REPUBLIC OF BULGARIA
MINISTRY OF FINANCE

Tax Expenditure Report

2012

Tax Policy Directorate

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INTRODUCTION

The main goal in tax policy is to set up the scope of taxation in such a way as to ensure high efficiency and transparency of the tax system. Tax system efficiency refers to ensuring that government fiscal needs are provided for, while maintaining the highest possible economic growth and providing for an adequate standard of living for the public.

Such a compromise between fiscal, economic and social goals is achieved by distinguishing between objects of taxation (consumption, income or property) and designing the taxes themselves, including their respective taxable base, tax rates and tax incentives. Such solutions enable higher flexibility in terms of taxation scope and inducing taxpayer behaviour in line with government expectations. On the one hand, those solutions provide incentives for certain specific taxpayer groups, while on the other hand deprive the government of some of its potential tax revenue, or, to put it differently, the government foregoes a portion of its tax revenues in order to achieve a certain economic or social goal.

The Bulgarian tax system provides for a number of tax incentives aimed at inducing taxpayer behaviours to enhance the development of certain regions, selected economic sectors and specific types of activity, or a change in the progressive features of the tax system. From a legal point of view, tax incentives can take various forms: low tax rates for profit tax and tax on dividends, reduced tax rates, tax holidays, investment tax credits, accelerated tax depreciation, tax loss carry forward, etc. The common feature shared by the various forms of tax incentives is a reduction in tax liabilities and hence a reduction in potential tax revenues into the public budget.

Any loss of tax revenue resulting from granting tax incentives is considered tax expenditure.

Tax expenditure is de facto a substitute for public budget expenditure, and under certain conditions it can be an alternative to direct transfers from the central government or municipal budgets.

Unlike public budget expenditure, which is subject to in-depth analysis, monitoring and control, tax expenditure often remains outside the scope of such supervision. One of the main reasons is that budget expenditure is usually dealt with in a single piece of legislation, while tax expenditure tends to be scattered across a number of tax legislation instruments, and is often less explicit, making it hard to analyse and evaluate.

Such a situation is detrimental to the transparency of a country’s financial governance and jeopardizes the proper allocation of public funds. That is why measuring tax expenditure is key to national fiscal policy-making. On the one hand, measuring tax expenditure makes it possible to distribute and redistribute public funds; while on the other hand, it serves as a point of reference in measuring the efficiency of each tax expenditure item and the tax system as a whole.

I. TAX EXPENDITURE REPORT – ESSENCE

Tax expenditure reporting has become a long-established practice in most European Union Member States and in member countries of the Organisation for Economic Co-operation and Development.

Annual Tax Expenditure Reports are prepared and published in order to provide transparency concerning provisions regulating tax incentives.

In a number of European Union Member States, the issuance of Tax Expenditure Reports is regulated by law, and hence those Reports have a direct link to the central government budget and are included in the budget process.

Tax Expenditure Reports are issued annually but there are some exceptions as well, with some countries reporting their tax expenditure once every two or three years.

II. WHY IT IS NECESSARY TO REPORT TAX EXPENDITURE IN BULGARIA

In Bulgaria, this is the third time a Tax Expenditure Report has been issued. The first Tax Expenditure Report covered a period of three years (2007–2009). The second Tax Expenditure Report covered a period of two years (2010–2011).

Bulgaria's national legislation does not provide the requirement to report tax expenditure, yet this report aims, on the one hand, to increase transparency in public finance, and on the other hand, to raise public awareness of the tax preference system and the size of tax incentives.

This Tax Expenditure Report covers the-year 2012.

The report includes tax expenditure by type of tax measure (incentives) related to value added tax, excise duties, corporate income taxes and personal income taxes.

Tax expenditure presented in this Report has been estimated on the basis of reporting data stated in tax returns and customs declarations provided by the National Revenue Agency and the Customs Agency, and based on statistics provided by the Bulgarian National Bank and the National Statistical Institute.

III. PROCESS OF DRAFTING THE TAX EXPENDITURE REPORT

The process of drafting this Tax Expenditure Report went through the following main stages:

- Preparing a list of the extant tax incentives in the Value Added Tax Act, the Excise and Tax Warehouses Act, the Corporate Income Tax Act and the Personal Income Taxation Act for the period 2010–2011;
- Defining the concept of tax expenditure;

- Defining the concept "benchmark tax" by types of tax;
- Identifying the tax incentives which are tax expenditure and the tax incentives which are part of the benchmark tax;
- Preparing a list of the tax expenditure items for 2012;
- Selecting methods of measuring tax expenditure;
- Analysis of the available information and information sources for the purposes of tax expenditure measurement;
- Measuring tax expenditure;
- Recommendations for improvements in tax expenditure reporting.

