

Invisible Hands? The Non-Budgeting of Tax Expenditures in Australia and Canada

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Introduction

Tax expenditures are 'big ticket' items that cost governments substantial amounts in foregone revenue. Governments typically allow hundreds of different concessions generally against income streams or categories of consumption. Collectively they represent a substantial reallocation of resources, in some jurisdictions second only to direct income transfers (pensions and benefits). Many would argue, even though technically incorrect, that tax expenditures constitute a 'transfer of funds from government to the private sector' (EPAC 1986, p. 3). Others taking the taxpayers' viewpoint see such concessions as legitimate forms of tax minimisation. Politicians often regard these measures as 'easy-options' available to them to dispense political largesse. Certainly, the well-established practice of granting tax concessions to various constituencies shows no sign of abating in most liberal democratic systems of government. But governments and their policy organisations have also begun to consider tax expenditures as a major instrument of policy, alongside regulation and direct outlays.

In Canada tax expenditures have long been a favoured policy instrument. Taken together, they now approximate in volume the annual budget devoted to program spending, or the amount of expenditure committed by the federal government to its own policy objectives. This is a significant increase from the estimated 25 per cent of planned federal budgetary outlays in 1981 (Maslove 1981). In terms of revenues, the resources foregone through tax expenditures is now roughly approximate to around 80% of the total revenues extracted from Canadians. Although the Canadian government does not consolidate these concessions, if we allow for some double-counting the combined magnitude of tax expenditures could be as much as ... per cent of GDP. And this figure includes only federal concessions; the provinces also offer certain patterns of tax exemptions and reductions in addition.

In Australia tax expenditures, although less favoured by government as a policy instrument, nevertheless exceed the own-use program expenditure of the Commonwealth, and equal \$30 billion or around 15% of total Commonwealth outlays. Relative to economic activity, tax expenditures constitute approximately 4% of GDP according to the Treasury (2001, p. 5). Again the Australian states are active in providing tax concessions to business and families, although none of the sub-national governments produce an annual statement of their own tax expenditures.

Yet, despite their enormity, tax expenditures are not subjected to the same system of review and scrutiny applied to expenditure budgets. There is certainly no budgeting of tax expenditures *per se*. Conventionally, tax concessions were treated as 'exempt' from the processes of budget analysis and annual review. And even today, after many calls for tax expenditures to be brought into the budget, they are certainly not integrated into the process or 'budgeted for' in the same way as expenditure budgets. Even where government produce information on tax expenditures, they are not included in the annual budget ledger.

As a consequence, tax expenditures generally attract far less scrutiny from budget officials and politicians. While the government's spending plans receive considerable scrutiny in the legislature and media, the largely inherited patterns of 'revenue foregone' receive virtually no attention either from inside the executive or from the legislature. Tax expenditures are not included on balance sheets nor in operating statements; they do not come in for scheduled debate or scrutiny in the legislature; they are not rationed in any systematic way; they do not automatically come before a cabinet committee for routine review; and they are not audited by the Auditor-General or other independent auditors (although Auditors-General have called for better accounting of tax expenditures and have attempted to audit some individual measures). It is true that in the past two decades slightly more attention has been given to the disclosure of tax expenditures. But this is largely a reporting exercise

rather than a review exercise, and there is still scant interrogation of the figures in either country.

Given the existing magnitude of tax expenditures, two sets of questions follow. The first set probes why tax expenditures have grown? It includes questions as to what were the causes or what generated tax concessions – is it supply or demand-driven; is it politically expedient or administratively convenient; has the historical lack of scrutiny contributed to the growth of tax expenditures? Answers to these questions are contingent and may vary between time, circumstance, place and type of tax expenditure offered. It could involve the preferences of the key players in the political executive and bureaucratic central agencies. It could involve pressure from client-oriented spending agencies. It may involve expediency and the ease of satisfying claimants, perhaps as a way of placating significant interest groups and voter demands. Or, it could involve a means to avoid or lessen scrutiny of government largesse.

The second set of questions focus on why governments did not budget tax expenditures in similar ways as they budget direct expenditures. Why were such forms of resource transfers not formally brought into the budgetary process as part of the regular budget reviews of programs – either as a separate component or combined with other policy instruments? Why has the range and magnitude of tax expenditures not been checked? The answers to these questions lies in the patterns of budgeting in liberal democratic regimes, and in the recognition of the fundamentally different nature of tax expenditures compared to direct expenditures. But this then raises the issues of whether tax expenditures were indeed reviewed or rationed by means other than by budgetary review.

The argument of this chapter is that tax expenditures constitute a significant policy instrument of government but they remain a marginal feature of resource management often spurred by *ad hocery*. The exercise of executive review and rationing may be cursory or non-existent, and certainly the legislature has not addressed such expenditures with anywhere near the enthusiasm reserved for direct expenditures. However, over the last two decades tax expenditures have become more visible, attracted greater attention, and are now potentially open to scrutiny (they are no longer excluded from review). One of the reasons for this increased attention is the result of a long campaign by economists to document tax concessions as forms of expenditure and treat them in the same way as direct spending. So today, economists have largely succeeded in convincing governments about the merits of recognising the term and reporting annually on the dimensions of tax expenditure. Yet these forms of tax expenditure are kept intentionally separate from the review of the budgetary cycle. It is still the case that tax expenditures are not considered part of the overall resource budget committed by government to achieve their policy objectives. For instance, it is neither clear nor transparent whether governments consciously assess the trade-off or inter-relationship between revenues foregone and expenditure outlays when evaluating the efficacy of various policy instruments. As a consequence of this treatment of tax expenditures, they still continue to receive almost no scrutiny from the legislature, media, scholars or other informed commentators.

The Nature and Scope of Tax Expenditures

Until relatively recently, governments were reluctant to identify tax expenditures or define them precisely. While the amounts of revenue foregone from selected tax concessions may have been calculated for some years, governments eschewed any notion of producing a consolidated statement expressing the total worth of tax expenditures. They were content that a variety of forms of tax concessions were

extant for which they gained some kudos but were not overly accountable. The lack of transparency suited governments. The politics of determining the concessions stayed covert and the real scope of the measures largely remained hidden from view. As one senior Canadian Finance official stated, it was the policy of successive governments to 'say nothing about tax'. This arrangement also suited the central agencies responsible for taxation and overseeing concessions.

