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Use of tax expenditures in budgeting

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Abstract

This paper considers how tax expenditures are managed within national budget processes, based on case studies of four OECD Member countries. It is part of a research project by the OECD for the Korea Institute of Public Finance, and looks at the topic across six key dimensions, identifying practices to support the better integration of tax expenditures into budget processes. The paper contributes to the OECD Restoring Public Finances initiative.

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Abbreviations and acronyms

CAN	Canadian Dollar
CAT	Capital Acquisitions Tax
CGT	Capital Gains Tax
CIT	Corporate Income Tax
CPB	Bureau for Economic Policy Analysis (<i>Centraal Planbureau</i>), The Netherlands
DPER	Department of Public Expenditure and Reform
EU	European Union
EUR	Euro
GBP	Pound Sterling
GDP	Gross Domestic Product
GST	Goods and Services Tax
HM	His Majesty
HMRC	His Majesty's Revenue and Customs
IFAC	Irish Fiscal Advisory Council
KIPF	Korea Institute of Public Finance
KRW	Korean Won
NAO	National Audit Office, United Kingdom
OBR	Office for Budget Responsibility, United Kingdom
OECD	Organisation for Economic Co-operation and Development
PIT	Personal Income Tax
R&D	Research and Development
USD	United States Dollar
VAT	Value Added Tax

Executive summary

Tax expenditures can be defined as tax provisions that constitute a deviation from a benchmark tax system, resulting in reduced or postponed tax liabilities. They can take several forms, including tax exemptions, deductions, credits, and reduced rates, among others. These reductions effectively serve as a form of government spending by reducing government revenue. Between 1990 and 2020, revenue forgone from tax expenditure globally varied between 3.3% and 4.9% of GDP. As such, it is a material area for governmental budgets.

Tax expenditures are designed to achieve a wide range of policy objectives, including to encourage investment, promote social goals, and provide compensation. However, tax expenditures have low visibility in budget processes, they are difficult to quantify and forecast, and their effectiveness can be difficult to evaluate. These characteristics contribute to countries accumulating a large number of them over time, which can pose risks to the fiscal management and sustainability of public finances.

This paper builds on existing OECD analysis by considering the role of tax expenditure from budgeting and fiscal management perspectives. It adopts a case study approach by analysing four OECD Member countries: Canada, Ireland, the Netherlands and the United Kingdom. The analysis and insights from this paper also contribute to the OECD Restoring Public Finances initiative.

Tax expenditures are a challenging topic, particularly as the definition and measurement of tax expenditures, as well as definition of benchmark tax systems, varies from country to country. To better understand these challenges in relation to budgeting and fiscal management, this paper considers the treatment of tax expenditures in budgets, the spending limits that apply, and the way in which tax expenditures are reported, evaluated, and scrutinised.

Within budget processes, the treatment of tax expenditures and direct expenditures tend to differ. For instance, tax expenditures are included in revenue forecasts and direct expenditures are included in baseline estimates. Furthermore, they are generally not explicitly identified within these revenue forecasts as the forecasts are prepared net of tax expenditures.

The treatment of refundable tax credits deserves a special mention. These credits are a specific type of tax expenditure that provides a refund when a taxpayer owes no tax, or when the credit exceeds the amount of taxes owed. Most case study countries record refundable tax credits as expenditure. However, they are not always treated as direct expenditure in budget processes, as tax credits do not necessarily form part of the expenditure appropriations for a ministry and are instead held by the tax administration authority.

For spending limits, fiscal rules and objectives specifically for tax expenditures are rare. Despite this, several fiscal rules encompass tax expenditures alongside direct expenditures. These generally include deficit ceilings and budget balances, although the Netherlands is a notable exception amongst the case study countries in that it sets monetary limits for certain tax expenditures.

All four case study countries have dedicated reports on tax expenditure. These reports provide in-depth information relative to budget documentation, and generally include cost projections, a description of the policy objective, description of the tax expenditure's history, the quantification of revenue foregone. In some cases, they also explain why the measure is not included in the benchmark, and whether it is subject

to a sunset clause. The publication of tax expenditure reports varies and is not always co-ordinated with budget processes.

All four case study countries also have systems to evaluate tax expenditures. In line with general recommendations, these systems evaluate the purpose of the tax expenditures and contain findings on whether the tax expenditures are meeting their intended purposes, and whether they should be maintained, amended or removed. At the same time, the evaluation systems do not necessarily result in a systematic approach to evaluating all tax expenditures over time, which can limit the information available on the fiscal impact of tax expenditures.

Parliamentary committees and oversight organisations, specifically independent fiscal institutions and supreme audit institutions, have responsibilities for the scrutiny and oversight of tax expenditures. This can involve reviewing the costings on tax expenditure proposals, as well as including them in reviews of whether governments are complying with fiscal rules. Generally, the parliamentary committees responsible for financial oversight have responsibility for tax expenditures, although once enacted, tax expenditures are rarely subject to further scrutiny by parliaments, other than *ad hoc* reviews.

Based on the analysis of the case study countries, this paper identifies five areas that would contribute to strengthening the fiscal management and control of tax expenditures in budgeting.

- **Institutional responsibility:** Where practical, institutional responsibilities for tax expenditure through the budget process should include the relevant line ministry in conjunction with the ministry of finance, and in particular for refundable tax credits. The involvement by line ministries may vary, and could include contributing to the design, cost estimation, monitoring or evaluation of tax expenditures. While the authority to review and comment on tax expenditures remains with ministries of finance, line ministries have policy responsibilities and their inclusion in the budget process supports a co-ordinated approach to policy development and implementation.
- **Aligning tax expenditures with the budget process:** In cases where a tax expenditure is developed through the budget process, line ministries, in conjunction with tax administration authorities, should provide cost estimates for tax expenditures (new and existing) to support informed decision making on the likely fiscal impact of the budget. In addition, financial reporting on tax expenditures should align with reporting on the budget to provide decision makers with information on all forms of expenditure.
- **Tax expenditure relative to direct expenditure:** When a line ministry proposes a new tax expenditure, that ministry should demonstrate why alternative measures, including direct expenditure measures, would not be more appropriate to achieve the same policy goals. This is particularly relevant in cases where a proposed tax expenditure is developed through the budget process, as the budget provides a vehicle for the direct expenditure alternative.
- **Limits on the use of tax expenditure:** Sunset clauses – provisions within tax expenditure legislation which set an end date for them – should be implemented and observed as a default practice, as they require policymakers to re-evaluate whether a provision continues to warrant its fiscal cost. While sunset clauses are required in countries such as Ireland and the Netherlands, the effective and systematic implementation of the clauses can remain challenging.
- **Tax expenditure evaluation:** Given the complexity of reporting on the fiscal impact of some tax expenditures on a systematic basis, evaluations provide an alternative means to take an in-depth assessment of a tax expenditure to understand whether policy objectives are being met and at what cost. Systematic evaluations can also help bolster the effectiveness of sunset clauses.

The analysis in this paper has highlighted potential areas for further work in relation to budgeting, including ongoing work on a consistent benchmark on a cross-country basis, the further development of evaluation frameworks to inform which tax expenditures are meeting their intended objectives, and the development of possible ceilings specific to tax expenditures to support fiscal control.

1 Introduction

Tax expenditures refer to provisions in legislation that reduce or postpone the tax liability of individuals or businesses and are generally defined as deviations from the benchmark tax system. These provisions can take several forms including tax exemptions (where certain income or transactions are not taxed at all), tax deductions (where an individual can subtract certain expenses from taxable income), tax credits (where an individual can directly reduce the tax they owe), and reduced rates (where the tax applies, but at a lower rate than the standard). As such, tax expenditures reduce government revenue relative to the benchmark of what would be owed in the absence of those provisions.

Tax expenditures can in some cases have lower administrative costs than direct expenditures, particularly when a person or business' eligibility for a tax expenditure is determined through their tax returns. In other cases, they can necessitate a significant administrative burden. While tax expenditures can be applied to comparable policy objectives as direct expenditure, tax expenditures rarely involve direct spending by the government and therefore do not appear in expenditure reports and financial statements. This difference illustrates how two comparable ways of giving effect to a policy objective – tax expenditures and direct expenditures – can produce different results from a budgeting and fiscal control perspective.

Tax expenditures have a significant impact on public finances. Between 1990 and 2020, revenue forgone from tax expenditure globally varied between 3.3% and 4.9% of GDP, which is significant relative to fiscal balances, which have averaged a 2.2% deficit across OECD Member countries for the same period (CEPR, 2021^[1]). Tax expenditures are also frequently subject to weaker legislative oversight than direct expenditure and rarely undergo comparable reviews to that of direct expenditure programmes in relation to effectiveness and efficiency.

This paper examines tax expenditures in four OECD Member countries from a budgeting and fiscal control perspective. In these case study countries, tax expenditures represent a significant share of activity, ranging from around 8% of direct expenditure to around one third in the Netherlands, with around a fifth in the United Kingdom and around 15% in Canada (note that, due to differing methodologies in calculating tax expenditure levels, one should exercise caution in comparing these figures). Each of the four case countries has a strong track record of seeking to improve budget transparency on tax expenditure. The first section highlights the relevance of tax expenditure on government budgets. It then identifies which components of a tax expenditure system are relevant to fiscal control and long-term fiscal sustainability. The second section draws on these components to analyse the practices in the four case study countries. A final section provides an overview of the key challenges and notable areas for further work and exploration.

The paper focuses on budget processes, as these are relevant to both direct expenditure and tax expenditure, including for forecasts, decision making, reporting, evaluation, and parliamentary oversight. The budget process provides a common basis to analyse key aspects of direct expenditure and tax expenditure from a fiscal control perspective. As part of its analysis, the OECD analysed budget and oversight reports, drawing on the resources of the OECD Committee of Senior Budget Officials.

2 Tax expenditures in budgeting

This section is divided into two subsections. The first highlights the relevance of tax expenditures in a budgeting and fiscal management context. The second establishes a framework for analysing tax expenditures in that context. The framework comprises six components that were developed from the OECD's analysis of the four case studies in the Annex.

2.1. Tax expenditures and fiscal sustainability

2.1.1. *The use of tax expenditures in central governments*

Tax expenditures are often implemented to create incentives for activities considered helpful for growth, wellbeing or social objectives. Some common examples include encouraging savings for retirement by offering tax breaks on retirement savings accounts, encouraging charitable activities by offering tax breaks on donations, or encouraging investment into certain sectors, regions, or products by offering favourable tax conditions for such investments, or to reduce the investment cost of research and development. These examples are frequently included in budget proposals for consideration in the government's annual budget. There is some evidence that such tax expenditures can be successful in achieving their policy objectives – for example, analysis of firm-level records in 20 OECD Member countries found that R&D tax incentives are effective in boosting business R&D levels, although effectiveness varied significantly across firms and countries (CEPR, 2020^[2]). Further research found that R&D tax incentives are less effective for large, R&D intensive firms, which make up a large proportion of R&D tax reliefs (Appelt et al., 2025^[3]), and their effectiveness depends heavily on the design, with stable, predictable tax incentives complemented by direct support measures working best (Appelt et al., 2016^[4]).

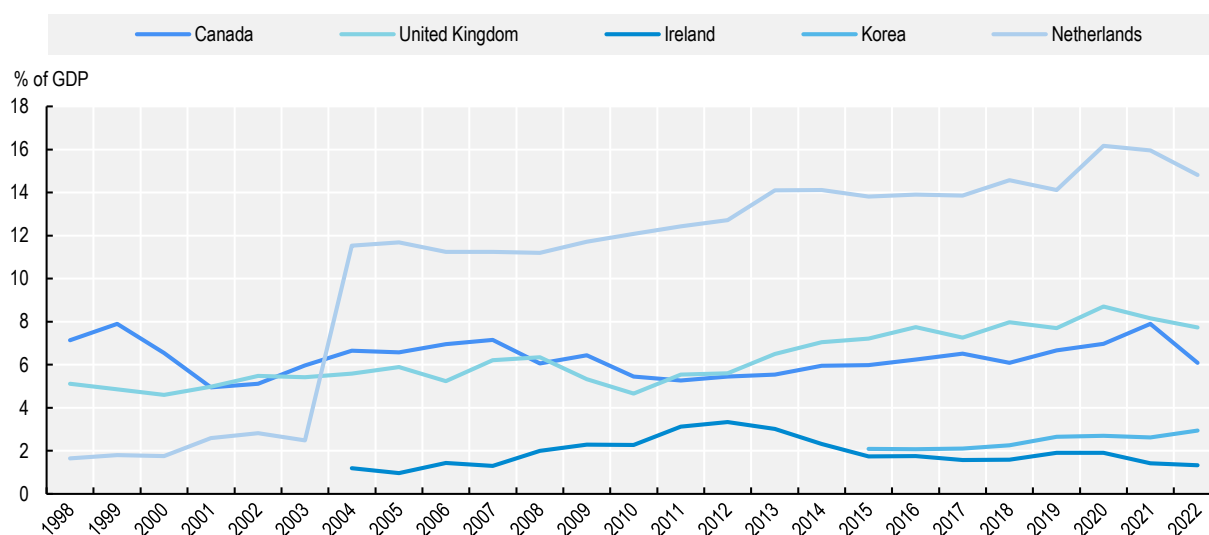
In some contexts, tax expenditures can reduce the government's administrative costs relative to an initiative that requires direct expenditure. For example, a programme that provides a small benefit to many people is likely to be expensive to administer through direct expenditure but may involve a lower administrative cost for the government through a tax expenditure. This is a relevant consideration when the programmes involve activities that are clearly defined and easily verified (Toder, 2000^[5]).

