

Debatable Aspects of the Concept of Tax Expenditures

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Abstract. Despite the implementation of the concept of tax expenditures in the budgetary practice of many countries, theoretical studies of tax expenditures as a basis for their identification and quantification are still relevant. The emergence and development of the concept is accompanied by heated discussions about definition of normative (benchmark) structure of tax and tax expenditures, as well as the classification of their individual elements. As a result, there is no uniform approach to defining the conceptual model of benchmark structure. This complicates the introduction of the concept of tax expenditures in those countries that set such a task for themselves, as well as their comparative qualitative and quantitative analysis in different countries. The purpose of this article is to generalize and further develop scientific approaches to determining the benchmark structure of the tax and its individual elements, as well as tax benefits and tax expenditures. The main results of this study are the classification of the main elements of the basic structure of the tax into groups and justification of their role in the identification of tax expenditures; defining “structural benefits” and “basic tax structure”; analysis of the report on other tax benefits in Ukraine and determination of the place and role of “structural benefits” in it.
Keywords: Tax benefits; Normative structure of the tax; Benchmark structure; Tax expenditures; “Structural benefits”.

1. Introduction

The implementation of the concept of tax expenditures in the budget process in many countries is an important factor for ensuring the transparency of public finances and streamlining the system of tax benefits. Today, their rationalization is of particular importance in view of the challenges posed by the economic and social consequences of the COVID-19 pandemic, which require significant financial resources. Reforming the system of tax benefits can not only become their additional source, an alternative to raising tax rates, but also make tax systems more efficient as well as fair. The main

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objectives of such a reform should be: (i) to assess and disclose income lost through the use of tax benefits; (ii) a comprehensive assessment of the direct and indirect impact of tax expenditures on inequality, which remains a worldwide problem and is predicted to increase after the outbreak of the COVID-19 pandemic; (iii) support for those tax benefits that are most effective in achieving the objectives, and phasing out of such benefits that do not help in reduction of inequality or in achieving economic efficiency goals (De la Feria & Redonda, 2020).

The need to solve these tasks increases the relevance of theoretical studies of tax benefits in general and tax expenditures in particular as a prerequisite for their identification and quantification. Such identification is especially important since in the tax legislation of some countries only certain provisions are directly defined as tax benefits, while the relevant identification of most of them is not obvious and requires serious analytical work based on knowledge of theoretical principles of taxation. An even more difficult task is to determine the tax expenditures and the benchmark structure of the tax, which is the standard for their identification. The complexity of its solution is a result of the lack of common approaches to defining the conceptual model of the benchmark structure of the tax and, consequently, generally accepted criteria for qualifying a provision of tax legislation as an element of the benchmark structure of tax or tax benefits (expenditures) which leads to different interpretations of the same deviations from this structure in different countries.

The debatable nature of the definition of tax benefits, benchmark tax structure and tax expenditures complicates the introduction of the concept of tax expenditures in those countries that have only just set themselves such a task, as well as their comparative qualitative and quantitative analysis in different countries¹. It is possible to facilitate the solution of the set tasks by highlighting those conceptual provisions of the theory of tax expenditures on which a consensus has been reached in the scientific community, as well as provisions that need further substantiation. This can be a step towards approximating the methodological framework for identifying the benchmark structure of taxes and tax expenditures in different countries and creating a harmonized methodology that would provide comparative research in different countries.

The purpose of the article is to generalize and further develop scientific approaches to determining the benchmark structure of the tax and its individual elements, as well as tax benefits and tax expenditures.

2. Literature Review

Numerous publications of scientists since the 60s and 70s of the twentieth century and up until nowadays are devoted to the analysis of the concept of tax expenditures.

¹ This analysis can only be done based on published reports on tax expenditures. However, in addition to complaints about their overall quality and regularity, it is not possible to determine exactly how close to representative the data are (Redonda & Haldenwang, 2021) both due to different approaches to tax expenditure classification and the fact that governments often provide information only about a part of them, for example, in the US official the report includes an estimate of lost income from the provision of tax benefits only from income taxes.