IV. DEFINING TAX EXPENDITURE

Currently Bulgarian legislation does not provide any legal definition of tax incentive, or any legal definition of tax expenditure.

From a legal point of view, tax incentives can take various forms: low tax rates for profit tax and tax on dividends, reduced tax rates, tax holidays, investment tax credits, accelerated tax depreciation, tax loss carry forward, etc.

The term 'tax incentive' generally refers to a provision in tax legislation resulting in the reduction of the taxable base or the amount of the tax payable. A key feature shared by all forms of tax incentive is that tax liabilities are thus reduced, and hence they all lead to a reduction in potential tax revenues for the public budget. Any loss of tax revenue as a result of the provision of tax incentives is considered tax expenditure.

Although there is a very close link between tax incentives and tax expenditure, the definition of the term 'tax incentive' is not sufficiently exhaustive to enable the identification of tax expenditure.

The identification of tax expenditure is a complex process, yet it is a prerequisite for measuring their value. It should be noted that not all tax treatments which represent measures granting tax incentives constitute proper tax expenditure. Some tax measures have been adopted in order to rationalise the tax system or to reduce tax administration costs, or they ensue from international obligations or obligations relating to the European Union membership.

An analysis of other countries' Tax Expenditure Reports and the research of a number of publications by international organisations points to the conclusion that there is no single or generally accepted definition of tax expenditure. This is due, on the one hand, to the substantial diversity among the various national tax systems, and on the other hand, to their diverging approaches to the function of tax expenditure.

A considerable number of the countries which issue regular Tax Expenditure Reports have adopted the OECD (Organisation for Economic Co-operation and Development) definition of tax expenditure. According to OECD, "Tax expenditure is a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax (i.e. the standard tax system), rather than by a direct expenditure".

For the purposes of the first Tax Expenditure Report, the authors have adopted the definition of tax expenditure of the Organisation for Economic Co-operation and Development. The report recommended that a national definition of "tax expenditure" be adopted for the purposes of analysing and measuring tax expenditure in Bulgaria.

The Public Finance Act effective as of 1 January 2014 contains a definition of "tax expenditure".

In the meaning of § 1, item 9 of the Additional Provisions of the Public Finance Act, "Tax expenditure" means an indirect cost incurred via the tax system pursuant to a statutory provision resulting in a reduction or deferral of budget revenue in order to achieve a certain economic or social goal".

For the purposes of this analysis, a definition of tax expenditure wider than the definition in the Public Finance Act was adopted.

Definition of tax expenditure

"Tax expenditure" means an indirect cost incurred via the tax system pursuant to a statutory provision, the implementation of which by a certain category of taxable persons results in a reduction or deferral of budget revenue compared to the implementation of the benchmark for the respective type of tax, in order to achieve a certain economic or social goal.

V. WHAT IS A BENCHMARK TAX

Defining a benchmark tax is crucial for determining whether a given tax provision constitutes a tax expenditure or is an inherent feature of the tax system.

Global practice indicates that there is no single generally accepted model for benchmarking taxes due to the diversity of tax systems in the different countries. Each country defines its own benchmark taxes for the purposes of its own research and analysis.

VI. DEFINING BULGARIAN BENCHMARK TAXES

In Bulgaria, there is no universal definition of benchmark tax.

It should be pointed out that it is very difficult to define precisely benchmark taxes (the standard tax system), considering that each tax provision ought to be analysed very well in order to determine whether it is an inherent feature of a given tax or an incentive for a certain group of taxpayers, activities, economic sectors, etc.

To define a benchmark tax, it is necessary to indicate the most important principles of taxation, and identify those elements of the tax system which, in legal terms, may be a measure granting tax incentives, but in practice are part of the benchmark tax and should not be considered tax expenditure items. The general principles of a tax system are universality, comprehensiveness and justice of taxation. Other elements which should be recognised as part of the benchmark are the standard tax rates (the respective rates of value added tax, corporate income tax and personal income tax, etc.), the tax depreciation system, the possibility to reduce the annual taxable base (e.g. by deducting the obligatory social security and health insurance contributions), and the principles set up in the EU law, which are binding for all Member States.