Within the four OECD Member countries in this paper there has been a steady increase in the use of tax expenditures. As shown in Figure 1, growth in the cost of tax expenditures (measured as revenue foregone) has kept pace with GDP in Korea and the four case study countries, and in several cases this growth has increased at a higher rate than GDP growth. While Figure 1 expresses the data as a proportion of GDP, it indicates that as of 2022, the revenue foregone as tax expenditure is equivalent to around a third of the government's direct expenditure in the Netherlands, around a fifth in the United Kingdom, around 15% in Canada, and around 8% in Ireland and Korea.¹ From a budget perspective, tax expenditures therefore represent a significant budgetary cost. While the figures vary, there are strong correlations between which tax expenditures are most dominant. In all four case study countries, at least one tax benefit related to pensions appears in the top ten largest tax expenditures, while in several countries multiple appear (i.e. both pension contributions and employee contributions to superannuation schemes in Ireland). Generally, tax expenditure supporting social policy are well represented, with Canada's child benefit, Ireland's medical

insurance relief, and the United Kingdom's employment allowance all appearing among the respective countries' ten largest tax expenditures.²

Of note in Figure 1, the sharp increase in reported Dutch tax expenditure revenue forgone between 2003 and 2004 reflects an expansion and harmonisation of the tax expenditure annex, including the first full reporting and re-estimation of indirect tax expenditures (Tweede Kamer, 2004^[6]).

Figure 1. Revenue foregone as a percentage of GDP in select OECD Member countries



Source: (Redonda, von Haldenwang and Aliu, 2025^[7])

2.1.2. The impact of tax expenditures on budget deficits

Direct expenditure is easier to estimate, monitor, and control relative to tax expenditure. While both direct and tax expenditure can be difficult to predict *ex ante*, once in place, direct expenditure can be clearly measured and compared with initial estimates. By contrast, tax expenditures can only be estimated relative to a counterfactual, as the fiscal impact represents revenue that the government could have received in the absence of the measure.

From a budget perspective, this means that the fiscal impact of tax expenditures must be inferred relative to a benchmark, rather than directly observed. In contrast, direct expenditure is quantified by programming expenditure at a detailed level in departmental baselines and reports are prepared to a similar level of detail on the costs incurred. While in theory it is possible to impose limits on tax expenditures, this can be challenging from a policy and administrative perspective and can mean that potential recipients of a tax expenditure are unsure whether they will actually be able to benefit from a programme (Michael, 2018^[8]).

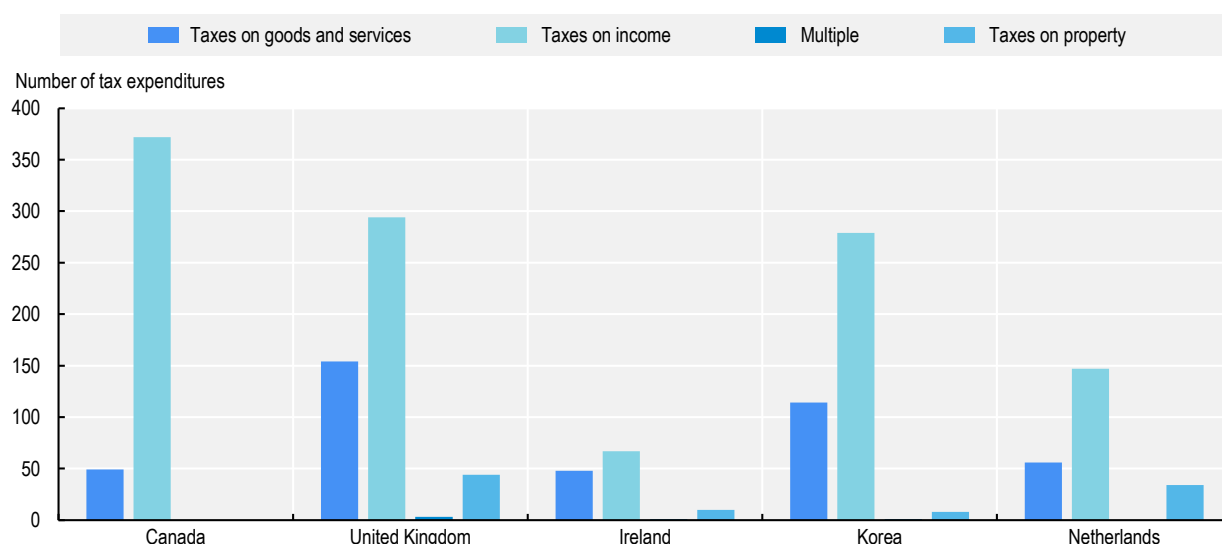
Fiscal control of tax expenditures is made more difficult by the large number of tax expenditures that exist in a country. As shown by Figure 2, most of the case study countries (as well as Korea) have over 200 tax expenditures. This leads to complex tax expenditure systems, meaning it can be difficult to detect changes in the cost of a tax expenditure in terms of the revenue foregone, and the government's capacity to evaluate the performance of each tax expenditure is spread thinly over the large number of tax expenditures.

Furthermore, as shown in OECD country reviews, definitions of tax expenditure benchmarks vary, meaning a country can define the various components of a benchmark relative to the specifics of the policy objectives relating to the tax expenditure and the design of that country's tax system. For example, a lower rate of VAT on goods such as food are treated as tax expenditures in some countries, while in others they

are considered part of the standard tax system. These elements make it difficult for parliaments, scrutinising bodies, such as independent fiscal institutions and supreme audit institutions, and the public to fully understand the impact of tax expenditures on the budget and the government's financial statements.

Figure 2. Count of tax expenditures by country and tax type

2024 or latest available year



Note: The counts in this figure are derived from counting all active line items in the Global Tax Expenditures Database (GTED) which are still active. This can present some issues. For example, in some cases, the same measure can be counted multiple times when there is a line item for each tax base, while in other cases data cannot be disaggregated for multiple tax bases, meaning the measure appears as a single item. This can mean that country's own counts differ from those presented in GTED. For example, the total count in the 2026 Canadian Report on Federal Tax Expenditures records 229 tax measures (see Canada case study).

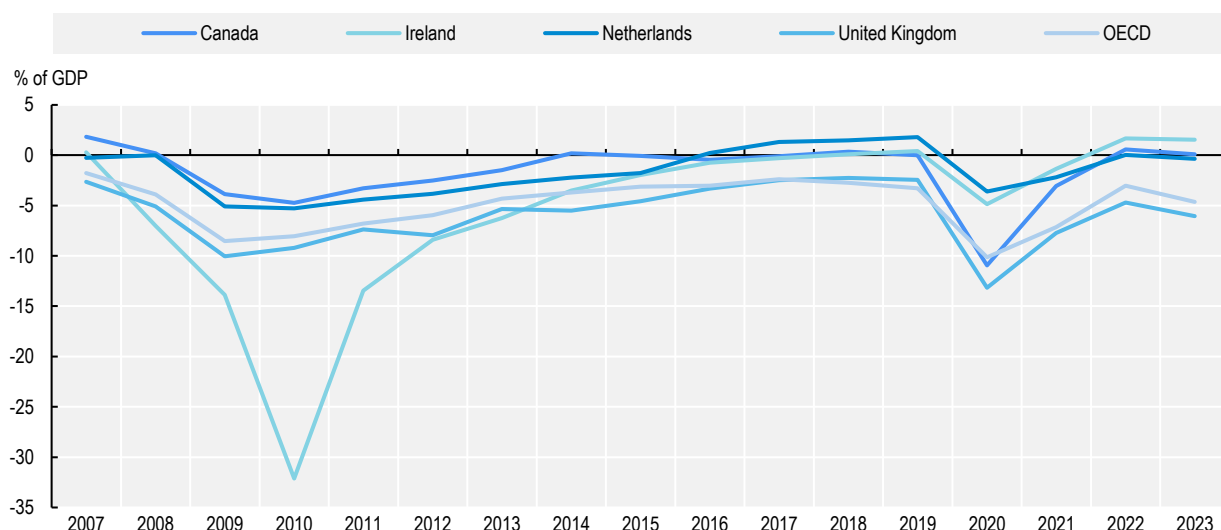
Source: (Redonda, von Haldenwang and Aliu, 2025^[7]).

The significant budgetary cost of tax expenditures, combined with their complexity and lack of transparency, mean that tax expenditures can pose risks for the fiscal sustainability of public budgets. To be clear, fiscal sustainability is not determined by tax expenditure, but limited mechanisms to effectively control tax expenditures can result in the fiscal cost of the tax expenditures increasing at higher rates than expected, eroding the tax base and constraining fiscal flexibility. This can contribute to and undermine long-term fiscal sustainability.

From 2007-2023, within the four case study countries in this paper, fiscal balances have frequently been in deficit (Figure 3). Tax expenditures are a significant contribution to these deficits, and reducing tax expenditures, where possible and desirable, could improve the fiscal position of these governments. In a context where OECD Member countries are facing multiple spending challenges, including structural pressures on pension and healthcare systems, alongside slowing economic growth and long-term productivity rates (OECD, 2026^[9]), analysis of this form of fiscal consolidation is increasingly relevant to restoring public finances.

Figure 3. General government fiscal balance

2007-2023

Source: (OECD, 2025^[10]).

2.2. Key elements of a tax expenditure system for fiscal control

2.2.1. Definition and measurement of tax expenditure figures in budgets

Calculating the cost of tax expenditures

Tax expenditures do not have a cost in the way direct expenditures do. Rather, they represent revenue that the government could have received if it had not introduced the tax expenditure. As this is not an observed fiscal outlay, alternative methods to estimate the cost of tax expenditures are needed for forecasting and budget purposes.

The most common way that countries calculate the cost of tax expenditures is through the revenue foregone approach, which quantifies the loss from removing the revenue. In practice, this approach presents several issues. It is a static calculation, in that it does not capture changes in behaviour that the introduction of such an expenditure may induce. For example, if a government introduced a tax deduction for those investing money into certain types of pension funds, the revenue foregone approach would not account for the fact that such pension funds would likely see an increase in usage by the people who are eligible to receive the deduction. Furthermore, the approach estimates the impact of each tax expenditure measure in isolation, whereas the inter-dependencies between tax expenditures may mean that the revenue foregone from one tax expenditure impacts on the revenue foregone from another tax expenditure (OECD, DIAN and Minhacienda, 2021^[11]).

Defining the benchmark

A tax expenditure benchmark defines what a country's standard tax system looks like without giving effect to policies through tax expenditures. Anything outside of this benchmark counts as a tax expenditure. Countries can have different criteria to determine what should form the benchmark. For example, in the United Kingdom, many schools benefit from a wide range of tax reliefs, including an exemption from value added tax (VAT) as well as exceptions from capital gains tax (CGT) and stamp duty land tax. While in

many countries such policies would classify as tax expenditure, the United Kingdom government classifies these measures as structural tax reliefs, i.e. part of the benchmark (Aliu and Redonda, 2024^[12]). Other areas where variation is common across countries include the treatment of interest income, the simplification of tax regimes for smaller businesses, standard deductions provided to salaried taxpayers, treatment of agricultural income, treatment of gifts and donations, treatment of employee fringe benefits, and depreciation of physical assets. This variation means that it is challenging to compare benchmarks on a cross-country basis to inform budget forecasts.

In 2021, the OECD's Centre for Tax Policy and Administration developed key criteria to inform the design of a benchmark (Box 1). The criteria show that it is important to consider country-specific variables.

Box 1. Criteria for an effective benchmark

Relevant criteria to consider when developing an effective benchmark.

- **Well defined and transparent:** The benchmark should be well-defined and transparent so that policymakers and the public understand the underlying assumptions that have been made.
- **No discrimination:** The benchmark should represent the standard taxation treatment that applies to similar taxpayers or types of activity (horizontal equity). Discriminatory elements in the tax code should be qualified as tax expenditures. This does not apply to the progressive structure of the personal income tax, which typically is included as part of the benchmark (to support vertical equity).
- **Avoid negative tax expenditures:** Tax provisions that increase the tax burden do not constitute a tax reduction (i.e. an "expenditure") but rather result in a tax increase. Tax expenditure assessments should try to avoid negative tax expenditures as much as possible, by making these provisions part of the benchmark. Even so, there might be cases where negative tax expenditures are informative, for instance, if the government disallows certain deductions that would be common in a benchmark tax system.
- **Consistent:** The benchmark should be consistent across taxes and make explicit reference to how it treats measures that relieve double taxation (integration). For example, if there is integration of corporate and personal taxation, the benchmark system should be consistently applied to both the assessment of tax expenditures in the CIT and in the PIT.
- **Actionable:** The benchmark should be defined in a way that the resulting list of tax expenditures informs policymakers about reform options. At least, the tax expenditure list provides a starting point for an evaluation of tax concessions
- **Facilitate international comparability:** The benchmark may be chosen such that it follows the approaches in other countries, although these may vary in various dimensions and details. By using a similar benchmark used elsewhere, the tax expenditures might be compared with those other countries, although caution remains important in doing so.

Source: (OECD, DIAN and Minhacienda, 2021^[11]).

2.2.2. Treatment of tax expenditures vs direct expenditures in the budget

The Global Tax Expenditures Database states that as of 2025, 116 jurisdictions publish generally good data on tax expenditures. Within the OECD Membership, Denmark, Greece, Luxembourg, Norway, Portugal and Türkiye have started reporting on tax expenditures in the last decade. According to the database, a revenue forgone estimate is available for at least one year for all OECD Member countries since 2018. The number of provisions reported has also increased, with the average number of tax expenditure provisions reported within the OECD rising from 98 to 162.

