The political economy of tax expenditures assessment: case of Morocco and Chad

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Outline

1 - Importance of exemptions in African countries

2 – Tax expenditure assessment in Morocco: origin, results and impact

3 – Tax expenditure assessment in Chad: origin, preliminary results and expected impact

4 - Conclusion

1 Importance of exemptions in developing countries - where

Exemptions are found in:

- ***Ordinary law***: basic products (foods); sometimes cement and concrete bars; extreme case water and electricity
- ***Projects financed by partners*** are (not in every countries) sometimes still exempted
- ***Various Codes***: Investment Code, Mining Code, Petroleum Code – for investment purposes
- ***Ad-hoc Agreements***: Far beyond above exemptions (period covered, VAT included,…); tax system "à la carte": opaque and complex

1 Importance of exemptions in developing countries - consequences

- Loss in revenue – often not known but potentially huge
- Difficult to control (e.g. quantities involved in projects)
- Ad hoc agreements: large distortions between firms, some clauses “illegal”
- Require lot of staff from different Administrations to be managed
- Increase in statutory rates, fuelling demands for exemptions – vicious circle
- Adverse effects (not always) on equity and poverty reduction

1 Importance of exemptions in developing countries – need of assessment

- To assess tax expenditures properly and make the report public (different languages) and easy to access (Internet portal)
- Steering Committee/Structure (different administrations are involved)
- Authorities must define the benchmark legislation (Workshop)
- Assessment of a portion of tax expenditures with future progress, short deadline
- Homogeneity of evaluation guaranteed by a procedure book
- Need to be assessed: Loss in revenue; efficiency (jobs, investments,…); social impact (who benefits from exemptions?)
- Integrate the assessment in the budgetary process

2 Tax expenditure assessment in Morocco: origin

- Till mid-nineties, inward looking development strategy – protectionism – poor results – complex tax system
- EPA in 1996 – agreement active in 2000
- Bilateral agreements (Turkey, USA, Tunisia, Egypt,…
- Tariff revenue 19.3% (2000) to 4.2% (2016) of tax revenue
- Total public revenue 23.6% (2000) to 26.1% (2016) of GDP

2 Tax expenditure assessment in Morocco: origin

- Exemptions were widespread
- Lobbyists very active specially in construction sector (social housing)
- Strong support from EU and IMF
- Decisive leadership by Tax Administration – support from Customs and Statistics
- Long term vision of politicians (polls in Sept 2007)
- 2006: first assessment of Tax expenditures – report attached to the Finance Act – website of Tax Administration

2 Tax expenditure assessment in Morocco: Results

	2006	2010	2012	2013	2014	2015	2016
exemptions identified	405	384	402	412	402	399	407
exemptions assesses	159	225	284	302	300	300	306
Tax expenditures in million dirham	21 456	29 801	36 238	33 284	34 407	31 749	32 423

Tax expenditure in 2016:

3.2% of GDP and 15.2% of tax revenue

VAT: 46.5%, CIT: 15.9%, Stamp and registration duties: 17.7%, PIT: 12.8%, Excises: 4.0%, Tariff: 2.8%

