TE reports should be linked to the government's MTS by discussing both the fiscal cost of TEs as well as their policy objectives (Indicator 2.5. *Medium-term strategy integration*). At the same time, TE provisions are implemented to pursue different policy objectives. Thus, to ensure policy coherence, 2.4. Budget cycle integration measures if there is a holistic assessment of spending programs. Ideally, revenue forgone estimates for each TE should be included in the budget together with the description of the provision, information on the policy objectives, the beneficiaries as well as the classification in terms of functions of government (COFOG, or the one used by the government).<sup>4 5</sup> The latter is crucial to allow TEs to be classified in consistency with direct spending as appropriated by parliament.

<sup>3</sup> Terminologies used to refer to MTS vary substantially from one country to the other. Usual expressions include “medium-term revenue strategy”, “medium-term fiscal” or “budgetary framework”, “medium-term revenue” or “fiscal plan”, etc. These documents cover a time span of several years and are typically updated on an annual basis with regard to spending, investment and revenue forecasts. From the point of view of governments, MTS provide a framework for tax policy reform, ensuring the alignment of taxpayer expectations with legal changes affecting economic activity.

<sup>4</sup> We base the scoring for this indicator on Question 45 of the Open Budget Survey (OBS) (IBP, 2021, pp. 72–73).

<sup>5</sup> The Classification of the Functions of Government (COFOG) was developed in its current version in 1999 by the Organisation for Economic Co-operation and Development (OECD) and published by the United Nations as a standard classifying the purposes of government activities.

**Table 2.2: Institutional framework – Indicators overview and maximum score**

|      | Indicator name                   | Subject matter   | Maximum score   |
|------|----------------------------------|--|---|
| 2.1. | Legal Reporting Requirement      | The indicator assesses whether there is a legal requirement for a TE report to be issued, and if such legal requirement defines a specific period when the report has to be published.   | The government is legally required to periodically report on TEs.   |
| 2.2. | Submission to Parliament         | The indicator verifies if there is a legal requirement to submit the TE report to parliament.  | There is a legal requirement to submit the TE report to parliament, and it is clearly indicated in the TE report or evidenced by the publication format (e.g. being part of the budget document).                   |
| 2.3. | Reporting Responsibility         | The indicator assesses the existence of a clear attribution of TE reporting responsibility to a specific government agency, ministry or institution. The responsibility may be specified in a law or unequivocally indicated in the TE report. | TE reporting responsibility is clearly attributed both in the legal requirement to report and in the TE report itself.  |
| 2.4. | Budget Cycle Integration         | The indicator assesses if TE information (e.g. policy goals, beneficiaries, revenue forgone estimates) is incorporated into the Executive's Budget Proposal (EBP).   | The EBP includes information on TEs going beyond policy goals, beneficiaries and revenue forgone, such as economic sector, distributional analysis, or SDG alignment.   |
| 2.5. | Medium-term Strategy Integration | The indicator assesses if TE information (e.g. policy goals, guidelines on future tax expenditure) is included in the MTS  | The MTS includes indications or guidelines with respect to TE policy goals and revenue forgone forecasts, e.g. including TEs under overall and sectoral expenditure ceilings and expected impact of fiscal reforms. |

### 2.2.1. Key assumptions, methodological choices, and other issues

- The main requirement for a legal text to be considered valid for TE reporting is that the law must explicitly state that TEs (or similar terms used in local law or language) are subject to reporting. Sometimes, the legal requirement to periodically report on TEs assessed by Indicator 2.1. *Legal reporting requirement* can be an indirect one. For instance, when the TE report is annexed to key budget documentation (e.g. EBP, Budget Law), we consider the legal requirements of the main document to apply to the annexes as well. As long as reporting on TEs is legally required to be annexed to these budget documents, and such documents are prepared annually, we consider that there is a legal requirement to periodically report on TEs as part of the budget process.
- When it comes to Indicator 2.1. *Legal reporting requirement*, we consider a requirement to periodically report on TEs effective only if the reporting occurs at least once every five years. Periodicity requirements allowing TE reporting to be done beyond five years are not considered as they do not provide sufficient certainty and predictability to the TE reporting framework and diminish the usefulness of TE data for policy making purposes.

- Regarding Indicator 2.3. *Reporting responsibility*, we assume there are two types of disclosure: factual/in practice (i.e., in the TE report) and legal (i.e., in the law). When it comes to the former, if the authorship of a report is stated, we assume the responsibility for the report is indicated in practice. If a report is not attributed to any specific government institution, and the relevant legislation only provides a high-level statement calling for a TE report to be issued by “the government”, we consider that the reporting responsibility is not attributed.
- With regard to Indicator 2.4. *Budget cycle integration*, when possible, we refer to Question 45 of the Open Budget Survey (OBS): “Does the Executive’s Budget Proposal (EBP) or any supporting budget documentation present information on tax expenditures for at least the budget year?” We follow the OBS methodology and give the highest score (score A) to those countries where information in the EBP goes beyond core elements.<sup>6</sup> For example, additional information can include types and number of beneficiaries or references to the COFOG classification. An issue for this indicator concerns the coverage of the OBS since not all countries listed in the GTETI are assessed by the OBS, e.g. the Netherlands, Panama and Puerto Rico. When a country does not have OBS data, we proceed with the analysis of the country by replicating the OBS methodology.
- With regard to the integration of TEs within MTS frameworks, Indicator 2.5. *Medium-term strategy integration*, the methodology acknowledges the wide variety of such frameworks across different countries. Medium Term Revenue Strategies (MTRSs)<sup>7</sup> that have been implemented in an increasing number of countries with the support

of the IMF are a case in point, but in general terms a MTS can be more focused on debt sustainability, budget balance, or fiscal policy reform. As long as the MTS contains fiscal and/or budget policy figures for, at least, the coming three or four years, the MTS is considered.

## 2.3. Methodology and scope

Dimension 3 considers the methodology and scope of TE reporting. Indicator 3.1 *Information on TE coverage* assesses which national taxes are included in the report.<sup>8</sup> In some countries, only a subset of taxes are included, which prevents the report from providing an overarching view of the whole TE system. For instance, the main TE report in the US only covers personal and corporate income-related TEs (PIT and CIT), but no information on other taxes such as sales taxes, inheritance tax, etc. is provided.

Indicators 3.2. *Tax benchmark* and 3.3. *Structural reliefs* deal with two rather technical, yet vital, aspects of TEs. TEs are defined as deviations from a standard or benchmark tax system. Hence, a clear definition of the benchmark tax system is crucial to put TE data in perspective. Indicator 3.3. *Structural reliefs* tackles the distinction between structural and non-structural tax reliefs (the latter being TEs). Since defining what is part of the benchmark tax system and what is a TE is not always straightforward, some countries (e.g. Canada and the UK) use the structural tax relief concept to identify tax reliefs that are integral parts of the tax system. These tax reliefs serve various purposes, such as “to define the scope of the tax or calculate income or profits correctly.”<sup>9</sup> In contrast, non-structural tax reliefs are defined as those “actively designed to help or encourage particular types of individuals,

<sup>6</sup> Under OBS methodology, the core information must include for each TE: “a statement of purpose or policy rationale [...], the intended beneficiaries, and an estimate of the revenue foregone” (IBP, 2021, p. 72).

<sup>7</sup> The Platform for Collaboration on Tax (PCT, see <https://www.tax-platform.org/medium-term-revenue-strategy>) lists 26 countries that have formulated a MTRS, and informs about their respective stages of implementation.

<sup>8</sup> The GTETI only gathers data on TEs implemented by national governments, as the lack of reliable data on TEs implemented by lower tiers of government is even more severe than in the case of national-level data. This said, a number of cases show that TEs granted by subnational governments can indeed be significant, particularly in federations or highly decentralized countries such as the US, Spain and Switzerland (Li, 2016; OECD, 2020).

<sup>9</sup> <https://publications.parliament.uk/pa/cm5803/cmselect/cmtreasy/723/report.html>

**Table 2.3: Methodology and scope – Indicators overview and maximum score**

|      | Indicator name                    | Description  | Maximum score  |
|------|-----------------------------------|--|--|
| 3.1. | Information on TE coverage        | The indicator assesses the coverage of different types of taxes (e.g. CIT, PIT, VAT/GST, excise taxes, etc.) in the TE report at the national level.   | The TE report provides an exhaustive inventory of all existing TEs, regardless of whether revenue forgone estimates are provided for all provisions. Additionally, there is no indication that any type of tax available at the national level is missing from the TE report.  |
| 3.2. | Tax benchmark                     | The indicator analyses if there is a definition of the benchmark tax system and, if so, at what level such definition is provided, e.g. at the individual TE provision level, by type of tax, or only contains a high-level description of what benchmarking is. It also assesses if TEs granted through international treaties (tax treaties as well as trade and investment agreements) are considered in the TE report. | The discussion of the benchmark or standard tax system is provided at the individual TE provision level, and TEs granted through international treaties with tax effects are considered in the report (either as TEs or integrated in the tax benchmark as structural relief). |
| 3.3. | Structural reliefs                | The indicator captures if the report distinguishes structural from non-structural tax reliefs (i.e. tax expenditures) and assesses the information on structural reliefs available in the report (e.g., explanation of the “structural relief” concept, level of disaggregation of data, and revenue forgone estimates).   | The TE report clearly defines the “structural tax relief” concept, lists individual provisions, and provides revenue forgone estimates for each provision.   |
| 3.4. | Revenue forgone estimation method | The indicator assesses if the TE report includes detailed information about the revenue estimation method used and if underlying economic assumptions are clearly stated.  | The report clearly states which estimation methods are used at the individual TE provision level, by type of tax, by type of TE or, alternatively, for the whole report. Relevant economic assumptions for revenue forgone estimation are disclosed.                           |
| 3.5. | Data sources                      | The indicator assesses the disclosure of data sources used to compute the revenue forgone estimates, and the quality and scope of the information provided.  | Different data sources used to compute revenue forgone estimates are clearly disclosed throughout the report.  |

activities or products in order to achieve economic or social objectives.” Ideally, the rationale behind the classification of a tax relief as structural or TE should be disclosed at the individual TE provision level, as in the case of the Canadian TE report.<sup>10</sup>

Indicators 3.4. *Revenue forgone estimation method* and 3.5. *Data sources* assess if the methods, assumptions and data sources used to compute the revenue forgone estimates are disclosed and discussed in detail.

<sup>10</sup> See Department of Finance, Canada, 2022, pp. 52–335.