One potential reason for this proliferation is because tax expenditures can be viewed by line ministries as a low-cost way to achieve their policy objectives. In contrast to direct expenditure, the fiscal cost of such measures is reflected in reduced revenue rather than departmental spending, and is not subject to the same budget ceilings or scrutiny processes. As a result, tax expenditures can provide a policy instrument for line ministries to pursue policy goals, while the administrative burden rests with tax authorities and taxpayers.

Even so, reports and figures on tax expenditures do not necessarily contribute to the budget process. This can mean that the information is not available to inform decision making during the budget process, or that the information is reported separately and is not identified as a measured component within the aggregate budget figures. In both instances, this reduces the information available on the cost of the measures within the government's budget. This reduces budget transparency, as it means that the cost of tax expenditures as revenue foregone is not explicitly stated, nor is the role that tax expenditures perform in the budget to meet policy objectives.

Forecasting the revenue impact of policies that deploy tax expenditure are also challenging. An increase in the cost of a tax expenditure, which is an increase in the revenue foregone, can indicate that a tax expenditure is working well, but can also indicate that it is being used in ways that were not intended or constitute a full windfall. Changes to macroeconomic variables such as economic growth and inflation, as well as changes to underlying tax rates, can all impact the cost of a tax expenditure. The underlying reasons for a change in cost can therefore be difficult to ascertain. In 2020, an analysis by the National Audit Office in the United Kingdom found that actual costs exceeded forecast costs for several tax expenditures, most notably for the research and development (R&D) expenditure credit, where between 2013 and 2018 costs exceeded forecasts by 55% (National Audit Office, 2020^[13]). HMRC has stated that discrepancies between official statistics and published forecasts can be due to reductions in the costs of some tax expenditures where taxpayers switch to new ones, economic impacts of a new tax expenditure, and the impact of public finances of related policy changes made at the same time.

Treatment of refundable tax credits

Refundable tax credits are a specific type of tax expenditure that provide a refund when a taxpayer owes no tax, or when the credit exceeds the amount of taxes owed. This means that eligible individuals can receive money from the government. While the tax expenditure appears as part of the government's tax code, in reality the tax expenditure functions as a cash transfer. Refundable tax credits can be delivered through both the corporate income tax system, e.g. R&D credits, or through the personal income tax system, e.g. child tax credits.

As refundable tax credits depend on uptake, i.e. are demand driven, a budget ceiling or fixed appropriation rarely applies, as this would mean that some recipients would not receive a payment when the ceiling is reached even though they are eligible to do so. The absence of a ceiling or cap on the total cost to the government can have larger than expected consequences for the budget if demand is greater than forecast. While cash payments through tax expenditures reduce tax liabilities, the payments also meet social policy objectives. For example, the Canada Child Benefit is a refundable tax expenditure which helps support families with the cost of raising children, and the United Kingdom's Universal Credit supports low-income people, those who are out of work or those who cannot work.

2.2.3. Fiscal rules and objectives related to tax expenditures

OECD Member countries recognise that setting fiscal objectives and rules are key to achieving fiscal goals. In terms of fiscal objectives and rules, there are generally four types (OECD, 2025^[14]):

- **Revenue objectives/rules** set limits on the tax-to-GDP ratio and constrain how governments can use the revenues they raise.

- **Expenditure objectives/rules** limit the amount of government spending, or the rate of growth in government spending. They can be expressed in nominal terms, real terms or as a percentage of GDP.
- **Budget balance objectives/rules** set requirements related to the budget balance, be that requirement to attain a surplus, to run a balanced budget, or to not exceed a defined deficit limit. They can be expressed in nominal terms or as a percentage of GDP.
- **Debt objectives/rules** limit the amount of government debt that can be accumulated. They can be expressed in nominal terms, as a debt-to-GDP ratio, or as a target reduction of the debt-to-GDP-ratio.

Most countries commit to a range of fiscal objectives and rules. Of the 34 countries surveyed in the Senior Budget Officials Survey on Budget Frameworks, 25 have at least three objectives or rules. Limits on the budget balance are most common, with 34 OECD Member countries having a fiscal objective or fiscal rule that limits the budget balance (OECD, 2025^[14]).

Tax expenditures are captured in some, but not all, fiscal rules. As they result in a loss of revenue, they are implicitly captured in revenue objectives or rules, as well as rules that look at the ratio between revenue and expenditure (i.e. debt and budget balance rules/objectives). Despite this, they are not captured by expenditure rules, unless they are explicitly designated as equivalent to direct expenditure in budget processes.

2.2.4. Reporting on tax expenditures in budgeting

Reporting on tax expenditures has seen several developments in recent years. In 2021, the German Institute of Development and Sustainability, alongside the Council on Economic Policies launched the Global Tax Expenditures Database, which collects the information that national governments publish on tax expenditures. The OECD's databases include the OECD R&D tax incentives database, which monitors availability, key design features, costs, and impacts of tax expenditures used by governments to promote R&D and innovation, and the investment tax incentives database that compiles information on the design and targeting of investment tax incentives available across mainly developing and emerging economies (OECD, 2024^[15]) and (Celani, Dressler and Wermelinger, 2022^[16]).

All OECD Member countries release a tax expenditure report in some form. Despite this, the quality of reporting can vary. Key relevant information is often not included in reports, such as targeted beneficiaries, legal references, policy objectives, and number of beneficiaries. Furthermore, data granularity levels vary considerably.

Information on beneficiaries can be particularly valuable, as much research has identified the risk that tax expenditures delivered through the personal income tax system can disproportionality benefit high-income recipients. For example, research by Avram (2017^[17]) in six European countries finds that tax allowances are generally regressive, as the tax deduction value increases with tax rate. On the other hand, tax credits are often proportional or mildly progressive. The paper notes that tax expenditures are poorly suited to targeting low-income households, as access depends on tax liability, and higher incomes have a larger taxable base, particularly in progressive systems where liability is higher for higher income levels. In 2024, the OECD highlighted that where tax reliefs are provided for private services (i.e. private pension savings or private education), low-income groups that cannot access these services cannot benefit (OECD, 2024^[18]). Furthermore, when not well-designed, tax incentives risk supporting investment that would have occurred anyway (OECD, 2026^[19]).

2.2.5. Evaluation of tax expenditures

For public resources to be used efficiently, expenditure must be carefully managed. As the cost of tax expenditures can fluctuate, it is important to systematically evaluate their impacts and fiscal costs to ensure sound fiscal management. Evaluation, in this context, means a process that aims to inform policymakers on whether a tax expenditure should be introduced or maintained based on the available quantitative and qualitative data on their effects. It should focus on the stated policy objective of a tax expenditure, and whether it has effectively contributed to the achievement of that policy objective (IMF, 2022^[20]). In other words, it should focus on whether a tax expenditure has a causal impact, rather than simply considering the take-up rate (OECD, 2026^[19]).

It is useful for evaluations to be based on a framework requiring all tax expenditures to be evaluated on a regular basis. This can help ensure consistency and comparability of evaluations over time. In cases where too many tax expenditures exist to evaluate them all regularly, an alternative is to put in place a prioritisation system to ensure that the larger and more important tax expenditures are evaluated on a more regular basis. It also helps governments build a longer-term picture of tax expenditure costs and impacts, enabling governments to plan around their costs.

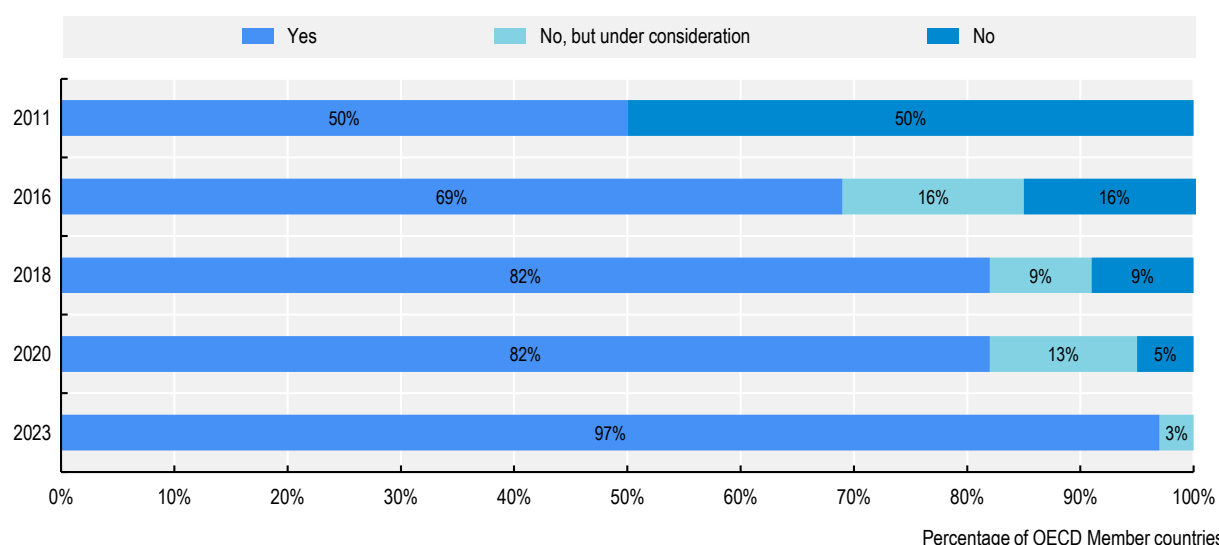
Sunset clauses are provisions within tax expenditure legislation that set an automatic expiration date for a tax expenditure. When they are in place, they force policymakers to periodically evaluate whether the provision still warrants its fiscal cost, and make them explicitly justify reasons for keeping them if they so choose. Nevertheless, sunset clauses in and of themselves are not enough to ensure only beneficial tax expenditure are kept in place. Without a comprehensive and effective evaluation framework in place, sunset clause-motivated reviews may be cursory and ineffective.

One form of evaluation is a spending review. These are tools that analyse a government's existing expenditure, aiming to identify savings and improve the effectiveness and efficiency of existing programmes and policies. These can be useful to counteract the tendency to focus on new and additional spending and thus supporting fiscal sustainability (OECD, 2025^[14]). Spending reviews have become increasingly common in OECD Member countries, as evident from Figure 4. In practice, spending reviews are unlikely to be sufficient on their own, and can benefit from separate, systematic ex-post evaluations of the costs and impacts of tax expenditures.

Figure 4. Use of spending reviews in OECD Member countries

2011-2023

Percentage of OECD Member countries



Note: The number of OECD Member countries has increased over time. The data is for survey respondent OECD Member countries at that point in time. The 2020 dataset refers to all current 38 OECD Member countries. In 2023, 34 OECD Member countries out of 35 survey respondents implemented spending reviews.

Source: OECD 2023 Survey on Spending Reviews, Question 1.

2.2.6. Oversight, scrutiny and audit of tax expenditures

Parliament's role in scrutinising the budget is crucial for the legitimacy of government spending plans. To be effective, parliaments should have oversight of all important decisions related to public finances, including the development of a fiscal policy framework, economic and fiscal forecasts, and oversight of budget execution. To do this, they should receive budget information in a timely manner, and have adequate analytical support. Independent fiscal institutions also have an important role in enhancing parliamentary oversight, helping cost fiscal measures, highlighting how policy measures impact public finances, and even making recommendations around policy plans (OECD, 2025^[14]).

Tax expenditures can be as financially significant, but risk escaping the routine scrutiny applied to budget expenditure. Unless tax expenditures are subject to systematic oversight by parliament and independent fiscal institutions, tax expenditures may proliferate unchecked, or persist long after their original rationale fades. Independent oversight helps evaluate whether each tax expenditure achieves its policy objective in a cost effective manner, and does not create undue distortions or unfair advantages. It also ensures transparency, enabling legislators to see the full scale and impact of tax expenditures, and compare them with direct spending alternatives.

Audit is also an essential institution of public finance. While supreme audit institutions are generally associated with scrutiny of financial transactions, they can also conduct performance audits, where they consider the value for money of specific programmes or types of spending. These can be particularly useful in the context of tax expenditures, as they can help verify whether revenue foregone by the tax expenditure was justified by actual policy outcomes. Furthermore, supreme audit institutions can conduct audits of governance processes or management frameworks. Again, these can be useful for tax expenditures, helping ensure that existing review and evaluation processes accurately capture all relevant measures.

3 Findings from case study analyses

This section analyses the information from the four case studies in the context of the key elements of a tax expenditure system for fiscal and budget control, as discussed in Section 2.

3.1. Definition and measurement of tax expenditure figures in budget

All four case study countries use the revenue foregone approach to measure tax expenditures, but formal definitions of tax expenditure vary from country to country. While the Netherlands used to have a specific definition, they abolished this following a government study which concluded that as there is no international consensus on the definition of tax expenditure and it is preferable to use a broad guideline. Generally, the guideline states that something is considered a tax expenditure if it has an intended policy objective that ultimately results in an intended loss of government revenue.

The United Kingdom takes a similar approach. HM Revenue and Customs (HMRC) distinguishes between non-structural and structural tax reliefs, where the former are integral to the functioning of the tax system and the latter actively designed to advance economic or social objectives (i.e. tax expenditures). However, beyond this, it does not disclose how they decide under which category of tax reliefs fit, instead stating that their categorisations remain under constant review.