From the government's perspective, any decision to allow tax concessions was one of deciding not to collect some legally enforceable tax. The traditional governmental view was that tax concessions were 'free money' or small 'give-aways' intended to keep selected constituencies quiet. Moreover, governments did not actually have to extract revenues prior to awarding these concessions and they were not shown in expenditure budget documentation. Tax expenditures were not bonuses or rebates paid out of collected revenues.

Governments may also have resorted to providing tax concessions as 'second best' options. Some officials have commented that when resources were not available for direct spending then adjustments to the tax code would be made to alleviate some part of the tax burden for selected groups. Over time governments came to regard tax expenditures as a 'soft option' instrument available to placate 'deserving constituents' (ref needed). An attitude developed within government that maintained: 'let's not spend any money but let's give a tax expenditure instead'. Indeed, one Finance official recalled line ministers writing to the Treasurer and Finance minister arguing that if the Budget could not afford a proposed expenditure measure could they instead pursue their preferred policy initiative via a tax concession. Moreover, once given they tended to remain 'sacred cows' – too politically difficult to remove. While resources from revenues were generally increasing, the relative impact of these concessions was both disguised and not apparent as a political issue.

But frequently when making decisions about concessions the government had no idea what the actual cost of the non-collection of the concession was worth. Tax expenditures were often too difficult to measure, and when a combination of tax expenditures was involved too problematic to estimate individually. Specific tax expenditures cannot be regarded as discrete items existing in isolation from each other, but rather form an available matrix of potential concessions to taxpayers – especially as taxpayers adjust their behaviour or decisions and economic activity to maximise their benefits under the particular concessional regime.

But over time, agencies with responsibility for overseeing revenue policy – such as auditors, various parliamentary committees and economic-oriented central departments – became more interested in establishing a more systematic classification of tax expenditures and a robust set of methodologies for estimating them. The reasons for the growing interest in disclosure were manifold. There was a growing interest in examining tax incentives, especially from government treasuries and legislatures. Germany published information on federal tax exemptions and ‘subsidies’ from 1959 and by 1967 biennial publication was mandatory. The US had included a report on federal tax expenditures in 1968 (in the Annual Report of the US Treasury) and published annual tax expenditure statements from 1975. In 1976 the Congress of the International Fiscal Association held its annual conference on tax expenditures. Other OECD nations, like Canada and Australia, soon followed (McDaniel and Surrey 1985).

Concerns were often raised by Auditors-General worried over the unregulated growth of tax expenditures, the lack of disclosure and absence of accounting for such concessions. Auditors were important catalysts urging central agencies to review these commitments and provide comprehensive reports. They were generally concerned to enhance accountability for the decisions taken. Parliamentary committees (public accounts or finance committees) also lent their support to the need for regular and consistent information. Central agencies were at first reluctant partners, seeing calls for greater accountability as an intrusion into their domain, but

gradually they became convinced by public finance economists (both external and internal) of the need to publish credible data. There was also a growing sense within these agencies that they should have better information on which to base their policy advisory skills in the general area of tax expenditures. They believed as well that accurate tax expenditure accounting would in turn play a role in limiting the use of tax expenditures by governments and assist in redesigning tax systems or better targeting special preferences (Glenday 1988:273).

Economists were also influential in the process of convincing governments of the need to label and recognise foregone revenue as tax expenditures. In the US the work of Stanley Surrey (1973) was seminal in this field although his approach was based on a combination of two economic measures: the changes to a citizen's income and the departure from a normative or 'generally accepted structure of income tax'. This approach generally represented tax expenditures as forms of government incentive relative to the changes to an individual's earnings and consumption patterns. His main analytical contribution was his insistence that tax expenditures were *the equivalent of direct expenditures* and this theoretical orientation gradually emerged as the dominant paradigm through which the 'tax expenditure concept' was understood. Stanley was concerned to identify 'the extent to which a government is intervening in the economic and social life of a country by running spending programs through its tax system' (McDaniel and Surrey 1985, p. 6). His criteria were persuasive to both governments and the International Fiscal Association, which adopted his approach in 1976.

Two British economists Willis and Hardwick (the former with a career in Inland Revenue) then produced a study designed to raise awareness of the scope of tax concessions in Britain, feeling it necessary to clarify that they meant 'those reliefs' from income and capital gains tax that 'in United States parlance would be called "tax expenditures"' (1978, p. 1). In this early study they were primarily concerned with the costs to revenue (which they estimated as a figure equivalent to 41 per cent of total revenue) and the distribution of tax relief. Their book contained the

occasional primary references (such as Hansard, Tax Commissioner rulings or parliamentary committee reports) and bar a brief mention of Surrey's approach contained almost no secondary references and no bibliography. A subsequent comparative study edited by McDaniel and Surrey (1985 – in which nine economists participated including Hardwick) recognised the growing international interest in codifying tax relief measures, and attempted to argue for a set of internationally accepted definitions and methodologies. This work resonated in both Canada and Australia.

The Recognition of Tax Expenditures in Canada

According to government officials, the issue of reporting tax expenditures 'gained legs' in the Canadian Department of Finance in the mid-1980s. The department had produced three occasional reports on tax expenditures (1979, 1980 and 1985) but they contained information that was selective and sketchy. The economist Allan Maslove (1981) used these early reports to survey both personal and corporate income tax concessions, arguing that it would probably be better to eliminate many of these concessions and lower general rates of tax. Dissatisfied with these 'sporadic' reports, the tax policy branch of the department came to the view that it ought to investigate what was at stake in presenting information more regularly and what pitfalls or dilemmas were likely to occur. The Finance Minister of the day was also reluctant to keep issuing tax expenditure tables that were partial, directing his department 'to undertake extensive consultations with a view to instituting regular accountability reporting for the tax system' (Sargent 1988:16). In 1986 the Auditor-General also reported that an independent evaluation of 'specific tax provisions' (tax expenditures) should be carried out, a recommendation supported by the public accounts committee.

So, the department established an internal Tax Measures Evaluation Division (which existed from 1987-91) and formed an interdepartmental committee consisting of senior officers from Finance and Revenue Canada. The department also looked to

outside experts for advice. An economist, Neil Bruce, was prevailed upon 'under gentle, but relentless, pressure' to produce a survey of the public finance and economics literature to clarify the 'conceptual issues and controversies related to tax expenditure reporting' (Bruce 1988, p. 4). The department then sponsored a 'roundtable' seminar held in November 1988 and hosted by the John Deutsch Institute at Queen's University. After some badgering a number of experts (public finance and government budgeting academics, economists and tax professionals) produced a series of papers to crystallize the intellectual issues involved in producing more reliable and consistent data. These papers were subjected to critical discussion and commentary, before being revised and published (see Bruce 1988). As the sponsors of the roundtable, the department was mainly interested in 'concrete recommendations' about what to do in the future – and this became the orientation of the main findings. A considerable amount of time was devoted to clarifying definitional issues and restatements of the assumption that tax expenditures were equivalent to direct spending. Although the seminar was not overly academic or theoretical, most participants did accept Surrey's purist assertion of the equivalence of these measures to other outlays – a purist view that was misdirected and has led to the misdiagnosis of the incentive measures.