It is not possible to define a single benchmark applicable to all taxes. The above principles can be applied to each tax, but the characteristics of individual taxes require a definition of a benchmark for each type of tax. In value added tax and excise duties, which are harmonised at the EU level and the structure of which ensues from Community Law, there is very little leeway left for Member States in shaping their final design.

For the purposes of this report, in order to identify and estimate tax expenditure, the authors have defined benchmarks in terms of two categories of taxes: taxes on profits and income, and taxes on consumption.

6.1. Benchmark Tax in Profit and Income Taxation

The benchmark in profit and income taxation will be based on the following main principles:

- Universality of taxation: profits and income of legal persons and individuals are subject to taxation, regardless of their economic activity or their region of operation;
- Completeness of taxation: any profit/income is subject to taxation, regardless of its source, the category of payer, or the purpose for which such profit/income is intended;
- Individual taxation: tax is levied on each legal person or individual which/who receives the proceeds or income;
- Annual assessment of the tax payable;
- Standard tax rates for taxes on profits or income;
- Tax depreciation system.

Tax provisions which correspond to the above principles ought to be considered elements of the benchmark tax and a point of reference in identifying tax expenditure. The benchmark tax will also include all provisions related to avoiding double taxation, i.e. tax exemption or applying the tax exemption methods regulated in bilateral agreements for the avoidance of double taxation to which the Republic of Bulgaria is a party signatory.

6.2. Benchmark Tax in Terms of Consumption Taxation – Value Added Tax and Excise Duties

In terms of VAT and excise duties, the benchmark tax will follow the principles which are binding for all EU Member States and are enshrined in EU legislation.

Mandatory exemptions from taxation according to European legislation are a benchmark. All possible tax exemption options which are not binding for Member States and are a matter of national regulation ought to be considered a deviation from the benchmark tax, i.e. as tax expenditure items. The same refers to tax rates. The benchmark tax involves a standard (base) rate. Reduced tax rates (for value added tax and excise duties) ought to be treated as tax expenditure items. Any legal provision which narrows the scope of taxation due to administrative or control considerations – for example, exemption from excise duty for alcoholic beverages produced by individuals for their own consumption and not intended for sale, should be considered a benchmark, and not a tax expenditure item.

VII. METHODS OF MEASURING TAX EXPENDITURE

One prerequisite for the proper distribution of public funds is to determine their amount accurately beforehand. Unlike direct transfers (public budget expenditure), the amount of tax incentives is not known ex ante. The possibilities for establishing their precise amount ex post (after the end of the financial year) are also limited, particularly in cases where there is no requirement for detailed reporting of tax expenditure.

That is why measuring tax expenditure requires estimations arrived at by applying a specific set of methods.

The most common method of measuring tax expenditure is the method of ceding revenue (revenue foregone), which involves estimation of amounts not paid into the budget as a result of the existence of a given tax expenditure item.

Other applicable methods include the method of receiving revenue (revenue gain) and the outlay equivalent method.

The revenue gain method is based on estimating amounts which would have been paid into the budget, had certain tax expenditure been eliminated from the tax system, but factoring in any changes in taxpayer behaviour resulting from eliminating such expenditure.

The outlay equivalent method consists in measuring cash outlays which would be required to finance a given goal outside the tax system (for example, cost of raising the amount of social assistance or subsidies for purchasing new technology).

For the purposes of this report, the method used is that of revenue foregone.

VIII. TAX EXPENDITURE ESTIMATES

Tax expenditure has been estimated for year 2012.

Tax expenditure presented in this Report has been estimated on the basis of reporting data stated in tax returns and customs declarations, and based on statistics provided by the Bulgarian National Bank and the National Statistical Institute.

All tax expenditure items have been estimated, and their measurement includes:

- Total amount of tax expenditure;
- Tax expenditure estimates by type of tax;
- Tax expenditure estimates by type of tax measure;
- Tax expenditure estimates by goal;
- Tax expenditure estimates by economic sector and subsector;
- Tax expenditure estimates by beneficiary.

8.1. Total Amount of Tax Expenditure

Year	Total Amount of Tax Expenditure (in levs)	% of GDP	% of tax revenue
2012	**562,778,019**	0.72%	2.61%

2012

In 2012 a slight increase in tax expenditure was observed in nominal terms, and as a percentage of gross domestic product and of tax revenue the levels remained close to these in 2011.