Since its beginning, noted concept has been criticized in academia, including professors Bittker (1969), McIntyr (1980), and others. As Sugin (1998) points out, some criticize it for not having a regulatory framework, others for the fact that failing to determine exactly what should be included in the budget of tax expenditures undermines its value, and thirds, that it is based on the notion that the government has control over all resources. The origins of the analysis of tax expenditures, the main debates of that time and the following decades, as well as the current state of the analysis of tax expenditures are presented in the works of Fleming & Peroni (2010), OECD (2010), Palisi (2017).

However, despite criticism, the concept of tax expenditures has become widespread in many countries around the world, resulting in the publication of information on tax expenditures. According to the Global Tax Expenditures Database (GTED), of the 46 G20 and OECD countries, only two (China and Saudi Arabia) do not publish any official information on tax expenditures, and from EU members just three countries (Croatia, Cyprus and Malta) do not report any tax expenditures.

The most problematic aspect of the concept of tax expenditures is the definition of the baseline, in relation to which it is only possible to identify the preferential provisions that lead to the loss of budget revenues and can be defined as tax expenditures. The basis for discussions on the definition of the benchmark structure was that its definition is inherently a subjective practice, as it assumes that some parts of existing legislation are «normal», and others are deliberate political deviations (Altshuler & Dietz, 2008). Opponents say this makes the benchmark structure inaccurate, insufficiently related to the hybrid income / consumption tax system as it is (Fleming & Peroni, 2010). Although this criticism contained some rational grain, it did not contribute to the active implementation of the concept of tax expenditures in budgetary practice. The transition to a constructive discussion about the composition of the benchmark structure was important in this regard, as well as the differences between structural provisions and tax expenditures. Substantiation of approaches to the definition of elements of the benchmark structure of the tax and classification of debatable provisions of the tax legislation as benchmark or tax expenditures is analyzed in publications: Altshuler & Dietz (2008), Burman & Phaup (2011), Craig & Allan (2001), Laporte et al. (2018), Hashimzade et al. (2014), Villela et al. (2010), and others. Despite the widespread discussion of this issue, debates on the normative (benchmark) structure of taxes and tax expenditures are likely to continue (Palisi, 2017).

Along with the theoretical aspects of the concept of tax expenditures, the researchers focus on practical issues of its implementation in the budget process:

- institutional mechanisms for monitoring, analyzing and reporting on tax expenditures (Laporte et al., 2018; Burton & Stewart, 2011);
- methods of collecting and analyzing information on tax expenditures and methods of their assessment (Kassim & Mansour, 2018; Kraan, 2004; Tax Expenditures: Background and Evaluation, Criteria and Questions, 2013; Villela et al., 2010);
- models of tax expenditure administration (OECD, 2010);
- evaluating the effectiveness of tax expenditures (Bolnick, 2004; Caiumi, 2011; Hungerford, 2006; Roca, 2010).

3. Methods

In the process of research, general scientific methods of cognition were used: abstract-logical – to justify the relationship of tax benefits, benchmark structure of the tax and tax expenditures; critical analysis of discussion approaches to determining the components of “structural” benefits; systematic structural analysis to determine the elements of the benchmark structure of the tax; analysis and synthesis – in the process of transition from partial (simple) to integrated determination of tax expenditures; combination of qualitative and quantitative – to analyze both the content and value of individual components of the basic structure of taxes in Ukraine.

Substantiation of the benchmark structure of basic taxes was carried out using the following theories: the concepts of Haig–Simons integrated income and Tipke market income, Lang, Ruppe & Wittmann with certain adjustments due to the need to take into account solvency, complexity of accounting and reliable assessment of certain types of income, fulfillment of international fiscal obligations – on personal income tax; theories of accounting profit and the principles of complex income taxation – on corporate income tax; the concept of added value, the rules of withholding tax (according to the principle of the country of destination) and the need to increase the efficiency of tax administration – in relation to value-added tax.

4. Results

4.1. *Benchmark tax structure*

There is a consensus among scholars that the starting point for the analysis of tax expenditures is to determine the standard (reference tax system or reference tax) against which they can be identified. However, views differed on what could be considered such a benchmark. Different approaches to its definition are discussed: on the basis of the normative (ideal or optimal) tax structure, which includes the generally accepted elements of the tax system necessary to achieve fiscal goals, as well as fairness, efficiency and simplicity; on the basis of the basic tax system, close to the current tax legislation; based on a compromise between the actual (current) tax system and the theoretical ideal. While the founder of the concept of tax expenditure S. Surrey developed a list of tax benefits that could be classified as tax expenditures, considering them as a deviation from the “normal tax structure”, i.e. guided by the “modified version of the economic ideal”, Reagan’s Treasury abandoned the normative basics, recognizing as a standard the basic tax structure, which resembled the existing law (Sugin, 1998).