Shortly after in 1991 the department gave undertakings to the public accounts committee that a three-year tax evaluation plan covering individual tax expenditures would be prepared and coordinated by the department's General Director of Analysis. The plan would be discussed with an advisory committee and completed studies would be reviewed by external experts and final reports published.

The Recognition of Tax Expenditures in Australia

The story in Australia is somewhat similar. Conventional wisdom in the 1970s regarded tax concessions as ways of overcoming the so-called inherent disincentives in the prevailing scales of progressive tax for professional and managerial incomes. Occasionally, economists such as Peter Groenewegen questioned some of the equity

issues associated with such 'concessional deductions' (1980, p. 136), especially for non-working or low-income families. Other academics were concerned with the erosion or shrinkage of the tax base 'due to exclusions and exemptions from the obligation of certain taxpayers to pay all, or part, of prescribed taxes' (Levy 1981, p. 33).

Spurred by international trends, Treasury began to produce occasional summaries of tax concessions from 1980, and from 1986 was producing annual statements of tax expenditures. In the 1981-82 Budget, the department included an appendix listing nine tax expenditure provisions. Then in the following Budget for 1982-83 it produced the most comprehensive listing of tax expenditures to that point, mentioning some 118 items, ranging from major items such as dependent spouse rebates and tax exemptions for superannuation to small incidental measures allowing farmers to value increases in livestock at artificially low rates. The motivation behind these moves was principally bureaucratic. In contrast to Canada, academics did not play a significant role in Australia's recognition of tax expenditures, although Treasury officials were cognisant of trends in the overseas literature.

In August 1982 a lower house parliamentary committee (the House of Representatives Standing Committee on Expenditure - HRSCE) produced a special report into *Taxation Expenditures*. It was recommended that the government should provide comprehensive information on all tax expenditures, that the objectives and justification for the measures should be published, and that the costs to revenue of the provisions should be estimated for the present year and two previous years. It also endorsed Treasury's method of calculating tax expenditures based on estimating the gross amounts of all items of reduction and regarding this as revenue lost. The committee rejected more sophisticated methods of calculating their net cost or impact. Although adding little that was new, the committee's work and recommendations served to endorse Treasury's intentions of making tax

expenditures more visible. It is probably too strong to claim, as one source has (McDaniel and Surrey 1985, p.4), that the 'development of an official tax expenditure budget was begun in Australia in 1982 by a parliamentary committee'.

In both countries the commitment to report tax expenditures involved purely the federal government; sub-national Treasury departments in the provinces and states did not follow suit and produce statements for their own jurisdictions.

Refining the Definition of Tax Expenditures

Historically, before the concept of 'tax expenditures' was accepted, such measures were generally known as tax concessions, tax relief or even tax breaks – and these terms often remain the more common or generic labels covering these types of tax adjustments. In the US the term 'tax preferences' or 'special preferences' were often used to describe preferential treatment relative to the standard taxation structure. Even today, the OECD still prefers to describe tax expenditures as 'preferential treatment for specific activities' funded through the revenue system (OECD 2001, p. 7). But imprecision and the looseness of the terminology was seen as a problem by revenue administrators (or potential regulators) and greater efforts were made at definitional consistency.

The initial problematic exercise in clarifying a definition of tax expenditures was to determine what constituted the tax base. With most nations having progressive tax systems, there were arguments that the entire system was inherently embroiled in tax expenditures. However, economists argued for the notion of an accepted or normative tax structure, distinguishing the basic or unsoiled nature of the tax code from any forms of erosion, exemptions or special relief measures. The economists approach was premised on declaring a normative model and then measuring any deviations from such a benchmark (McDaniel and Surrey 1985, p. 7). However, in

practice, such a normative model was fraught with difficulties, not least because different nations had different tax codes and treated aspects of taxation differently. For instance, were such items as gifts, gambling winnings, removal expenses for work-related travel or unreleased capital gains to be considered as part of the normative structure of tax or as discrete concessions. Countries and opinions differed.

Once it became accepted analytically that tax concessions were departures from a given tax structure, then public finance experts extended their framework of analysis to argue that these measures constituted tax *expenditures*. What made them 'expenditures' was that they were defined as resource transfers *from* government *to* citizens. Following from Surrey, the purest definition argued that tax concessions should be considered as items of expenditure equivalent to direct spending. As instruments of government intervention, tax concessions were essentially a form of expenditure delivered through the tax system. Hence, tax expenditures, according to most public finance academics, should be conceptualised as denoting forms of 'expenditure' committed by government on the revenue side of the budget. Such a definition was concerned with conceptual precision and economic consistency in urging revenue concessions receive equal treatment to direct expenditures. The rationale for this definition was not simply one of academic import, but had major implications for the accountability of such 'spending'. The purist orthodoxy insisted that if tax expenditures were the equivalent of direct spending, then they ought to be similarly transparent, scrutinized in precisely the same way as budgetary expenditures, and disclosed to the legislature for review.

The purist conception of tax expenditures quickly emerged as the new orthodoxy. Promoted by economists both inside and outside government, the view gained credence in central budget agencies that tax expenditures were the same as any other expense and should be treated in the same way as normal expenditures. Purist advocates also urged that tax expenditures should be integrated into the main

budget process. For example, the OECD argued that tax expenditures were a 'route for government to pursue their policies' but 'should be subject to the same evaluation and control procedures that are used for government subsidies provided by direct expenditures' (OECD 1984, p.10). In Australia, EPAC suggested that the term 'tax expenditures' was a preferred concept not only to 'emphasise the similarity of tax expenditures to direct government outlays', but to 'stress the need to subject both to the same budgetary review and control procedures' (EPAC 1986, p. 1). This orthodoxy was restated succinctly in the recommendations put to the Australian government by the National Commission of Audit. The commissioners argued:

tax expenditures should be treated as much as possible like program expenditures in all published fiscal reports and statements and in all budgetary processes... This would entail the inclusion, where possible, of estimates of the revenue cost of tax concessions in budget documents and the scrutiny of tax concessions along with program expenditure in the lead up to the budget (NCA 1996:296 and 297).