### 2.3.1. Key assumptions, methodological choices, and other issues

- The only way to have a comprehensive and accurate overview of all existing TEs in order to assess the coverage of the TE report in a given country is to analyse the tax laws. Since this is not feasible, in Indicator 3.1. *Information on TE coverage* we rely on two different assessments. First, we consider any statement or explanation given in the TE report explicitly stating the coverage, and second, we assess whether the main types of taxes levied at the national level are indeed covered by the TE report. The former assessment focuses on information clarifying the extent to which the report includes all or only a subset of existing TE provisions. For the latter, we rely on external sources (e.g. PwC Tax Summaries,<sup>11</sup> etc.). In cases where the TE report explicitly states that all available TEs are assessed, we verify that all main types of taxes levied at the national level are covered. If despite a statement of complete coverage we observe that one or more types of taxes are not covered in the report, the lower score “D” is assigned (“[The report provides an explanation\* of which TEs are covered] AND [Certain types of taxes available at national level are missing from the report]”).
- Otherwise, for Indicator 3.1. *Information on TE coverage*, when the TE report presents an explanation of TE coverage, we evaluate whether such explanation is “specific” or “general”. To be classified as specific, an explanation must describe: (i) the universe of existing TEs (e.g., number of TEs in use), (ii) the extent to which the present report covers those TEs, and (iii) limitations or qualifying criteria leading to the exclusion or inclusion of TEs in the report.
- Regarding Indicator 3.2. *Tax benchmark*, we consider that the tax benchmark should be described at the individual TE provision level. Ideally, the description of the benchmark tax system should include information about what the tax treatment would have been in the absence of the TE, and how the tax treatment changes due to the implementation of the TE provision. Likewise, we expect that every country where international treaties (with tax effects) are in force either includes the respective TEs in the report, or explicitly states why preferential tax provisions available under applicable treaties are not considered.
- Indicators 3.1. *Information on TE coverage* and 3.3. *Structural reliefs* present the challenge of unobservable exclusions or counterfactuals. It is not always possible to determine whether relevant provisions are excluded from the report. In the case of Indicator 3.3. *Structural reliefs*, the issue regards provisions that reduce tax liabilities but are not classified as TEs. Some countries integrate preferential tax provisions (i.e. structural reliefs) in their tax benchmark without accounting for the revenue forgone such provisions generate. To give an example, most countries exempt micro or small enterprises below a certain volume of sales from CIT for reasons of tax simplicity and administrative efficiency. In most reports, such “structural reliefs” are either completely omitted or included in the benchmark tax description without any estimation of revenue forgone. We expect countries to clearly identify any preferential tax provisions that are not considered TEs, regardless of whether these provisions are classified as a separate type of expenditures or as part of the tax benchmark.
- We assume that all countries apply the “structural tax reliefs” concept, even if these provisions are considered a part the benchmark tax system and countries do not make a clear distinction between these provisions and those classified as TEs. A country may define a benchmark tax system that does not include any preferential provisions, and simply state that all deviations from the benchmark are considered TEs. In this theoretical situation, a country may obtain the highest score on Indicator 3.3. *Structural reliefs* even without listing and costing structural tax relief provisions (as these would not exist in such a country). However, in the absence of a clear explanation describing the above situation, we consider that the report disregards existing structural reliefs rather than assuming that they do not exist. The same applies when there is no explanation of the benchmark or the estimation method.

<sup>11</sup> See <https://taxsummaries.pwc.com/> (accessed 28.09.2023).

- Concerning Indicator 3.4. *Revenue forgone estimation method*, the GTETI does not discriminate with regard to the methods chosen by each country to estimate revenue forgone, but it expects the methods and relevant underlying assumptions to be clearly identified. Estimation methods should be described in general (for all TEs), or by type of tax or type of TE, or (even better) at the individual TE provision level. In addition, all relevant economic assumptions should be stated. For instance, the report should indicate to what extent potential changes in taxpayers’ behaviour are taken into consideration. TE reports providing revenue forgone forecasts or projections should specify underlying assumptions about economic development and growth rates.
- For Indicator 3.5. *Data sources*, the key requirement is clearly disclosed data sources. We prioritize clarity in the disclosure of data sources over the level of disaggregation. If there is only one data source and it

is clearly disclosed for all TEs, that may be sufficient to get the highest score ‘A’. When different sources exist, but the report does not clearly differentiate them and does not discuss the extent to which they are used, or selectively informs about some data sources, we consider that data sources are not fully specified. When there are various sources, all tables and figures should specify source, and if different sources are used, an explanation of how they are used is expected.

## 2.4. Descriptive tax expenditure data

The cost of TEs in terms of revenue forgone is one of the main pieces of information TE reports should provide. This said, besides revenue forgone estimates, the quality and scope of the background information is crucial to put those figures in context. This is captured by Dimension 4.

**Table 2.4: Descriptive tax expenditure data – Indicators overview and maximum score**

|      | Indicator name             | Description   | Maximum score   |
|------|----------------------------|---|---|
| 4.1. | Policy objective           | The indicator assesses the extent (share of total revenue forgone) up to which TE policy objectives are disclosed.  | Information on policy objectives at the individual TE provision level is presented for all TEs (covering 100% of total revenue forgone).                                      |
| 4.2. | Type of tax and type of TE | The indicator assesses the extent to which the type of tax as well as the type of TE (e.g. deduction, tax credit, reduced rate, deferral, etc.) are specified for each TE.  | Information about the type of tax and type of TE is presented at the individual TE provision level.   |
| 4.3. | Beneficiaries              | The indicator measures if information regarding the beneficiaries of TE provisions is included in the report, both regarding the number of beneficiaries and the targeted beneficiary groups or intended beneficiaries. | Information on targeted beneficiaries and the number of beneficiaries is available at the individual TE provision level for all TEs (covering 100% of total revenue forgone). |
| 4.4. | Timeframe                  | The indicator assesses if there is information about the timeframe of TE provisions, e.g. implementation date, sunset clause (expiry date), timeline with relevant changes, etc.  | Information about the timeframe is systematically provided at the individual TE provision level.  |
| 4.5. | Legal reference            | The indicator covers information regarding the legal provision (tax code, tax law, or similar, including references to the specific article, section, etc.) upon which TEs are granted.                                 | Information on the specific legal basis is provided for all TEs (covering 100% of total revenue forgone).   |



Ideally, in addition to revenue forgone estimates, a TE report should disclose the *Policy objective* (Indicator 4.1.), the *Type of tax and type of TE* (Indicator 4.2.), the group and number of targeted *Beneficiaries* (Indicator 4.3.), the relevant *Timeframe* (Indicator 4.4.), as well as the *Legal reference* (Indicator 4.5.) for every single TE provision.

### 2.4.1. Key assumptions, methodological choices, and other issues

- For Indicators 4.1. *Policy objective*, 4.3. *Beneficiaries*, and 4.5. *Legal reference*, we calculate the share of revenue forgone for which the respective key data is specified at the provision level. We chose this option over the share of total TE provisions due to the disproportionate impact that certain provisions can have. In many countries, revenue forgone stemming from the 10 largest TE provisions accounts for 70 percent or more of the total (von Haldenwang et al., 2023). Against this background, the indicators prioritise the disclosure of relevant information for the largest TEs (in terms of revenue forgone) over larger numbers of TE provisions with less impact on public coffers.
- Due to heterogeneous reporting practices across countries, we take a different approach for Indicators 4.2. *Type of tax and type of TE* and 4.4. *Timeframe*. For instance, regarding Indicator 4.2. *Type of tax and type of TE*, several reports pool TE provisions by type of tax or type of TE. We prioritize information on the type of tax over information on the type of TE (e.g. deduction, tax credit, or exemption). The full score is given to countries that systematically indicate for each TE provision the type of tax and type of TE. This may be done in different but equally acceptable ways, such as listing TEs in different sections by type of tax indicating the relevant TE mechanisms for each TE, or presenting a single table organised by, for example, policy objective, and where all TEs are listed specifying for each of them the type of tax and the type of TE. If there is no doubt about the relevant type of tax and type of TE for each TE presented in the TE report, a country obtains the maximum score.
- Regarding Indicator 4.4. *Timeframe*, some countries systematically disclose the dates of introduction and expiration (if any) of TEs, but some countries only provide partial information on this relevant aspect. In the latter case, it is not possible to deduce that all TEs for which no such information is provided are permanent. Hence, we assume that unless a TE has a clear indication of timeframe, there is no timeframe information for that TE.
- Regarding Indicator 4.1. *Policy objective*, we believe that a detailed policy goal is a key part of any TE design, and it is therefore important to disclose it in the TE report for each provision (together with revenue forgone estimates). However, the indicator accounts for the fact that descriptions of policy objectives differ widely across countries. For instance, if a TE provision is classified under the category “housing”, we interpret this as if the policy goal was “promotion of the housing sector”. While a certain breadth of formulations is accepted as a “policy objective”, we do not take the same approach for beneficiaries (Indicator 4.3.). In the latter case, we only consider information is provided when an identifiable type of taxpayer is associated with a specific TE or revenue forgone estimate. Thus, following the example above, we do not consider that a general reference to “housing” implies that a TE is targeted to “individual homeowners”, or any type of specific beneficiary. Indeed, the promotion of the housing sector can imply advantages for a variety of beneficiaries (small or large companies, individuals, foreign investors etc.), which should be specified.
- Regarding Indicator 4.3. *Beneficiaries*, the assumption is that all TEs should target identifiable beneficiaries. If the government cannot identify the expected beneficiaries (or groups of beneficiaries), the impact of the TE provision will be difficult (if not impossible) to assess. Groups of beneficiaries can be broad, such as corporations/households/individuals, or highly specific, for instance referring to age, gender, region, business size, economic sector, or combinations of such categories. In addition, the number of beneficiaries is another relevant piece of information, for instance, to compute take-up ratios and conduct incidence analyses. Therefore, we expect that both the beneficiary target groups as well as the number of beneficiaries are reported, not only for direct taxes but also for indirect taxes.

- Regarding Indicator 4.4. *Timeframe*, most TE reports either provide information on the timeframe for all TEs, or do not provide such information at all. In some cases information about the timeframe is provided for specific TEs but not for others. We hence divided the possible cases in three: i) information is specified for all TEs, ii) information is inconsistent, or iii) no information about the timeframe is provided.

## 2.5. Tax expenditure assessment

Dimension 5 assesses TEs not only in terms of the revenue forgone they trigger but also with respect to their evaluation. Evaluations serve to identify which TEs provide “value for money” and which provisions are ineffective or even harmful and should thus be reformed or discontinued.

Three indicators within this dimension deal with revenue forgone estimates – Indicator 5.1. *Disaggregation of revenue forgone* assesses if the estimates are provided at the individual TE provision level which, as mentioned above, is crucial for several reasons, since valuable information can be lost in aggregated numbers. Indicators 5.2. *Backward revenue forgone estimates* and 5.3. *Forward-looking projections of revenue forgone* capture if revenue forgone estimates are provided for several years, which is important to track changes over time and for planning purposes (e.g., in the context of MTSS).

The last two indicators tackle the issue of TE evaluations. Indicator 5.4. *TE Evaluation Framework* assesses if there is a framework for periodic or systematic TE evaluations (e.g., specifying responsibilities, timing and data requirements). Finally, Indicator 5.5. *Availability of*

**Table 2.5: Tax expenditure assessment – Indicators overview and maximum score**

|      | Indicator name                              | Description  | Maximum score  |
|------|---|--|--|
| 5.1. | Disaggregation of revenue forgone estimates | This indicator assesses the share of total revenue forgone estimates provided at the individual TE provision level, or the degree of overall estimates, e.g. grouped by type of tax or policy goal.  | Revenue forgone is reported at the individual TE provision level for all TEs (covering 100% of total revenue forgone).   |
| 5.2. | Backward revenue forgone estimates          | This indicator assesses the extent to which backward revenue forgone estimates are provided in the latest TE report.   | Backward revenue forgone estimates are provided in the latest TE report (published in year t) for at least the last 5 years (t-5).   |
| 5.3. | Projections or forecasts of revenue forgone | This indicator assesses the extent to which projections or forecasts of future revenue forgone are included in the latest TE report.   | Projections or forecasts of revenue forgone estimates are included in the latest TE report (published in year t) for at least the next 5 years (t+4).  |
| 5.4. | TE evaluation framework                     | The indicator captures if the report describes a TE evaluation framework or, if the framework is not discussed in the report directly, includes a reference to an external framework document.   | A description of the existing evaluation framework (including both ex-ante assessments and ex-post evaluations) is either provided in the TE report itself, or clearly referenced.   |
| 5.5. | Availability of TE evaluations              | This indicator assesses the extent (share of total revenue forgone) to which evaluations of specific TE provisions are included or referenced in the report, and checks whether the evaluation is in the form of incidence analysis or more comprehensive cost-benefit or impact analysis. | Information on cost-benefit evaluations of individual TE provisions is available for all TEs, and is either included or clearly referenced in the last TE report, and/or the TE reports published in the 5 years preceding it. |

TE evaluations ascertains whether TE evaluations are included or referenced in the TE report.