While Sugin links the transition from a regulatory to a basic tax system (structure) with the politicization of the concept of tax expenditure under Reagan, Kraan (2004) explains the need for such a transition by differences in views on the regulatory framework in different countries with differences in approaches to the identification of tax expenditures. However, the concept of a basic tax system, which can provide the greatest room for difference of opinion (OECD, 2010), is not without its shortcomings. In addition, according

to Sugin, as a result of the introduction of this concept, the deviation from the base was determined so that the budget of tax expenditures was increasingly skewed in favor of social spending, and incentives for business were included in the normal tax structure. Thus, the use of a basic system close to the actual (current) tax system may lead to an excessive expansion of the basic structure of the tax due to those elements that ensure the achievement of certain policy objectives and should be classified as tax expenditures.

Unlike scholars who oppose the basic tax system to the normative one, Laporte et al. (2018) consider the regulatory approach as one of two approaches that can be used to determine the basic tax system. According to this approach, the benchmark is the ideal tax system, which is based on the key principles of tax policy – neutrality, efficiency and fairness. However, in the absence of generally accepted standards for prioritizing the application of these principles and ways to implement them, the basic tax system is often determined according to a positive approach, which is based on current tax legislation.

The subject of analysis by Craig & Allan (2002) is also the basic tax system. However, they distinguish three approaches to its definition: 1) conceptual approach, which tries to link the benchmark tax to the “normative tax structure”, which does not necessarily have anything to do with legal definitions of tax; 2) reference law approach, which takes the current tax legislation of the country as a basis for determining both the standard (for example, taxable income) and deviations from it, which give rise to tax expenditures; 3) an approach that considers tax expenditures as an analogue (equivalent) of budget subsidies, i.e. recognizes as tax expenditures only those provisions of tax law that are similar to direct subsidies.

In practice, in the process of determining the basic structure of the tax to some extent combines both conceptual (regulatory) and legal (positive, practical) approaches. While the legal approach is more widely used in determining some elements of the basic structure (scale of tax rates, unit and subject of taxation), then in determining others, in particular, the tax base – both conceptual and legal. In particular, knowledge of the conceptual foundations of tax theory allows you to determine which tax deductions or discounts established by tax law can be considered elements of the basic structure, and which – tax costs. According to Shaviro (2003), the classification of a provision of tax legislation as a tax expense depends on how convincing and relevant the arguments are. It is not for nothing that the process of identifying tax expenditures is often accompanied by discussions. Their consequence is the separation in some countries, along with tax expenditures and elements of the basic structure of the tax, of controversial provisions, as well as provisions that can be interpreted in two ways, as available data do not allow to distinguish between two components, one related to tax expenditures and the other to the basic structure of the tax. In Canada, such provisions of tax law are included in a special memorandum, which is considered a source of additional information, and are not reflected in the statement of tax expenditures. And in the Netherlands, two lists are being developed – “A”, which includes undisputed tax costs, and “B”, which consists of controversial tax costs (Tax Expenditures – Shedding Light on Government Spending through the Tax System, 2004).

An important step in the process of identifying the basic structure of the tax is to determine its elements. According to the OSED report (1996), the basic tax includes: the rate structure, accounting conventions, the deductions of mandatory payments, provisions to facilitate administration, and provisions on international fiscal obligations. However, the definition of the last three elements of the basic tax structure, which can be combined into one term “structural benefits”, is of the greatest importance for the identification of tax expenditures. This term is used in the UK. Burton & Stewart (2011) state in this regard: “The UK distinguishes between “reliefs” that are “tax expenditures” and “structural reliefs”. The estimated revenue foregone from both kinds of tax “relief” is reported in the UK budget, but it is separated out to make it clear to the reader that each type of tax “relief” is viewed differently by the government”.