However, while the purists added to analytical clarity, their principal message was arguably misguided. Although now widely accepted as a concept, tax expenditures are something of a misnomer especially as various forms of tax concessions are in no way 'expenditures' at all. Governments do not *spend* revenue foregone in the same way as governments spend outlays collected from revenue. Most tax concessions are demand-driven and open-ended and hence governments do not know how much they are committing, which is not true in relation to direct outlays. With direct spending the main claimants (government departments and their programs) sit at the table and forms of rationing can take place; with tax concessions the claimants are often unknown, their numbers may be difficult to estimate accurately, and their behaviour hard to predict. There is also a much more fundamental difference between the two types of resource exchanges: with tax expenditures governments do not first have to tax and then allocate the amounts received as spending – they

simply grant concessions. The notion that governments are 'spending' these amounts is to paraphrase Peter Self 'nonsense on sticks'.

Moreover, if the purist orthodoxy were to be rigorously applied, then many items that are conventionally accepted as tax concessions would not formally qualify as tax expenditures. For example, any tax concession that allowed income deferral by businesses or primary producers (or the averaging of income tax liabilities over multiple years) would not qualify as a tax expenditure under this strict definition because there is no equivalent to an expenditure instrument involved – only the deferral of reporting of income by those affected.

Hence, in practice governments have adopted less stringent definitions. The Canadian Finance department has acknowledged that 'tax expenditures are a *subset* of tax concessions that are used as alternatives to direct government spending for achieving government policy objectives' (2000a, p. 7 – emphasis ours). In a report on personal income tax expenditures, the department noted the overlap between tax expenditures and other tax concessions or reductions. While remaining committed to the notion that tax expenditures should still primarily be regarded as expenditure equivalents, the department nevertheless opted to present information offering a more composite picture of government concessions. Thus,

Tax expenditures represent an alternative to direct spending for achieving government policy objectives. They are defined as deviations from a benchmark tax system. Typically they take the form of income exclusions, deductions, credits, or tax deferrals that are available to select groups of individuals or types of activity. Given the informational intent of this report, estimates are also provided for some tax measures that are considered to be part of the benchmark tax system and are thus not tax expenditures. These tax measures are referred to as memorandum items (Canadian Department of Finance 1992, p.3).

The department indicated that if a 'tax concession was deliverable on the spending side' it was a tax expenditure, but if not it was a tax reduction. It made the clarification that 'all tax expenditures are tax concessions; not all tax concessions are tax expenditures' (2000a, p. 39). In other words, to provide completeness in reporting, the Finance department was prepared to include deferrals and other variations from 'benchmark' tax system. These reductions or memorandum items included such items as capital loss carry-overs, moving expense deductions, foreign tax credits, non-taxable employer-paid premiums for unemployment insurance and the non-taxation of gambling winnings.

Similarly, the Australian Treasury adopted a more cautious definition. In 1985 in a Draft White Paper on Reform of the Australian Tax System, it advocated a definition that stated that tax expenditures were:

Reliefs or concessions in [the] tax system (not being a basic component of the taxation structure) which reduce tax liability and have effect on the Government's budget similar to direct expenditure (1985, p. xiii).

Hence, tax expenditures were not identical to direct spending but had similar effects on the budget. Elsewhere in the white paper, tax expenditures are referred to as 'functionally equivalent to direct spending programs' (1985, p. 16). Later, the Treasury explicitly commented on the comparison with direct expenditures. Treasury (2001, p. 8) argued that 'comparisons between tax expenditures and direct expenditures are informative in broad terms, although the costings are not strictly comparable'. The reasons it gave were that tax expenditures provide higher benefits to citizens than direct expenditures because the latter were taxed whereas tax expenditures by definition were not. The department also acknowledged that the 'removal of a tax expenditure or a direct expenditure of equal magnitude may have different effects on the underlying fiscal balance' (2001, p. 8). In some circumstances,

direct expenditures could also involve tax expenditures that would tend to 'overstate the impact on the fiscal balance' (2001, p. 9). One example given was social security payments (direct spending) which were exempt from income taxation (tax expenditure). Treasury's objective in making these distinctions was not to challenge the notion that tax expenditures were substantially the same as direct expenditures, but to inject some accounting consistence in the costs to the budget. Treasury's main objective was to project actual trends in tax expenditures, group them by functional classification (eg health, social security, education, business etc), and identify them by which types of taxpayers were benefited.

Calculating Tax Expenditures

Tax expenditures tend to be calculated in two broad ways – either by focusing on estimations of what they cost to government or by finding ways to quantify what they are designed to achieve. The Australian government went further indicating that

A proper assessment of such concessions depends both on whether their resource allocation effects have net benefits for the Australian economy and on whether the tax system is the best method of delivering the assistance implicit in them (Treasury 1985, p. 16).

But if such assessments are made, they are rarely ever made public.

Alternatively, central budget agencies tend to prefer, simpler cost-oriented ways of calculating tax expenditures. As recognised by the Canadian Finance Department (2000a, p.9), there 'is no widely accepted operational methodology for estimating them', and there are theoretical arguments about whether tax concessions should be

calculated relative to an income or consumption base. However, three methods are most common:

- estimates of the total *revenue lost* to government: this method attempts to calculate the losses to revenues resulting from various concessional measures. It is an *ex post* estimation of the foregone revenue from individual relief measures. However, it is generally recognised that 'the elimination of a tax expenditure would not necessarily yield the full tax revenues' supposedly lost.
- estimates of the likely *revenue gain* should the tax concessions be eliminated: this method attempts to calculate the likely revenue that would be re-gained if the tax concession were eliminated. In particular, this method attempts to net out the double-counting, the behavioural responses of taxpayers and the interaction between various taxes. For example, assume a tax concession for work-related removal expenses was estimated at \$60 million in terms of revenue lost. If it were eliminated, the measure may discourage some employees from moving, and consequently not result in a full augmentation to the budget of the estimated \$60 million.
- estimates of the *outlay equivalent* required to achieve the same results: governments can estimate the equivalent amount of resources it would be necessary to spend in outlays to match the effect of the concessional benefits. This method is problematic because tax concessions often benefit higher income earners disproportionately, whereas it is unlikely spending programs would be targeted in such a way. It may also be the case that funding the equivalent through direct outlays has implications for higher administration costs – thereby increasing the costs to government of achieving the desired results.