On the other hand, Canada and Ireland identify tax reliefs in relation to a benchmark. Canada defines its benchmark by including the unit of taxation, the taxation period, the tax base and the tax rate structure, as well as more specific references such as the treatment of inflation and treatment of government and governmental entities. Ireland's basis for its benchmark was established by a 2009 Commission on Taxation, and includes measures that are inherent in the design of the tax system, measures that are tax neutral, and measures related to the state, among others.

3.1.1. Defining a benchmark

Benchmarking decisions can be controversial within countries. For example, in the Netherlands, a change in the benchmark definition was made in 2018 due to a decision that all provisions triggering revenue foregone should be considered not to be part of the benchmark, even if they did not meet the previous definition of tax expenditure. In Ireland, two government departments produced different lists of tax expenditures based on different benchmark criteria, and only consolidated the lists into a master list in 2023 (Aliu and Redonda, 2024^[12]).

Canada defines the tax base for goods and services tax (GST) as comprising all goods and services consumed in Canada, meaning the tax applies on a destination basis. As such, any exemptions from GST or zero rating (where GST is not charged) are counted as tax expenditures (Department of Finance - Canada, 2024^[21]). This same logic is used in most OECD Member countries, although some consider lower VAT rates for food as part of the benchmark system on the basis that they are redistributive measures, where redistribution is a core goal of the tax system. As such, they are not reported as tax expenditure measures.

This variation in definitions of tax expenditures and their tax benchmarks makes international comparability of tax expenditures challenging. This in turn can make it difficult for governments to understand how much they spend on tax expenditures in a budget relative to other countries.

3.2. Treatment of tax expenditures vs direct expenditures in the budget

3.2.1. Development and management of tax expenditures

Generally, in the case study countries, it is ministries of finance, or equivalent organisations, which have responsibility for the development and management of tax expenditures. This is the case in the United Kingdom, where HM Treasury is responsible for strategic oversight of the tax system. In Canada, the Department of Finance is responsible for developing tax policy, and is thus the most relevant actor for tax expenditures, while in Ireland and the Netherlands, the Department of Finance and Ministry of Finance respectively serve as the main tax expenditure focal points. This differs from direct expenditure, where development and management usually lies with the relevant line ministry.

Ministries of finance do not generally develop tax expenditure policies in isolation. This is most noticeable in the Netherlands, where government budget guidance requires that tax expenditure provisions be reported in the budget of the relevant ministry, and as such fall primarily under their responsibility. In the United Kingdom, HMRC and HM Treasury jointly have that primary responsibility, but often collaborate with relevant departments on tax expenditure policy design and implementation. This collaborative approach exists but is less common in Canada and Ireland, where the respective Departments of Finance are primarily responsible for the design, costing and reporting of tax expenditures, although other departments do assist in the design of measures, for example when expertise on a particular industry or activity is required.

In most cases, the design of tax policy and its administration is managed by separate organisations. In the United Kingdom, HMRC is responsible for tax administration. While both HM Treasury and HMRC conduct analysis on the impact of changes to tax expenditures, HMRC is responsible for implementation and maintenance of these expenditures. In Canada, tax administration is the responsibility of the Canada Revenue Agency, which includes advising the Department of Finance on issues during implementation, and reporting any issues with compliance. In Ireland, the Revenue Commissioners (more frequently referred to simply as 'Revenue') are responsible for taxation matters, which includes publishing statistics on expenditures and providing analysis of particular tax expenditures. As above, the Netherlands is an exception, with administration split between the Ministry of Finance (which includes the Directorate-General for Tax and Customs Administration) and the line ministries.

3.2.2. Incorporation of tax expenditures into the budget process and budget totals

The treatment of tax expenditures within the budget varies significantly across the case study countries relative to the treatment of direct expenditures. In some cases, tax expenditures are documented separately from the budget, while in others they are integrated into budget documentation, but are not subject to the same approval procedures as direct expenditure. Generally, even where tax expenditures are considered in budgets, they are part of overall tax figures or as part of revenue projections. Dedicated line items showing how tax expenditures contribute to budget totals are rare.

Some countries do not specify tax expenditures in the budget, while in other cases, tax expenditures are considered in the budget totals, but are not explicitly labelled as tax expenditures. For example, in Ireland, the government publishes tax policy changes alongside the budget, and includes tax expenditures within them.

In the Netherlands and in the United Kingdom, tax expenditures are considered both alongside tax expenditure policy and as part of the budget. In the Netherlands, changes to tax expenditures are proposed through the Tax Plan, which is presented alongside the budget. The Dutch budget also includes two annexes highlighting which department is responsible for each tax expenditure and estimated costs. In the United Kingdom, tax expenditures in the budget include both costings and a description of purpose. HM treasury has also published policy costing methodologies for tax expenditure measures in each budget since 2011, which include information on the level of detail and behavioural assumptions behind estimated costs.

Most of the four case study countries do not approve tax expenditures through the same budget processes that they approve appropriated expenditure, even when they include information on them in budget documentation. In general, tax expenditures are approved through the standard processes used to introduce new legislation, as opposed to the processes within the budget cycle. In Canada, direct expenditure is authorised through appropriations and statutes, while tax expenditure is authorised through changes to tax laws. In the United Kingdom, the Finance Bill, which includes tax expenditures, is treated like any other Bill – i.e. a proposal for a new law. This means it receives multiple readings and can be amended, unlike the Supply and Appropriations Bill (used for authorising direct expenditure), for which no amendments are allowed. The Netherlands departs from this approach, as there is no significant difference in Parliamentary process between the budget and standard legislation. For both the budget and the Tax Plan, only the House of Representatives can propose and adopt amendments, while the Senate can only either accept or outright reject.

Some countries also set requirements on tax expenditures separate from the budget process, which are not required of direct expenditure. For example, in the Netherlands, a framework on the Regulation on National Budgeting Instructions requires that tax expenditures answer eight questions, which ensure that the purpose of the tax expenditure is clearly defined and the need for intervention with an expenditure (as opposed to a subsidy) is clearly explained. For measures with impact over EUR 20 million, the appraisal must be included in the bill presented to parliament. In the United Kingdom, HMRC has established mandatory guidance on tax reliefs, and a framework for recording information on those valued at over GBP 40 million per annum.

Table 1. Overview of the treatment of tax expenditure vs direct expenditure in the budget process

Country	Type of Expenditure	Costs published in budget	Tax expenditures explicitly labelled	Same approval process as direct expenditure	Committee oversight	Regular scrutiny after enactment
Canada	Direct	✓	n/a	n/a	✓	✓
	Tax	✓	✓	✗	✓	✓
Ireland	Direct	✓	n/a	n/a	✓	✓
	Tax	✗	✗	✗	✗	✗
Netherlands	Direct	✓	n/a	n/a	✓	✓
	Tax	✓	✓	✓	✓	✓
United Kingdom	Direct	✓	n/a	n/a	✓	✓
	Tax	✓	✓	✗	✓	✗

Source: OECD authors' elaboration

3.2.3. Forecasting of tax expenditures vs direct expenditures

Tax expenditures are generally not treated as equivalent to direct expenditures in forecasting practices in the budget. Instead, they are incorporated into forecasts through lower tax revenue predictions, with formal data on tax expenditure levels provided in separate reports.

In Canada, forecasts are published as part of annual budgets (as well as fiscal updates). The starting point is an economic forecast, which forecasts GDP, inflation, employment, and other macroeconomic indicators. These economic assumptions, alongside any new budget proposals, are then used to forecast fiscal impacts, including predictions of changes to tax revenues. Again, tax expenditures are implicitly included in these forecasts, but as part of the tax revenue change predictions. However, a separate document on tax expenditures (the Report on Federal Tax Expenditures) is published alongside the Main estimates (the government's detailed spending plan for the fiscal year, tabled in Parliament to provide detail on the spending authorities sought). This document provides forecasts for one year beyond the current budget year, as opposed to the budget year and the next four years, as seen in the budget.

In Ireland, the Department of Finance publishes a White Paper ahead of the budget, which gives estimates of receipts and expenditure for the coming year, based on macroeconomic forecasts. These projections then feed into the annual budget package. Tax expenditures are considered in these forecasts through lower tax revenues but are not explicitly identified as such. Instead, a tax expenditure report is submitted alongside the budget.

In the Netherlands, the national budget process is anchored by a multi-year expenditure framework, and a more flexible revenue framework, both of which are set at the start of a government's term. The Netherlands Bureau for Economic Analysis (CPB) produces economic forecasts and macroeconomic outlooks. While tax expenditures are tracked, they are not treated as public spending, instead being highlighted through lower projected revenues. An annex to the budget provides detail on these tax expenditures, including forecasts, and shows the largest changes to tax expenditures, and distinguishes between policy changes and endogenous effects, highlighting that some of the cost from tax expenditures come from economic or demographic changes rather than new legislation.

In the United Kingdom, the OBR prepares five-year forecasts on the economy and public finances twice a year, supporting fiscal control through oversight. Tax expenditures are set out in the revenue forecast, not the expenditure forecast. The OBR also decides whether it believes a tax policy will impact GDP or other macroeconomic variables, and if so, how to incorporate it into its economic forecast. In both these cases, tax expenditures do not have to be explicitly identified. Instead, a separate tax reliefs publication includes forecast estimates for the following tax year. From 2024 onwards, the publication also compared estimated outturns to the forecasts published in the previous year's publication.

The practice of explicitly reporting tax expenditures in dedicated reports but not in the budget highlights the importance of these tax expenditure reports (discussed in greater depth in "Reporting on tax expenditures in budgeting"). As tax expenditure reports are likely to receive less attention than the main budget and related forecasts, this practice also risks reducing the visibility of tax expenditures and their impact on the overall budget.

3.2.4. Treatment of refundable tax credits

In many cases, refundable tax credits are treated as expenditure. The Canada Revenue Agency is responsible for delivering tax credits, and they are reported in the Authority's finances. However, in the budget process, they are authorised through changes to tax laws, not appropriations or statutes as in the case of direct expenditure. In the Netherlands, the largest refundable tax credits, known as the General Tax Credit and the employed persons tax credit, are both included in the Budget Memorandum with cost change estimates (Rijksoverheid, 2025^[22]). In the United Kingdom, refundable tax credits are recorded as Annually Managed Expenditure – the portion of expenditure that is demand led, which includes welfare. While there is no cap for Annually Managed Expenditure, they receive greater budgetary scrutiny as a result of this definition. Similarly, in Canada, refundable tax credits are treated as expenditure, there are only a handful of them.

Ireland is an exception to this trend, as refundable tax credits are generally still treated as tax expenditures. This is evident from the Research and Development tax credit, which can either be refunded as cash or offset against a company's tax liabilities, but is recorded as a tax expenditure.

Box 2. Refundable tax credits in Korea

The Earned Income Tax Credit was introduced in 2008 to provide low-income earners within income support, and to encourage their participation in the labour market. It has both income and wealth eligibility requirements. For a single person, the income threshold is KRW 22 million (USD 15 000). When the value of the earned income tax credit exceeds the income tax, it pays the difference in cash. As such, it can be considered a refundable tax credit.

The Child Care Tax Credit was introduced in 2014 to support the childcare expenses of low-income earners. The sum of annual income of the applicant and spouse must be less than KRW 40 million (USD 27 000). As with the Earned Income Tax Credit, when the value exceeds income tax owed, the difference is paid in cash.

The 2024 Korean tax expenditure plan emphasises continued provision of these credits to stabilise household finances and promote social mobility, ensuring that tax burdens do not disproportionately affect vulnerable populations. Both credits are subject to periodic evaluations, including preliminary feasibility assessments and in-depth reviews, to assess their policy effectiveness, fiscal impact, and alignment with economic and social objectives. Both tax credits are managed by the National Tax Service.

Sources: (OECD, 2024^[23]; Ministry of Economy and Finance, 2024^[24])

3.3. Fiscal rules and objectives related to tax expenditures

It is rare for countries to have fiscal rules or objectives exclusively for tax expenditure. However, in some cases, countries have rules which encompass tax expenditure alongside direct spending. In the Netherlands, it is standard practice for an incoming government to commit to a set of fiscal rules in a letter to Parliament (although such letters are not legally binding). This includes the development of both a revenue framework and an expenditure framework, with the goal of the former to maintain the tax burden at a steady level. The 2024 version of this commitment highlighted that tax expenditures are included in its revenue framework (Tweede Kamer der Staten-Generaal, 2024^[25]). In the United Kingdom, the Welfare Cap is a limit on the amount that government can spend on certain social security benefits and tax credits, although it excludes pensions and payments that vary with the economic cycle (i.e. unemployment benefits). If the cap is breached, this must either be justified, or measures must be brought forward to reduce welfare spending.

In Canada, Budget 2025 established two fiscal anchors. The first aims to balance day-to-day operating spending with revenues by 2028–29, shifting spending toward investments that grow the economy. The second maintains a declining deficit-to-GDP ratio to ensure disciplined fiscal management for future generations. In Ireland, there is a 5% National Spending Rule, which aims to limit core net spending growth to 5% each year. This accounts both for spending and tax cuts, although it is not legally binding. In 2025, United Kingdom government had three fiscal rules. One is the welfare cap, while the other two state that the current budget should be on course to be in balance or surplus, and that net financial debt should fall as a share of the economy, both by 2030.