Of the three components of “structural benefits”, the most controversial is the definition of “deductions of mandatory payments” (in this case, the term “deductions” is used to denote provisions of tax law that reduce the tax liability for taxpayers in one form or another). Difficulties with their identification are due to the need to distinguish deductions that belong to the basic structure of the tax from deductions that are tax expenses. On the occasion of the first, OECD Report (2010) states that deductions or exclusions from income that can be justified as an appropriate measure of ability to pay tax or as necessity to accurately measure income are considered as structural features of the tax system and not as tax expenditures. Thus, one of the criteria for identifying deductions as elements of the basic structure of the tax is their impact on the solvency of taxpayers, in particular the ability to increase it.

Such deductions for the basic structure of income tax can be identified based on a certain concept of determining its base. Since the most common concept of income as an object of taxation is full (comprehensive) income from all sources Haig–Simons, the founder of the concept of tax expenditures Surrey identified this income, with some adjustments due to the need to solve problems in the tax administration, as the benchmark structure of income tax.

In practice, the tax base in the tax systems of most countries is much narrower than the income, which corresponds to the concept of Haig–Simons. Incomplete coverage of income, in particular, is due to the need to take into account:

- 1) solvency: its consideration requires the exclusion of private expenses from the tax base, which reduce it. Especially the inevitable private expenses, that are needed to meet the most urgent needs of the taxpayer (living expenses, which are nontaxable minimum income) and dependent from it family members ;
- 2) consumption: from this point of view, special provisions should exclude certain forms of savings from the tax base, including pension contributions (Kraan, 2004);
- 3) difficulties with the administration of the tax, in particular, the complexity of accounting and reliable assessment of some types of income – imputed rent from the use of durable goods; additional goods received in natural form; goods produced and consumed in the household, as well as the high risks of their concealment from taxation and, as a consequence, the need to create a significant control apparatus, the maintenance of which will absorb most of the funds raised.

As Kraan (2004) points out, the provisions needed to bridge the gap between the comprehensive income concept and the specific normative tax base are part of the definition of the normative tax base, and not exceptions to it. However, not all these provisions are recognized by all scientists as such. There are no differences in the recognition of an element of the normative (and benchmark) structure of income tax of nontaxable minimum income or its analogue – personal or basic discount (or other category of income, which corresponds to a zero rate in the tax scale) for the taxpayer.

The subject of discussions were tax deductions (loans) for children, which reduce taxable income. These deductions from personal income tax can be considered as elements of the basic structure of the tax, however, and vice versa, be included in the annual reports on tax expenditures, as was the case, in particular, in the United States. However, after discussing the provisions of the list of tax expenditures at a conference in 2003, the US Treasury Department concluded that this tax rule tends to the basic structure of the tax. In substantiating this qualification, Shaviro (2003) constructs the following logic of reasoning: as a tax credit increases disposable income, the taxpayer's potential consumption also increases. In addition, the tax deduction for a child corresponds not only to the principle of equality, but also to the principle of neutrality. The neutrality of the standard deduction is that only the fact of having a child is taken into account, i.e. the actual costs of children are not taken into account, and household income is divided among more consumers.

In our opinion, the theory of market income as an object of taxation, according to which the income tax base should be determined in two stages, is a more convincing justification for qualifying the tax deduction for children as an element of the basic structure of income tax. In the first stage, the costs associated with its receipt are deducted from gross income; in the second stage, the inevitable private expenses are deducted from the gross income – the living expenses of the taxpayer and financially dependent family members. This “cleansing” of income from living expenses is in line with the principle of solvency, the requirements of the welfare state, the legal guarantee of certain social institutions, including the family and marriage (Lang, 1993).

However, from the standpoint of solvency, only “structural benefits” can be justified, which are part of the income tax base. In order to identify the “structural benefits” that are part of the basic structure of other taxes, there is a need to define a more general criterion.

For example, the definition of “structural benefits” as part of the income tax base, which can be considered as a kind of comprehensive income tax, is based on common principles, including: a distinction between income-related expenses and consumer expenses and, as a consequence, a comparison in determining taxable income of earnings, received for income purposes, with the expenses incurred to generate income, while excluding private expenses; “cleansing” of taxable income from savings and investments as well as taxation of accumulated and invested income only at the time of its readiness for consumption (Lang, 1993); taxation of income received during the entire life cycle, not limited to one tax period, and, as a consequence, the application of the legal institution of the net principle, which operates between tax periods and provides for the transfer of losses from one tax period to another to ensure uniform income taxation.

