An Roinn Airgeadais
Department of Finance

Tax Expenditures
Tax Strategy Group - 19/12

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Department of Finance
www.gov.ie/finance

Tax Expenditures

Tax Strategy Group (July 2019)

I. Introduction

1. The information available regarding tax expenditure measures has increased dramatically over the last decade. This contrasts with the situation when the Commission on Taxation commenced its work in early 2008, at which point there was limited information on the annual costs involved. This has changed dramatically since the Commission's report was issued in 2009, with improvements to the information on tax expenditures published by the Revenue Commissioners, annual reports from the Department of Finance and requirements at a European level that all countries report annually on tax expenditures.

2. Work by academics, such as the 2010 paper by Collins and Walsh "Ireland's Tax Expenditure System: International Comparisons and a Reform Agenda"[1] and by international bodies such as the OECD in 2010, the European Commission in 2014 and the IMF in 2019 (all three are referenced later in this paper) in recent years has also contributed to increased engagement and focus on the area of tax expenditures.

3. Due to the increased focus on the important role tax expenditures play as a category within the tax policy sphere, in summer 2017, the Department of Finance prepared and published a paper entitled "Tax Expenditures Review 2017"[2] as part of the work of the Tax Strategy Group (TSG) in advance of Budget 2018.

   This paper:
   - synopsised the official policy on tax expenditures;
   - looked at the issues surrounding the definition of what is, or is not, a tax expenditure;
   - examined the merits and demerits of tax expenditures;
   - outlined the evolution of the evaluation of tax expenditures in Ireland;
   - provided an overview of the most significant tax expenditures in Ireland;
   - described the Department's 2014 Guidelines for Tax Expenditure Evaluation; and,
   - set out some issues relating to tax expenditures which the TSG might wish to consider.
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4. More recently, this continuing increased focus is evidenced in Ireland by two papers on the topic which have been published in the last 12 months:

[1] https://www.tcd.ie/policy-institute/assets/pdf/Tax_Expenditure_Blue_Paper_24.pdf
[2] https://www.gov.ie/en/publication/9cbfa2-tax-strategy-group-1317-tax-expenditures-review/

- A briefing paper prepared by the Parliamentary Budget Office (PBO)[3] was published in September 2018 and is entitled "Tax Expenditures in Ireland: Key Issues for Consideration"[4]
- A report prepared for the Houses of the Oireachtas Committee on Budgetary Oversight (the BOC) was published in April 2019 and is entitled "Tax Expenditures"[5].

II. Outline and purpose of this paper:

5. The purpose of this paper is to reflect on the current position vis-à-vis tax expenditures in Ireland and the monitoring of them.

6. This paper will begin by providing an overview of the structure and size of tax expenditures in Ireland, then it will briefly synopsise the recent work by the PBO and BOC, before moving on to look at how the Department of Finance (and Revenue, where appropriate) view the main issues pertaining to tax expenditures and how they may direct their work on tax expenditures in the medium term.

III. Overview of the most significant tax expenditures in Ireland

7. Tax expenditures may take a number of forms such as exemptions, allowances, credits, preferential rates, deferral rules etc. They are general government policy instruments used to promote specific social or economic policies and are closely related to direct spending programmes.

