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

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6th International Workshop on Domestic Revenue Mobilisation in Developing Countries
DIE, Bonn, November 28-29

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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

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<td>Tax expenditures in million dirham</td>
<td>21 456</td>
<td>29 801</td>
<td>36 238</td>
<td>33 284</td>
<td>34 407</td>
<td>31 749</td>
<td>32 423</td>
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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