



TAX EXPENDITURES

OECD- MENA
EGYPT _ JUNE 19th - 20th

1. Definition

- Tax advantages granted by the state in order to encourage individuals or legal entities, to voluntarily waive a part of its revenue as to achieve a specific objectives.
- Their impact on the state Budget is comparable with that of direct budgetary expenditures

the process of tax expenditures allows to:

- make well founded choices between tax expenditure and direct budgetary expenditure
- Have an instrument of transparency of public finances and help to the decision making process in this field

- ✓ The evaluation of tax expenditures is part of the support program to tax reform by the EU and the international institutions (FMI and world bank)
- ✓ To institute and perpetuate the approach “ tax expenditures” an annual report is from now on accompanying each annual budget law bill

2- The main type of tax expenditures:

- **Total, partial or temporary exemptions**
- **reduced rates**
- **deductions**
- **tax write-off / tax allowances**
- **Presumptive taxation**
- **Provisions**
- **Particular regims (regions, by free zones,...)**
- **Treasury or cash facilities**

3- reference tax system

- **Are considered tax expenditures, tax provisions that drift apart from the reference tax system which has been previously defined**
- **the reference tax system encompass the fundamental regims of the different taxes, considered as part of the “common law”**
- **Tax expenditures represent the quantified gaps against the reference tax system, as loss of revenue that the community has allowed.**

4- Assessment methods

➤ **The assessment methods employed consisted in the estimation of the amount of revenue losses, by measuring ex-post the cost of “the gap to the norm” by assuming that the behavior of the recipients didn’t change**

➤ **Exemptions with compulsory formality:**

The assessment of the budgetary impact is determined from the application for an exemption and the claim for reimbursement

- Exemptions – tax reductions – tax write-of
– deductions:

assessment from taxpayers statements

- Exemption without entitlement to
deduction:

assessment from the non fiscal data

5. Inventory

- **In 2005, an inventory of 337 derogatory provisions has been drawn up**
- **In 2006, the number of derogatory provisions was of 405.**
- **Among these measures, 159 have been assessed and have yielded a total amount of tax expenses of 21.456 MDH (2.6 billion \$).**
- **This amount represents :**
 - **17% of total tax revenue;**
 - **3,7% of GDP.**

Assessment of tax expenditures

YEAR	AMOUNT (M.DH)	% OF GDP (1998)	% TAX REVENUE
2005	15,456	2.9 %	14 %
2006	21,456	3.7 %	17%

Estimation per tax

TAX	NUMBER OF MEASURE	ESTIMATED MEASURES	Estimation (M. DH)	Share
VAT	138	82	11,122	52 %
CT	85	23	3,921	18 %
RSD	99	32	2,522	12 %
IT	74	13	1,887	9 %
ICT	7	7	1,276	6 %
ID	2	2	728	3 %
TOTAL	405	159	21,456	100 %

VALUE ADDED TAX : MAIN MEASURES

Designation	Estimation (Millions DH)	Share
Interest on loans granted to the state and Local community	1,877	16.9 %
Sugar		
- unrefined	592	5.3 %
- refined	352	3.2 %
Meat	788	7.1 %
Social housing	657	5.9 %
Real estate works	599	5.4 %
Petroleum gaz	580	5.2 %
flour	395	3.5 %
Electricity	304	2.7 %
TOTAL	6,144	55.2 %

CORPORATE TAX : MAIN MEASURES

Designation	Estimation (Millions DH)	Share
Provision for investissement	1,375	35.1 %
Export	676	17.2 %
Social housing	364	9.3%
Reduction of 50 % of C.T in Tangier	352	8.9 %
Hotel companies	179	4.6 %
TOTAL	2,946	75.1 %

Income Tax : Main measures

Designation	Estimation (Millions DH)	Share
Farmers	565	29.9 %
Work placement allowance (6,000 DH)	360	19.1 %
Reduction of 40 % on real estate revenue	147	7.8 %
TOTAL	1,072	56.8 %