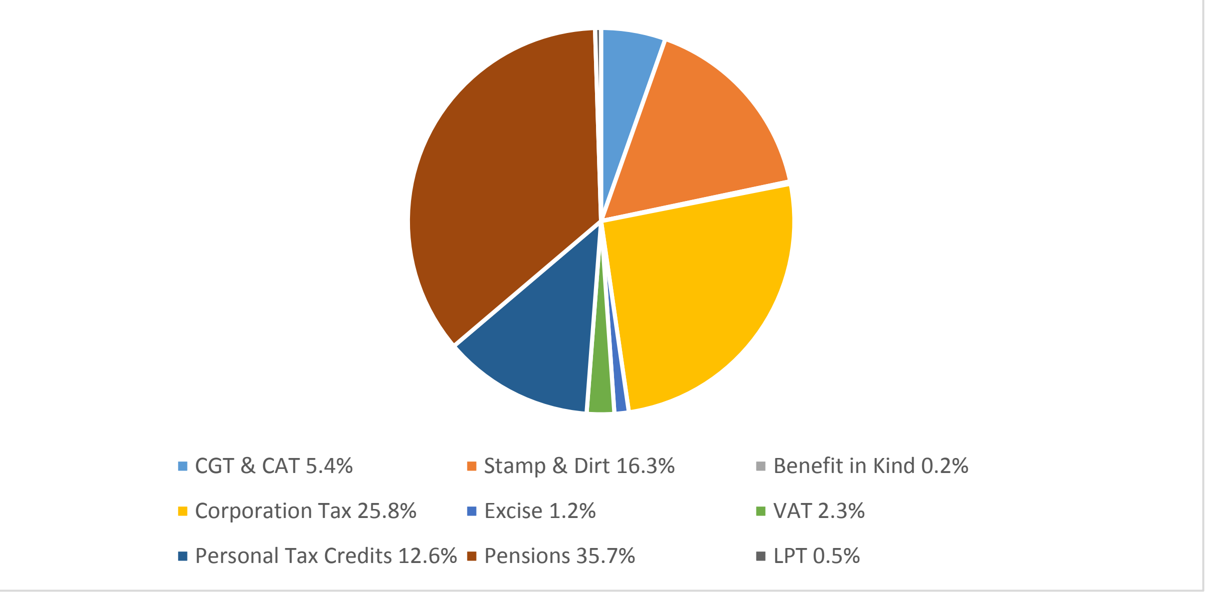
8. The Department's Tax Expenditure Report for 2018 identifies a complete list of all tax expenditures measures in the Irish tax system. In total 165 tax expenditure measures are identified in the 2018 Report on Tax Expenditures (inclusive of those categorised as "ceased/phasing out"), and are classified under the following nine broad headings Capital taxes (CAT/CGT); Pensions; Stamp Duty/DIRT; Local Property Tax ; Benefits-in-Kind; Corporation Tax; Excise Duty; VAT and Personal Tax Credits. Figure 1 shows the percentage

[3] A body established in 2017 to provide independent and impartial information, analysis and advice to the Houses of the Oireachtas, including its committees.
[4] https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2018/2018-09-21_tax-expenditures-in-ireland-key-issues-for-consideration_en.pdf
[5]https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/committee_on_budgetary_oversight/reports/2019/2019-04-08_tax-expenditures_en.pdf

of the total revenue forgone (€4.1 billion) under these headings (headings 1 and 2 in the 2018 Report have each been broken into two parts).

9. It should however be noted that data for over 40% of the tax expenditures listed is not available, so the €4.1 billion does not reflect the full amount of such expenditure. Also in a small number of cases only pre-2016 figures are available, and these are included in this total.

Figure 1: Share of Tax Expenditures by tax head (Source – 2018 Report on Tax Expenditures)



10. The following tables shows the top ten tax expenditures from the 2018 Report in terms of revenue foregone, and the most expensive tax expenditure under each of the 9 categories. The figures are for the most recent year available (2017 unless indicated otherwise), and again it needs to be emphasised that there is no or limited data on over 40% of the tax expenditures included in the Reports, with data on a number of others being estimated.

Table 1: The top 10 Tax Expenditures by cost

	Tax Expenditure	Value €m	Tax Category
1	Exemption of investment income and gains of approved superannuation funds	926 (*2016*)	Pensions
2	Research & Development (R&D) Tax Credit	670	Corporation Tax
3	Certain company reconstructions and amalgamations	425	Stamp Duty
4	Medical Insurance Relief	329	Personal Tax Credits
5	Health Expenses	164.1	Personal Tax Credits
6	CAT Agricultural Relief	140.5	CAT
7	CAT Business Relief	102.5	CAT
8	Single Person Child Carer Credit	90.3	Personal Tax Credits
9	Home Carer's Tax Credit	77.9	Personal Tax Credits
10	Incapacitated Child Tax Credit	75.5	Personal Tax Credits
Total	**Total for the Top 10**	**3 Bn.**	
Total	**Total for all Tax Expenditures***	**4.14 Bn.**	

**Where data available*

Source: 2018 Report on Tax Expenditures. Figures refer to 2017 unless flagged.