The analysis indicates that the estimated loss of revenue resulting from tax expenditure is less than 1% of GDP (0.72% of GDP in 2012).

To compare, that indicator ranges from 0.74% of GDP in Germany, 2% in the Netherlands, 4.9% in Poland, up to 12.79% in the United Kingdom. The wide range of values for the indicator is due, on the one hand, to the existing differences in the tax systems of the various countries, while on the other hand it has to do with the different approaches and methods used for estimation of tax expenditure.

In countries with a broad tax base and low tax rates for profit and income taxation, such as Bulgaria, the number of tax expenditure items is low, up to 50. Conversely, in countries with a narrow tax base or high tax rates, the number of tax expenditure items is several times higher and can reach up to 380.

8.2. Tax Expenditure Estimates by Type of Tax

Tax expenditure items have been estimated by types of taxes: value added tax, excise duties, corporate and personal income taxation.

2012

For 2012, a total of 34 tax expenditure items were identified. On the basis of the information available, 24 tax expenditure items were measured (accounting for 71% of all items identified). Tax expenditure items not measured account for 29% of all expenditure items.

The largest relative share comes from tax expenditure items associated with corporate taxes (50%), followed by tax expenditure items associated with excise duties (24%).

Type of tax	Number of tax expenditure items	Number of tax expenditure items measured	Estimate (in levs)	% of tax revenue
VAT	2	1	161,772,153	0.75%
Excise duties	8	7	86,750,977	0.40%
Corporate income taxes	17	9	210,008,272	0.98%
Personal income taxes	7	7	104,246,617	0.48%
Total, all taxes	**34**	**24**	**562,778,019**	**2.61%**

2012

The analysis revealed that a considerable part of tax expenditure items has not been estimated. The absence of an estimate is due to the fact that tax returns do not contain the relevant data, or contain aggregated information which cannot be used to measure the respective tax expenditure item reliably.

For example, the annual tax return filed under Article 92 of the Corporate Income Tax Act contains aggregated information concerning the tax deductible cost of depreciation/amortisation for all tax depreciable tangible and intangible assets. The information provided by means of the tax return is not sufficiently broken down to enable the estimation of tax expenditure under tax measures "Accelerated tax depreciation of up to 50% for machines and equipment" and "Accelerated tax depreciation (100% per annum) for assets generated as a result of R&D".

On the one hand, it is necessary to simplify administrative procedures, including the procedure of filling in and filing tax returns, in order to reduce the administrative burden and the cost of compliance for taxpayers. On the other hand, the unavailability of certain information concerning tax incentives under corporate and personal income taxation prevents the measuring of the actual size of tax expenditure and the production of a realistic Tax Expenditure Report.

Recommendation: Information filed through the annual tax returns should be carefully examined and the possible elimination of some items and their replacement by other items should be considered, with a view of striking an efficient balance in order to achieve the set goals.

8.3. Tax Expenditure Estimates by Type of Tax Measure

Tax expenditure items have been estimated by type of tax measure for the following types of taxes: value added tax, excise duties, corporate and personal income taxation.

1. Tax Measures Associated with Value Added Tax

In tax expenditure items associated with value added tax, the highest relative share is that of the tax expenditure under tax measure "Reduced tax rate for accommodation provided by a hotel operator".

Tax measure type	As a percentage of tax revenue from VAT	Amount (in levs)
Special regime for charging VAT on imports and a 30-day deadline for VAT refunds	X	X
Reduced tax rate (7 %) for accommodation provided by a hotel operator	2.26%	161,772,153
Total	**2.26%**	**161,772,153**

Total for 2012

The analysis revealed an increase in tax expenditure associated with value added tax.

2. Tax Measures Associated with Excise Duties

Tax measure type	As a percentage of tax revenue from excise duties	Amount (in levs)
Refund of the excise duty paid on alcohol and alcoholic beverages where they are used for medical treatment purposes		The tax expenditure has not been measured.
Refund of excise duty paid on electric power for licensed railway carriers and railway infrastructure managers	0.10%	3,977,153
Zero-rate excise duty on electric power for household consumption	0.40%	16,228,081

Tax measure type	As a percentage of tax revenue from excise duties	Amount (in levs)
Zero-rate excise duty on sales of coal and coke to individuals	0.08%	3,042,372
Zero-rate excise duty on natural gas used as motor fuel and heating fuel	1.52%	61,436,466
Reduced excise rate on ethyl alcohol (rakiya) produced in specialised small distilleries, amounting to BGN 550 per hectolitre of pure alcohol	0.02%	623,988
Reduced excise rate on beer produced by small independent breweries	0.04%	1,442,918
Reduced excise rates on mixtures of biofuel and liquid fuel derived from crude oil	X	X
Total	**2,14%**	**86,750,977**

Total for 2012

The analysis revealed an increase in tax expenditure associated with excise duties.