### 2.5.1. Key assumptions, methodological choices, and other issues

- Indicator 5.1. *Disaggregation of revenue forgone estimates* captures different forms of presenting revenue forgone: from the most aggregated way with only a total value of revenue forgone for all TE provisions to the most disaggregated alternative with revenue forgone estimates for each TE. In between, we acknowledge countries that provide revenue forgone in a partially disaggregated manner, for instance, by policy objective. Intermediate scores are assigned if revenue forgone is disaggregated by one or more of the main categories used in the GTED: (i) type of tax, (ii) type of TE, (iii) type of beneficiaries, or (iv) policy objective. Importantly, this indicator focuses on the level of aggregation of revenue forgone estimates in a report without assessing if revenue forgone has been estimated for every single TE in a given year. Indeed, it is common for specific TE provisions to be included in the TE report without estimated revenue forgone, for instance because no data was available when the report was prepared. While we consider that in principle every TE should have an assigned revenue forgone value to allow evaluation and evidence-based policymaking, assessing the degree of coverage of revenue forgone estimates (for a given fiscal period and accounting for all reported TEs) is beyond the scope of this index.
- Regarding Indicator 5.2. *Backward revenue forgone estimates*, we consider that providing revenue forgone estimates for the past five years is the minimum necessary to obtain a comprehensive overview of the provision's evolution over time. Similarly, looking at Indicator 5.3. *Projections and forecasts of revenue forgone*, projections or forecasts for at least five years, including the reporting year (i.e., up to year t+4), are required to ensure consistency with the timeframe typically covered by MTS.
- Concerning Indicator 5.4. *Evaluation framework*, to get a full score, the report should describe the framework for ex-ante and ex-post evaluations. We define TE evaluation as an assessment of the expected or observed outcome of a TE, considering its fiscal cost and its potential effectiveness in reaching the stated policy objectives. In addition, we also consider the evaluation of TEs with respect to cross-cutting goals such as the reduction of inequalities or environmental sustainability. Any information in the report related to an evaluation framework or a specific reference to another document is regarded, as long as the framework features ex-ante and/or ex-post TE evaluations.
- Regarding Indicator 5.5. *Availability of TE evaluations*, we argue that it is good practice for a government to evaluate all TEs at least once every 4-5 years. We hence consider TE evaluations included (or referenced) in TE reports published within the past 5 years for the assessment of this indicator. In order to qualify as a TE evaluation, the analysis of a TE must go beyond stating its cost, and it must clearly identify the TE being evaluated. Although we accept both incidence analyses and more developed cost-benefit or impact analyses as TE evaluations, we consider the latter to be more advanced than the former. The reason is that we expect cost-benefit analyses to evaluate and contrast TE objectives or performance indicators with the fiscal costs of the TE under scrutiny, and ideally go beyond the cost and benefits by also considering potentially externalities triggered by the TE. To assess the share of total revenue forgone that has been evaluated, we add up the revenue forgone of all TEs that have been subject to an evaluation, and included or referenced in TE reports over the last 5 years. This metric allows us to compare the extent to which information on TE evaluations is available within the TE reports published in the last 5 years (or referenced therein). If different evaluations are available within the 5 year time frame for the same TE, we only consider the latest evaluation, in order to avoid double counting.

# 3 ASSUMPTIONS, METHODOLOGICAL CHOICES AND LIMITATIONS

The GTETI provides a systematic framework to compare countries worldwide according to the quality and scope of their TE reporting practices based on the five dimensions introduced in Section 2. In this section, we discuss general assumptions, methodological choices and limitations of our assessment.

## 3.1. Scoring method

The assessment of indicators follows a similar approach to that applied in the Tax Administration Diagnostic Assessment Tool (TADAT).<sup>12</sup> As in the TADAT framework, each of the 25 GTETI indicators is assessed separately (TADAT Secretariat, 2015). The overall score for a dimension is based on the assessment of the individual indicators of the dimension. Most of the indicators are scored on a four-point ‘ABCD’ scale according to specific scoring criteria discussed in the previous section and, more in detail, in the GTETI Scoring Sheet (see Appendix 2). Yet, unlike TADAT, in some cases the scoring structure of the GTETI is modified. For instance, certain indicators include only three possible scores: A, B and C. For example, for Indicator 3.5 *Data sources*, the score A is rewarded if the sources of information used to calculate TE revenue forgone are consistently indicated for all TEs, while the score B is assigned to TE reports that contain some information on data sources but these are unclear for some TEs, and score C qualifies countries without any information on data sources. Likewise, some indicators provide more than four scoring options. For instance, Indicator 5.1. *Disaggregation of revenue forgone* estimates is scored based on a six-point ‘ABCDEF’ scale, as follows:

- A. Revenue forgone estimates are reported by TE for all types of taxes.
- B. Revenue forgone estimates are reported by TE for MOST types of taxes and with aggregates for other types of taxes.
- C. Revenue forgone estimates are reported by TE for SOME types of taxes and with aggregates for other types of taxes.
- D. Revenue forgone estimates are reported aggregated by three or for all four GTED classification categories.<sup>13</sup>
- E. Revenue forgone estimates are reported aggregated by one or two of the four GTED classification categories.
- F. Only a total estimate of revenue forgone is reported.

The interpretation of the scoring scale follows from the conversion formula presented in Box 1. The ideal scenario is always allocated to the score ‘A’. On the other end of the scale, the least ideal scenario, is always allocated to the lowest available score (‘B’, ‘D’, or ‘F’, depending on the scoring scale).

Based on the four-point ‘ABCD’ scale, the interpretation of the scoring scale is as follows:

- ‘A’ represents a level of performance that most closely aligns with the requirements of an ideal scenario. It is based on existing literature and expert views, including those that have been consulted at different stages of the GTETI elaboration process.<sup>14</sup>
- ‘B’ represents a sound performance (i.e. a good level of performance but below the ideal scenario) – some of the conditions needed for an ‘A’ are not met.

<sup>12</sup> Further details about the TADAT framework can be found here (<https://www.imf.org/en/Capacity-Development/Training/ICDTC/Courses/TADAT>).

<sup>13</sup> The four classification categories are: i) Type of tax, ii) Type of TE, iii) Policy goal, and iv) Beneficiaries.

<sup>14</sup> Prior to the official launch of the GTETI in October 2023, two technical meetings were organized in October and December 2022.

- ‘C’ means weak performance relative to the ideal scenario – some of the requirements needed for a ‘B’ or higher are not met.
- ‘D’ denotes inadequate performance and is applied when the requirements for a ‘C’ or higher are not met. Furthermore, the ‘D’ score is given in certain situations where there is insufficient information available to determine the level of performance.<sup>15</sup>

There are two groups of indicators based on different quantitative assessments:

1. For Indicators 4.3. Beneficiaries, 5.1. Disaggregation of revenue forgone estimates and 5.5. Availability of evaluations, the quantitative criteria are split into three options: SOME = <50%, MOST = 50-99%, and ALL =100%.

2. Indicators 4.1. Policy objective and 4.5. Legal reference are split into four options: SOME = <50%, MANY= 50-74%, MOST = 75-99%, and ALL =100%.

The reason is that for the first group we combine the quantitative criteria with qualitative criteria. Hence, adding one additional option for the quantitative aspect would significantly increase the complexity of the scoring system.

Once all indicators are scored independently, the GTETI scores allocated to each indicator are converted into a numerical scale at the level of the five dimensions. Each dimension can receive a maximum score of 20, and each of the five indicators within each dimension can receive a maximum score of 4 (see Box 1). Since the GTETI is based on an equal weighting approach (see Section 3.3.), the final overall GTETI score ranges from 0 (worst possible score) to 100 (best possible score).

### Box 3.1. Conversion formula

This box describes the formula applying to all 25 indicators individually to convert the scores (based on an ‘ABCD’-type of scale) into a numerical scale ranging from 0 (minimum) to 4 (maximum). It also describes how the scores of each dimension as well as the overall GTETI score are computed.

First, a numerical score of 0 is allocated to the lowest possible score for a specific indicator, e.g. ‘D’ in a four-point ‘ABCD’ scale. Then, the distance between the minimum score and the maximum score (4) is cumulatively divided between the remaining scoring options (‘A’, ‘B’ and ‘C’, following the same example), starting with the second last option (‘C’; in this case). Hence, the formula four-point ‘ABCD’ scale is as follows:

$$\begin{aligned}
 D &= 0, \\
 C &= 1 \cdot (4/3) = 1.33, \\
 B &= 2 \cdot (4/3) = 2.66, \text{ and} \\
 A &= 3 \cdot (4/3) = 4
 \end{aligned}$$

When there are only three possible scores (e.g. in the case of Indicators 2.1, 2.2 and 2.3), the total score 4 is assigned to the positive answer (“the TE report must be submitted to Parliament”), and a score of 0 is assigned to the negative answer (there is no such requirement). Hence, the formula is as follows:

$$\begin{aligned}
 C &= 0, \\
 B &= 1 \cdot (4/2) = 2, \text{ and} \\
 A &= 2 \cdot (4/2) = 4
 \end{aligned}$$

The scoring of each dimension is then computed by simply adding the numerical score of each indicator within the dimension. Likewise, the overall GTETI score is computed by simply adding the scores for the five dimensions.

<sup>15</sup> This is particularly relevant for Indicators 2.1 *Legal Requirement* (if there is no information on the law within the TE report and the law could not be found after a reasonable search, the score of indicator 2.1 is D), and 3.1 *Information on TE coverage* (if there is no information whatsoever on types of taxes covered and TEs are only reported by name, then the score of indicator 3.1 is F).

### 3.2. Equal weighting, dependency and interaction between indicators

For most aggregated indexes, weighting is one of the main methodological challenges.<sup>16</sup> The GTETI is based on equal weighting across and within dimensions, i.e. the five dimensions are equally weighted and the five indicators within each dimension as well. The decision of equal weighting was made for the sake of simplicity and methodological parsimony. However, it has some implications worth mentioning.

First, some may want to argue that some dimensions or indicators should have a higher weight than others (differential weighting). For instance, as mentioned above, revenue forgone estimates are a core piece of information of any TE report. It is crucial that these estimates are provided at the individual TE provision level. A report that only provides aggregated information (e.g. by type of tax) is not informative enough and, more importantly, does not allow TE provisions to be properly assessed. Against this backdrop, one could argue that Indicator 5.1. *Disaggregation of revenue forgone* should have a higher weight. While this may appear as a relatively intuitive approach (given the relevance of revenue forgone estimates), the question of how much additional weight would be justified (or how much less weight in the case of other indicators) is already much more complicated and will likely involve a set of rather arbitrary decisions. As a result, differential weighting would significantly increase the overall complexity of the GTETI. This would limit the intuitive appeal and usefulness of the index for stakeholders who are not experts in the TE field. Hence, it would jeopardize one of the main goals of the project: to increase transparency of TEs.

Second, some indicators may interact with each other. For example, the level of aggregation of information provided in the report affects more than one indicator. As shown above, Indicator 5.1. *Disaggregation of revenue forgone* estimates explicitly captures the level of aggregation of revenue forgone estimates.

Countries with disaggregated information receive a higher score. This is also the case for indicators within Dimension 4. Descriptive TE data, for instance, gives higher scores to countries providing disaggregated information about policy goals, type of tax and type of TE, beneficiaries, timeframe and legal reference. Since the level of aggregation of this type of information tends to reflect the level of aggregation of revenue forgone estimates in many reports, one could argue the former affects the latter or, even worse, the respective indicators essentially measure the same phenomenon. We nonetheless believe that the GTETI dimensions and indicators each capture relevant aspects of good TE reporting practices which have a significant impact on their own, independently from each other. Also, values obtained by different countries for different indicators show sufficient variation to justify our choice of indicators.

### 3.3. No assessment of the size of revenue forgone

Unlike the GTED, the GTETI does not capture information on the magnitude of TEs as measured by revenue forgone estimates. Countries are not ranked according to the size of revenue forgone they report. Revenue forgone estimates are, however, considered to assess the degree of detail and precision of different pieces of information in the TE report. For instance, Indicator 4.1. Policy objective is assessed by calculating the share of total revenue forgone for which the policy objective is disclosed, but the size of revenue forgone is not assessed.

Likewise, given huge variations in tax systems and the size of the public sector, we see the challenges of a harmonized approach to reporting TEs (e.g. with regard to benchmarking definitions, which are country-specific) at an international scale. However, we do believe it is possible to agree on good TE reporting standards and best practices. The GTETI puts forward a set of such standards that could and should be adopted by countries worldwide.