Table 2: The most expensive Tax Expenditure in each tax category

Top TE by category	Name	€ million
CAT/CGT	Agricultural relief (CAT)	140.5
Pensions	Exemption of investment income and gains of approved superannuation funds	926 (*2016*)
Stamp Duty/DIRT	Certain company reconstructions and amalgamations (stamp duty)	425
Local Property Tax	Deferrals (though foregone in a particular year, these are still owed to the Exchequer at a later date)	14
Benefits-in-Kind	Small Benefits Exemption	5*
Corporation Tax	Research & Development (R&D) Tax Credit	670
Excise Duty	Remissions/repayments of VRT	30.5
VAT	VAT refund to flat rate farmers for construction	59
Personal Tax Credits	Medical Insurance Relief	329

* Estimate,

Source: 2018 Report on Tax Expenditures. Figures refer to 2017 unless flagged.

11. The 2018 version of the Report can be found at:

    http://www.budget.gov.ie/Budgets/2019/Documents/Tax%20Expenditures%20Report%20Budget%202019.pdf

IV. Tax Expenditures in Ireland: Key Issues for Consideration (Parliamentary Budget Office (PBO) 2018)

12. The PBO's paper "examines tax expenditures in Ireland and specifically, how tax expenditures are defined, costed and reviewed, and emphasises certain key issues in respect of each of these three areas. It further provides an overview of three existing tax expenditure reviews and highlights certain forthcoming reviews."

13. The paper, noting that the revenue foregone under tax expenditures is approximately equivalent to 10% of total tax revenue (based on 2016 figures) calls for "a routine review of tax expenditures to ensure they remain fit for purpose, are cost effective and do not outlive their usefulness".

14. They also advise that a more detailed consideration of such expenditures be included as part of the wider Budget scrutiny process, and it is this Budget scrutiny role that the BOC was established to fill. The Department supports, in principle, the view that there is scope for a more in-depth consideration of tax expenditures as part of the wider Budget scrutiny process.

15. The four key messages/issues for consideration set out in the PBO's briefing paper relate to defining the benchmark system; methods for costing tax expenditures; data accessibility and transparency; and, systematic review and evaluation.

V. Tax Expenditures (Budgetary Oversight Committee 2019)

16. Part of the role of the PBO is to provide briefing and analysis to the Budgetary Oversight Committee in the course of their work. Both the Department of Finance and Revenue, were invited to appear before the BOC, as it gathered information and viewpoints, and to subsequently provide information/data to it. The outcome of these appearances and the information and data provided were used to inform the BOC's report. Following a number of meetings with stakeholders (including with the Department of Finance and Revenue) in January and February 2019, the BOC produced its report "Tax Expenditures" on April 8th.

17. That report provides a general overview of tax expenditures and the level of scrutiny of them, looks at the Department's 2014 guidelines, analyses the data provided to the Committee by the Department after its appearance before the BOC and examines the issue of sunset clauses, before finishing with an examination of international best practice, and how Ireland compares. The report draws four Conclusions and makes eight Recommendations.

18. The BOC has identified a role for itself in carrying "out timely and effective scrutiny of the process for the review and evaluation of tax expenditures managed by the Department of Finance, and to put forward recommendations to improve and enhance this process" (page 18 of the BOC report), and the Department of Finance and Revenue will contribute to this work as required.

19. The four conclusions reached by the Committee are as follows:

    (i) Ireland is not alone in lacking a formal process in place for the parliamentary scrutiny of existing tax expenditures. This is the case in many parliaments across the European Union.

    (ii) Making international comparisons on the size and scale of tax expenditures can be challenging because of how they are defined.

    (iii) Since the 2009 Commission on Taxation Report[6], significant progress has been made by the Department of Finance in carrying out regular reviews and evaluations of tax expenditures. However it has been acknowledged by all stakeholders that further work needs to be done.