These principles allow us to determine most of the generally accepted components of the income tax base:

- deduction of current expenses incurred to obtain taxable income;
- deduction of the cost of depreciating capital assets over their useful lives, except for immediate write-offs or accelerated depreciation, which applies to certain asset classes and in many countries is a tax expense;
- elimination of double taxation;
- carrying forward losses to subsequent or previous tax periods;
- deduction of interest on received credits (loans).

Thus, a more general criterion for deductions as one of the elements of “structural benefits” of various taxes is their compliance with the concept of tax and the object of taxation and the fundamental principles of taxation.

The role of other elements of “structural benefits” – the provisions of tax law under international and regional tax agreements – and “technical exceptions” that facilitate the administration of taxes in determining the basic structure of the tax will be considered in the example of universal excise – VAT.

The benchmark VAT is the final consumption (public and private) of goods and services at a single tax rate, which corresponds to the concept of universal excise and the requirements of optimal taxation of goods. The main elements of the tax benchmark are determined by the concept of added value, the withholding rules (country of destination principle) and the need to improve the efficiency of administration. They include:

- application of a zero rate in the taxation of exports of goods and services (or exemption from VAT with subsequent reimbursement of the amount of “input” tax). Such taxation is a necessary procedure to avoid double taxation in the context of developed international trade, because goods, exempt from VAT in the country of origin, will be taxed in the country where they will be consumed. Reimbursement of input VAT to exporters is a condition for taxation of not full turnover, but of actual value added, i.e. such reimbursement follows from the essence of the tax;
- establishment of a threshold value of the annual turnover, below which enterprises do not belong to the VAT payers. Removal from the list of subjects of taxation of small taxpayers, control over the taxation of which is complicated, and taxation brings small tax revenues, reduces the cost of VAT administration, increasing its efficiency;
- VAT exemption for capital and intermediate goods as an alternative to the policy of input tax credit or tax refund, which is often resorted to by developing countries (Heady & Mansour, 2019): such exemption is not considered a tax expense given that VAT is theoretically charged only for final consumption;
- taxation at one standard tax rate of domestic transactions for the supply of goods and services, which meets the requirements of optimal taxation;
- exemption from taxation of transactions provided by international and regional tax agreements: according to the hierarchy of norms, international law takes precedence over regional and national law. Therefore, these measures should be taken

into account in tax rules and included in the basic structure of the tax (Laporte et al., 2018);

- “technical” exceptions, i.e. exemptions from taxation, due to technical reasons – the difficulty of collecting the tax or high administrative costs for its maintenance. The most significant examples of such “technical” exceptions are VAT exemptions for financial and insurance services, certain types of real estate transactions and gambling services, which would ideally be subject to VAT but are exempt from taxation for pragmatic reasons (De La Feria & Ending, 2013).

Thus, the structure of “structural benefits” can be divided into three types (groups): 1) elements, the inclusion of which in the basic structure of the tax is due to the concept of tax and the object of taxation and the fundamental principles of taxation; 2) the need to comply with regional and international agreements; 3) the needs of effective tax administration (“technical exceptions”).

The separation of these groups of “structural benefits”, in our opinion, greatly facilitates the identification of the basic structure of the tax system (tax), and hence tax costs and may be the first step towards developing a single conceptual model of the basic tax structure. Given the fact that “structural benefits” should be the lion’s share of the basic structure of the tax, different approaches to determining its other elements cannot significantly affect the assessment of total tax expenditures.

Summing up the analysis of “structural benefits” we can offer the following definition: “structural benefits” are the provisions of tax law, which are elements of the basic structure of the tax. They can have the same form as special benefits – exemptions, deductions, zero rate. However, unlike special tax benefits, which are a deviation from the basic structure or tax costs, “structural benefits” are not related to the implementation of economic, social or environmental policies of the state. They can ensure the implementation of fundamental principles of taxation, the implementation of international or regional fiscal agreements, facilitate tax administration, avoid double taxation. In addition, in contrast to special benefits that provide benefits to individual taxpayers or activities, “structural benefits” are largely in the interests of all taxpayers.