The largest increase is observed under tax measures “Zero-rate excise duty on natural gas used as motor fuel and heating fuel” and “Reduced excise rates on mixtures of biofuel and liquid fuel derived from crude oil”.

For 2012, in tax expenditure associated with excise duties, the highest relative shares are those of tax expenditure associated with two tax measures:

- “Zero-rate excise duty on natural gas used as motor fuel and heating fuel” (70.82% in 2012);
- “Zero-rate excise duty on electric power for household consumption” (18.71% in 2012).

3. Tax Measures Associated with Corporate Income Taxes

Tax measure type	As a percentage of tax revenue from corporate taxes	Amount (in levs)
Tax exemption of equity transactions performed on a stock exchange	0.09%	1,443,538

Tax measure type	As a percentage of tax revenue from corporate taxes	Amount (in levs)
Tax exemption from corporate income tax for collective investment schemes, licensed investment companies and special purpose vehicles		The tax expenditure has not been measured.
Tax exemption from corporate income tax for the Bulgarian Red Cross		The tax expenditure has not been measured.
Exemption from taxation with corporate tax and income tax – higher schools		The tax expenditure has not been measured.
Tax exemption from corporate income tax and income tax for the Bulgarian Academy of Sciences, the Academy of Agriculture, etc.		The tax expenditure has not been measured.
Remission of 100 per cent of the corporate income tax for undertakings engaging in manufacturing activities in municipalities with high unemployment rates	0.77%	12,828,536
Remission of 60 per cent of the corporate income tax for registered agricultural producers	1.22%	20,349,083
Remission of corporate income tax for undertakings employing people with disabilities	0.06%	990,347
Remission of 50 per cent of the corporate income tax for social security and health insurance funds	0.05%	797,103
Accelerated tax depreciation		The tax expenditure has not been measured.
Accelerated tax depreciation (100% per annum) for assets generated as a result of R&D		The tax expenditure has not been measured.
Tax losses carry forward	9.35%	155,381,117
Tax deductible expense for donations	0.28%	4,732,924
Tax exemption of social benefit expenses for food vouchers	0.80%	13,370,625

Tax measure type	As a percentage of tax revenue from corporate taxes	Amount (in levs)
Tax exemption of social benefit expenses for contributions and premiums for additional social security and life insurance		The tax expenditure has not been measured.
Tax exemption of social benefit expenses for employee transport		The tax expenditure has not been measured.
Tax deduction for hiring unemployed persons	0.01%	115,000
Total	**12.64%**	**210,008,272**

Note: Tax measures under corporate taxes include "Tax losses carry forward" as a tax expenditure item. Tax loss carry forward is a tax incentive, but an in-depth analysis of the nature of that tax incentive indicates that it should not be included and measured as a tax expenditure item. For the purposes of the present analysis, that tax incentive has been measured as a tax expenditure item, due to its high value.

4. Tax Measures Associated with Personal Income Taxes

Tax measure type	As a percentage of tax revenue from personal income taxation	Amount (in levs)
Tax incentives for sole proprietors (incentives under CITA which can be used by sole proprietors)	0.13%	2,936,583
Tax exemption of certain types of personal income		A portion of this tax incentive is not a tax expenditure item. The tax expenditure has not been measured.
Tax exemption of certain types of income under employment contracts governed by the Labour Code		A portion of this tax incentive is not a tax expenditure item. The tax expenditure has not been measured.
Reducing the sum of annual tax bases by deducting any pension contributions made during the year at the expense of the individual	0.01%	238,281
Tax deduction on donations	0.01%	199,232
Reducing the sum of annual tax bases for persons with 50 per cent or more reduced work capability	0.79%	18,048,209

Tax measure type	As a percentage of tax revenue from personal income taxation	Amount (in levs)
Reducing the sum of annual tax bases by deducting any personal voluntary pension contributions and insurance premiums	0.12%	2,825,230
Tax deduction for young families	0.08%	1,899,081
Tax deduction or interest income on deposits of individuals	3.42%	78,100,000
Total	**4.57%**	**104,246,617**

8.4. Tax Expenditure Estimates by Goal

Tax expenditure items have been estimated in terms of two main goals: an economic goal and a social goal.