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[6] Commission on Taxation (2009), Government Report: https://researchrepository.ucd.ie/bitstream/10197/1447/1/Commission_on_Taxation_Report_2009.pdf

(iv) The provision by the Department of Finance of a list of all existing tax expenditures including the date of reviews carried out and information on sunset clauses is a positive development and provides a useful starting point for the Committee's work in this area.

20. The Department welcome these conclusions and fully concurs with them. The eight recommendations made in the Report (separate to the conclusions) relate to the provision of annual updates by the Department, better alignment of Revenue and Department reporting formats, provision of further information in relation to reviews and in particular, where reviews have not been carried out and the publication of scrutiny of budget measures (ex-ante and ex-post). The report also recommends that that the Department of Finance review its existing guidelines regarding the evaluation of tax expenditures with a view to implementing a rigorous and regular system of reviews for tax expenditure measures. The recommendations are listed in full in Annex 1.

VI. Main issues identified in relation to Tax Expenditures

21. A review of the relevant literature identifies similar issues to those highlighted in the recent work by the PBO and BOC. These issues relate to defining, classifying and measuring tax expenditures. There is broad consensus that there is a requirement for regular monitoring, effective evaluations and transparent communication on the application of tax expenditures. While well-designed expenditures can present an effective means of providing incentives to taxpayers to achieve specific economic, fiscal or social goals, it is important to ensure that they do not cause economic distortions and that they are the most cost-efficient means of achieving the desired economic and social policy goals.

A. Definition

22. Tax expenditures have been broadly defined as the deductions, credits, exclusions, exemptions, and other tax preferences that represent departures from a "normal" tax code. The 2017 TSG paper highlighted some of the challenges in defining "tax expenditures" and the preference for a case-by-case approach as opposed to a general classification.

23. As well as the Department of Finance's annual Report on Tax Expenditures, Revenue produces its own tax expenditures statistics which are intended to provide an information source for

costs for tax expenditures as broadly defined (any allowances, credits, exemptions, reliefs or schemes where they have data to provide a cost essentially)[7]. Revenue does not make any assumptions or claims regarding the definition of tax expenditures, definition of the benchmark or the overall cost of tax expenditures in what it includes in its list of tax expenditures.

24. The Department of Finance on the other hand has adopted a narrower definition based on that of the OECD[8] to arrive at the list of tax expenditures it publishes in its annual Report on Tax Expenditures (most recently in October 2018).

25. As the respective lists have been designed for different purposes, there is therefore no discernible benefit to be gained from adopting a unified list of tax expenditures. Tax expenditures that meet the OECD benchmark definition are identified in the Department of Finance list.

26. The Department of Finance and Revenue will however continue to work to ensure consistency and alignment of labelling and reporting of individual expenditure measures in order to facilitate comparisons between the two.

B. Evaluation

27. Evaluation of tax expenditures has been a feature of the work of the Department of Finance and Revenue since 2004. The Department's 2014 tax expenditure guidelines[9] briefly (page 18-19) sets out the three main costing methods (initial revenue foregone, final revenue loss (gain), and outlay equivalence). The Department and Revenue both adopt the initial revenue forgone method for costing tax expenditure. This is generally estimated by comparing the revenue expected under the current structure versus the revenue expected when the tax expenditure is in place. In general this assumes no change in the behaviour of individuals or firms and as such can give an exaggerated estimate of the cost of an expenditure. Almost all countries that publish tax expenditures use this method (IMF 2019, page 8)[10] .

28. The 2019 IMF paper also describes the estimation of the cost of tax expenditures as requiring several steps: choosing the methodology, identifying and collecting data, and the estimation

[7] Revenue statistics on various tax expenditures are published at: https://www.revenue.ie/en/corporate/information-about-revenue/statistics/tax-expenditures/index.aspx.

[8] This describes a tax expenditure as a transfer of public resources that is achieved by:
a) Reducing tax obligations with respect to a benchmark tax rather than by direct expenditure; or
b) Provisions of tax legislation that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to the tax base.

[9] http://www.budget.gov.ie/Budgets/2015/Documents/Tax_Expenditures_Oct14.pdf

[10] Tax Expenditure Reporting and Its Use in Fiscal Management (IMF 2019) https://www.imf.org/~/media/Files/Publications/HowToNotes/HTNEA2019002.ashx

of revenue forgone "The right approach depends on a country's constraints on data availability, information technology, and human resource competency." (page 8).