In addition, a number of caveats are generally made. The main one concerns the fundamental issue of establishing an acceptable benchmark tax structure from which

to calculate concessions. To a certain extent the assumptions made about the benchmark tax system will be necessarily subjective, rendering the data discrete and not readily comparable with other nations or tax systems. Other caveats include the fact that tax expenditures are calculated individually – as if each were an independent item unrelated from other items. This can distort the complete picture as many tax concessions are interrelated and people may be able to change their behaviour or alter their tax affairs to minimise the taxable income. Estimates also typically assume other factors remain unchanged such as levels of economic activity, consumption patterns and policy settings. Hence, unlike with direct expenditure where spending can be identified and tallied, there is no hard, unambiguous data accurately capturing the magnitude of tax concessions. Moreover, information on the future projections of the size of concessions is subject to many changeable assumptions. As the Canadian Finance Department has admitted ‘the projected values of tax expenditures should be treated as “best efforts” that do not have any greater degree of reliability than the variables that explain them (2000b, p. 21).

Both the Australian and Canadian governments have opted to calculate tax expenditures by adopting the *revenue lost* method, producing estimates of ‘the amount by which federal revenues were reduced’ (Canadian Department of Finance 2000a, p.19). This approach has been internationally recognised with bodies such as the OECD accepting that tax expenditures should be quantified according to ‘the *estimated costs to the tax revenue*’ (2001, p.7, emphasis ours). In Canada both personal and corporate tax models were used to ‘recompute taxes payable on the basis of adjusted tax provisions’ (2000b, p. 19) and reports present detailed estimates for each tax concession identified. The Canadian Finance ministry has continually warned that tax expenditures cannot be aggregated – and the department never includes aggregated figures or calculates the measures as a proportion of GDP. From an individual’s perspective, the department has also pointed out that:

In comparing the cost of tax expenditures... to direct spending estimates, it should be noted that a dollar of tax preference to the taxpayer is often worth substantially more than a dollar of direct spending. This results from the fact that, in most cases, government grants (ie, direct spending) are taxable to the recipients (1992, p. 9).

The Australian Treasury has argued that it can take up to three years before an individual tax expenditure can be fully costed (NCA 1996, p. 295). The problems in calculation, according to the Treasury, are numerous. For instance, tax expenditures are generally open-ended, they are subject to eligibility criteria, are demand driven and often have to be calculated on a case-by-case basis. Accordingly, like Canada, tax expenditures in Australia are calculated separately, but unlike Canada are then aggregated in statements. These statements contain far less detail than in the Canadian equivalents. In the aggregate figures Treasury makes some adjustments for 'negative tax expenditures' and claims the totals represent net aggregates. Negative tax expenditures can occur, for instance, where generous concessions have been allowed for accelerated depreciation that have brought forward depreciation deductions. If these generous concessions were removed then for a number of years the rate of deductions will be less than the standard benchmark leaving a negative tax expenditure to be netted against the overall positive tax expenditure.

Given the differences between the countries in the presumed benchmark tax structure, there are some major variations in what is counted in the calculations. In essence Canada errs on the side of most completeness and a broader encompassing definition. For example, both countries have a tax policy that exempts the family home from capital gains taxation when sold by the residents. Yet the Canadian figures include estimates for the 'non-taxation of capital gains on principal residences' when the family home is sold and shows this as a personal income taxation benefit. In 1989 the Department of Finance estimated that this measure alone was worth \$4.65 billion under the full inclusion rate, but this estimate had fallen to

\$1.3 billion in 1997 and was projected to be under \$1 billion by 2002 (Department of Finance 1992, p. 14, and 2000a, p. 20 Table 1). Yet, such calculations are not included in the Australian data.

A Tenuous Challenge Function

The degree to which the regime of tax concessions comes under executive scrutiny is problematic. Reviews may be cursory or non-existent. Certainly, no systemic review of tax expenditures operates through the budgetary process in either country. A senior Finance official in Canada, argued 'tax expenditures don't get looked at in the budgetary process' (Peter de Vries 11.6.2002). Another suggested that most tax expenditures were 'too arcane for people to get excited about' (Don MacDonald 12.6.2002). Another official, not in Finance, argued that there was 'no open discussion of tax measures – it's a closed group'. A senior Australian official similarly argued that unlike other important budget information such as contingent liabilities (government guarantees or indemnities) tax expenditures were not included in the budget documentation. Moreover, they were not subject to the same process of rigorous review as the expenditure side of the budget (Steven Bartos 2002). These comments underscore the observation made by Schick (1990 p. 152) that tax expenditures attract far weaker budgetary control than direct expenditures – a phenomena typical of revenue measures more generally.

Hence, there is virtually no challenge function to tax expenditures in the budgetary process. Maslove has argued from the Canadian experience that the 'making of tax policy is much more closed than is the formulation of the expenditure budget. The evaluation of existing tax measures does not occur in the several forms and forums in which direct spending is assessed' (1981, p. 248). In Australia, EPAC found that 'once granted the original objectives of the concessions become less important than the tax advantages and the concessions are not always effective in achieving their supposed

purpose' (EPAC 1986, p. 22). Moreover, EPAC had earlier found examples where some tax concessions that had not been reviewed for 48 years (EPAC 1984, p. 175).¹ Treasury has also admitted frequently that such expenditures 'are far less visible than direct outlays' and 'once enacted the government generally has no way of controlling the public money spent through them' (1985, p. 16 and 17).

Without systematic budgetary review, tax expenditures have tended to evolve through a separate process of invention, adaptation and monitoring. Empirically there is a percolation effect in operation with governments often adding to the list of available concessions and only occasionally restricting or eliminating certain items. In Canada, especially, tax concessions have proliferated over time due to a sequence of incremental changes. Governments have widened the net and built on precedence, while removing few from the base. From 1979 to 2000 the number of individual concessions increased from 215 to 234, as listed in the annual statements. This was despite some rationalisation of the corporate and business tax expenditures that fell from around 110 items in 1979 to 76 in 2000. Some rationalisation had occurred with some time-specific items disappearing (such as an item granting Nova Scotia and Prince Edward Island residents tax exemption from home insulation grants), or becoming amalgamated into broader items (such as the allowances for small business development bonds which were included in research and development allowances or the deferral of up to \$200,000 of capital gains on inter-generational transfers of small businesses that was included within the wider rollover and capital gains tax exemptions). By 2002 the main political interest, as reported by Finance officials, was in lowering the general rates of income tax rather than in adding further tax concessions to the already large list. Nevertheless, additional concessions were agreed to and introduced in 2002 allowing apprenticed mechanics to claim tax relief for tools – a precedent that is likely to see the scope of this measure widen over time.