<sup>16</sup> Other indices in related fields that face, up to a certain extent, similar methodological challenges are the Open Budget Index by the International Budget Partnership (<https://internationalbudget.org/open-budget-survey/>, accessed 28.09.2023), and the Financial Secrecy Index by the Tax Justice Network (<https://fsi.taxjustice.net/>, accessed 28.09.2023).

In other words, the GTETI does not score countries based on the size of the revenue forgone stemming from the use of TEs, nor on benchmarking decisions or definitions. Instead, the GTETI scores countries' TE reports on a set of objective indicators defining what TE reporting ideally should look like.

### 3.4. Assessment of the TE report, not the TE policymaking process

The GTETI provides a framework to assess TE reporting across countries. On the other hand, it does not score TE policymaking in terms of its design, desirability or the political economy underpinning policy reform. For instance, while dealing with TE evaluations, the GTETI does not score countries according to the outcomes of these evaluations, but rather based on the extent up to which the minimum information regarding such evaluations is provided (or referenced) within the TE report.

As mentioned above, we believe that transparency and comprehensiveness of TE reporting are key elements of the TE policy cycle and, hence, necessary (though not sufficient) steps towards sound evidence-based TE policymaking. Against this background, we do expect countries scoring high on the GTETI to also have TE regimes that better serve their stated purpose. However, analysing these relations goes beyond the scope of the GTETI and should rather be seen as an avenue for future research.

### 3.5. The main TE report and referenced materials

Some countries issue multiple documents with revenue forgone data, and TE reporting is thus not consolidated in one single report but rather scattered across several reports or secondary documents. This is the case in countries such as the Philippines, Ireland and Switzerland where not all relevant TE information is exclusively included in the main TE report but can be found in several secondary documents.

In those cases, the GTETI only assesses the "main TE report". Hence, a key decision to be made in the

respective GTETI assessment regards the identification of the main TE report. If it is not clearly indicated by the name of the document, the main TE report is identified by assessing the scope of revenue forgone data across the different official documents. For this purpose: (i) we prefer reports containing at least one year of backward revenue forgone estimates (i.e. estimates based on recorded tax information instead of forecasts or projections), (ii) we assess the total value of revenue forgone associated with reported TEs, and (iii) we assess the level of disaggregation of TE data (preferring data at the individual TE provision level over aggregated figures).

For information not directly included in the main TE report, we make every effort to incorporate it into the GTETI assessment, provided it is clearly referenced or linked within the main report (see above, Section 2.1.1.).

Information that is often referenced or directly linked to a TE report can include:

- a. Publicly available underlying data (.xls, .csv etc.) – relevant for 1.4. *Online accessibility*,
- b. Legal basis for TE reporting – relevant for 2.1. *Legal requirement* and 2.2. *Submission to parliament*,
- c. Budget documentation and MTS – relevant for 2.4. *Budget cycle integration* and 2.5. *Medium-term strategy integration*,
- d. Methodology used for TE assessment – relevant for 3.2. *Tax benchmark*, 3.3. *Structural reliefs* and 3.4. *Revenue forgone estimation method*,
- e. TE evaluations – relevant for 5.4. *TE evaluation framework* and 5.5. *Availability of TE evaluations*.

### 3.6. Underreporting

The GTED only collects revenue forgone data from official and publicly available TE reports (Redonda et al., 2021). The GTETI follows the same procedure. We do not assess TE reports produced by third party sources, e.g. international organisations or other

research institutions, unless the government is directly involved, e.g. by commissioning such reports and authorising their publication. One of the issues that this approach triggers regards underreporting and its impact on the GTETI coverage. There are two sources of underreporting: first, even when TEs are used widely worldwide, several governments do not report on TEs (109/218 according to the latest GTED data, see Redonda et al., 2024), which directly limits the scope and coverage of the GTETI. Second, it is challenging (if not impossible) to assess how comprehensive TE reports are for reporting countries. The scope of what governments include in the reports depends on several aspects including, in many cases, a high degree of discretion. This type of underreporting is directly related to Indicator 3.1. Information on TE coverage. As discussed before, having an accurate picture of the total range of existing TE provisions in a specific country is a daunting task if it is not clearly stated in the assessed document and goes beyond the scope of this initiative. Hence, Indicator 3.1. Information on TE coverage relies on two types of information: a disclosure statement of coverage in the report and an assessment of whether the main taxes available at the national level are indeed covered in the TE report.



# 4 CONDUCTING THE GTETI ASSESSMENT

As shown in Figure 2, we designed a multi-stage process to minimize the likelihood of human errors and assess countries as objectively as possible.

The GTETI focuses on TE reporting. Yet, some indicators use data sources beyond the specific TE report itself. For instance, Indicators 2.4. Budget cycle integration and 2.5 Medium-term strategy integration do not assess the TE report itself but whether TE-related information (usually included in the TE report) is included in budget documents and medium-term strategies. Most of the indicators study the TE report itself, and hence Stage I of the GTETI assessment identifies all countries that have published an official TE report within the past ten years.

## 4.1. Stage I – Identification of the main TE report

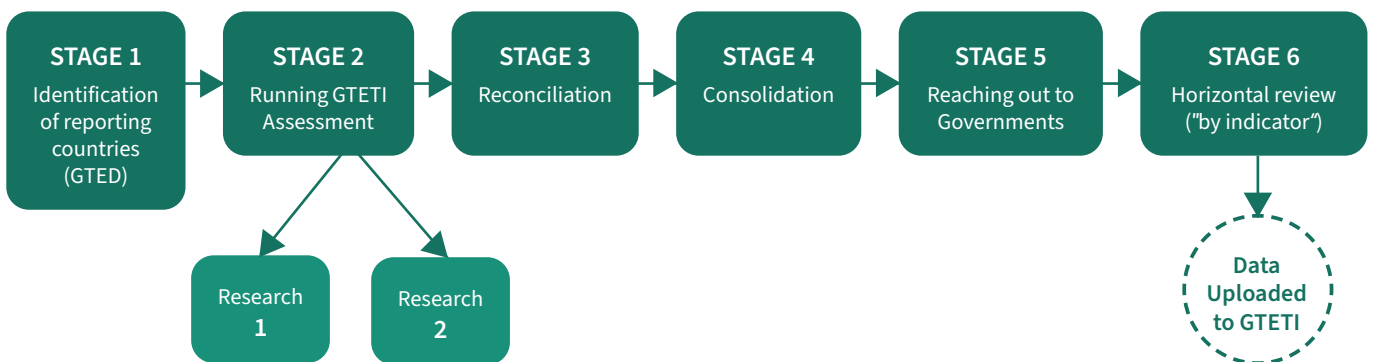
Regarding the identification of the main TE report to be assessed, the GTETI builds on the work done by the GTED. The GTED gathers all official and publicly

available data on TEs worldwide, and continuously identifies and updates the available information for reporting countries (Redonda et al., 2021).

Two technical differences between the GTED and GTETI methodologies are worth discussing. First, whereas the GTED gathers all existing data published since 1990, the GTETI only assesses the latest TE reports issued within the last 10 years.<sup>17</sup> Consequently, a country can be included in the GTED but not considered in the GTETI. To give an example, Nicaragua issued its latest TE report in 2010. Hence, it is considered a reporting country in the GTED but not assessed in the GTETI.

The second difference concerns the identification of the main TE report. The main goal of the GTED is to provide a comprehensive overview of the fiscal cost of TEs in every country. Hence, if multiple TE reports exist, the GTED prioritises covering as much data as possible over the negative impact that the existence of multiple documents can have on transparency. This is different for the GTETI, whose main objective is to assess the quality of TE reporting with a focus on transparency.

**Figure 4.1: GTETI multi-stage assessment process**



<sup>17</sup> For the first edition of the GTETI, released in October 2023, only TE reports published between January 1, 2018, and December 31, 2022, are considered.

Thus, as discussed in Section 2.1.1., the consolidation of all TE information in a single document (the main TE report) is a key factor, which is captured by Indicator 1.5. *Reader-friendliness*.

To summarize, the main sources of information considered for the GTETI assessment are:

- The main TE report and all relevant additional information explicitly referenced therein (including methodology and other secondary documents).
- Additional TE documentation available in the same webpage as the TE report is published, and clearly associated with the TE report (see Sections 2.1.1. and 3.5.).
- Laws and regulations (including publicly available decrees, directives, circulars, etc., as well as third party legal sources providing relevant country-specific analysis).
- Official budget documentation (including budget proposals, and strategy documents).
- Official evaluation documents (including those published by government bodies or agencies).

Once the countries subject to assessment and their main TE reports (including relevant secondary documents explicitly referenced in the TE report) are identified, the GTETI assessment (Stage II) begins.

## 4.2. Stage II – Running the GTETI assessment

Each country is separately assessed by two analysts evaluating the quality of TE reporting by working with the GTETI Scoring Sheet and providing references to publicly available documents when required.

To run the GTETI assessment, each analyst proceeds to fill in the GTETI Scoring Sheet indicator by indicator and based on the GTETI Country Assessment Guidelines. The GTETI Scoring Sheet is an excel spreadsheet with 25 questions (one question per indicator, see Appendix 2). Whereas some questions are defined as Yes/No type of questions (e.g. *Is there a legal requirement to report on TEs?* for Indicator 2.1. *Legal reporting requirement*), others require processing data or information provided by the report which may include calculating shares in some cases. For instance, the question for Indicator 4.1. Policy objective reads *“To what extent is information on the policy objective(s) of available TEs included in the TE report?”*. To answer this question the analyst needs to: (i) identify or compute total revenue forgone, (ii) compute total revenue forgone for TEs with disclosed policy objective(s) and (iii) calculate the share that needs to be reported as the final answer (see Box 2). By going through this process, the analyst needs to provide all relevant sources of information and is encouraged to leave any comments that might be useful to follow the GTETI assessment. The two separate assessments are then reconciled by the GTETI core team (Stage III).

### Box 4.1. Working with the GTETI scoring sheet

The internal GTETI Country Assessment Guidelines provide detailed guidance for analysts to run a comprehensive GTETI assessment indicator by indicator. To illustrate the degree of detail of the guidelines, two excerpts are shown here based on Indicators 2.1. Legal reporting requirement and 4.1. Policy objective.

#### 1. Indicator 2.1. Legal reporting requirement

This indicator assesses if there is a legal requirement explicitly requiring a TE report to be issued and if it defines a specific period when the report needs to be published. Such a legal requirement shall be a concrete clause included in the law, a legal mandate, or a ministerial or parliamentary order to produce such report. Hence, the document may be a law or act, a regulation, a decree, a circular, a parliamentary enquiry or order, etc.

We use two criteria to qualify and score this indicator:

- Criteria 1 [Specificity]: We assess whether there is an obligation to specifically report on TEs. This is different, for instance, from an obligation to provide necessary documentation to support budget transparency, or an obligation

to report on expenditures, in general. Yet, if the latter includes a specific reference to “tax expenditure” reporting, we consider that there is a specific legal requirement to report on TEs.

- **Criteria 2 [Periodicity]:** We consider if the legal requirement to report on TEs calls for regular/periodic reporting. Alternatively, the legal requirement can define a one-off, ad hoc obligation. If there is a clear indication that the reporting obligation is recurrent in time, we consider the legal basis to define a periodic reporting obligation. If the legal basis appears to be limited to a one-off reporting exercise, we consider it an ad hoc/one-off/punctual obligation to report on TEs.

**Finally**, analysts proceed to combining criteria 1 and 2 as follows:

- A) [Specificity]: Yes + [Periodicity]: Yes
- B) [Specificity]: Yes + [Periodicity]: No
- C) There is a legal basis to report, but it is not specific TEs ([Specificity]: No). Otherwise, this score is assigned in cases the TE report does not disclose a legal basis for TE reporting, and no legal basis has been found within the time limit pre-defined in the research guidelines.

