Against the background of recovering growth and remaining fiscal consolidation needs, reforming tax expenditures may offer a promising avenue to raise revenue and, at the same time, improve efficiency of the tax systems. The workshop, held by DG ECFIN on 23 October 2013, addressed the economic and budgetary aspects of tax expenditures, including reporting practices, and discussed the rationale for business tax incentives and the distributional effects of tax reliefs in personal income taxation. The workshop covered the measurement and the macroeconomic implications of tax expenditures and examined the economic issues raised by specific tax expenditures in both personal income taxation and corporate income taxation.

A session on the measurement and macroeconomic implications covered different aspects. Some of the main issues discussed included i) challenges in measurement and cross-country comparison of tax expenditures, ii) the occurrence of a fiscal illusion related to the use of such reliefs, potentially leading to a distortion in policy makers’ behaviour, iii) the importance of clear reporting and iv) the need for taking behavioural responses into account when estimating the revenue impacts of tax expenditures.

A thematic session on tax expenditures in direct taxation discussed critically different business tax incentives, such as allowance for corporate equity, tax reliefs for SMEs, accelerated depreciation, R&D tax reliefs. In the context of integrated capital markets, it was pointed out that such measures had to be seen as part of international tax competition between locations, potentially creating new inefficiencies. Moving to tax reliefs in the personal income tax system, results from a microsimulation model for Europe gave insights on the distributional effects of tax allowances and tax credits in place in six European countries.

The concluding policy panel discussion recalled the complexity of the concept of tax expenditures and advocated more transparency in the use of such reliefs. The common view emerged that the threshold of evidence for justifying a new tax expenditure should be high, and that a thorough cost-benefit analysis is needed in any case. In assessing and reviewing tax breaks, a more thematic approach focusing on specific types of tax expenditures or relevant grouping was recognised as a promising avenue.