29. While the initial revenue foregone cost of a tax expenditure is generally more straightforward to estimate in most cases, the estimation and/or determination of behavioural responses or interaction effects with other measures, which is required to arrive at a final revenue foregone estimate is far more complex. This method requires more complex modelling parameters and additional resource expenditure, therefore it is questionable whether the benefit gained would outweigh the considerable costs involved. This perspective is reflected in the Department's 2014 tax expenditure guidelines[11] which state that "for practical reasons the (initial) revenue foregone method is likely to be used in the majority of evaluations… In a cost benefit analysis framework an additional adjustment (to revenue foregone) should be made to account for the opportunity cost of public funds." Indeed, in his statement to the BOC earlier this year, Dr. Micheál Collins suggests "sticking with the established revenue forgone method and noting that the costs it provides may somewhat exaggerate the final cost".

30. Another practical consideration is the availability of data which is key in estimating tax expenditures. The collection of appropriate data can be difficult for several reasons or in other instances data may simply not exist which in turn places constraints on the methodology which can be used. For example, the 2015 ex-post evaluation of the Artists' Tax Exemption was unable to fully quantify the benefits of the scheme as it relates to a cultural output.

31. There is also balance that must be struck in asking Revenue to collect more data on tax expenditures. On the one hand, more information will assist in any evaluation but the potential addition to the administrative burden of the taxpayer must also be considered. In the case of the most expensive tax expenditures, however, it seems reasonable to consider targeted data expansion where key information gaps have been identified.

32. An alternative methodology, the outlay equivalence approach, involves estimating how much direct expenditure would be needed to provide a benefit equivalent to the tax expenditure. It necessitates measuring the expenditure required, in pre-tax euro, to achieve the same after tax euro benefit as the tax expenditure, where the direct expenditure receives the tax treatment appropriate to that type of income in the hands of the recipient[12].

[11] http://www.budget.gov.ie/Budgets/2015/Documents/Tax_Expenditures_Oct14.pdf
[12] Australian Treasury, Tax Expenditures Statement 2005 https://treasury.gov.au/sites/default/files/2019-03/TES_2005.pdf

33. These are highly complex and data intensive methods, and the recommendation that their use be explored must be balanced with discussion of the practical difficulties of doing so, as well as the resource implications. There is also some doubt as to the benefit in both practical and real terms of adopting these methods as any resulting benefit could be outweighed by the resource costs involved.

34. Therefore, while the methodology to be used in costing of a tax expenditure measure can be decided on a case-by-case basis - there being no specific requirement to use the initial revenue foregone method, in the main that methodology continues be the one availed of (for certain forecasts and costings for tobacco and alcohol Revenue use an elasticity factor to reflect possible changes in behaviour). It is seen as offering the best balance between transparency, reliability, efficiency and value. Its use is also in line with established international practice.

35. Finally, while the Department of Finance endeavours to provide information on ex-ante scrutiny in a timely way, it should, however, be noted that the desirability of ex-ante review can be overtaken by timing limitations in the context of the budget and Finance Bill annual cycle.

C. Data accessibility and transparency

36. 36. The 2017 TSG paper on Tax Expenditures sets out the evolution of the evaluation of tax expenditures in Ireland including the report of the Commission on Taxation 2009[13], the Department's guidelines for Tax Expenditure Evaluation published in 2014, and Ireland's requirements under the 2011 EU Budgetary Framework Directive[14] where Article 14.2 states "Member States shall publish detailed information on the impact of tax expenditures on revenues".

37. Estimated costs of tax expenditures on an aggregate basis are incorporated in the economic and fiscal forecasts prepared by the Department (published twice yearly as part of the Stability Programme Update (SPU) and the Budget). These costs are implicit in the forecast of tax receipts for the current year and the year ahead. However, the measures are not individually forecast and therefore it is not possible to provide them on such a basis. In order to do so, reporting and collation of data would need to be fully comprehensive and operate in close to real time (which may not be technically possible given the time lags in the tax system) as well as requiring the development of new analytical approaches in order to project forward costs. The resource implications, and the cost/benefit trade off of adopting such an

[13] https://researchrepository.ucd.ie/handle/10197/1447
[14] https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32011L0085

approach would again need to be carefully weighed. As outlined above there is a need to strike a balance between data transparency and the administrative burden this may place on taxpayers.