**Research Guidelines:**

- The first step regards the identification of any references to the legal requirement within the TE report. These references are usually found in the introductory paragraphs of the report, in the text or in a footnote – or sometimes even on the website where the TE report is published.
- If no reference is provided in the report, the second step regards checking: (i) specific TE reporting laws that are not mentioned in the report itself, (ii) budget laws (including procedure laws and regulations), (iii) government transparency or accountability laws.
  - For EU Member States: Art 14.2 of Directive 2011/85/EU mandates that “Member States shall publish detailed information on the impact of tax expenditures on revenues”. To find the relevant laws in EU member state that transpose this obligation into national law, please consult this link.
- Main places where to look for laws:
  - Parliament or government law repository.
  - Ministry of Finance website – laws and regulations section.
  - Tax authority – laws and regulations section.
- If no reference to the legal framework is made in the TE report, please limit the length of the research to three hours. After that, please select (C) and inform the GTETI core team.

**2. Indicator 4.1. Policy objective**

A clear description of the specific policy objective that motivates a TE is crucial not only to understand what goals the government is trying to achieve through its implementation, but also to define an evaluation strategy, e.g. based on impact evaluations or cost-benefit analysis.

As long as the policy objective is reasonably clear, we do accept any definition provided by the country, even if the definition is rather general. On the other hand, if only a very broad policy objective is provided for all (or for some groups of) TEs, e.g. “VAT rate reductions to promote economic growth” without disclosing specific policy objectives for different TE provisions, the indicator is scored with a ‘D’. In cases where no information on policy objectives is provided in the TE report, the corresponding answer is ‘E’.

To conclude that policy objectives are stated “by TE”, we must observe one of the following two features:

- (i) TE provisions are listed individually, and there is an explicit classification based on different policy objectives (e.g. Portugal, p37, 3rd column), or
- (ii) Individual TEs are grouped by policy objective (e.g. United States, p3-21).

When policy objectives are presented by TE, we distinguish between scoring options (A) through (D) by evaluating the share of total revenue forgone accounted for by all TE provisions with a stated policy objective, as follows:

$$\frac{\sum RF^{PO}}{\sum RF}$$

Where  $\sum RF^{PO}$  is the revenue forgone for a TE provision with a stated policy goal attached, and  $\sum RF$  is the total revenue forgone presented in the report (or the best possible approximation).

After having calculated this share, the indicator is scored as follows:

- A. ALL:** 100% of revenue forgone has a stated policy objective
- B. MOST:** 75%- 99% of revenue forgone has a stated policy objective
- C. MANY:** 50% - 74% of revenue forgone has a stated policy objective
- D. SOME:** less than 50% of revenue forgone has a stated policy objective.

**Additional input:** Upon horizontal review of this indicator, we match TE reports assessed in the GTETI with GTED data. When this matching is possible, GTED data is integrated within GTETI assessment. Dissonances between GTETI and GTED data result in additional review and verification processes.

### 4.3. Stage III – Reconciliation

Once the two independent assessments are finalized, the GTETI core team goes through the scoring outcome and assesses the consistency between the two different sets of scores. In case of discrepancies, the GTETI core team needs to intervene. If the GTETI team decides that the final call is straightforward (for instance, in case of an erroneous calculation), a decision is recorded in the document where both assessments are stored, and the retained score is justified with a statement. If there is no straightforward choice, both analysts are asked to provide further clarification (rationale, documentation that might be missing, etc.) about their decision for a more informed decision to be taken. The outcome of the reconciliation process is a final set of scores based on the most comprehensive supporting documentation available from both researchers, and additional verifications by the GTETI core team.

### 4.4. Stage IV – Consolidation

Once the assessment is reconciled (i.e. all answers match or final decisions have been reached to solve discrepancies), the file is forwarded to an analyst

to produce a final, consolidated version, ensuring consistency in editing, terminology, relevant documentation, and references, to facilitate sharing the final GTETI score with the assessed government. Occasionally, responses where both researchers selected the same score reveal inconsistencies. For instance, both researchers may have chosen an incorrect score based on correct documentation or selected the correct score based on inaccurate data. In such cases, the analyst informs the GTETI core team, and further verifications are conducted to adjust the indicator data accordingly.

### 4.5. Stage V – Reaching out to governments

As soon as GTETI questionnaires are consolidated, we actively seek feedback from the relevant official institution—typically the body responsible for drafting the official TE report, in most instances, the Ministry of Finance. Our initial point of contact is derived from any email addresses found within the TE report. If unavailable, we then consult the relevant official website for contact details.

Should the government’s perspective differ on a specific indicator, we request corresponding documentation or references to substantiate their position. If any discrepancies persist between the government’s view and that of the GTETI team, the matter is forwarded to the Tax Expenditure Lab Advisors for review. In the absence of governmental feedback within the specified window, the given score is deemed accurate and subsequently uploaded to the GTETI platform. However, the GTETI core team remains receptive to post-publication feedback, whether insights, corrections, or other comments, to ensure ongoing accuracy and refinement of our data.

- **Formatting:** In this final phase, the formatting of supporting documentation is reviewed to ensure that the assessments of all countries follow a harmonized procedure that facilitates reader comprehension and data verification.
- **Consistency:** Ensure that, for each indicator, the supporting documentation aligns with the selected score. Ideally, most inconsistencies should have been addressed before this stage. However, if analysts identify scoring or methodological discrepancies, these are resolved during the final review by the GTETI team.

## 4.6. Step VI – Horizontal review

This stage is structured to enable a comprehensive assessment of TE reports across countries, focusing on specific indicators. This „horizontal“ or „by indicator“ review contrasts with the previous „by country“ phase, facilitating comparative analysis across jurisdictions. In Stages II and III, each analyst was assigned a set of specific countries to assess, by covering all 25 indicators. In Stage VI instead, individual indicators are assigned to the different analysts so that they assess them across all countries included in the GTETI.

Additionally, a series of automated checks ensures the consistency of formatting in the underlying supporting documentation. Each indicator is reviewed individually, and any inconsistencies are flagged for further review and potential adjustments.

This final “horizontal review” stage aims to enhance transparency, by enabling a fairer, and more consistent cross-country comparison.

The main objectives of the horizontal review are:

- **Fairness:** Ensuring consistent application of the methodology across all assessed countries is essential. The horizontal review seeks to evaluate similar situations uniformly across countries.

The outcome of the horizontal review stage is the final GTETI dataset and ranking.

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# APPENDIX 1: AN IDEAL TAX EXPENDITURE REPORT

Compared to benchmarking, where national tax systems and preferences play an important role, TE reporting is an area where it is easier to identify good practices and define minimum standards. No matter the exact definition of the benchmark tax system (and the related definition of TEs), the type and scope of the information provided by TE reports can be systematized.

As discussed in the present Companion Paper, the GTETI scores countries according to the regularity, scope and quality of the information provided in their TE reports. This appendix introduces the key elements of good TE reporting. We describe the structure of an ideal TE report by discussing the content of each of its sections and provide a template for revenue forgone estimates and related information.

## 1. Overall Characteristics

### Cover page:

- ✓ Document name
- ✓ Fiscal years covered
- ✓ Publication date
- ✓ Contact details

### Structure overview:

- ✓ Numbered structure
- ✓ Non-technical summary
- ✓ Key sections highlighted

### Acronyms:

- ✓ List of acronyms included

### Format:

- ✓ Downloadable pdf
- ✓ Website html version
- ✓ Machine readable (searchable)
- ✓ Colors are used to highlight sections, tables and figures

### Underlying data:

- ✓ Data analysis format (.xls, .csv etc.)
- ✓ Linked from TE report, or made available on the same web page as the report

## 2. Introduction

A short section providing a high-level discussion of what a TE report is and why it is important as a tool to foster government budgetary and fiscal transparency.

The introduction could include a discussion about:

- ✓ **Legal basis:** Specification of the legal basis or requirement for TE reporting (Law name and date + article or section)
- ✓ **Responsibility and procedural indications:** indication of the agency or institution in charge of preparing the report as well as any obligation in relation to the report (e.g. periodicity of publication, submission to parliament, involvement of other governmental authorities, etc.)
- ✓ **Non-technical summary:** a brief description (using an accessible language) of the main insights from the latest TE report. Additional take-aways can also be highlighted, such as significant impact of new TEs introduced, important changes in the country's TE structure (e.g. increase in PIT tax expenditures vs. CIT tax expenditures), or outcome of recent TE evaluations. A brief discussion of the evolution of TEs over time, e.g. during the last five years could also be included. A discussion about relevant changes since the last TE report (e.g. any new TEs, or provisions that have expired or have been discontinued) is also highly desirable.

### 3. Methodology

This section should include an introduction of the TE concept and a detailed discussion of the benchmark tax system which can be, for instance, structured by type of tax. Any high-level and overarching discussion about the methods and assumptions used for the calculation of revenue forgone estimates should also be included in this section. A disclosure of any data limitations and other potential conceptual and methodological issues should also be clarified.

Some concepts and issues this section should discuss include:

- ✓ **Definition of the TE concept:** Explanation of the TE concept in plain, non-technical terms. Additional information can be provided by citing academic sources and/or guidance by other stakeholders, e.g. regional and/or international organizations.
- ✓ **Scope of TE report:**
  - ✓ **Coverage:** Statement of the comprehensiveness (or lack of comprehensiveness) of the TE report. If the document includes all TEs implemented by the government, this should be explicitly indicated. Otherwise, a statement should indicate that the report only covers a subset of existing TEs, and which ones.
  - ✓ **Estimation:** If the TE report is not exhaustive, and only provides revenue forgone estimates for a subset of all the TE provisions included in the report, it is important to disclose this. Ideally, the report should explain why some TEs are not estimated.
- ✓ **Structural reliefs:** Some countries distinguish TEs (also called non-structural tax reliefs) from structural tax reliefs, i.e. provisions that are deviations from the benchmark tax system, but “are an integral part of the tax system”. These provisions have different purposes, such as to define the scope of the tax or calculate income or profits correctly.<sup>18</sup> If a country does not have any structural relief provisions or do not disentangle between the two concepts, it should be explicitly discussed. If a country does categorize some tax expenditures as structural reliefs, these

provisions should be listed and, ideally, revenue forgone estimates should be provided, as for those provisions classified as TEs, following the template introduced below (Section 5 of this appendix).

- ✓ **Tax benchmark:** General explanation of the benchmark or standard tax system against which TEs are assessed. Where an individual discussion of the benchmark should be provided in Section 5, a high-level discussion of the benchmark, even divided by type of tax is desirable.
- ✓ **Revenue estimation method:** General explanation of the method(s) used to calculate revenue forgone, including key assumptions and clearly stated data sources.

### 4. Statistical Overview

A core piece of information of any TE report regards the presentation of revenue forgone estimates and projections. Hence, as with any data-focused document, a statistical overview to highlight the main overall findings should be included. A non-exhaustive list of potential charts and figures includes the following elements:

- ✓ **Types of taxes:** chart or table summarizing revenue forgone by type of tax, ideally, including time trends.
- ✓ **Policy objectives:** chart or table summarizing revenue forgone by policy objective (or policy objective category, if policy objectives are too specific), ideally, including time trends.
- ✓ **Beneficiaries:** charts or tables summarizing revenue forgone by type of beneficiary, distribution of revenue forgone by beneficiary (e.g. how many beneficiaries benefit from tax breaks above EUR 1 million, how many benefit from tax breaks between 1M and 500 000 etc.), ideally, including time trends.
- ✓ **Evaluations:** charts or tables presenting TEs evaluated by type of tax, evaluation outcomes (amount of revenue forgone linked to negatively evaluated TEs vs. positively evaluated vs. inconclusive), ideally, including time trends.

<sup>18</sup> UK Parliament Treasury Committee (2023), <https://publications.parliament.uk/pa/cm5803/cmselect/cmtreasy/723/report.html#heading-0>.