Registration duties : Main measures

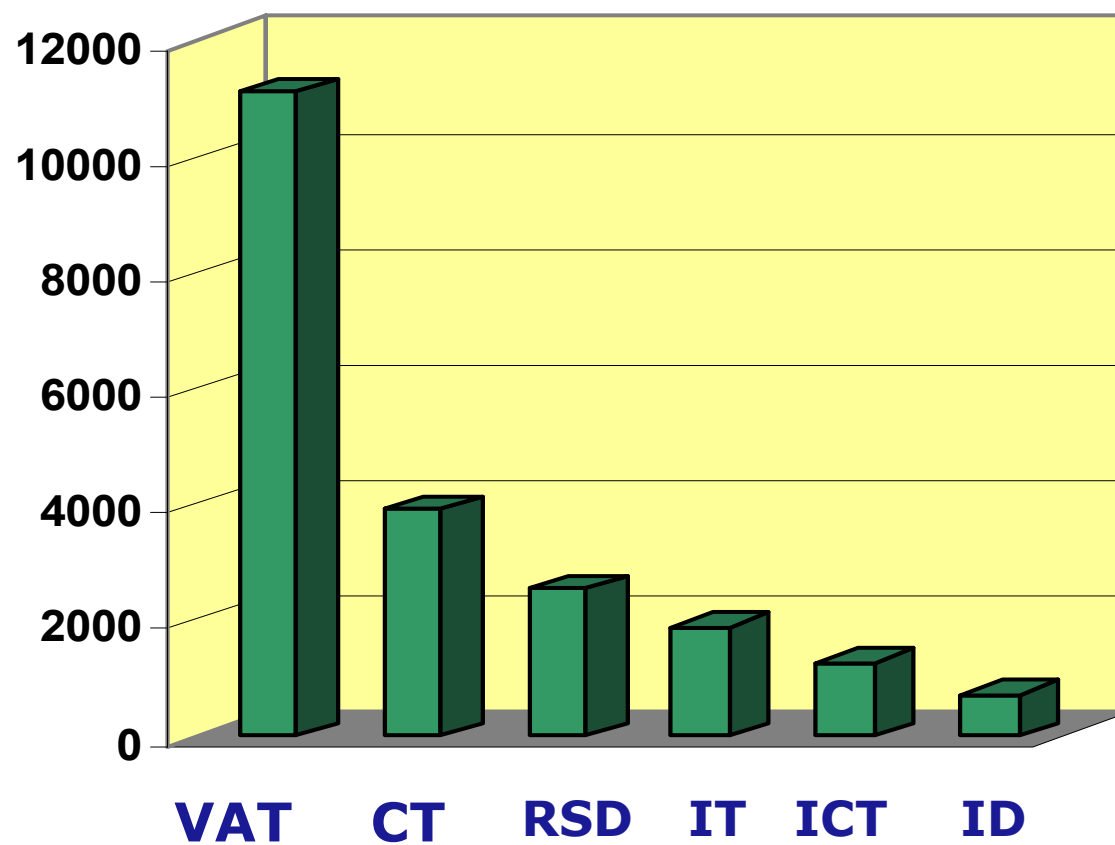
Designation	Estimation (Millions DH)	Share
Reduced rate of 2.50 %	926	36.7 %
Reduced rate of 1 % for social housing	264	10.5 %
TOTAL	1,190	47.2 %

Internal consumption tax and import duties : Main Measures

Designation	Estimation (Millions DH)	Share
I.C.T. : fuel and lubricant for fishing boats	660	52 %
I.D : capital goods (investissement sup. 200 MDH)	702	96 %

TAX EXPENDITURES PER TAX

(Millions
DH)



Estimation per objective

TYPE OF OBJECTIVE	Estimation (M. DH)	Share
■ Economic objectives	14, 079	66 %
■ Social objectives	7, 103	33 %
■ Cultural Objectives	274	1 %
TOTAL	21,456	100 %

Estimation per recipient

Designation	Estimation (M. DH)	share
▪ Entreprises	12,944	60 %
▪ household	4,796	22 %
▪ publics Services	3,637	17 %
▪ Associations, entreprises and foreign organismes	79	1 %
TOTAL	21,456	100 %

Estimation per sector

Designation	Estimation (M. DH)	share
▪ Real estate	3, 702	17 %
▪ Publics Services	2, 414	11 %
▪ Agriculture, fishing	2, 289	11 %
▪ Food Industry	2, 005	9 %
▪ Energy	1, 479	7 %
▪ Transport	1, 213	6 %
▪ Social	1, 124	5 %
▪ All sectors	4, 088	19 %
▪ Autres	3, 142	15 %
TOTAL	21, 456	100 %

6. Experience

- The Moroccan experience as regards the assessment of tax expenditures have been quoted as an example during the OECD seminar held in Rabat in November 2006 on the new ways of promoting the investment
- Morocco, As some OECD countries l'OCDE, is among the first Arab and African countries presenting an annual report on tax expenditures

7. Prospects

- To widen the scope of the assessed measures.
- To improve the evaluation methods by resorting to the implementation of an integrated taxation system which comprises an aspect on « tax expenditures »
- To enlarge the field of economic impacts analysis.

CONCLUSION

- Better knowledge of the government efforts, Direct fiscal expenditures- tax expenditures;
- More transparency on public expenditures;
- Follow up of tax expenditures;
- Make available to the authorities and to the public accurate data