38. However, significant efforts have been made by Revenue to provide greater detail on the distribution of certain tax expenditures. For example, they publish detailed reports on the Help-to-Buy incentive and the recently discontinued Home Renovation Incentive, giving information on geographical spread, the numbers of individuals availing of different quantum of relief, etc. They also publish an annual Farming profile, which analyses the relief availed of by the agri-sector under a number of different tax heads (VAT, CAT, Stamp Duty, etc.).

39. Revenue's "Ready Reckoner" which is published every year in advance of the Budget, and is then revised post-Budget, shows projected Exchequer costs and yields of a range of possible changes to rates, bands and so on, for a wide range of taxes, focussing particularly on the most well-known such as income-tax, USC, various excise taxes, stamp duty, CAT, CGT, VAT and LPT.

40. For new measures for the coming year, (a first year cost), as well as for the following years is included with the Budget documentation, as part of the Department of Finance's Summary of Budget Measures[15](estimated on an initial revenue foregone basis).

41. The timing and placement of tax expenditure reports is key to ensuring transparency. The 2010 OECD report recommends that such reports should be published in the budget and expenditure outlay documents, which has been the Department's practice to-date. A domestic example in this regard is last year's Agri-taxation Progress Update report, which was published with the 2018 Tax Expenditures Report, as part of Budget 2019. It specifically set out to map the direct and tax expenditure supports available to the agri-sector and presented both sets of data, from the period 2012 to 2016, alongside each other.

D. Review and evaluation

42. The current Department policy, in line with the 2014 Guidelines for Tax Expenditure Evaluation, is that before policy decisions are taken, the case for the particular expenditure is carefully evaluated, and equally importantly existing tax measures are reviewed regularly to ensure that they remain relevant and are achieving the purpose for which they are intended. Tax expenditures that commenced post-2014 have been subject to sunset clauses. The Department routinely carries out reviews of existing tax expenditures and ex-ante

[15] http://www.budget.gov.ie/Budgets/2019/Documents/3.%20Summary%20of%20Budget%202019%20Taxation%20Measures%20-%20Policy%20Changes.pdf

evaluations of proposed new tax incentives. Some of these are published (in full or in summary) in the annual Report on Tax Expenditures.

43. It is acknowledged that there is merit to a systematic analysis of tax expenditures on an on-going basis, as with the costing process discussed earlier there are practical difficulties mainly in terms of resources, in applying this to all tax expenditures. Another point which should be noted is that some tax expenditures have been in place for considerable time to the extent that have become part of the "benchmark" tax system. Example in this regard would be the CGT Principal Private Residence Relief and the Stamp Duty relief concerning transfers between spouses/civil partners (section 96 of SDCA1999) which, while listed by the Department of Finance as tax expenditures, would be seen by many as incontrovertible elements of a benchmark tax system.

44. In terms of adopting a more systematic approach to the review of all tax expenditures, given the aforementioned resource constraints, a difficulty is likely to arise in selecting the tax expenditures for evaluation at any given point in time. For example, if the criteria of "importance" is used as a significant (if not the primary) criteria for assessing which tax expenditures should be reviewed, it must be accepted that this does not necessarily imply that the largest (in terms of revenue foregone or number of claimants), oldest, most topical etc. tax expenditures would be selected for review. Opting for any one criteria (importance, size, age, topicality), would almost certainly result in the introduction of an additional inefficiency in terms of resource allocation.