In addition to the definition of “structural benefits”, it is advisable to clarify the definition of “basic tax structure”. The most common is its definition as “a set of structural elements (norms) that provide a general tax structure (there should be “such a tax structure”) that does not create any benefits for certain activities or groups of taxpayers” (Mayburov, 2013). Agreeing with this definition as characterizing an important aspect of the basic structure of the tax, in particular the fact that it is a structure in which there are no special tax benefits, we consider it insufficient to understand the essence of such a structure.

Other definitions of the benchmark structure of the tax contain a list of its various components (elements), which include, along with certain elements of the tax (accounting standards, entities and the tax base, exemptions, structure of rates, etc.), also “provisions that facilitate administration and ensure compliance with international fiscal obligations”. Meanwhile, such «provisions» are certain types of «structural benefits», the provision of which is reasoned by the requirements of international agreements or the needs of ad-

ministration. In addition, these definitions overlook the fact that the benchmark structure of the tax is a standard against which tax costs should be determined. Moreover, since the main antithesis of tax expenditures is structural benefits and the structure of rates, the adequate identification of tax expenditures, which allows to recognize these components, is dependent on the distinction between the first (tax expenditures) and the second (structural benefits and structure of rates).

All this gives grounds to propose the following definition of the latter: benchmark tax structure is a set of structural elements that are a benchmark for identifying tax costs, including the structure of rates (base rate or rate scale), “structural benefits” and other tax elements, mandatory inclusion of which to the benchmark structure is reasoned by either the concept of tax and object of taxation and fundamental principles of taxation, or the need to comply with regional and international agreements, or the needs of effective tax administration (reduction of administrative costs and opportunities to avoid and evade payment).

4.2. Tax expenditures

Having defined the benchmark structure of the tax, we consider the essence and definition of tax expenditures, noting in advance that this is a rather complex concept, which can be revealed only through a set of simple definitions, the synthesis of which allows us to give their full definition [Sokolovska & Petrakov, 2013].

To understand the nature of tax expenditures, it is important to establish their relationship with tax benefits. The base of this relationship is that tax expenditures belong to special tax benefits. In addition to tax expenditures, special benefits also include benefits that do not lead to loss of budget revenues. Therefore, the most general definition of tax expenditures is as follows: tax expenditures or special tax benefits that meet certain requirements are deviations from the benchmark structure of the tax.

Narrowing the concept of «tax expenditures» requires consideration of tax benefits from the standpoint of the results (effects) of their use. The analysis of the latter gives grounds to state: if for a taxpayer the use of tax benefits alleviates the tax burden, thereby increasing the financial resources that remain at his disposal, then for the state it is lost tax revenues (as a reverse side of tax relief). Thus, tax expenditures are not all special tax benefits, but only those that lead to budget losses.

Because the state incurs budget losses, hoping to obtain a certain incentive effect, tax expenditures are not just lost state revenues, but such revenues that the state has given up on to achieve economic, social, or environmental policy goals. In view of this, tax expenditures are government expenditures that are realized through the provisions of tax legislation in order to obtain a certain socially significant effect.

Lost tax revenues and direct budget expenditures, despite some differences, ultimately lead to the same result – reduce the financial resources available to the state and increase them at the disposal of businesses and / or households, which gives grounds to talk about the possibility of replacing some with others and define tax expenditures as an alternative form of direct budget expenditures (subsidies).

Based on the above, we can give the following integrated definition of tax expenditures: lost tax revenues as a result of deviations from the benchmark structure of the tax to achieve certain goals of economic, social or environmental policy of the state, which is an alternative to direct budget expenditures. This is the narrowest definition of tax expenditures, which limits their range to a set of special tax benefits that meet certain requirements: lead to budget losses; serve to achieve policy goals; is an alternative to direct budget expenditures.

In contrast to the benchmark tax structure definitions, which are not many, there are quite a few definitions of tax expenditures offered by both scholars and international organizations or individual countries (they are given in a number of publications (Villela et al., 2010; Hashimzade et al., 2014; OECD, 2004; OECD, 2010)). Some of them are based on a conceptual approach to determining tax expenditures, emphasizing that the latter are a deviation from the standard (benchmark tax structure), others – on the normative approach, treating tax expenditures as exceptions to regulatory tax law, some – on the concept of equivalent costs, considering tax expenditures as an alternative to direct budget expenditures that have the same consequences.