¹ As Schick argued for the United States many tax expenditures have been around for decades. Schick pointed out that among the tax expenditures current in 1982 many had been introduced prior to World War II (over the

Nevertheless, if tax expenditures are not subject to challenge in the budgetary process, is the challenge function imposed in some other perhaps non-budgetary review process? Here the evidence suggests a qualified yes. Tax expenditures come under 'discussion of tax policy' rather than budgetary policy, or as one official commented: 'tax expenditures are really a sub-function of tax policy'. Thus, although tax expenditures are not budgeted in aggregate or in clusters, some items may individually come into play in revenue budgetary deliberations (eg finalising the fiscal plan, or reviewing the scope for savings or widening the revenue base). In this sense, the volume of existing tax expenditures (and the possibility of adjustments) can be tacked onto the annual aggregate fiscal budgetary considerations, but often only on a 'when and if necessary' basis. Tax expenditures can also be used to help balance the budget – in either direction – as with a recent case in Canada where \$2 billion in business taxes were deferred one year out to disguise (artificially reduce) a healthy surplus in the current budget year (Budget plan 2001, p, 23 and 146). Consequently, when governments are particularly focused on fiscal constraints, individual tax expenditures can be monitored and reviewed if required. Such reviews will tend to focus on the erosion of revenue created by a particular item (probably leading to recommendations to tighten or eliminate the item) rather than an attempt to cost the equivalent amount necessary to deliver the program by means of direct expenditure. Items that do not 'come to the attention' of officials and the Treasurer/Finance minister tend to remain within the profile unscathed.

Cabinet plays no significant role in determining tax expenditures. In Canada only the Minister of Finance and Prime Minister are involved in the final decisions concerning tax expenditures. While other departments and spending ministers may frame items or lobby over possible options, the discretion to allow concessions rests with the Minister for Finance in consultation with the Prime Minister. On advice from senior officials, the Minister of Finance decides whether any aspect of the tax expenditure

framework is to be reviewed. He/she alone is responsible for introducing, announcing and reviewing any concessions. The Finance ministry, however, is not responsible for delivering these concessions – this is the responsibility of the Canadian Customs and Revenue Agency. Finance remains the main source of policy advice, although other agencies such as the Human Resources development Commission advise on some specific items such as the child tax benefit scheme implemented through the *Income Tax Act*.

A similar situation is found in Australia, where a 'Revenue Review Committee' of cabinet exists consisting of the Prime Minister, Treasurer, Finance Minister and Deputy Prime Minister. This committee is not formally acknowledged and not listed in the official list of cabinet committees (and indeed it is not widely known that it exists), although it records its business with official minutes and meets every year (usually April) prior to the release of the Budget. Interestingly, the revenue minister (a non-cabinet position assisting the Treasurer created for the first time in 2001) is *not* a member of cabinet's revenue committee. As a routine annual review of revenue, adjustments to individual tax concessions could come under discussion although most are not scrutinised and there is no consideration of the tax expenditure base nor integration of the process with the expenditure budget. The 'Revenue Review Committee' merely provides a convenient opportunity to tweak individual measures – allowing the government to announce the changes in the main Budget. Reputedly, the 'Revenue Review Committee' has in recent years performed the role of a revenue *finding* committee searching for potential sources of taxation (to fund governmental projects) rather performing the role of revenue review or reviewing concessions to the tax base.

In both countries proposals for new tax expenditures tend to arise from a protracted negotiation process. Suggestions for new relief measures may originate from constituent groups, political lobbyists, or come from representations made by parliamentary committees (in Canada mainly from the Finance Committee that can

make representations to the Finance Ministers directly). Most often representations are made from spending departments anxious to alleviate some burden on their own clients/constituencies. Such special pleading and the perception that governments need to 'buy off' certain constituencies, feeds into the decision-making process characterised by sequential sanctioning of adjustments to individual measures. But decisions to consider or accept such proposals are the prerogative of the most senior economic minister. As part of the process of consideration, the central agency will model new tax expenditures to see whether 'they stack up' and how individuals or firms are affected by various parameter changes. For example, in Canada the Tax Policy Branch of Finance will model various scenarios, generate realms of computer print-outs of selected individual cases, and 'spend a lot of time' going through the examples to ensure that benefits flow through to the intended targeted groups. The branch models various adjustments 'to take care that they are not screwing this guy or that guy'. In reviewing new proposals the department is more concerned that the measures are consistent with government policy (eg, prioritising tax breaks for lower incomes) rather than that they are able to accurately cost the proposed measures. There is even a 'tax calculator' on the department's website in which citizens can enter their own details and see what benefits or rebates they will receive, although it was admitted that this was not used in policy adjustments and was largely a public relations exercise.

Similarly, both countries have also recognised that extensive consultation with clients has inherent risks. Governments can be embarrassed if consultations raised client expectations or other claimant groups came forward for preferential treatment. Talking to potential claimant groups also risked leaks occurring. Accordingly, the risks associated with 'going public' were such that the logic of the closed policy process was continually reaffirmed. Governments continue to prefer high levels of secrecy with no explanations given on the decisions made about what 'gets up' and what did not. The secrecy is also maintained as a way of reducing further or potential claimants – if groups do not know what is being considered then they may not

necessarily bring forward or push a case for themselves. The downside of such secrecy related to the implementation or compliance aspects – if negotiations needed to be held with groups affected then it was difficult to be specific about the measures under consideration. For this reason officials tended only to consult over the details of a measure to which their minister had already acceded. Adjustments to existing concessions were sometimes discussed in broad terms with client groups, particularly if the government perceived there was a degree of risk in the changes such as community non-acceptance or that the adjustments would be overly complicate the tax system.

Rationing Tax Expenditures

Other jurisdictions, such as the US Congress in 1981, have taken steps to cap tax expenditures, but this has not occurred in either Australia or Canada. Rather, they have opted for occasional or *ad hoc* reviews of existing measures – which can be considered a *weak review* function. Often the process of bringing tax expenditures into review is *ad hoc* and circumstantial – it may involve a broader tax policy review or it may focus on a single measure; it may be triggered by cost blow-outs, scandals, political pressures, arguments about equity or the best ways of targeting relief. It also may be triggered by non-executive actors such as the Auditor General or parliamentary committees reporting concerns over policy design or administration. Those charged with undertaking the review function are senior finance officials (generally supported by a small, inner group of tax policy experts) that brief the Treasurer or Finance Minister directly. In some cases another department may be involved in reviewing specific items within their portfolio or contributing specific information about the likely impacts of changes. In Canada, the reviews of the Canada Child Tax Benefit scheme are the responsibility of the HRDC is the lead agency in review with Finance playing a junior partner role.