45. One approach may be to consider the extant tax expenditures on a thematic basis, and an informed framework developed using such a basis to determine which should be reviewed/evaluated alongside those already being reviewed due to their approaching or having reached the cut-off date under a sunset clause. The European Commission's 2014 "Tax expenditures in direct taxation in EU Member States"[16] which calls for a careful assessment of the efficiency of tax expenditures, noting that this requires identifying different policy areas and examining how tax expenditures could – or could not – help meet given economic objectives in these areas, notes that a case-by-case analysis with the focus on specific groups of tax expenditures associated with specific economic issues is needed in order to identify policy options, pointing out that a 'bottom-up or thematic' approach by type of economic issue is more fruitful than a comprehensive analysis of tax expenditures.

46. The Department's 2014 Guidelines which provide a framework for determining the frequency and nature of reviews (summarised in Table 2 on page 3 of that Report) also provides a basis

[16] http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op207_en.htm

for determining how and when tax expenditures (new and old) are subject to review. However, it should be acknowledged there can be resource or practical constraints which can limit the amount of review work that may be carried out in any one year. Furthermore allowance must be made for more complex reviews and analysis or where a review on occasion might take more than 12 months is also important. Reviews are also being conducted on an ongoing basis, and may not fit neatly into the budgetary timeframe.

VII. Next steps on Tax Expenditures work-stream

Analysis & Definition

47. The format and structure of the Department's annual Report on Tax Expenditures continues to evolve over time, and in the context of improving the information provided, the Department is currently examining its potential for conveying additional information on reviews of tax expenditures, both ongoing and planned, and for providing additional analysis of the tax expenditure data contained in its tables.

48. In light of the concerns expressed at the perceived lack of definitional consistency between their respective tax expenditure data sets, both Finance and Revenue propose to examine the possibility of ensuring that the labelling of individual tax expenditure measures are similar on the primary Department of Finance and Revenue sources so as to better facilitate comparisons between the two.

Sunset Clauses & Reviews

49. The Department's 2014 guidelines, as well as the work of the Commission on Taxation, the Report of which was published in 2009, have also contributed to the Department's ongoing work on developing an overarching framework for examining tax expenditures and to a higher emphasis being placed on the need to attach sunset clauses to all new or renewed tax expenditures, where that is appropriate.

50. Sunset clauses aligned with the objectives of the scheme, will prompt the Department to review the tax expenditure concerned with a view to assessing whether it should be renewed for a further period, ended or amended. The Department's stated policy of applying sunset clauses to all new and (where appropriate amended) tax expenditures is in effect. The 2014 guidelines state on page 4 that "all tax expenditures should be time limited" which reflects

the commitment made on page 23 of the Department of Finance's "A Strategy for Growth Medium Term Economic Strategy 2014-2020"[17] .

51. The Department now seeks to carry out reviews of existing tax expenditures and ex-ante evaluations of proposed new tax incentives. For example, comprehensive reviews of the Employment and Investment Incentive (EII) and Agri-tax were carried out last year. Furthermore, two time-limited incentives – the Home Renovation Incentive, the Start your own business incentive, were reviewed and discontinued last year, having achieved their original policy objectives. Following a similar review, the reduced 9% VAT rate on the hospitality sector was reversed to 13.5%. This is not to say that there is not further work to be done, as the practice is not, fully 'hard-wired' into the modus operandi of the Department, and as a result some exceptions have arisen in recent years. The Department is currently considering how to ensure the effectiveness of this policy and that of formalising it in any future decision-making on the introduction of tax expenditure measures.

52. It should also be noted that formalised reviews of tax expenditures can be resource-heavy and the Department will continue to ascertain when planning each review the merits of conducting the review internally or of seeking external consultancy expertise to support or carry out the exercise.

Data Availability & Provision

53. The introduction of any new tax measure is accompanied by new data collection by Revenue. It should be noted, however, that there are limitations on the information that can be collected by Revenue. Revenue needs to ensure that there is a legal basis to collect any information sought. In general the information which it may collect is limited to that required to establish liability to tax, rather than statistical information necessary for policy analysis. In addition Revenue must also balance the need for information with the burden of information assembly and provision placed on taxpayers and the feasibility of taxpayers providing certain information. Revenue must also be cognisant of confidentiality issues where only small numbers of taxpayers use a particular expenditure. Data requirements for new measures are therefore considered on a case-by-case basis.