**5. Revenue forgone estimates and companion information**

relevant accompanying information in the TE report are provided at the individual TE provision level. Ideally, every TE provision should have a fact sheet with the following information:

As previously mentioned, it is crucial the revenue forgone estimates and projections together with

|   |                |     |                  |     |     |   |     |     |     |     |
|---|----------------|-----|------------------|-----|-----|---|-----|-----|-----|-----|
| TE name   |                |     |                  |     |     |   |     |     |     |     |
| TE identification number  |                |     |                  |     |     |   |     |     |     |     |
| Description   |                |     |                  |     |     |   |     |     |     |     |
| Policy objective  |                |     |                  |     |     |   |     |     |     |     |
| Budgetary category  |                |     |                  |     |     |   |     |     |     |     |
| Targeted beneficiaries  |                |     |                  |     |     |   |     |     |     |     |
| Number of beneficiaries   |                |     |                  |     |     |   |     |     |     |     |
| Benchmark definition  |                |     |                  |     |     |   |     |     |     |     |
| Legal reference   |                |     |                  |     |     |   |     |     |     |     |
| Type of tax   |                |     |                  |     |     |   |     |     |     |     |
| Type of TE  |                |     |                  |     |     |   |     |     |     |     |
| Timeframe   | Entry in force |     | Date             |     |     |   |     |     |     |     |
|   | Expiration     |     | Date / permanent |     |     |   |     |     |     |     |
| Revenue forgone estimates and projections (absolute value, in local currency) | t-5            | t-4 | t-3              | t-2 | t-1 | t | t+1 | t+2 | t+3 | t+4 |
|   |                |     |                  |     |     |   |     |     |     |     |
| Estimation method*  |                |     |                  |     |     |   |     |     |     |     |
| Data sources*   |                |     |                  |     |     |   |     |     |     |     |
| Last evaluation/ evaluation schedule**  |                |     |                  |     |     |   |     |     |     |     |

\* When a TE report only uses one method to calculate revenue forgone, and/or only uses a single data source, it is not necessary to specify these at the individual TE provision level, but this should be explicitly mentioned in the report.

\*\* Including reference / link to the latest evaluation report and summary of key findings

**TE name:** Ideally, the TE name already provides relevant information and is sufficiently specific to differentiate this TE from other similar TE provisions.

**TE identification number:** Ideally, a unique identifier is given to each TE. This allows identifying provisions within the TE report and, more importantly, to keep track of changes over time.

**Description:** A detailed and comprehensive description is crucial since the TE name is not always self-explanatory.

**Policy objective:** Governments worldwide implement TEs to pursue different policy objectives such as attracting FDI, boosting R&D and innovation, tackling inequality and greening the economy. A clear definition of the policy goal is not only crucial to understand what the government is trying to achieve, but also to conduct a sound ex-post evaluation. Ideally, the description of the policy goal should be comprehensive and detailed, and whenever possible, contain specific indicators of success. It should avoid abstract notions such as “boosting economic activity” or “supporting a specific sector or region”.

**Budgetary category:** Ideally, TE reports should classify every TE provision by budgetary category to which they are attributable (education, health, defence, etc.), and if possible, follow the same classification of government expenditure data used by the country, e.g. COFOG. This is crucial, for instance, to classify TEs in accordance with direct spending entitlements and, hence, to better integrate them with the budget, but also to get a clear picture of expenditure strategies (including both direct and tax expenditure) for specific budget categories.

**Targeted beneficiaries:** Ideally, TE reports should classify every TE provision by beneficiary group (corporations, SMEs, individuals, households, self-employed, etc.).

**Number of beneficiaries:** Whenever possible, the number of beneficiaries should be provided. This is a relevant piece of information for governments to monitor take-up ratios, but also to put the magnitude of the revenue forgone in context.

**Benchmark definition:** TEs are defined as a departure from the baseline tax structure, i.e. as deviations from a country-specific benchmark tax system. Hence, clearly defining the benchmark is a necessary first step to identify the deviations that should be classified as TEs, and, hence, estimated and included in the TE report.

**Legal reference:** Ideally, TE reports should include the reference to the legal provisions underlying all individual TEs. The reference should be as precise as possible, including not only the name/reference code of the law or act but also the relevant article/section within the law or act.

**Type of tax:** Ideally, TE reports should classify every TE provision by the type of tax upon which they are applied (PIT, CIT, VAT, excise taxes, etc.)

**Type of TE:** Ideally, TE reports should classify every TE provision by the mechanism through which they are granted (exemption, reduced rate, deduction, credit, deferral, etc.)

**Revenue forgone estimates and projections:** Revenue forgone estimates are a core element of TE reports. They are not only necessary to assess the impact of the use of TEs on public coffers, but also to conduct cost-benefit analyses, which are, in turn, one of the main inputs for evidence-based policy making. While some countries only provide estimates for the year in which the report is published (t), ideally reports should also include a backward-looking component providing estimates for, at least, the five most recent years (t-5).<sup>19</sup> Likewise, it should include projections for, at least, the four years following the year of publication (t+4).

<sup>19</sup> Data for the year of publication, t, is considered a projection since, very often, TE reports are published before the end of the fiscal year and, thus, the data for the entire fiscal year needs to be forecasted. In very limited cases, the TE report is published at the very end of fiscal year. In these cases, the data is provisional since there are always pending claims and issue resolutions. In order to simplify the assessment process, if a report is published before the end of a fiscal year, revenue forgone values for that fiscal year are considered projections.

**Timeframe:** It is important to understand the evolution of TEs over time. The report should contain the dates when the TE enters in force and when it expires (if an expiry date or sunset clause is defined). The latter is crucial to avoid TE provisions to remain stuck in the tax code even when the original rationale for their implementation has disappeared (e.g. due to changes in economic structure).

**Revenue forgone estimation method:** In most cases, and probably because of its relative simplicity, TEs are estimated and reported based on the revenue forgone approach – a method that compares actual revenue collection with the revenue that would have been collected without the provisions in place, assuming unchanged taxpayers' behaviour and unchanged revenues from other taxes. Yet, revenue forgone can be estimated employing different models or approaches, e.g. processing of actual tax return data, microsimulation, etc. Moreover, the report should include any relevant assumptions that may have been used to compute the revenue forgone estimates.

**Data sources:** Data sources should be disclosed so that interested stakeholders can understand the data that was used and, replicate the estimates if they choose to do so.

**Last evaluation/evaluation schedule:** Identifying and estimating the fiscal cost of TEs should not be seen as the final objective but rather as a necessary step to assess their effectiveness and efficiency, which, in turn, should be a priority for policy makers. Ideally, the report should include the latest evaluation of each TE provision (or a reference, including the document name and location as well as the hyperlink to access it), with a reference to the year when the evaluation was conducted and a short summary of the main findings or, at least, an indication of the final outcome, e.g. positive / negative / inconclusive.

## 6. TE evaluation

This section should discuss in detail an ex-ante assessment and ex-post evaluation framework. Whereas ex-ante assessments and ex-post evaluations are different in their objectives and methodological set-up and take place at different stages within the TE policy cycle (see Figure 1), they are highly interconnected. In most cases, ex-ante assessments are designed as qualitative/descriptive analysis tools seeking to assess the implementation of a new TE provision with respect to its relevance and potential effects. In contrast, ex-post evaluations require a minimum analysis of the costs and benefits triggered by an individual TE provision (Redonda et al., forthcoming). Ideally, ex-ante assessments should provide the baseline data against which the impact of TEs can later be evaluated.

Ideally, this section should also include the evaluations that were conducted since the publication of the previous report, or references (including hyperlinks) to the respective documents. Incidence analysis is a case in point. Whereas assessing the distribution of revenue forgone (by income deciles, gender or sectors) cannot be considered a proper evaluation of costs and benefits, it can still be a highly useful piece of information provided at a relative low cost if tax administrative data is available. Some countries such as Australia, Canada and Mexico include incidence analyses in their TE reports.

Moreover, the report should include detailed information on the evaluation schedule for the coming years.

# APPENDIX 2: GTETI SCORING SHEET

## Dimension 1: Public Availability

### Indicator 1.1: Frequency and Regularity

#### How regularly and frequently are TE reports published?

- A) TE reports are published annually, at a regular pace.
- B) Reports are published every 2 years, at a regular pace; OR Reports are published every year at a generally regular pace.
- C) Reports are published every 3 or more years, at a regular pace; OR Reports are published every 2 years at a generally regular pace; OR Reports are published every year (annually), at an irregular pace.
- D) Reports are published every 3 or more years, at a generally regular pace; OR Reports are published every 2 years at an irregular pace.
- E) Reports are published every 3 or more years at an irregular pace.

#### Supporting documentation:

Date of report(s) published in 2022 (if any):

Date of report(s) published in 2021 (if any):

Date of report(s) published in 2020 (if any):

Date of report(s) published in 2019 (if any):

Date of report(s) published in 2018 (if any):

Date of report(s) published in 2017 (if any):

Date of report(s) published in 2016 (if any):

Date of report(s) published in 2015 (if any):

Date of report(s) published in 2014 (if any):

Date of report(s) published in 2013 (if any):

Median frequency of publication of reports:

Number of times that the country missed an expected publication:

How regular is the publication of TE reports?

### Indicator 1.2: Timeliness

#### Does the report (published in fiscal year t) provide data for the most recent fiscal year (t-1)?

- A) Yes, the report provides data for the most recent fiscal year (t-1).
- B) No, but the report provides data for the fiscal year before the most recent one (t-2).
- C) No, the report does not provide data for the most recent fiscal years.

#### Supporting documentation:

Date in which the latest TE report was published:

Fiscal year in which the latest TE report was published (t):

Most recent fiscal year (t-1):

Does the report contain RF data for (t-1)?

Does the report contain RF data for (t-2)?

### Indicator 1.3: Visibility

#### To what extent do public authorities promote the visibility of TE reports?

- A) TE reports are available in an online repository AND there is an official press release that is dedicated to the latest TE report.
- B) TE reports are available in an online repository AND there is an official press release related to TEs where the latest TE report is mentioned.
- C) TE reports are available in an online repository (but no press releases mentions the latest TE report).
- D) There is no repository for TE reports (regardless of press releases).

#### Supporting documentation:

Link to press section of the publishing website:

Link to press section of the Ministry of Finance (if different):

Is there a press release mentioning the latest TE report?

Is such press release dedicated to the latest TE report?

Is there a public online repository for TE reports?

Does the online repository contain all existing TE reports?

### Indicator 1.4: Online Accessibility

#### How accessible is the TE report and its underlying data online?

- A) [TE report found via official website search functionality AND Report accessible under 5 clicks from homepage] AND Data is accessible in usual data analysis formats
- B) [TE report found via official website search functionality OR Report accessible under 5 clicks from homepage] AND Data is accessible in usual data analysis formats
- C) [TE report found via official website search functionality AND Report accessible under 5 clicks from homepage] BUT no Data is accessible in usual data analysis formats
- D) [TE report found via official website search functionality OR Report accessible under 5 clicks from homepage] BUT no Data is accessible in usual data analysis formats / OR / the Data is accessible in data analysis formats BUT the TE report cannot be found online, NEITHER through the official website search functionality NOR within five clicks of the homepage.
- E) The TE report cannot be found online, NEITHER by searching official websites the usual TE expression NOR within five clicks of the official website homepage.

#### Supporting documentation:

Usual expression for „Tax Expenditure“ (TE):

Publishing Institution:

Click Path to Report:

Can the TE report be reached in less than 5 clicks from the homepage?

Is the data of the TE report available in data analysis format (xls., csv.,...)?

Can the TE report be found when searching for the usual TE expression on the official website?

Is the data file accessible in the same website as the TE report (or linked therein)?

Does the data file contain at least the same numerical information on TEs that is provided in the main TE report?

## Indicator 1.5: Reader-friendliness

### To what extent is the report designed to be understandable for everyone?

- A) TE reporting is consolidated in a single document, AND contains a summary of its main findings, AND all acronyms are explained, AND the TE report itself or a version of it is formatted for impaired individuals.
- B) TE reporting is consolidated in a single document, AND contains a summary of its main findings, AND all acronyms are explained.
- C) TE reporting is consolidated in a single document, AND contains a summary of its main findings OR all acronyms are explained.
- D) TE reporting is spread across multiple documents (non-consolidated), AND one of the reports contains a summary of its main findings, AND all acronyms are explained. /OR/ TE reporting is consolidated, but the report does not contain a summary NOR acronyms are explained.
- E) TE reporting is non-consolidated, and none of the reports presents both a summary of main findings and an explanation of acronyms (i.e. none of the above).