The variety of definitions of tax expenditures has led to attempts to generalize the requirements for them in different countries and to establish the criteria for classifying certain provisions of tax law as tax expenditures on this basis. In 1987, the working group in the Netherlands, which was tasked with carrying out this mission by comparing practices in different countries, identified five criteria for tax expenditures, eventually rejecting three of them and accepting the other two. In particular, the group rejected such criteria: achieving nonfiscal policy objectives, convertibility of the provision into a direct expenditure and the benefit of a limited group of taxpayers, although these criteria were used in some countries. At the same time, it found that the criteria for reducing (losing) budget revenues and deviating from the basic tax structure required further analysis (OECD, 2010).

Another attempt to generalize the requirements for determining tax expenditures is their definition in the OECD report (1996), where the list of such requirements is expanded. However, as noted by Villela et al. (2010), commenting on these requirements, there is no consensus on whether or not to take them into account.

In general, setting excessive requirements for determining tax expenditures will not help to converge on what it should be. It is advised, first, to distinguish between theoretical definitions of “tax expenditures” and definitions used in the budgetary practice of individual countries, reflecting their own choice, due to multitude of factors. In this case, theoretical definitions can serve as a basis for “practical” definitions, but the latter does not necessarily have to copy the former. Secondly, it is advised to establish the main features of tax expenditures, which should be reflected in their definitions. In our opinion, it is easier to reach a consensus on this. At least in all studies of tax expenditures, emphasis is placed on the following features: a) tax expenditures can be determined only by defining the basic structure of the tax; b) tax expenditures are losses of budget revenues (lost tax revenues); c) they are an alternative to direct budget expenditures.

4.3. Using the concept of tax expenditures in Ukraine

The conclusion that the three groups of “structural benefits” should be the lion’s share of the basic structure of the tax, which facilitates its identification, check the example of Ukraine.

Ukraine has an established system of reporting on tax expenditures. Relevant reports are prepared on a regular basis by the State Tax Service (STS) of Ukraine. They are formed in terms of both individual taxes and economic activities, as well as regions of Ukraine. The data of reports in the context of individual taxes are reflected in the Global Database of Tax Expenditures. In addition to the report on tax benefits that are losses of budget revenues, the State Tax Service of Ukraine also prepares a report on other tax benefits. It provides not only a list of tax benefits that do not cause budget losses, but also elements of the basic tax system, in particular, «structural benefits», although the relevant terms are not used. Both reports are formed based on a list of tax benefits from income tax, VAT, excise tax and land tax, organized in the relevant directories – the Directory of tax benefits that are losses of budget revenues, and the Directory of other tax benefits. Accounting for tax expenses on personal income tax in Ukraine is not conducted.

The peculiarity of the implementation of the concept of tax expenditures in Ukraine is the provision of information on tax expenditures in the reports without disclosing the methodology of their measurement and in the absence of conceptual definitions of both tax expenditures and the basic tax system. This situation eliminates the calculation of budget losses from the provision of tax benefits on a methodological (conceptual) basis, increases the risk of accidental, unreasonable decisions on the distribution of benefits between the two reports, the results of which are therefore decisively influenced by subjective factors.

The use of the concept of tax expenditures in Ukraine is accompanied by a reduction in budget losses from tax benefits (Table 1). Their total amount in 2019 decreased by 22.8% compared to 2015 and from 2.78 to 1.08% of GDP. The introduction of a number of fiscal consolidation measures in 2014–2015, including the revision of tax benefits, played a crucial role in this process. The lion’s share of budget losses from the provision of tax benefits in Ukraine are losses from VAT benefits, which, although decreased during 2015–2019 by 38.8%, but remain the most significant in the system of tax expenditures.