Such deficit rules can be argued to implicitly account for tax expenditures, as, all other things being equal, a reduction in tax revenue will of course worsen the deficit. However, such rules are not necessarily effective. If not properly regulated, governments are able to expand tax expenditures in periods of high growth without negatively impacting the budget surplus, while in periods of low or negative growth ministries can make a political argument that such tax expenditures should be kept to support economic recovery.

In the Netherlands, certain tax expenditures have a set annual budget, meaning their spending must be monitored during the year and halted when they reach their limit. For example, the Environmental Investment Deduction, a corporate tax incentive for businesses investing in environmentally friendly assets, has a maximum budget of EUR 25 million for 2025. Once this ceiling is reached, no further deductions can be granted. At the time of writing, this ceiling has never been reached. However, such a limit does not exist for most tax expenditures.

3.3.1. Sunset clauses

The use of sunset clauses is relatively rare. In Ireland, it is the responsibility of the Department of Finance to decide whether a tax expenditure should be further extended. In the Netherlands, the assessment framework for new tax schemes requires that new tax expenditures have sunset clauses, although in reality deviations from this framework can apply. There are also some examples in the United Kingdom, although they too are rare.

However, sunset clauses are not necessarily effective in and of themselves. One reason for this is that just because a tax expenditure has to be reviewed does not mean it will be removed. Indeed, without other measures in place, a sunset clause can simply lead to repeated renewal of a tax expenditure. The effectiveness of sunset clauses also presupposes that effective evaluation systems are in place. However, if evaluations are partial, rushed, or based on insufficient data, they may not be able to determine whether or not a tax expenditure should be extended.

3.4. Reporting on tax expenditures in budgeting

Tax expenditure reporting practices are strong across all four case study countries. In Ireland and the Netherlands, this is in part due to EU requirements to publish detailed information on the effect of tax expenditures on revenue, although these requirements do not specify exactly how countries should go about this (Turrini et al., 2024^[26]). Canada and the United Kingdom also publish such information.

In Canada, both Budgets and fiscal updates (i.e. updates to the fiscal plan within the budget that often include new spending commitments and initiatives) include new changes to tax expenditures. These are not presented explicitly as tax expenditures, but instead are introduced with less technical terms such as tax credits, deductions or exemptions. An annex to the budget also provides supplementary information on the tax measures included in the budget. Detail is instead provided in the Annual Report on Federal Tax Expenditures, published and tabled in Parliament by the Department of Finance. This report commenced in 1995, with the aim of providing a source of information to parliamentarians and government officials who wished to analyse Canada's tax system (Government of Canada, 1995^[27]). This report also summarises the main policy changes to tax expenditures, but supplements this with descriptions of all tax expenditure measures.

In 2015, Ireland's Department of Finance started publishing an annual Report on Tax Expenditure, following on from the government's 2014-2020 medium-term economic strategy, which stated that tax expenditures should be limited to cases where there is a demonstrable market failure and where direct expenditure would be less efficient (Department of Finance - Ireland, 2014^[28]). This report includes estimated costs of the main tax expenditures in Ireland, an overview of the ongoing reviews of tax

expenditures, and best practices for the review of tax expenditures. While, as mentioned previously, new tax expenditures are included in a tax policy document published alongside the budget, this annual report offers a comprehensive overview of all such expenditures.

A similar setup can be seen in the United Kingdom, where changes to tax expenditure are included in the Autumn Budget and Spring Statement Changes, but the full costs of tax expenditures are only disclosed in two dedicated tax expenditure reports. These two reports look at structural reliefs (i.e. the benchmark tax system) and non-structural reliefs respectively (i.e. tax expenditures), and make use of statistics on tax reliefs published by HMRC. They commenced in 2017, the same year HM Treasury piloted monitoring of tax expenditures. Greater detail is provided for a subset of tax policies, including estimates on cost and claimants, some limited distributional analysis, and links to relevant research.

Unlike the other three countries, the Netherlands includes all its information on tax expenditures within its budget. This has been the case since 1999, following a period during the 1990s in which Parliament repeatedly requested greater information on tax expenditures that the government was initially not able to provide (Spanjers, 2021^[29]).

The timetable on the publication of tax expenditure reports varies, and is not always co-ordinated with the budget process. Canada's Report on Federal Tax Expenditures is released by 1 March alongside the Main Estimates, which contains the resources required by departments and agencies for the upcoming fiscal year. The fact that its publication coincides with the Main Estimates helps parliament stay informed about changes to tax expenditures and includes all announcements from the previous year. In Ireland, the report on tax expenditures has historically been published in alignment with other budget documentation in September or October. In the United Kingdom, the two reports on tax reliefs are published each year in December, with another report on non-structural reliefs published in May with previously unavailable costings. This is in accordance with the publishing timeline for official statistics, which follow the tax year, while the budget follows the fiscal year. This can mean that the most recent statistics are not always available for scrutiny by parliament.

Table 2. What is included in tax expenditure reports?

	Canada	Ireland	Netherlands	United Kingdom
Documentation on tax expenditures	Report on Federal Tax Expenditures	'Tax Passport' published from 2025 alongside Tax Expenditure Report	Annex 4 of Annual Budget	Official statistics on non-structural reliefs. This is for a subset of tax expenditures
Cost projections	✓	✗	✓ (for some)	✓
Description of policy objective	✓	✓	✓	✓
Description of TE's history	✓	✓	✓	✓
Explanation of estimation method	✓	✗	✓	✗
Explanations of changes in cost/revenue foregone	✓	✗	✓	✓
Information on beneficiaries/distributional analysis	✓	✓	✗	✓
Information on legal reference	✓	✓	✓	✗
Number of claims/beneficiaries	✓	✓	✗	✓ (for some)
Reason to not include measure in the benchmark	✓	✓	✗	✗

Results of recent evaluations	✓	✓	✓	✓
Revenue forgone quantification	✓	✓	✓	✓
Source of data	✓	✓	✓	✗
Type of measure (exemption, deduction, credit)	✓	✗	✗	✗
Type of tax (Corporate, Personal)	✓	✓	✗	✗
Whether a sunset clause is included	✓	✗	✓	✗

Source: OECD authors' elaboration.

Several countries also include tax expenditure in their distributional and welfare analyses. In Ireland, since 2022, a Beyond GDP report has been published alongside the budget, intended as a complement to the annual Economic and Fiscal Outlook. This includes distributional analysis of the policies introduced in the budget within both the tax and welfare systems, although they do not account for behavioural responses, and do not account for all measures in the Budget. The 2025 version included analysis of the rent tax credit, changes to the earned income tax credit, and several other tax credits. It also analyses the impact of general tax increases. However, tax expenditures are not explicitly highlighted. A chapter in the Tax Policy Changes document also provides distributional analysis, looking at the overall impact of all changes reported.

In the United Kingdom, distributional analysis of both tax and spending changes is published with the Autumn Budget and Spring Statement. Similarly to Ireland, its tax focus is often on credits, with analysis of tax expenditures beyond this limited. In both Ireland and the United Kingdom, distributional analysis focuses on tax measures generally, rather than looking at tax expenditures specifically. This is not the case in Canada, where the tax expenditure report dedicates a chapter to distributional analysis using the Gender-Based Analysis Plus framework, as required by the Canadian Gender Budgeting Act of 2018. This analysis focuses on gender, although also considers other factors including age, family types, income groups and place of residence. Canada's budget also provides a brief overview of expected beneficiaries (by gender, income, and age), including for tax expenditures. The Netherlands does not incorporate distributional analysis into its tax expenditure reporting.

3.5. Evaluation of tax expenditures

All four case study countries have a system for the evaluation of tax expenditures. In Canada, evaluation is not a requirement for tax expenditures as it is for direct spending. However, the Canadian Department of Finance publishes several evaluations of tax expenditures each year. Since 2020, this has taken the form of extra studies published within the Report on Federal Tax Expenditures, involving additional distributional analysis. The focus topics are set on the basis of priority issues and issues of interest within the Department of Finance.

In Ireland, reviews of tax expenditures are generally conducted by the Department of Finance, with the co-operation of Revenue. In some cases, other government departments and agencies can be involved, and in some cases such a review can incorporate public consultation. These reviews are intended to ensure that tax expenditures are amended or ceased if they no longer serve a purpose, and extended if they do. Evaluations follow a proportionate approach, meaning the costliest tax expenditures are subject to the highest frequency and rigour of review.

The evaluation process in the Netherlands follows an evaluation calendar published annually, which details which tax expenditure is to be evaluated and when. These are conducted by various different people, including the Ministry of Finance, sometimes the Netherlands Bureau for Economic Policy Analysis, and sometimes outsourced, although timely completion of the evaluation is always the responsibility of the relevant ministry. Generally, tax expenditures are subject to evaluation every 4-7 years, although several exceptions and criteria for prioritisation means that this does not always occur.

Since 2021, HMRC, typically responsible for conducting tax expenditure evaluations, has also published a tax reliefs evaluation plan and a list of tax expenditures currently being evaluated. However, as in the Netherlands, there have been several constraints causing this plan to not always be on schedule, including funding constraints and unclear tax expenditure objectives hindering assessment. In the cases of both the Netherlands and the United Kingdom, this has resulted in some of the largest tax expenditures remaining unevaluated.

3.5.1. Evaluation frameworks

The tax expenditure evaluations of the four case study countries are guided by an evaluation framework. In Canada, direct programme spending is subject to the Treasury Board Policy on Evaluation, published in 2009. This policy is not required for tax expenditures, but the Department of Finance applies an evaluation framework that considers relevance, effectiveness, efficiency and equity of tax measures. However, it is rare for evaluations on tax expenditure to be published in Canada beyond the studies published with the tax evaluation report, with only two formal evaluations published between 2020 and 2025 (Government of Canada, 2026^[30]; Auditor General of Canada, 2015^[31]).

In the Netherlands, tax expenditures must be regularly evaluated following the criteria in the assessment framework. The ministry conducting a tax expenditure evaluation must consider whether a direct expenditure could have served as an alternative. This is in line with OECD guidance on tax incentives, which states that consideration of tax incentives should include an exploration of complementary and alternative policy options, including direct interventions and other alternatives such as training programmes and public investments (2026^[19]). A negative evaluation, in theory, must mean either removal or modification of the tax expenditure. In reality, few negative evaluations have led to policy changes, as the rules also identify exceptions that can favour retaining the tax expenditure, e.g. when there is little new information since the last evaluation.

In Ireland, the first guidelines for evaluating tax expenditures were released by the Department of Finance in 2014. They include best practices for both *ex ante* and *ex post* evaluations. While these guidelines initially established that all tax expenditures would be examined over a five-year time period, this has proven challenging. In 2024, these guidelines were updated, with major changes including *ex ante* equality-proofing and beneficiary analysis more generally, as well as consideration of environmental implications, and review of whether existing data is sufficient for a review. These guidelines are not legally required, and highlight that not all evaluations will be able to meet the standards set out in these guidelines, although there is a requirement for tax expenditures with sunset clauses to be reviewed before the end of the sunset period.

In the United Kingdom, this takes the form of HMRC's Evaluation Framework, which outlines criteria for deciding whether to evaluate, sets out three different types of evaluation, and describes how it connects with United Kingdom government evaluation guidance (such as the Green Book and Magenta Book). This framework, along with the list of tax expenditures mentioned above, was established after a National Audit Office review found in 2020 that there was no systematic evaluation of tax expenditures. Specific criteria for the evaluation of tax reliefs also exist, which include considering the relief's cost and design, as well as both its direct and indirect impacts (National Archives, 2024^[32]; HM Revenue and Customs, 2021^[33]).

3.5.2. Spending Reviews

There is little evidence of spending reviews being conducted for tax expenditures. For example, both Canada and the United Kingdom conduct periodic spending reviews, but neither do so for tax expenditures. In Canada, the Auditor General explicitly recognised this in a 2015 speech to the Parliament (Office of the Auditor General of Canada, 2015^[34]). Budget 2016 announced a review of tax expenditures and Budget 2017 announced the elimination of some inefficient tax measures or the amendment of others.

Ireland and the Netherlands conduct spending reviews as an annual exercise, and the Netherlands includes the conclusions from these reviews in its multi-annual budget planning. However, these reviews did not cover tax expenditures.

As tax expenditures can often be viewed as equivalents to direct expenditure, there is no reason they should not undergo spending reviews in the same manner. The current lack of such spending reviews increases the risk of inefficiencies and waste within existing tax expenditure programmes.

3.6. Oversight, scrutiny and audit of tax expenditures

3.6.1. Oversight and scrutiny

Several countries have oversight organisations whose responsibilities encompass tax expenditures. The key independent institution in Canada is the Office of the Parliamentary Budget Officer. While explicit tax expenditure review does not form part of the budget process in Canada, the Office does regularly publish fiscal outlooks which include tax expenditures. The comparable institute in Ireland, the Irish Fiscal Advisory Council, is responsible for assessing official budgetary projections and monitoring compliance with fiscal rules. However, its focus is on fiscal perspectives, rather than individual tax or spending measures (IFAC, 2025^[35]). In the Netherlands, the Bureau for Economic Policy Analysis (CPB) checks the costings done by the Ministry of Finance on new tax expenditure policies, checking for any bias or uncertainty. In the United Kingdom, this is The Office for Budget Responsibility, who provides an independent assessment of tax forecasts and fiscal risks, certifies the costs of changes to tax policies (as prepared by HMRC and HM Treasury), and reviews the sustainability of the tax base.