### *Supporting documentation:*

Is the report one single document?

Does the TE report contain a summary?

How does the TE report explain acronyms?

Is the TE report machine-readable/searchable? (not considered in score)

Is the TE report made available in HTML format? (website view with adjustable font size)

Is the structure of the TE report apparent? (titles and sections clearly shown)

Does the TE report, in any of its formats, use colours to highlight?

Is the TE report or a version of it available in a format for visually impaired individuals?

## Dimension 2: Institutional Framework

### Indicator 2.1: Legal Requirement

#### Is there a legal requirement to report on TEs?

- A) There is a legal requirement to periodically report on TEs.
- B) TE reporting is done following an ad hoc, one-off, legal obligation.
- C) There is no indication of a legal requirement to specifically report on TEs.

#### *Supporting documentation:*

- Does the report indicate a legal requirement to report on TEs?
- Does the legal basis specifically mention an obligation to report on tax expenditures?
- Does the legal basis require that TE reporting is done periodically?
- Is the legal requirement specific to a single report (ad hoc, one-off req.)?
- Does the report indicate a legal requirement to report on TEs?

### Indicator 2.2: Submission to Parliament

#### Is the TE report required to be presented to the Parliament?

- A) Yes, there is a legal requirement to submit the TE report to the Parliament AND there are indications of ,de facto‘ submission.
- B) Yes, there is a legal requirement to submit the TE report to the Parliament OR there are indications of ,de facto‘ submission.
- C) No, there are no indications that the TE report is submitted to the Parliament.

#### *Supporting documentation:*

- Does the report state that it is submitted to the parliament?
- Is the report part of or an appendix to a document that is submitted to the Parliament?
- Does the legal basis include a requirement to submit the TE report to Parliament?

### Indicator 2.3: Reporting Responsibility

#### Is TE reporting assigned to a specific Government ministry, agency or commission?

- A) Yes, the government institution or agency in charge of TE reporting is clearly indicated in the law requiring TE reporting AND in the TE report itself.
- B) Yes, the government institution or agency in charge of TE reporting is clearly indicated in the law requiring TE reporting OR in the TE report itself.
- C) No, there is no indication of the government institution, agency or commission responsible for TE reporting.

#### *Supporting documentation:*

- Does the report indicate reporting responsibility?
- Does the legal requirement indicate reporting responsibility?
- Who is responsible for TE reporting? (e.g. ministry, agency, special unit.. name)

### Indicator 2.4: Budget Cycle Integration

**Does the Executive's Budget Proposal or any supporting budget documentation present information on tax expenditures for at least the budget year?**

- A) Yes, information beyond the core elements is presented for all tax expenditures
- B) Yes, the core information is presented for all tax expenditures.
- C) Yes, information is presented, but it excludes some core elements or some tax expenditures.
- D) No, information related to tax expenditures is not presented.

*Supporting documentation (only if there is no OBS data):*

Is the Executive's Budget Proposal (EBP) public?

Does the EBP contain a statement of purpose or policy goal for (both new and existing) TEs?

Does the EBP contain a listing of the intended beneficiaries for (both new and existing) TEs?

Does the EBP contain an estimate of the revenue forgone for (both new and existing) TEs?

Does the EBP present information on TEs beyond the core elements above (e.g. benchmark, assumptions etc.)?

### Indicator 2.5: Medium-Term Strategy Integration

**Does the medium-term strategy, if any, include information on tax expenditures?**

- A) YES, the medium-term fiscal strategy sets guidelines with regard to the size AND policy objectives (e.g. distributional impact, etc.) of tax expenditures.
- B) YES, the medium-term fiscal framework sets guidelines on EITHER tax expenditures size OR TE policy objectives.
- C) YES, BUT the medium-term strategies merely mentions tax expenditures (without discussing policy objectives or size of TEs)
- D) NO, TEs are not even mentioned in the MTS / OR / The country does not produce a medium-term fiscal strategy.

*Supporting documentation:*

Does the country have a medium-term strategy document?

Are TEs explicitly mentioned in the medium-term strategy document?

Are TEs policy objectives considered in the medium-term strategy?

Are guidelines on TEs size (i.e. with respect to revenue forgone) considered in the medium term strategy?



## Dimension 3: Methodology and Scope

### Indicator 3.1: Information on TE Coverage

#### To what extent does the TE report cover all Tax Expenditures available at the national level?

- A) The report indicates that all existing TEs are covered.
- B) [The report provides a specific explanation of which TEs are covered] AND [All types of taxes available at the national level are considered in the report]
- C) [The report provides a general explanation of which TEs are covered] AND [All types of taxes available at the national level are considered in the report]
- D) [The report provides an explanation\* of which TEs are covered] AND [Certain types of taxes available at national level are missing from the report]
- E) [All types of taxes available at the national level are considered in the report] AND [No TE coverage disclosure]
- F) [Certain types of taxes available at national level are missing from the report] AND [No TE coverage disclosure]

#### *Supporting documentation:*

- Does the report clearly state that all existing TEs are covered?
- Does the report explain to what extent existing TEs are covered?
- Is the explanation of TE coverage general or specific?
- Are personal income taxes (PIT) covered?
- Are corporate income taxes (CIT) covered?
- Are goods and services taxes (GST) covered?
- Are Value-Added Taxes (VAT) covered?
- Are customs tariffs covered?
- Are excise taxes covered?
- Are property or wealth taxes covered?
- Are payroll taxes covered?

### Indicator 3.2: Tax Benchmark

#### To what extent is the tax benchmark used to assess TEs specified in the report?

- A) The benchmark is specified by TE AND International treaties are considered (if any)
- B) Tax benchmark specified by type or tax and/or type of TE AND International treaties considered (if any) / OR / The benchmark is specified by TE BUT available international treaties are not considered.
- C) There is only a general TE definition/overall benchmark description AND international treaties are considered (if any) / OR / The benchmark is explained by type of tax or type of TE AND international treaties are not considered.
- D) No tax benchmark description is provided / OR / There is only a general TE definition/overall benchmark description AND international treaties are NOT considered (if any)

#### *Supporting documentation:*

- Is the tax benchmark specified by TE provision?
- Does the report provide tax benchmark information by type of tax?
- Does the report include an overall description of the tax benchmark and/or a definition of TE?
- Are international treaties mentioned in the report?
- Is the tax benchmark specified by TE provision?

### **Indicator 3.3: Structural Reliefs**

**To what extent does the report include information on alterations to the benchmark that are not considered TE? (i.e. structural relief)**

- A) The report provides general criteria for structural relief AND lists individual structural relief provisions AND includes revenue forgone estimates for such provisions.
- B) The report provides general criteria for structural relief AND lists individual structural relief provisions
- C) The report only provides general criteria to consider a preferential tax provision as structural relief.
- D) The report does not provide any explanation or specification of preferential tax provisions that are excluded from the definition of TE (structural relief).

*Supporting documentation:*

Does the report provide general criteria to consider a preferential tax provision as structural relief?

Does the TE report list structural reliefs individually?

Are revenue forgone estimates provided for structural reliefs?

### **Indicator 3.4: Revenue Forgone Estimation Method**

**To what extent does the report specify the method used to calculate revenues forgone?**

- A) The TE report uses different revenue forgone estimation methods, and consistently specifies such methods by TE, type of tax or type of TE, OR, the TE report indicates the uses of only one revenue forgone estimation method / AND necessary economic assumptions are stated.
- B) The TE report uses different revenue forgone estimation methods, and specifies such methods by TE, by type of tax or by type of TE, OR, the TE report indicates the use of only one revenue forgone estimation method / AND necessary economic assumptions are NOT stated.
- C) The method(s) used to calculate revenue forgone are not specified in the report, or they are indicated inconsistently (only for some TEs or groups of TEs).

*Supporting documentation:*

Does the report explain the method(s) used to estimate revenue forgone (e.g. in the introduction or method section)?

Does the report use a single method or various methods?

Does the report consistently explain the revenue estimation method used by type of tax, type of TE or by TE?

Backward revenue forgone estimates, are economic assumptions specified?

Forward revenue forgone estimates, are economic assumptions specified?

### **Indicator 3.5: Data Sources**

#### **Does the report specify the data sources used to calculate revenue(s) forgone?**

- A) The data source(s) is(are) clearly indicated in the TE report, specifying all sources used (generally, by type of tax or by TE)
- B) The report provides some indications on the data source(s) used, BUT data sources are unclear for some types of taxes, or TEs.
- C) The TE report does not disclose its data sources.

#### *Supporting documentation:*

Are data sources mentioned in the „Methodology“ section?

Does the report rely on a single source or various data sources?

How are data sources stated in the report (by TE, by type of tax, by type of TE...)?

Are data sources for some TEs unclear?

## Dimension 4: Descriptive TE data

### Indicator 4.1: Policy Objective

**To what extent is information on the policy objective(s) of available TEs included in the TE report?**

- A) By TE provision, the report includes information on TE policy objectives, for ALL TEs.
- B) By TE provision, the report includes information on TE policy objectives, for MOST TEs
- C) By TE provision, the report includes information on TE policy objective, for MANY TEs
- D) By TE provision, the report includes information on TE policy objective, for SOME TEs // OR The report only includes information on the TE policy objectives for groups of TE provisions without specifying policy objectives by TE.
- E) The TE report does NOT include information on TE policy objectives.

*Supporting documentation:*

Does the report explain the objective of specific TE provisions?

[1] Total revenue forgone for all TEs

[2] Revenue forgone for TEs presenting policy objectives

[2] divided by [1]

To what extent are policy objectives (PO) stated for specific TE provisions?

Otherwise, are overall policy objectives for TEs mentioned?

Are overall policy objectives for TEs mentioned?

### Indicator 4.2: Type of Tax and Type of Tax Expenditure

**To what extent is information on the type of TE included in the TE report?**

- A) By TE provision, the report includes information on the type of tax AND the TE mechanism used
- B) TEs are presented by type of tax AND for some types of tax, the different types of TE mechanisms are specified (if any)
- C) TEs are presented by type of tax without indicating the types of TEs available within OR TEs are presented by type of TE but relevant taxes are not always specified.
- D) TEs are assessed in bulk, without differentiating the types of taxes or TEs

*Supporting documentation:*

Does the report specify the different types of taxes where TEs are available?

Does the report specify the TE mechanisms used in different TEs?

Is information on types of taxes and types of TEs provided by TE provision?

Are TEs assessed in bulk, without distinguishing types of taxes or types of TEs?

### **Indicator 4.3: Beneficiaries**

#### **To what extent is information on beneficiaries of existing TEs included in the TE report?**

- A) By TE provision, the report includes information on the number of beneficiaries, for ALL TEs AND target groups are specified.
- B) By TE provision, the report includes information on the number of beneficiaries, for MOST TEs AND target groups are specified.
- C) By TE provision, the report includes information on the number of beneficiaries, for SOME TEs AND target groups are specified.
- D) The report only includes some information on target groups, BUT no numbers of beneficiaries are provided.
- E) The TE report does NOT include information on beneficiaries.

#### *Supporting documentation:*

Does the report state the beneficiaries target groups?

Does the report include the number of beneficiaries by TE provision?

[1] Total revenue forgone for all TEs

[2] RF associated with TEs for which the number of beneficiaries is provided

[2] divided by [1]

To what extent is the number of beneficiaries (NB) stated for specific TE provisions?

### **Indicator 4.4: Timeframe**

#### **To what extent does the report provide information on the period over which TEs are legally in force?**

- A) By TE provision, the report includes information on applicable timeframes.
- B) The TE report provides some indications of TE timeframes, inconsistently.
- C) No indications of applicable timeframes are provided in the TE report.

#### *Supporting documentation:*

Does the report include any information on TE timeframes?