2 Tax expenditure assessment in Morocco: impact

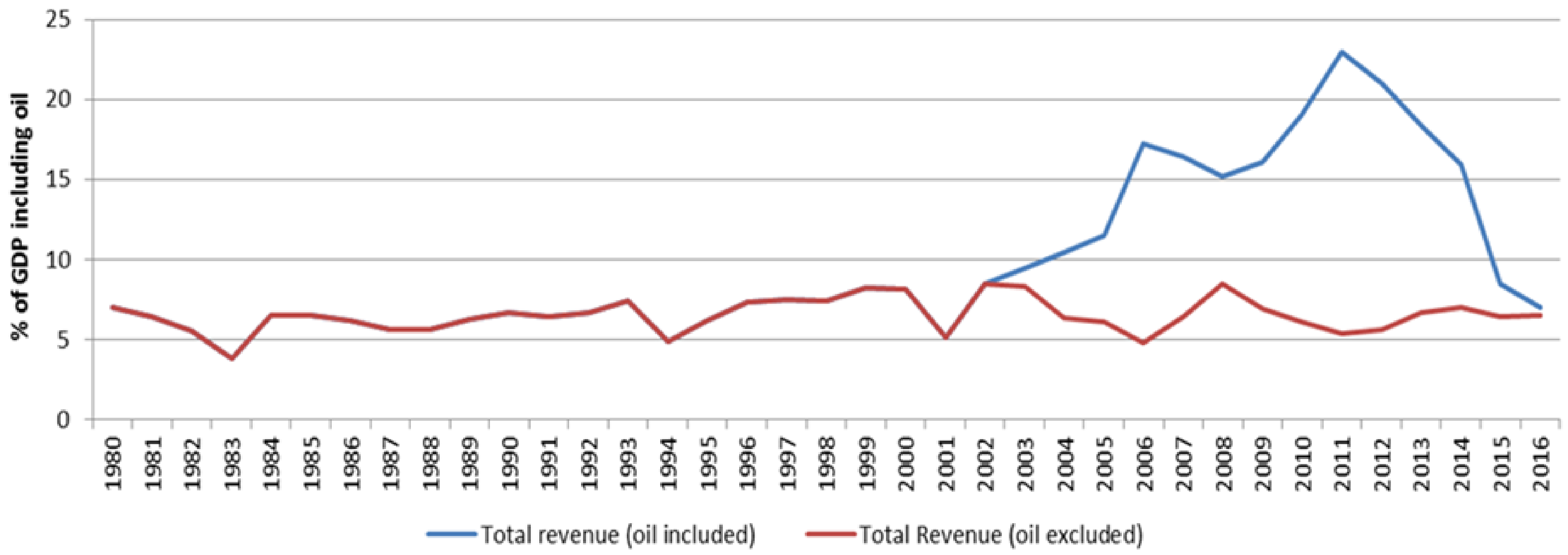
- Results beyond expectations
- 2006 – 2013: no new exemptions granted
- However :
  - Existing exemptions have not been reduced
  - Parliament rejected demand from Tax Administration to reduce exemptions on large consumption goods
- Boost to reforms

3 Tax expenditure assessment in Chad: Origin

- Institutions are weak
- Low administrative capacity (high turnover, Services scattered in N’Djamena
- Major oil shock
- Policy of massive exemptions (ad-hoc agreements
- Low level of non oil revenue (VAT and excises)
- Severe crisis in recent years – wrong response
- Reform is stalled /delayed

3 Tax expenditure assessment in Chad: origin

Evolution of total and non-oil government revenues (1980 – 2016)



Source of data: Ministry of Finance

3 Tax expenditure assessment in Chad: preliminary results

Data from the National Workshop on Tax expenditure

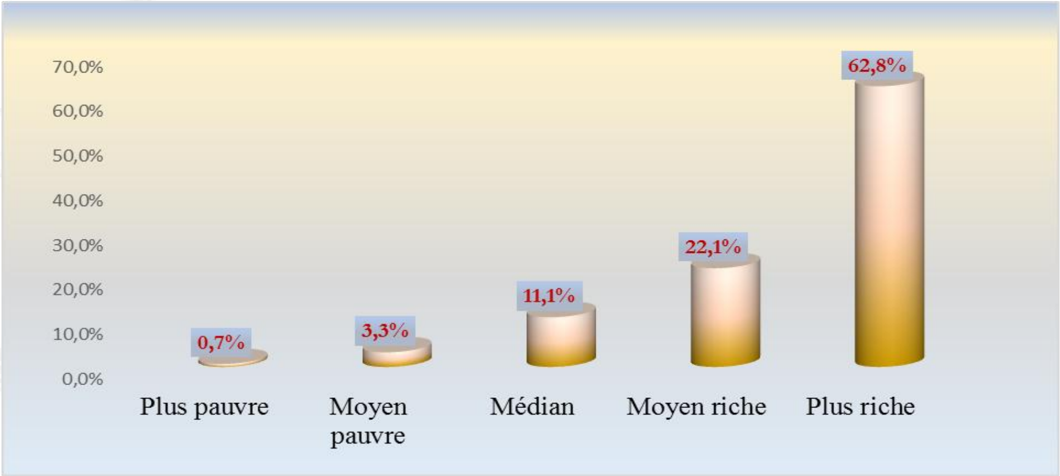
TA on 39 conventions (including tax collected at the border): 13.3% of tax revenue, 1/3 from VAT

Customs on all exemptions at the border: losses greater than tax collected – 35% (gross) of tax revenue

Institute of Statistics

Electricity

(VAT exempted)



3 Tax expenditure assessment in Chad: expected impact

National workshop

- Presentation of the Moroccan case
- had a great impact (Members of government, members of Parliament, civil society, …
- Starting point of an assessment (benchmark legislation; good practice)
- Assessment must identify beneficiaries of exemptions
- Created Momentum for reform:
  - Triggered PIT reform
  - Elimination of “small” ad-hoc taxes
  - Awareness of the poor performance of VAT and the need of reform

Conclusion on tax expenditure assessment

- Unique tool to stop exemptions
- Can be implemented in a weak institutional context – technical assistance
- Create momentum to boost reforms
- Common regional (or larger) framework

Thank you for your attention