Generally, the parliamentary committees responsible for financial oversight also take responsibility for scrutinising tax expenditures. In Canada, standing committees with roles relevant to tax expenditure include the Standing Committee on Finance, looking at the spending of the Department of Finance, and the Standing Committee on Government Operations, looking at the Treasury Board of Canada Secretariat and the budget estimates. This second one has a mandate to scrutinise tax expenditures, although the extent to which this occurs in practice is unclear. In the Netherlands, the Standing Committee for Finance, reviews tax expenditure provisions and also has responsibilities in relation to the national budget, the tax plan, and general matters for which the Minister of Finance has primary responsibility. In the United Kingdom, Parliament's Treasury Select Committee is responsible for oversight of both HM Treasury and HMRC, including through the scrutiny of proposals in the annual budget. This includes reviewing tax expenditures.

There is some evidence of *ad hoc* parliamentary scrutiny leading to governance reforms. In Canada, the Standing Committee on Finance, responsible for oversight of the Department of Finance, has produced several reports which include recommendations related to tax expenditure. A 2016 pre-budget consultation included a recommendation that the federal government simplify the income tax system. In response, the government stated it would conduct a review of federal tax expenditures (Minister of National Revenue, 2016^[36]). A 2022 pre-budget consultation report included a recommendation to undertake a public review identifying tax expenditures, loopholes and other tax avoidance mechanisms that particularly benefit high income individuals and large corporations (Standing Committee on Finance, 2022^[37]).

In Ireland, the Committee on Budgetary Oversight has on several occasions released reviews of tax expenditure in Ireland, stating that they would incorporate examination of Department of Finance evaluations and reviews of tax expenditures more generally into their annual scrutiny programme. In a 2022 review, they concluded that the Department of Finance did not have enough staff to review tax expenditures, and so they should collaborate with the Department of Public Expenditure and Reform to increase capacity.

In the United Kingdom, the Public Accounts Committee held inquiries into tax expenditures in 2014 and 2020, examining the lack of transparency and value-for-money tests for tax expenditures, while in 2023 the Treasury Committee released a report calling for increased scrutiny and simplification of the current tax expenditure system.

Once enacted, tax expenditures are generally not subject to regular parliamentary scrutiny. Independent research in Canada has found that one reason for such a lack of scrutiny is a lack of information provided to parliament. While the Canadian Government's Expenditure Management System means that policies are regularly reviewed, with performance information sent to parliament, spending programmes authorised through tax acts are not subject to these requirements (Lester, 2024^[38]). However, the Department of Finance monitors and evaluates tax expenditures on a regular basis. In Ireland, this was also highlighted as a point of improvement in a 2018 Parliamentary Budget Office report. In the Netherlands, regular scrutiny is more thorough. The tax expenditure report is included in the annual budget, which includes an overview of the fiscal costs of all tax expenditure provisions with revenue forgone above EUR 5 million, as well as summaries of recently performed evaluations (van Opstal, 2024^[39]).

In the United Kingdom, government departments must publish annual reports and accounts, detailing their objectives, past performance, risk management, and financial statements. While HM Treasury's Annual Report gives detailed accounts of government expenditure, treatment of tax expenditures is less systematic, although some reliefs appear in the narrative. However, HMRC's report is more detailed, with estimates of certain tax reliefs, explanations of these forecasts, and estimates of error and fraud (HM Revenue and Customs, 2025^[40]; HM Treasury, 2025^[41]).

3.6.2. Audit

Regular reporting on tax expenditure audits is rare in the case study countries except the Netherlands, where tax expenditures are included in the Court of Audit's annual Accountability Audit, in which the Court publishes its assessment of whether the government has spent taxpayer money wisely and according to the rules. However, in countries where refundable tax credits are recorded as expenditure, these credits receive a greater level of audit institution scrutiny. This is the case in the United Kingdom, where tax expenditures under this definition are included in departmental accounts and audited by the National Audit Office, and in Canada, where there is an annual audit of public accounts, which includes refundable tax credits.

In most cases, these countries have conducted *ad hoc* reviews of tax expenditures. For example, Canada's Auditor General has conducted audits both on the systems used for managing tax expenditures and on the performance of specific tax expenditures. The Netherlands Court of Audit conducted audits on tax expenditure in 2020 and 2021, finding that the assessment framework was insufficiently applied. This led to the 2021 Cabinet tightening the rules of tax expenditures in the budget process. A 2020 review by the United Kingdom's National Audit Office led to HMRC publishing a tax reliefs evaluation plan as well as a list of tax expenditures in the process of evaluation. The Office had also conducted two previous performance audits into the management of tax reliefs, as well as several audits on specific policies or tax expenditures.

4 Opportunities and challenges

This section provides an overview of common issues found in the budgeting and financial management of tax expenditures and identifies possible areas of improvement to mitigate these issues.

4.1. Opportunities for further work

Tax expenditures are a complex area of government expenditure. This paper focuses on how to strengthen the fiscal control of tax expenditures through budgetary processes, including parliamentary processes. It identifies three areas for further exploration based on the challenges identified from the case studies:

- One ongoing challenge relates to how to identify a consistent benchmark on a cross-country basis for tax expenditure. Increasing the consistency of benchmarks would improve the fiscal impact assessments on how a tax expenditure is likely to impact budget aggregates and the government's fiscal outlook. While several bodies, including the OECD, have published guidance on the development of benchmarks, such guidance generally focuses on good practices, rather than requirements for what should be included (or excluded) from a fiscal management perspective. The development of a more granular definition of a benchmark that aligns to budget management practices would improve the assessment and transparency of how tax expenditures impact on a government's fiscal position.
- Greater development of expenditure evaluation frameworks is warranted, so that the evaluation findings can be acted upon to support better fiscal management. In this paper, the OECD found that the number of evaluation frameworks for tax expenditures is steadily increasing. The finding provides a basis for strengthening the system of evaluation for tax expenditure in government.
- Finally, from a fiscal control perspective, an exploration of possible ceiling mechanisms for tax expenditures would be beneficial. Quantitative ceilings to limit the budgetary cost of tax expenditure are rare. In cases where they are covered, they are generally at an aggregated level, such as deficit and government debt rules. A greater understanding of what dedicated ceilings could look like in practice, how existing attempts have performed, and which governance arrangements to apply could better support the fiscal control and management of tax expenditures.

4.2. Challenges and areas for improvement

4.2.1. Institutional responsibilities

- a. **Institutional responsibilities for tax expenditure should include the relevant line ministry through the budget process in conjunction with the ministry of finance, and in particular for refundable tax credits.** In most case study countries, tax expenditures are managed by the body or bodies responsible for tax administration. However, as tax expenditures are programmes with specific policy goals, they are also relevant to the line ministries responsible for those policy goals. For example, tax expenditures to encourage corporate investment are relevant to the ministry

responsible for economic development. Similarly for family tax credits, the social development ministry has a direct interest. As such, the policy responsibility of relevant line ministry should be recognised in the institutional arrangements, and the line ministry should receive data from the tax administration authorities on the performance of the relevant tax expenditures so the line ministries can monitor performance. Ministries of finance should maintain the ability to review and advise government on any proposed tax expenditure, as set out in the Tax Incentive Principles specified by the Platform for Collaboration on Tax (PCT, 2025^[42]).

As refundable tax credits ultimately involve direct expenditure, they should also be treated in a comparable manner to institutional responsibilities for direct expenditure. The relevant line ministries should have responsibility for the funding and performance of refundable tax credits. Establishing institutional responsibilities for line ministries will not be appropriate in all circumstances and does not change the tax administration role performed by tax authorities, but it recognises the policy responsibility that line ministries and the advice they develop on the appropriate mix of policies.

4.2.2. Tax expenditures with the budget process

- b. **Line ministries should prepare cost estimates for all tax expenditures (new and existing) in the budget.** As tax expenditures are a form of government expenditure, the cost of the expenditure should inform budget decisions. The cost estimates should be prepared in collaboration with budget offices, tax authorities and the relevant line ministries that have the policy responsibilities.
- c. **The timing of tax expenditure reporting should align with reporting on the budget to provide decision makers with comparable information on all forms of expenditure.** The annual calendar for publishing reports on tax expenditures can differ from the timing of budget reports, which makes it more difficult for ministries and the legislature to consider the fiscal impacts of both tax expenditure and budget expenditure in their decision making. Better alignment would better support informed decision making and strengthen the transparency of the government's fiscal management.

4.2.3. Tax expenditure relative to direct expenditure

- d. **Analysis of tax expenditure in the budget should include assessments on whether other policy options, including direct expenditure, would meet the same policy objectives.** While the case studies in this paper show that there are some instances where tax expenditures have benefits over direct expenditure, such instances are a minority. More often, direct expenditures are more measurable, more equitable and easier to apply (and remove) than tax expenditures. As highlighted in OECD (2026^[19]), measures such as training programmes or income support can be more useful than tax expenditures in certain contexts. As such, when a line ministry proposes a new tax expenditure, it should demonstrate why other options would not be more appropriate. This is particularly relevant in cases where a proposed tax expenditure is developed through the budget process, as the budget provides a vehicle for the direct expenditure alternative.

4.2.4. Limits on the use of tax expenditure

- e. **Sunset clauses should be implemented and observed as a default practice.** Within the case study countries, sunset clauses on tax expenditures apply to only a proportion of tax expenditures. As tax expenditures should only serve a specific policy goal, they are no longer required when the goal is met. The default practice, from a budgetary perspective, should be for tax expenditures to cease when a policy goal has been met, thus allowing for other potentially more appropriate interventions to take their place. The relationship between tax expenditures and policy goals further supports the observations in (b) above.

4.2.5. Tax expenditure evaluation

- f. **Tax expenditure evaluations should be used to better understand the fiscal impacts of tax expenditures, particularly in the budget process.** It is increasingly common for OECD Member countries to publish annual reports on tax expenditure. However, these reports differ from in-depth evaluations to understand whether policy objectives are met, as recommended in the OECD Practical Guide to Investment Tax Incentives (OECD, 2026^[19]) and how the fiscal cost is evolving relative to what was intended when the tax expenditure was introduced. Such in-depth evaluations should be systematic, to determine on a regular basis whether the tax expenditures remain fit for purpose.

Annex A. Case studies

Case study – Canada

Tax expenditures in Canada

Federal context

This case study focuses on the federal budget, which accounted for nearly 40% of general government revenue and expenditure in 2025. However, both federal and provincial governments have control over tax policy and can create tax expenditures, some of which are co-ordinated through intergovernmental agreements.

These intergovernmental arrangements mean that tax expenditures can be created by different levels of government even if they apply to the same tax base. Ontario, for example, had 149 tax expenditures in 2019-2020 at an estimated cost of CAD 44 billion; of which 100 measures were directly controlled by the province and 49 by the federal government (Financial Accountability Office of Ontario, 2020^[43]).

Canadian provinces have taken varying approaches to tax expenditures, for instance in the case of disability benefits, some provinces use cash transfer payments while others offer a tax credit. Decisions by the federal government to exempt part of the tax base from income or sales taxes may also impact provincial budgets. As with direct expenditure in budgets, the federal government must therefore co-ordinate decisions on tax expenditure not only for its own spending programmes, but also recognise that decisions may affect provincial tax and spending policies.

Intergovernmental administration agreements provide a degree of formal co-ordination mechanism for tax policy and support the predictability of budget arrangements. For example, for most provinces, entering into an administrative agreement provides virtually-free-of-charge administration of their tax system on the condition of acceptance of a common tax base - enabling the federal government to define taxable income for personal and corporate tax and the tax base for sales tax. This allows the federal government to establish deductions or exemptions for tax expenditures from the tax base. It also allows provinces to set additional tax rates and to establish tax credits (as these can be applied after taxable income has been calculated) (Financial Accountability Office of Ontario, 2020^[43]). Other features of the administration agreements include the Canada Revenue Agency's role in tax collection in the provinces, which centralises cash management for the tax payable.

Major tax expenditures

In Canada, tax reliefs are identified in relation to a benchmark tax system for the federal government, which specifies “only the most fundamental aspects of the tax system” for PIT, CIT and GST (Department of Finance - Canada, 2025^[44]).

There is no aggregated cost of tax expenditures in the budget, annual report or financial statements. Instead, the government publishes a detailed list of tax expenditures and the estimated cost to the budget in an annual Federal Report on Tax Expenditures, which presents measures under three categories:

- Non-structural reliefs which have defined objectives and can be considered substitutes for direct expenditure (Auditor General of Canada, 2015^[31]).
- Structural reliefs where the main objective is specific to the tax system, which may be tax expenditure or other measures.
- Refundable tax credits, which are deducted from the taxes owed by taxpayers to the government, but are refundable as a transfer payment when the credit exceeds the taxes owed.

Each of these categories have fiscal and budget impacts. All non-structural reliefs and around a third of structural reliefs are classified as tax expenditure. The remaining two thirds of structural reliefs are classified as tax measures other than tax expenditure. Since 2013, refundable tax credits have been classified as transfer payments and recorded as direct expenditure, though they are authorised through tax legislation and administered by the Canada Revenue Agency (Auditor General of Canada, 2015^[31]).

A relatively small number of policies account for most of the estimated costs of tax expenditure to the federal government. The 2026 Report on Federal Tax Expenditures reports 229 tax measures. The 12 largest measures made up more than 50% of the estimates for all reported tax reliefs (Table 3). Most of the largest measures are non-structural reliefs, similar to those reported as tax expenditures in other OECD Member countries, e.g. Netherlands and United Kingdom.