Fiscal reviews or monitoring are undertaken as a component of general tax policy, and generally focus on the loss to revenue of specific measures. They may be triggered by the costs of individual items or by consideration of fiscal parameters. Policy reviews examine the degree to which tax expenditures as policy instruments are achieving the objectives of government in line agencies. Often policy reviews will result in some adjustment to the eligibility criteria to better target the benefits. As part of an ongoing process of review the Canadian Department of Finance has agreed to conduct a detailed evaluation of two tax expenditure items per year – which are made public. Yet, in policy terms the issue of targeting tax concessions to intended recipients is notoriously difficult. This is true when equity considerations are uppermost, as it is when electoral or vote-buying motivations are concerned. As Hartle (1988) has argued, tax concessions do not perform well as policy instruments for politicians to target those ‘swing voters’ on low incomes or those relying solely on incomes from employment. These groups have limited ability to receive the concessions and governments will find it difficult to target tax concessions to where it needs to buy support.

Other cost reviews or ‘sniff tests’ may be triggered when there is a suspicion that something is ‘fishy’ or aberrant with certain items. These sniff tests are generally conducted because of sudden blow-outs in estimated revenue foregone, suggesting some level of exploitation of the item or perhaps abuse. Such tests can only be undertaken *ex post* once the problems of tax erosion have materialised.

This highlights one of the major difficulties in rationing tax expenditures – many tax concessions are intentionally open-ended and dependent on other definitional criteria – beyond the control of a preliminary rationing review. This has major implications for the magnitude of concessions and the volume of revenue likely to be foregone. For example, the amount consumed in tax concessions for the disabled in Canada was dependent on the definition and classification of a ‘disability’. Originally, in the late 1980s, Finance used a definition of disability that restricted the

category disabled to those who were bed-ridden or wheelchair bound. On this basis officials estimated that around 100,000 persons would become eligible to qualify for the disability concession based on statistics from Stats Canada and the assumption that government-appointed doctors would assess potential claimants. They further assumed that once the scheme was in place increased reporting or claiming by the disabled would increase those eligible to around 300,000. The disability credit cost \$105 million in 1988. However, the definition used to classify disability under the scheme was quickly widened to include anyone 'being markedly restricted in the activities of daily living' and the responsibility for deciding eligibility was passed to the claimant's own local doctor who had no rationing interest and was likely to be focused on the best interests of the client. Due to the sudden 'fuzziness' of the definition and the fact that family doctors were deciding cases of eligibility, the numbers of disabled qualifying for the concession increased to over 900,000 in one year alone. The loss of revenue in 1995 was \$270 million and was projected to rise to \$310 by 2002. This blow-out brought the then Tax Measures Evaluation Division into disrepute and advice on revenue lost by tax concessions was returned to the Tax Policy Branch with input from the Auditor-General.

The Australian Treasury has also highlighted the inherent problems with open-ended tax concessions: they are impossible to control, hard to estimate, and can blow out spectacularly. The department provided one example of a tax expenditure offered to businesses for investment in research and development in the 1980s. Treasury argued that the demand-driven concession led to a 'massive blow out'. It stated:

This concession was originally estimated (in 1985-86) to cost \$67 million annually; the cost in 1995-96 has now been estimated to approach \$700 million (cited in NCA 1996, p. 296).

Hence, while proliferation and relaxation have tended to be the principal political drivers, to the extent that there is some rationing of tax concessions it is more likely to be driven by one of two considerations significant to the executive and to the particular agendas of the economic budgetary agency. These considerations are the need to manage the fiscal balance or the appearance of increased exposure/abuse causing irritation to tax policy officials. As a consequence, executive rationing reviews tend to result in the tightening of eligibility criteria and occasionally in the elimination of the items. For instance, the Canadian Department of Finance calculated that in the seven years between 1983 and 1989 inclusive, a total of 88 adjustments were made to the personal income tax system that impacted on tax expenditures (and of these 38 were aimed at eliminating or reducing provisions; 15 converting deductions into tax credits; and 35 increasing or extending provisions) (Department of Finance 1992:32-34).

Reporting and Legislative Scrutiny of Tax Expenditures

Reporting practices and legislative scrutiny have tended to follow the same trajectory, although arguably they are less thorough and less well integrated into the legislative budgetary processes than in the US.² Perhaps because of the bifurcated governmental structure (involving a strong separation between the executive and congress), tax expenditures in the US have been the subject of much more political and economic debate and policy or legislative attention over a longer period of time. Today, the US Treasury routinely presents information on tax expenditures to the main budget offices (both the presidential OMB and congressional CBO) and to the Congress, which in turn are each able to scrutinize the overall structure of tax relief and individual preference measures if they wish.

Compared to the US, both the Canadian and Australian governments have moved about half-way towards a more open process of scrutiny. Both governments have for over two decades produced annual statements to parliament listing the costs of various concessions (Canada since 1979 and Australia since 1981). These tax expenditure statements are purely for informational purposes (ensuring the data is available in the public domain) and are presented separately from the main budget documentation earlier in the year. In both countries the statements are presented in December, often after parliament has risen for the Christmas recess. Some officials have suggested that the timing of the release of these statements is due to workload factors in the central economic agency – separated by around six months from the main budget delivery. Others volunteered that the timing of these statements was intentional and a deliberate political ploy to minimise the attention they are likely to receive. Consistent with this, the statements receive almost no publicity and precious little media or scholarly attention. Most years these statements get maybe one article in the serious press, commenting on the magnitude of these concessions, and then nothing more is heard.

In neither case is the tax expenditure statement a formal part of the budget. Moreover, although the statement is tabled in parliament, no vote is required. The statement neither has to be accepted nor approved. No constitutional principle would be breached if the tax expenditure statement were to be discontinued (although in Australia there is now a statutory requirement to produce such a statement). Hence, the presentation of the information to parliament is principally undertaken either on public interest grounds or as a courtesy to the legislators, many of whom would be oblivious to its existence.