The amounts of other benefits from all taxes, on which accounting is conducted in Ukraine, exceed the amount of tax expenditures: from income tax – 50 times, from VAT – 4 times (as of 2019). To understand what these figures show, it is necessary to analyze the structure of other tax benefits. Their analysis was carried out in the context of distinguishing three groups of “structural benefits”. The analysis showed that in Ukraine the main components of other tax benefits from income tax are such “structural benefits” as reducing the pre-tax financial result by the amount of negative value of the object of taxation of previous tax (reporting) years, and exemption from payment tax due to international fiscal obligations of the state. The share of the former in the total amount of other benefits is 74.89%, the share of the latter is 18.69%. The share of benefits that are not losses of budget revenues in the total amount of other benefits is 6.42%.

Table 1. Budget losses from tax benefits on income tax and VAT in Ukraine in 2014–2019, %

	2014	2015	2016	2017	2018	2019
Income tax						
Share in the total amount of budget losses	13.92	6.31	0.91	5.50	5.30	4.04
Share in income tax revenues	11.50	0.61	0.46	1.93	1.78	1.47
Share in tax revenues	1.26	0.05	0.04	0.17	0.19	0.16
Share in GDP	0.29	0.01	0.01	0.05	0.05	0.04
VAT						
Share in the total amount of budget losses	80.52	91.22	75.64	69.62	68.73	72.38
Share in VAT revenues	19.24	28.29	9.72	5.72	6.56	8.17
Share in tax revenues	7.28	9.95	3.52	2.17	2.49	2.89
Share in GDP	1.69	2.54	0.96	0.60	0.69	0.78
Total budget losses from tax benefits *						
Share in tax revenues	9.04	10.90	4.65	3.14	3.62	3.99
Share in GDP	2.09	2.78	1.27	0.86	1.00	1.08

* Total budget losses from tax benefits also include losses from excise and land taxes.

Source: Calculated according to the State Tax Service of Ukraine, the State Treasury Service of Ukraine and the State Statistics Service of Ukraine

As for the composition of other VAT benefits, their predominant share (89.48%) is also “structural benefits”. 89.08% of them are elements related to zero-rate taxation of transactions: export of goods outside the customs territory of Ukraine, supply of international transportation services, as well as supply of goods related to international transportation, etc. A small part of the “structural benefits”, which is only 0.4% of the total amount of other benefits, are tax exemptions provided by international agreements. In addition to “structural benefits”, other VAT benefits also include benefits that do not lead to a loss of budget revenues, which is 3.70% of the total amount of other benefits.

Table 2. The main items of tax expenditures on income tax and VAT in Ukraine

Content of benefits	Share in the total amount of tax expenses from the tax, %
Income tax	
exemption from taxation of income paid by a resident in favor of a non-resident in the form of interest on the loan	35.41
reduction of income tax by the amount of excise tax paid on heavy distillates (gas oil) used for vehicles	39.99
exemption from corporate income tax (18.29%);	18.29
VAT	
taxation at a reduced rate of transactions for the supply of medicines and medical devices	26.06
exemption from taxation of supply transactions:	
health services	15.32
educational services	13.88
housing facilities, except for their first supply	9.26
periodicals of print media and books	7.97

Source: Calculated according to the State Tax Service of Ukraine

Thus, despite the large amounts of other tax benefits, their main share in Ukraine are generally recognized elements of “structural benefits”. The composition of tax expenditures on basic taxes are presented in Table 2.

5. Conclusions

The introduction of the concept of tax expenditures in the budget process of any country should begin with the identification of elements of the basic tax system (structure). Despite the lack of a generally accepted model of such a system, there is a harmonization of scientists’ positions on the classification of its individual components, in particular, “structural benefits”. An important step towards their identification was the separation of three groups of “structural benefits”.

Due to the fact that Ukraine records not only tax expenditures, but also other tax benefits, including benefits that do not cause loss of budget revenues, and “structural benefits” (although these terms are not used), we analyzed the composition of “structural benefits” in the context of their three groups. The analysis confirmed the previous conclusion that “structural benefits” are the lion’s share of the basic structure of income tax and VAT in Ukraine. Therefore, other components of the report on other tax benefits, even if their list is debatable, may not significantly affect the total amount of such benefits and the list of tax expenses.

Further approximation of methodological principles for identifying the basic structure of taxes and tax expenditures in different countries and creating a harmonized methodology that would provide comparative research in different countries will help to address more effectively the challenges facing individual countries in implementing the concept of tax expenditures in the budget process.

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