Table 3. Largest tax reliefs reported

Tax reliefs with an estimated cost of more than CAD 18 billion

Tax measure	Group	Category	Tax	Estimate CAN, millions
Credit for the Basic Personal Amount	Tax measure other than tax expenditure	Structural	PIT	54 640
Transfer of income tax points to provinces	Tax measure other than tax expenditure	Structural	PIT/TRU/CIT	44 975
Transfer of income tax points to provinces	Tax measure other than tax expenditure	Structural	PIT/TRU	38 710
Transfer of income tax points to provinces	Tax measure other than tax expenditure	Structural	PIT	37 315
Partial inclusion of capital gains	Tax expenditure	Non-structural	PIT/TRU/CIT	36 920
Canada Child Benefit	Refundable tax credit classified as transfer payment	N/A	PIT	31 000
Registered Pension Plans	Tax expenditure	Non-structural	PIT	25 360
Registered Pension Plans	Tax expenditure	Non-structural	PIT	23 290
Tax treatment of Canada Pension Plan and Quebec Pension Plan contributions and benefits	Tax measure other than tax expenditure	Structural	PIT	20 710
Registered Pension Plans	Tax expenditure	Non-structural	PIT	19 570
Partial inclusion of capital gains	Tax expenditure	Non-structural	CIT	18 650
Partial inclusion of capital gains	Tax expenditure	Non-structural	PIT/TRU	18 275

Source: Department of Finance Canada (2026^[30])

Recent changes to tax expenditure

From a fiscal perspective, the main changes to tax expenditure in Canada since 2019 were in relation to two general policy initiatives – budget responses to the COVID-19 pandemic, and support for a transition towards a lower-carbon economy. A number of new, but lesser measures, have also been implemented to support households with the costs of housing.

Over the same period, a number of tax expenditures have been phased out, including the investment credit for childcare spaces. Several tax expenditures had only a temporary status and have ended. However, tax expenditures are typically not included in the federal government's budget review processes, such as the Comprehensive Expenditure Review.

Institutional arrangements for tax expenditure

Central budget authority

The role of the central budget authority in Canada is shared between two departments: the Department of Finance Canada and the Treasury Board of Canada Secretariat:

- The Department of Finance Canada has overall responsibility in the federal government for the budget, tax policy, financial reporting and intergovernmental fiscal relations. This includes evaluating the relevance and effectiveness of tax expenditures, preparing tax expenditure cost estimates, and monitoring the effects of tax expenditures.
- The Treasury Board of Canada Secretariat is responsible for expenditure management. The President of the Treasury Board tables the estimates in parliament.

Revenue administration

The Department of Finance works with the Canada Revenue Agency, which is responsible for tax administration, including the delivery of numerous tax credits, but also supports policy design and monitoring. The Canada Revenue Agency advises the tax policy branch of the Department on the development of new legislation and on issues during implementation. For new measures, the Canada Revenue Agency will prepare analysis and may develop relevant advice. It will also highlight any problems with compliance and other unforeseen challenges that arise during implementation (Auditor General of Canada, 2015^[31]).

Refundable tax credits are usually allocated to and reported by the Canada Revenue Agency, which includes information and performance indicators in its Departmental Plan, and are reported through the Departmental Results reports. Audits of tax expenditures are also linked to the Canada Revenue Agency.

Parliamentary oversight

Parliament has two main standing committees with roles related to tax expenditure:

- The Standing Committee on Finance oversees the responsibilities and spending of the Department of Finance. It oversees economic and fiscal policy, including tax policy and has conducted recent work on CGT and on income inequality.
- The Standing Committee on Government Operations and Estimates oversees the work of the Treasury Board of Canada Secretariat and reviews the budget estimates. It has a mandate to scrutinise statutory programmes and tax expenditures (Lester, 2024^[38]).

Tax expenditure approval and execution

While the federal government reports on tax expenditures with a high degree of transparency, there are differences in the way tax expenditures are approved, reported and managed relative to direct expenditure. Table 4 summarises the differences in the management of tax expenditure and direct expenditure. Recommendations to align tax expenditure reporting more closely with direct expenditure have highlighted the challenges of doing so, although incremental improvements in reporting are evident in the federal government's budget reports.

Table 4. Comparison of direct expenditure and tax expenditure for approvals and reviews

Attribute	Appropriated programme spending	Tax expenditure
Cabinet and ministerial approval	Memorandum to Cabinet, Treasury Board submission	Briefing notes prepared for the Minister of Finance and the Prime Minister
Approval by parliament	Parliamentary scrutiny and approval of Estimates each year by annual appropriation act	Approved in the Budget Implementation Act or other statutes, following full legislative process
Spending limits	Total authorities granted by parliament through an appropriation act, for voted expenditures.	No maximum
Evaluation	Required every five years, according to the Treasury Board Policy on Evaluation	No requirements
Subject to expenditure reviews	Yes	No

Note: Extract, with minor additions

Source: Auditor General of Canada (2015^[31])

Procedures for approval and authorisation

The Cabinet makes decisions over direct expenditure, based on advice from the Department of Finance and Treasury Board of Canada Secretariat. In contrast, most changes to tax policy (and therefore most tax expenditures) are decided through separate processes that are co-ordinated through the finance portfolio within the federal government. A consequence of the separate processes is that a request for additional funding by the Canada Revenue Agency to administer a change in tax expenditures would follow a different process from approving the tax expenditure. (Auditor General of Canada, 2015^[31]). However, the financial impacts from administering the change would likely be identified in the relevant policy papers when approving the tax expenditure.

The federal government usually announces significant changes to tax and spending in its annual budget. However, policies may also be announced with through economic and fiscal updates or on an *ad hoc* basis.

Tax and expenditure policy is authorised through different legal instruments. Direct expenditure is authorised through appropriations (voted expenditure) or other statutes (statutory expenditure). Tax expenditure is authorised through changes to tax laws, such as the Income Tax Act. This is also the case for refundable tax credits which are not appropriated or included in the estimates, even though they are treated as expenditure for accounting purposes.

Tax legislation and other standing legislation is generally subject to more scrutiny from parliament than the appropriation bills, which are approved through an expedited process with limited debate in parliament. In contrast, changes to the Income Tax Act, for example, undergo the full legislative process for a bill, with first and second readings, a committee study and report and a third reading in both the House of Commons and the Senate.

Spending limits and budget execution

There are no firm limits on tax expenditures, including refundable tax credits that are recorded as spending. Overall fiscal policy is guided by medium-term fiscal objectives for government debt and the budget balance, which reflect the net impact of tax expenditure on tax revenue and on public spending, including for refundable tax credits which are included in the government's accounts. Annual targets for the budget balance and government debt are established through the federal government's annual budget process.

The federal budget presents the government's tax and spending plans for the budget year and an additional four years. These plans are revisited in the Fall Economic Statement and subsequent budgets. Tax expenditures are included in the revenue and spending forecasts on a net basis.

Historically the government has taken steps to limit the cost and number of tax expenditures (OECD, 2010^[45]). However, tax expenditures are not subject to the same limits as direct expenditure in the budget process. Voted expenditures are controlled within appropriated ceilings. Statutory spending that is included in the estimates is allotted by the Treasury Board during the financial year which provides a basis for expenditure. These allocations are not firm ceilings in the way that they are for voted expenditures. Tax

expenditures are similar to statutory spending, in that they are not included in the estimates and do not require “allotment.”

Tax expenditure reporting, evaluation and audit

Identification and estimation

The federal government has a well specified tax benchmark that is used to identify and report tax expenditures and other tax measures and tax credits. Its elements include unit of taxation, taxation period, tax base and tax rate structure, among other features (Department of Finance - Canada, 2025^[44]; Robson and Laurin, 2017^[46]).

The costs of tax reliefs are estimated using a “revenue foregone” methodology that assumes no behavioural changes and no impact on the economy. Each tax expenditure is estimated individually, and costing does not factor in the interactions between different taxes.

Estimates are determined by the Department of Finance using various models and data. Estimates of PIT and CIT reliefs (including credits administered by the Canada Revenue Agency) are mostly calculated using microsimulation models based on data from tax assessments, tax returns and other sources. Reliefs applied to GST cannot be estimated with a microsimulation model, so are generally calculated using administrative data from the Canada Revenue Agency or the Goods and Services Tax Model maintained by the Department of Finance.

Tax data is typically available for costing with a lag of one year or more. While the timing varies between 12 months and 24 months for each of the main taxes – PIT, CIT and GST – the effect on budget reporting is similar. Estimates of most tax expenditures reported in 2025 use actual data from 2019 to 2022 and are then projected from 2023 to 2026.

Reporting

Tax expenditures by the federal government are reported primarily through an annual Report on Federal Tax Expenditures that is released by the Department of Finance Canada alongside the Main Estimates. The Budget and Fall Economic Statement may include new policy changes to tax expenditures, which are presented together with other tax and spending measures over the full five-year horizon of the budget forecasts. The Budget also includes a detailed summary of new tax expenditure policies in the supplementary information on tax measures. The Annual Financial Report and the Public Accounts disclose information on refundable tax credits which are treated as expenditure for accounting purposes. Other tax expenditures are reported in the net revenue figures. Table 5 summarises some of the main differences in the treatment of tax reliefs in selected budget documents and reports for the federal government as a whole.

Table 5. Comparing tax expenditures in federal budget reports

	Tax expenditure report	Estimates	Budget	Annual report
Coverage of tax expenditure	Tax reliefs for PIT, CIT, GST	None	Policy changes for all taxes and spending	Refundable tax credits
Costs included	Annual cost of each tax expenditure	None	Cost of changes to tax expenditures	Full cost of refundable tax credits
Economic assumptions	Fall Economic Statement	Fall Economic Statement / Budget forecast	Budget forecasts	Actuals
Forecast coverage	Budget year + 1 year	Budget year	Budget + 4 years	Budget year
Period of costing	Calendar year	Budget year	Budget year	Budget year
Timing	Feb/Mar	Feb/Mar	November*	Oct-Dec

Note: Budget year (April-March). *Starting from the 2025-2026 Budget, Canada shifted the timing of its federal budgets so that the budgets are released in the autumn instead of the spring. The Fall Fiscal Update will instead now be tabled in the spring.

Source: Authors summary based on reports by the Department of Finance Canada and Treasury Board of Canada.

The total cost of each tax expenditure is disclosed separately from the budget in the Report on Federal Tax Expenditures. This report is divided into four main parts.

- **Part 1** introduces the key concepts used to identify, categorise and estimate tax expenditures and describes the benchmark tax system.
- **Part 2** summarises the main policy changes and along with the estimated cost of tax reliefs over an eight-year period (the 2025 report, for example, covers the period 2019-2026).
- **Part 3** describes each individual measure using a standardised template, which includes a description of the tax expenditure, its beneficiaries, its classification, its legal reference, its objective, why it is not part of the benchmark system, its estimation method and its cost.
- **Part 4** summarises the results of evaluations and distributional analysis following the requirements of the Gender-Based Analysis Plus.

The Report on Federal Tax Expenditures is often highlighted as an example of good practice for tax expenditures reporting and budget transparency, although it is not always possible for the report to fully align with budget planning or reporting for direct expenditure. Notably, the tax expenditure report covers CIT, PIT and GST, but not all taxes collected by the government, so may have incomplete coverage. The forecast period and estimation on a calendar year basis limits the comparison to the Estimates and the Budget, which are pared on the fiscal year (April-March). The timing of the publication coincides with the Main Estimates, which supports parliament's scrutiny of expenditure, and includes all announcements from the previous year.

Evaluation

Distributional analysis of federal tax expenditures is a requirement under the Canadian Gender Budgeting Act of 2018 and follows the Gender-Based Analysis Plus framework that is also used to assess other forms of expenditure. While focused on gender, distributional analysis will consider factors, including age, family types, income groups, and place of residence. In 2024, the analysis covered reliefs applied to pension and retirement savings plans, and in 2025 the analysis looked at personal income tax expenditures by gender identity, immigration history, and ethnocultural identity using data from the 2021 Census of Population.

The evaluation of direct expenditure is guided by the Treasury Board Policy on Results, but unlike the Gender-Based Analysis Plus, this policy is not a requirement for tax expenditures (Lester, 2024^[38]). Nonetheless, the Department of Finance publishes studies and evaluations of tax expenditures each year. Between 2020 and 2025, the Report on Federal Tax Expenditures typically included two or three studies which sometimes involved distributional analyses, with two evaluations published in 2022 2024, and 2026. The Department of Finance Canada and the Canada Revenue Agency also conduct evaluations of the administrative aspects of tax expenditures (Auditor General of Canada, 2015^[31]).

Audit

Along with the annual audit of the federal government's financial accounts, which includes refundable tax credits, the Office of the Auditor General of Canada conducts performance audits on specific tax reliefs, such as the 2019 audit on tax subsidies for fossil fuels and the 2021 audit of the Canada Child Benefit and Canada Emergency Wage Subsidy. Performance audits have also been used to review the systems for managing tax expenditures, with the last general review conducted in 2015 in the report on "tax-based expenditures" (Auditor General of Canada, 2015^[31]).

Case study – Ireland

Tax expenditures in Ireland

The definition of tax expenditure in Irish legislation draws on the OECD's (2010^[45]) definition and describes a tax expenditure as:

a transfer of public resources that is achieved by a) reducing tax obligations with respect to a benchmark tax rather than by direct expenditure, or b) provisions of tax legislation that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to the tax base (ISB, 2013^[47]) (Government of Ireland, 2024^[48]).

This benchmark is defined by the OECD as comprising:

“The rate structure, accounting conventions, the deductibility of compulsory payments, provisions to facilitate administration and provisions relating to international fiscal obligations” (OECD, 2010^[45]).