54. The Department is currently preparing an update to the data on tax expenditures that it provided to the BOC in March this year[18] that will seek to provide the additional information

[17] https://www.dfa.ie/media/dfa/alldfawebsitemedia/ourrolesandpolicies/tradeandpromotion/strategy-for-growth-2014-2020.pdf

[18] https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/committee_on_budgetary_oversight/submissions/2019/2019-03-28_correspondence-anna-donegan-department-of-finance_en.pdf

sought under recommendation 3 and 4 of the Committee’s 2019 report, which relate to the reasons why reviews of certain tax expenditures have not taken place and where sunset clauses are not in place.

VIII. Conclusion

55. Overall, in the last 10 years, a significant amount of progress has been made in raising the profile of the issue and the cost of tax expenditures. As noted in the 2017 TSG paper:

- There have been significant advances made in terms of the analysis of tax expenditures and the development of an analytical process for such evaluation, whether it is ex-ante or ex-post evaluations. This has built on the work of the 2009 Commission on Taxation.
- There is now a comprehensive evaluation structure in place for such reviews, i.e. the Department’s 2014 Tax Expenditure Guidelines.
- The Department now seeks to carry out reviews of existing tax expenditures and ex-ante evaluations of proposed new tax incentives.

56. The Department broadly supports the perspective and views put forward by the BOC, and in particular shares the view that tax expenditures represent a significant and non-trivial annual cost to the Exchequer. The Department’s view is that the direct spending route should be the first port of call where the State wishes to support a particular activity and that tax expenditures should be seen as equivalent to direct public spending.

57. The Department also supports in principle the view that there is scope for a more in-depth consideration of tax expenditures as part of the wider Budget scrutiny process, and to this end it is the Department’s intention to continue to refine the review process and enhance the approach to examining/reviewing tax expenditures.

58. The Department, with the cooperation of Revenue, will continue to focus on how it can augment and improve the transparency and presentation of annual tax expenditure information. This information will continue to be made publicly available, and will also be provided to the BOC to support its oversight function in relation to the Budgetary process.

59. The TSG is asked to note and consider the issues and actions outlined above.

Annex 1:

Recommendations of Budgetary Oversight Committee "Tax Expenditures" report, April 2019.

I. Based on the evidence it has received, the Committee recommends that the Department of Finance provide it, on an annual basis, with an updated list of tax expenditures and their estimated cost in terms of revenue foregone.

II. The Committee recommends that the Revenue Commissioners publish its annual tax expenditure cost data in a format that can be easily matched with the list finalised by the Department of Finance, as provided to the Committee.

III. The Committee recommends, in relation to the information provided to the Committee on tax expenditure measures that have never had a review[19], that the Department of Finance carry out the following actions:

a. Provide a response to the Committee setting out the reasons why no review has been carried out to date on these measures.

b. Set out for the Committee, the Department's view as to whether these measures need to be reviewed.

IV. In relation to the tax expenditure measures on the Department's list where sunset clauses are not in place, the Committee recommends that the Department of Finance prepares a report giving detailed reasons as to why sunset clauses were not attached to these tax expenditures.

V. The Committee recommends that the Department of Finance review its existing guidelines regarding the evaluation of tax expenditures with a view to implementing a rigorous and regular system of reviews for tax expenditure measures.

VI. The Committee recommends that the Department of Finance should publish details of any ex-ante scrutiny it carries out on any new tax expenditure measures being introduced in the Budget. In order to improve transparency and promote best practice, such reviews should be published on budget day at the latest.

VII. To ensure effective ex-post scrutiny can be carried out in respect of any new tax expenditures once enacted, the Committee recommends that the Department of Finance

[19] Department of Finance response to Committee request for information, March 25, 2019: https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/committee_on_budgetary_oversight/submissions/2019/2019-03-28_correspondence-anna-donegan-department-of-finance_en.pdf

include details of the data that will be required to adequately measure the performance of any such new tax expenditures.

VIII. In addition, the Committee has agreed to focus its work in 2019 in this area on a number of tax expenditure measures that have seen a dramatic increase in cost, for example the R&D tax credit, Special Assignee Relief Programme (SARP) and Film Relief.

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