Tax expenditure items with an economic goal refer to tax measures aimed at promoting foreign direct investment and innovation, stimulating higher employment and the development of certain regions and sectors in the national economy.

Tax expenditure items with a social goal refer to tax measures targeted at certain categories of individuals.

2012

In 2012, the relative share of tax expenditure with an economic goal was 75.90%.28, and tax expenditure with a social goal accounted for 24.10%, respectively.

Goal	Amount (in levs)	% of tax revenue
Economic goal	427,136,355	1.98%
Social goal	135,641,664	0.63%
Total, goals	**562,778,019**	**2.61%**

8.5. Tax Expenditure Estimates by Economic Sector and Subsector

Tax expenditure items have been estimated by economic sectors and subsectors.

2012

Economic sector	Amount (in levs)	% of tax revenue
Agriculture	20,349,083	0.09%
Energy	80,706,918	0.37%
Transport	3,977,153	0.02%
Tourism	161,772,153	0.75%
Financial sector	2,240,641	0.01%

Economic sector	Amount (in levs)	% of tax revenue
Other	293,732,071	1.36%
Total, sectors	**562,778,019**	**2.61%**

Note: For the purposes of estimating tax expenditure, the category of „Other" includes several economic sectors (food and beverages, pharmaceuticals, etc.) and tax expenditure associated with general tax measures (for example, "Tax losses carry forward") or tax measures for promoting regional development and employment which, on the one hand, cover a considerable number of sectors and, on the other hand, are hard to differentiate by economic sector (for example, "Remission of 100 per cent of the corporate income tax for undertakings engaging in manufacturing activities in municipalities with high unemployment rates").

8.6. Tax Expenditure Estimates by Beneficiary

Tax expenditure items have been estimated for two main categories of beneficiaries: legal persons and individuals.

2012

In 2012, the relative share of tax expenditure where the beneficiaries are legal persons was 67.14%, and that of tax expenditure where the beneficiaries are individuals was 32.86%.

Beneficiary	Amount (in levs)	% of tax revenue
Legal persons	377,824,484	1.75%
Individuals	184,953,535	0.86%
Total, beneficiaries	**562,778,019**	**2.61%**

Note: For the purposes of estimating tax expenditure, the "Legal persons" category includes resident legal persons, including non-personified entities and permanent establishments of non-resident persons in Bulgaria.

IX. OPPORTUNITIES FOR IMPROVEMENTS IN TAX EXPENDITURE REPORTING

- Review and measure tax expenditure regularly, issuing a Tax Expenditure Report annually.
- Publish the Tax Expenditure Report on the website of the Ministry of Finance in order to increase transparency in public finance and raise public awareness.
- Develop methods of tax expenditure reporting and for estimating tax expenditure.
- Analyse information requirements and information sources for the purposes of tax expenditure measurement.

- Reduce the share of unmeasured tax expenditure.
- Assess tax expenditure efficiency.
- Conduct a cost-benefit analysis before introducing any future tax expenditure.
- Develop short- and mid-term forecasts for tax expenditure estimates, as from 1 January 2014.

CONCLUSIONS

The Bulgarian tax system provides a small number of tax expenditure items. Generally, tax expenditure is aimed at stimulating economic development and growth by promoting investment, innovation and employment.

In the period under review, there was an overall increase in tax expenditure. The increase was largely due to the higher amount of declared tax profits and corporate income taxes, resulting in the use of greater amounts of tax incentives related to corporate income taxes and directly affecting the size of tax expenditure.

The Report shows that a considerable part of tax expenditure items have not been measured due to the unavailability of information about tax incentives associated with corporate and personal income taxation. In that regard, it is necessary to undertake appropriate action to reduce the share of unmeasured expenditure and ensure more realistic tax expenditure reporting in the future.

Last but not least, it should be noted that part of the tax expenditure items introduced several years ago have now lost their ability to influence taxpayers and are inefficient, and at this point their only effect is to reduce budget revenue, without adding any real value for the economy and the society. Such inefficient tax expenditure items should be subject to an in-depth review to explore the question of how justified it is to retain them in their present form.

For additional information:

"Tax Policy" Directorate

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