In Australia the recent *Charter of Budget Honesty Act 1998* now stipulates that the annual economic and fiscal outlook report of the budget shall contain ‘an overview

² In 1967 Surrey argued that tax expenditures in the US were ‘automatically excluded from the scrutiny’ both by the budget office (BOB/OMB) and the Congress (Surrey). While his comments reflect accurately the situation at

of the estimated tax expenditures for the budget year and the following 3 financial years' (Pt 5, Division 1.12 d). The act also provided for the Mid-Year Economic and Fiscal Outlook Report to 'contain a detailed statement of tax expenditures, presenting disaggregated information on tax expenditures' (Pt 5, Division 2.16 b). Subsequently, the Final Budget Outcome report (produced 3 months after the end of the financial year) also has to include aggregated data on tax expenditures as part of the general government fiscal outcomes for the year. But again these overviews and detailed statements are merely reports to parliament, the legislature is not required to debate or vote on them.

And, indeed, legislatures outside the US seem seldom to debate aspects of the tax expenditures statement. Evidence suggests that tax expenditures rarely feature in debates or in Question Time interrogations. The paucity of legislative scrutiny can be gleaned from data from both parliaments. Officials have also argued that there was 'not much political capital in the scrutiny' of tax concessions – rather the reverse. Backbench politicians could be perceived as attempting to curtail the 'legitimate' tax concessions of the 'hard-working taxpayer' or business firm. Hence, full disclosure and rigorous legislative scrutiny is politically problematic. The executive has no interest in opening up a can of worms on preferential treatment; nor do the opposition or other backbenchers have much to gain from raising concerns. One of the peculiar features of tax expenditures is that, while economists prefer to classify them as the equivalent of direct outlays, many in the community 'strongly favour tax expenditures since they look upon these measures as a reduction in taxation rather than as alternatives to direct outlays' – and this includes not merely those wedded to notions of smaller government (EPAC 1986, p.1).

Although Auditors-General have attempted to audit tax expenditures these items are not easy to audit. In many cases auditors are faced with trying to establish the accuracy of counter-factuals. Auditors-General have often raised concerns with the

the time, the US has taken steps to subject its tax expenditures to executive and legislative scrutiny.

deficiencies in estimating the lost revenues, with warning of cost blow-outs, criticizing the vagueness or absence of clear objectives of individual items of relief, or in the lack of rigorous review tax expenditures receive as instruments of policy. It is certainly not easy to audit on the performance of the measures in achieving the desired goals of government. In Canada although the Auditor-General has undertaken audits of tax expenditures in the past, the detailed evaluation of individual items is now conducted on a sample basis by the tax Policy Branch of Finance and reported to the Auditor-General and Parliament in specific reports.

Conclusion: Would a 'Tax expenditure Budget' be Feasible?

Although there have been many calls to fully integrate tax expenditures into the overall government budgetary process, governments have been unable or reluctant to comply. In the US there has been much discussion of a distinct 'tax expenditure budget' – implying not that tax expenditures are 'budgeted', but rather that the various central budget agencies (Treasury, OMB and the CBO) are forced to 'update annually the models and data needed to analyze the 120 tax expenditures'.

According to one official (Neubig 1988, p. 240) when he first began to work at the US Treasury in 1980 there were many cogent arguments against tax expenditures.

They were open-ended entitlement programs; they were not subject to the annual budget review process; and they were not administered except for being subject to a potential tax return audit (Neubig 1988:242).

Calls to bring them under a 'tax expenditure budget' were aimed at minimising these deficiencies. Although he conceded that some of these issues had been partially addressed in subsequent practice (eg, tighter criteria of eligibility, sunset provisions, periodic review, and some evidence that they have been administered by line agencies as if they were direct expenditure programs), many accountability problems remained – such as the conceptual and measurement problems, or institutional

rigidities making trade offs between tax concessions and direct expenditures difficult. The process of creating a 'tax expenditure budget' had degenerated into 'a revenue estimator's issue, rather than a legal, economic, budget or policy issue', with individual tax expenditures estimated separately and not added to outlay expenditures or compared against the cost of an alternative provision by direct expenditures. He claimed that the 'tax expenditure budget has become simply a numbers-crunching exercise, without the necessary technical and political support and leadership to elevate it from its lowly status' (1988, p. 243).

In Australia and Canada there is no official endorsement of the notion of a 'total tax expenditure budget' although the Canadians provide the most detailed and comprehensive list of items and the Australians attempt to aggregate these measures and contrast to the size of outlays or to the nation's GDP. But there have been some advocates of moving further in this direction. In Australia the NCA called for a complete review of all existing tax expenditures – against a coherent set of principles examining the rationale for government involvement in specific areas. The commission also urged governments to 'examine the scope to convert remaining tax concessions to outlay programs' (NCA 1996, p. 23).

Certainly, it would be possible to improve the integration of tax expenditures into the budget process. First governments could combine the tax expenditure statements with the main estimates into one document or series of statements presented as 'the Budget'. Tax expenditures could be discussed in the budget speech and strategy. Second, governments when reviewing functional outlays could require central budget agencies and the respective line agencies to review functional tax expenditures to evaluate the mix/balance and value for money of the particular composition. Third, specific parliamentary debates could be earmarked for revenue issues including tax expenditures. The benefits of such an approach would bring tax expenditures into more regular and wider review. Governments and legislatures are likely to gain a better appreciation of how to best achieve a set of policy objectives.

By integrating into the budgetary process allows decisions at a meaningful time to be taken on whether to approach policy goals by expenditure or concessions. It may also provide better information about when to impose limits or caps on items or replace by other variants such as rebates, tax credits, thresholds or limits on the open-ended eligibility. It may enable governments to set aggregate amounts available for tax expenditures and manage the allocation of revenues foregone from the notion of a predefined total. Conceiving of a total tax expenditure budget may offer a perspective that gradually enables governments to better limit and target their concessionary regime.

On the other hand, given the large range of existing tax expenditures it would take considerable time even to review them under functional categories. Reviews of sacred cow items may be pointless – there is a continual danger it may all be to no avail. And by combining the process of expenditure review with a budgetary review of tax expenditures risks overburdening the budgetary process at an already onerous time of the year. Nevertheless, while recognising these potential drawbacks it is clear that the present situation is unsatisfactory and perhaps unsustainable. Central economic policy agencies currently produce vast amounts of detailed information and release it into the public domain. Yet that information is largely unusable by government and largely ignored by the parliament. The information is not adequately linked to policy objectives and it is not presented in ways that can assist an observer judge the efficacy of the measures relative to intended outcomes or to other alternatives means of delivery. It is not yet information that can assist in the wider deliberative processes of budgeting resource allocations. The superficial scrutiny of tax expenditures has begun, the budgeting of tax expenditure has a long way to go.