Is information on applicable timeframes specified for by TE provision?

Is timeframe information provided inconsistently for some groups of TEs or specific TE provisions?

### **Indicator 4.5: Legal Reference**

#### **To what extent are legal references for available TEs included in the TE report?**

- A) By TE provision, the report includes SPECIFIC legal references information, for ALL TEs.
- B) By TE provision, the report includes SPECIFIC legal reference information, for MOST TEs.
- C) By TE provision, the report includes SPECIFIC legal reference information, for MANY TEs.
- D) By TE provision, the report includes SPECIFIC legal reference information, for SOME TEs.
- E) The report only includes GENERAL legal reference information, either by TE or by groups of TE provisions.
- F) The TE report does NOT include legal reference information.

#### *Supporting documentation:*

Are specific legal references (i.e. Law name or code + Article or section) provided for at least some TE provisions?

[1] Total revenue forgone for all TEs

[2] RF associated with TEs for which specific legal references are provided

[2] divided by [1]

To what extent are specific legal references (LR) stated for TE provisions?

Otherwise, are general legal references (e.g. Law name) provided for specific TEs or groups of TEs?

## Dimension 5: TE Assessment

### Indicator 5.1: Disaggregation of Revenue Forgone Estimates

#### How is revenue forgone data presented in the TE report?

- A) By TE for all types of taxes.
- B) By TE for MOST types of taxes and with aggregates for other types of tax.
- C) By TE for SOME types of taxes and with aggregates for other types of tax.
- D) Aggregated by 3 or 4 out of 4 aggregation categories.
- E) Aggregated by 1 or 2 out of 4 aggregation categories.
- F) Only a total estimate of revenue forgone is reported.

#### Supporting documentation:

Does the report present provision-level revenue forgone (RF) data?

[1] Total revenue forgone for all TEs

[2] RF associated with TEs presenting provision-level RF data

[2] divided by [1]

Does the report provide aggregate RF estimates by Policy Objective?

Does the report provide aggregate RF estimates by Type of Tax?

Does the report provide aggregate RF estimates by Type of TE?

Does the report provide aggregate RF estimates by Type of Beneficiary?

To what extent does the TE report provide aggregate RF data?

### Indicator 5.2: Backward Revenue Forgone Estimates

#### To what extent is backward revenue forgone data provided in the TE report?

- A) Backward estimates covering five (5) or more fiscal years are provided in the report
- B) Backward estimates covering four (4) fiscal years are provided in the report
- C) Backward estimates covering three (3) fiscal years are provided in the report
- D) Backward estimates covering two (2) fiscal years are provided in the report
- E) Backward estimates covering only one year are provided in the report
- F) No backward estimates are provided in the report

#### Supporting documentation:

Date of publication of the last TE report (see indicator 1.1):

Most recent fiscal year („t-1“, see indicator 1.2):

For how many years are backward estimates provided in latest report?

### Indicator 5.3: Forward Revenue Forgone Forecasts

#### To what extent is forward revenue forgone data provided in the TE report?

- A) Forward estimates covering five (5) or more fiscal years are provided in the report
- B) Forward estimates covering four (4) fiscal years are provided in the report
- C) Forward estimates covering three (3) fiscal years are provided in the report
- D) Forward estimates covering two (2) fiscal years are provided in the report
- E) Forward estimates covering only one year are provided in the report
- F) No forward estimates are provided in the report

*Supporting documentation:*

Date of publication of the last TE report (see indicator 1.1):

Fiscal year in which the latest TE report was published („t“, see indicator 1.2):

For how many fiscal years are forward-looking projections provided in the latest report?

### Indicator 5.4: TE Evaluation Framework

#### To what extent is information on TE evaluation frameworks available in the TE report(s)?

- A) Information on BOTH Ex-ante AND Ex-post TE evaluation frameworks is contained or clearly referenced in the report.
- B) Information on EITHER Ex-ante OR Ex-post TE evaluation frameworks is contained or clearly referenced in the report.
- C) Information on TE evaluation frameworks is not contained or clearly referenced in the report.

*Supporting documentation:*

Does the TE report include or reference information on the TE evaluation framework?

Does the report provide information on existing frameworks for Ex-ante TE evaluation (if any)?

Does the report provide information on existing frameworks for Ex-post TE evaluation (if any)?

(unscored) Is there a separate, unreferenced, document explaining the TE evaluation framework?

### Indicator 5.5: Availability of TE Evaluations

#### To what extent does the TE report include information on publicly available TE evaluations (ex-post)?

- A) TE evaluations follow cost-benefit analysis, AND the scope of evaluation covers ALL TEs.
- B) TE evaluations follow cost-benefit analysis, AND the scope of evaluation covers MOST TEs.
- C) TE evaluations follow cost-benefit analysis, AND the scope of evaluation covers only SOME TEs. / OR / TE evaluations involve incidence analysis AND the scope of evaluation covers ALL or MOST TEs.
- D) TE evaluations involve incidence analysis, AND the scope of evaluation covers only SOME TEs.
- E) TE evaluations are not included or referenced in the latest TE reports (or such evaluations where conducted 5 or more years ago).

*Supporting documentation:*

Are (Ex-post) TE evaluations included or referenced in the latest TE report?

Do the reports published in the 4 years preceding the latest TE report include TE evaluations?

What type of TE evaluations are included in the report?

[1] Total revenue forgone for all TEs

[2] RF evaluated (counting the RF provided in the latest available evaluation of each TE, not beyond 5 years)

[2] divided by [1]

To what extent have TEs been evaluated (Ex-post) over the last 5 years?



# APPENDIX 3: MAIN CHANGES WITH THE GTETI 1.1.

The changes introduced since the GTETI version 1.0 published on October 9, 2023, include both cross-cutting changes as well as indicator-specific modifications. The former ones are as follows:

**Coverage expansion:** A new country, Cyprus (CYP), has been added to the GTETI, bringing the total number of assessed jurisdictions up to 105.<sup>20</sup> Furthermore, five countries – Bolivia (BOL), Denmark (DNK), Ireland (IRL), Finland (FIN), and Japan (JPN) – had their assessments revisited as more comprehensive reports were identified. Although the newly assessed TE reports were already available at the time of the October 2023 index launch, follow-up communications with public authorities and additional research revealed more comprehensive TE reports (published as of December 31, 2022), which have become the focus of these countries’ assessment. It is worth noting that in cases where a country publishes different TE reports (e.g. different institutions publish different TE revenue forgone data), then Governments are free to designate the TE report that is considered the “main” one. In the absence of such an official decision, the contents of each available TE report are contrasted to decide the one that will be the focus of the assessment (see below, section 2.1.1.).

**Standardized supporting documentation:** Each country in the GTETI is assessed along all 25 indicators. These indicators are based on a set of questions and sub-questions, generating a total of 162 datapoints per country. Each datapoint is accompanied by supporting documentation. While this documentation was provided in a narrative format in the GTETI 1.0, it has now been converted into standardized answers. This

is an important feature as it allows automated score checks, ensuring consistency within and between indicators. Moreover, while supporting documentation may still include comments in narrative format, the standardization of all underlying datapoints opens new avenues for the visualisation and use of GTETI data.

**Horizontal review:** As further detailed in Section 4.6., a final research and data verification stage has been introduced where one consultant reviews all country assessments for one specific indicator. This “horizontal” or “by indicator” review not only facilitates the identification of inconsistencies across countries, but also allows for a consistent implementation of the methodological adjustments discussed below.

Indicator-specific changes are discussed in the respective dimension-specific subsections below.

## A.3.1. Changes to Dimension 1. Public availability

Minor changes have been introduced to this dimension, including additional supporting documentation required for Indicators 1.1. *Reporting frequency and regularity*, 1.3. *Visibility*, and 1.4. *Online accessibility*. Guiding questions requiring the additional documentation were added to simplify the implementation of the scoring criteria. For example, where GTETI consultants previously had to assess on a case-by-case basis whether TE reporting was “regular”, “generally regular” or “irregular” (1.1. *Reporting frequency and regularity*), the additional supporting documentation question now explicitly asks for this distinction to be clarified.

<sup>20</sup> Please note that not all jurisdictions listed as reporting countries in the GTED are assessed in the GTETI. Only jurisdictions with reports published in the last 10 years prior to the cutoff date (31 December 2022) are taken into account.

In addition, answer choice D of Indicator 1.4. Online accessibility has been expanded to consider exceptional circumstances, e.g. when the TE information is accessible in data analysis format but the TE report cannot be found online, neither through the official website search functionality nor within five clicks from the homepage. (see Appendix 2: GTETI Scoring Sheet).

Finally, one important change regards consolidation, affecting Indicator 1.5 Reader-friendliness. We consider documents referenced or linked in the main TE report as being incorporated in it. Additionally, we now consider any files directly associated with the TE report that are hosted on the same official webpage where the main TE report is published. This means that although the existence of unreferenced/unlinked documents with additional revenue forgone data is still considered the basis to conclude „non-consolidation“ of TE reporting, we now assess any documents available on the same webpage where the TE report is published to evaluate GTETI indicators (notably, in dimensions 3, 4, and 5), provided they are clearly associated to the „main TE report“. On this note, the fact that a document is part of the same budgetary exercise as the „main TE report“ is not sufficient to conclude that the document is clearly associated to the TE report.

### **A.3.2. Changes to Dimension 2. Institutional framework**

Three changes regarding Indicators 2.1. *Legal basis*, 2.2. *Submission to parliament*, and 2.3. *Reporting responsibility* has been made, which subsequently affect the scoring of this dimension. In 2.1. *Legal basis*, only legal obligations to report specifically on TEs now qualify for the highest score. General requirements of annual reporting without specific reference to TEs are thus now disregarded. As a result of this change, the total scoring options change from ABCD to ABC (see Appendix 2: GTETI Scoring Sheet). In 2.2. *Submission to parliament* and 2.3. *Reporting responsibility*, we conversely added an intermediate scoring option to consider countries presenting indications of legal requirement or factual fulfilment of the criteria, but not both. Thus, the scoring options for these two indicators changed from AB to ABC (see Appendix 2: *GTETI Scoring Sheet*).

### **A.3.3. Changes to Dimension 3. Methodology and scope**

The main changes in this dimension regard the scoring options for Indicator 3.3. *Structural relief*. The scoring options for this indicator were adapted to clearly distinguish information about the benchmark tax system from information about structural reliefs (see Appendix 2: GTETI Scoring Sheet). For example, the specification of a tax benchmark where preferential tax provisions are clearly included (and therefore not considered as TEs), does not qualify as information on structural reliefs. Structural relief provisions must be identified as provisions which are not classified as TEs for specific reasons, e.g. ease of tax administration, elimination of international double taxation, equity or fairness, etc.).

Further, additional requirements to provide supporting documentation were added for Indicator 3.1. Information on TE coverage, without changing the underlying score. The purpose was to clarify and standardize the basis for scoring (similar to 1.1 above, see Appendix 2: GTETI Scoring Sheet).

### **A.3.4. Changes to Dimension 4. Descriptive tax expenditure data**

Although the methodology for this dimension has not changed, the standardization of supporting documentation data resulted in small adjustments across indicators.

### **A.3.5. Changes to Dimension 5. Tax expenditure assessment**

A significant change was made for the assessment of Indicator 5.5. *TE evaluations*. Previously, the two criteria for what constitutes a TE evaluation were that (i) both costs and benefits of one or more TEs had been assessed and (ii) the evaluation had “some statement regarding the desirability of TE(s)” (even if inconclusive). Hence, the “format” of the TE evaluation covering either individual or groups of TEs, was also considered. In the GTETI 1.1., we only consider evaluations by TE. This said, if several TEs are evaluated as a group (e.g. climate related TEs) and we can identify specific TEs among those provisions, we consider those TEs as being evaluated for the purpose of this indicator.

Moreover, we also broadened the definition of what we consider a TE evaluation. For instance, we acknowledge that incidence analysis can also be considered as a sort of TE evaluation, which can be very informative for decisions makers even if arguably less comprehensive than a cost-benefit analysis.

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