In its 2009 report, Ireland's Commission on Taxation identified 130 measures appropriate to the benchmark tax system within five categories. These included measures inherent in the design of the taxation system (i.e. to avoid double taxation), measures that are tax neutral, measures related to the state, court awards, and deductions for expenses incurred in earning income (Daly et al., 2009^[49]) (Commission on Taxation and Welfare, 2022^[50]).

While there are around 117 active tax expenditure programmes, the ten most expensive make up nearly three-quarters of total revenue foregone. The 10 most expensive tax expenditures under this definition are listed in Table 6. The 2025 Report on Tax Expenditure highlights that data that year were not available for one-fifth of tax expenditures, meaning that the total cost of tax expenditures of EUR 7 070 million listed in Table 6 underestimates the total cost.

Table 6. Ten most expensive tax expenditures

Most expensive tax expenditures, 2024

Tax expenditure	EUR million
Pension Contributions	1 154
Research and Development Tax Credit	976
Exemption of employers' contributions from employee benefits in kind	956
CAT business relief	430
Medical Insurance Relief	405
Excise Rate on Auto-diesel	385
Employers' contributions superannuation schemes	323
Health Expenses	243
CAT agricultural relief	237
Help to Buy	185
Total for the 10 most expensive tax expenditures	5 294
Total for all tax expenditures	7 500

Source: (Department of Finance - Ireland, 2025^[51])

Recent changes to tax expenditure

The main changes to tax expenditure in Ireland since 2022 refer to the Department of Finance refinement of the master list for tax expenditure to remove measures that it deems to fit more appropriately in the benchmark. This has led to a reduction in the number of tax expenditures from 188 in 2021 (accounting

for EUR 7.7 billion in revenue foregone) to 124 in 2023 (accounting for EUR 8.0 billion in revenue foregone) (Government of Ireland, 2024^[52]). This process was conducted using a template-based approach in which the majority of questions must be answered 'Yes' if the measure is to be deemed a tax expenditure. For example, (Government of Ireland, 2024^[52]):

- Does it address a current market failure?
- Has it been reviewed?
- Is it likely to be revoked?
- Is the economic/social rationale unlikely to exist in the future?
- Has it been in place for less than 15 years?

In 2021, Ireland's Committee on Budgetary Oversight identified tax expenditures as a key area warranting scrutiny and met with experts Dr Michéal Collins from University College Dublin and Dr Barra Roantree from the Economic and Social Research Institute to examine the areas in greater detail. Both Collins and Roantree argued for tax expenditure to be treated as equivalent to direct expenditure, advocating for annual thematic reviews of existing tax breaks and scrutiny of new measures in budget bills, as well as the publication of evaluations before budget day (perhaps alongside the Department of Finance tax strategy group papers) and the establishment of a dedicated tax expenditure unit in the Irish Government Economic Evaluation Service. Collins also noted that while transparency around tax expenditure in Ireland has improved since a 2009 Commission on Taxation, there are still opportunities to strengthen parliamentary oversight (Committee on Budgetary Oversight, 2021^[53]).

Institutional arrangements for tax expenditure

Departments of Finance and Revenue

The Department of Finance and the Office of the Revenue Commissioners (often referred to as Revenue) are the main actors regarding tax expenditures in Ireland. Of note, the Department of Finance states that its practice is for tax expenditures to be kept under scrutiny and considered as akin to direct expenditure (Department of Finance - Ireland, 2023^[54]).

Both the Departments of Finance and Revenue use the revenue foregone method to estimate the cost of tax expenditures. This method calculates the difference in tax revenue due to tax expenditure provisions, assuming no change in taxpayer behaviour. While the Departments acknowledges that this is unrealistic, the complexity of alternative approaches which attempt to estimate behavioural approaches leads the Departments to continue using its revenue foregone method (Government of Ireland, 2024^[48]).

Prior to 2023, the Departments of Finance and Revenue published different annual data on tax expenditures. The Department of Finance maintained that the list published by Revenue was not based on the OECD definition and included elements that should be part of the benchmark tax system, and therefore not tax expenditures. (Parliamentary Budget Office, 2018^[55]). Since then, a master list of tax expenditures was created, and is now used both by the Department of Finance for budgetary planning and by the Department of Revenue for statistical reporting. The Department of Finance continues to publish costings in the Report on Tax Expenditures, which aligns to the OECD definition of tax expenditure.

Parliamentary oversight

In 2019, the Oireachtas Committee on Budgetary Oversight published a review of tax expenditure in Ireland. In this, the Committee agreed with a Department of Finance statement that tax expenditure should be seen as equivalent to direct expenditure and stated that they would incorporate the regular examination of Department of Finance evaluations and reviews of tax expenditure into their annual scrutiny programme (Houses of the Oireachtas, 2019^[56]).

In this review, the Committee found that 78% of tax expenditures did not have a sunset clause, and 23% had never been reviewed, although it noted that all measures introduced between 2012 and 2015 had sunset clauses. A subsequent review in 2022 found that 75% of tax expenditures did not have a sunset clause, highlighting that minimal change had occurred. The review also highlighted that the complexity of being able to identify how many tax expenditures cost over EUR 25 million.

The 2022 review concluded that the Department of Finance can only review four or five tax expenditures every year. It is generally understaffed to undertake the amount of work required to review tax expenditures as outlined under their review guidelines. It therefore suggests that the Department of Finance engages with the Department of Public Expenditure and Reform to recruit the appropriate number of staff and resources necessary to review tax expenditures. It further notes that a lack of transparency around tax expenditures presented significant issues, particularly the lack of information around the cost of many tax expenditures (Committee on Budgetary Oversight, 2022^[57]). In recognising the recommendations from the 2022 review, the Department of Finance committed to a formal review of the tax expenditure guidelines.

Once enacted, tax expenditures are not subject to regular parliamentary debate and scrutiny, unlike direct voted expenditure (Parliamentary Budget Office, 2018^[55]).

Box 3. Commissions on taxation in Ireland

In 2008, the Commission on Taxation was tasked with reviewing the efficiency, structure and appropriateness of the taxation system in Ireland. It published its results in 2009, which included the recommendation that the OECD definition of tax expenditure be adopted. It also highlighted that direct expenditure should generally be used instead of tax expenditure, and reviews on the feasibility of tax expenditure should only occur to correct market failure, to attract mobile investment, and to offset shortcomings in other areas of public policy (Daly et al., 2009^[49]).

Since 2014, government policy has been more restrictive than this, stating that a tax expenditure should not be incurred unless it addresses a market failure and then it should only be used where such a tax expenditure is more efficient than a direct expenditure intervention.

In 2021, the Minister of Finance established a separate, but related, body, the Commission on Taxation and Welfare, to review how best the tax and welfare systems can support economic activity and income redistribution. The Commission completed its report in 2022 and made 116 recommendations to improve both systems through a long-term reform programme to make the systems fiscally sustainable, reduce the volatility of revenue sources and to increase the fairness of the systems.

Source: (Commission on Taxation and Welfare, 2022^[50])

In its 2022 report, *Foundations for the Future*, the Commission on Taxation and Welfare (Box 3) highlight that there are several data issues around tax expenditure – in some cases, no data is collected, while in others the manner in which expenditures are costed can understate the cost or impact. The Commission also raised the issues of not accounting for behavioural changes, discussed above (Commission on Taxation and Welfare, 2022^[50]).

Tax expenditure approval and execution

Procedures for approval and authorisation

Table 7 highlights differences between direct expenditure and tax expenditure in Ireland in relation to four fiscal control attributes. Generally, approval requirements for direct expenditure are more stringent than for tax expenditure, as much of the guidance on tax expenditure is not mandatory.

Table 7. Comparison of direct expenditure and tax expenditure for approvals and reviews

Attribute	Direct expenditure	Tax expenditure
Cabinet and ministerial approval	Departments must engage in negotiations with DPER, outlining their spending plans. Cabinet gives approval to the budget prior to presentation in the Dáil.	Guidelines for <i>ex ante</i> evaluation, but no approval needed
Spending limits	Subject to 5% National Spending Rule, as well as Medium-term Expenditure Framework ceiling setting requirements.	5% National Spending Rule also accounts for tax cuts but is not legally binding.
Approval by parliament	Voted expenditure (encompassing most services) must be approved by Dáil, while non-voted expenditure is authorised by legislation and so does not	Parliament must approve the Finance Bill, which includes tax expenditures, but single items are not individually approved
Evaluation/spending reviews	Occurs on an annual basis, with DPER identifying select programmes for review	Evaluation framework, although not mandatory

Source: OECD authors' elaboration.

Tax expenditure reporting, evaluation and audit

Reporting

In Ireland, the government publishes information on the impact of tax expenditures as required by the European Union's 2011 Budgetary Frameworks Directive (EUR-Lex, 2011^[58]).

Each year, as part of the budget, the Irish Government publishes details on the tax policy changes that have occurred in a document named Tax Policy Changes. These changes include both those classified as tax expenditure under the government's definition (e.g. a 2024 increase to the Incapacitated Child Tax Credit) and those that are not (e.g. 2024 change to the income tax standard rate cut-off point). Each measure includes the estimated cost. Since 2023, the estimates have been calculated collaboratively by both the Department of Finance and Revenue (Government of Ireland, 2024^[59]). A chapter in the document provides distributional analysis of the tax policy changes as a whole looking at impact on gross income, and the effective income for different family types, employment types and income groups (Government of Ireland, 2024^[59]).

In 2015, the Department of Finance started publishing an annual Report on Tax Expenditure, which provides a comprehensive overview of tax expenditure measures in effect. This report includes (Department of Finance - Ireland, 2025^[51]):

- A definition of tax expenditures, and an overview of their importance within the Irish taxation system, as well as their financial and non-financial costs.
- An overview of key best practices for tax expenditures as highlighted by organisations including the OECD, such as the need for regular reporting and reviewing, and how they influence Ireland's own guidelines for evaluating tax expenditures.
- Estimated costs of the main tax expenditures in Ireland, their evolution over time, and a comparison with other countries, as well as an overview of the methodology for these estimates and related limitations.
- An overview of the ongoing reviews of tax expenditures.
- An annex detailing each tax expenditure and an estimate of its revenue forgone if available.

The Department of Finance also publishes any reviews of tax expenditures that it conducts during the year.

In the 2024 version of the tax expenditure evaluation guidelines, the Department of Finance set out its plan to prepare a description of key information items for each tax expenditure known as a 'passport' (Table 8). The first edition of this paper was published in 2025, setting out a tax expenditure passport for each active tax expenditure (Government of Ireland, 2025^[60]).

Table 8. The Department of Finance's Tax Expenditure Passport

	Key information items
1	A description of the history of the tax expenditure including - introduction, sunset clause and reviews
2	Classifications of the type of tax, i.e. corporate and personal tax
3	Information on the number of targeted beneficiaries
4	Information on the legal reference of the provision
5	Description of policy objective and market failure being targeted
6	Reasons why the measure is not part of the benchmark tax system
7	Source of data – i.e. from administrative returns or other
8	Revenue forgone for the most recent year available
9	Results of the latest evaluation
10	Number of claims and exchequer cost over previous 5 years

Source: (Government of Ireland, 2024^[52])

The Department of Finance's *Tax Expenditure Report 2021* estimated that 7% of all tax expenditures have no published data, and in several cases, the available information is significantly outdated. This is often because the legislation at the time tax reliefs were introduced did not require such data to be gathered, or because publishing the data could risk identifying a small number of taxpayers, conflicting with Revenue's duty to maintain taxpayer confidentiality. Due to the self-assessed nature of tax returns, such data may not become available for at least two years. The 2021 provides an important baseline for building on the information available on tax expenditures (Commission on Taxation and Welfare, 2022^[50])

Box 4. Tax expenditure reporting practices in the European Union

In a 2014 report, the European Commission identified 19 EU Member States that regularly reported on tax expenditures. Several common reporting practices were identified across these Member States, including:

- Reporting is typically annual, by the Ministry of Finance, the Ministry for the Economy or the tax authority.
- Some publish tax expenditure data with other budget documents, while others publish them separately.
- While the revenue foregone method is the most common calculation approach, there are significant variations within this, including whether revenue is estimated on a cash or accrual basis and how different tax expenditures are categorised.
- A few countries (e.g. France, Spain and Sweden) link tax expenditures to the expenditure side of their budgets.
- Some countries send their reports on tax expenditures to their parliament.

Sources: (Parliamentary Budget Office, 2018^[55]; European Commission, 2014^[61])

Evaluation

The Department of Finance published its first guidelines for evaluating tax expenditures in 2014, outlining best practices for both *ex ante* and *ex post* evaluations. These guidelines clarified the role of tax expenditures within the Irish policy framework and defined when they could be considered appropriate policy tools. They described how the Department should assess tax expenditures and emphasised various evaluation criteria, including deadweight loss, displacement effects, and opportunity costs, and recommended regular review timelines based on the scale of each scheme.

While these guidelines envisaged that all tax expenditures would be examined over a five-year time period, this has not been possible. The 2022 Commission on Taxation and Welfare estimated that 63% of tax expenditures by value (2019 estimates) included in the annual reporting by the Department of Finance had not been reviewed in the seven years since the introduction of the annual reporting of expenditures (Commission on Taxation and Welfare, 2022^[50]).

In 2024, the Department published updated guidelines, with a variety of changes including (Government of Ireland, 2024^[52]):

- Adding several questions for consideration for both *ex ante* and *ex post* evaluation (Table 9).
- Modifying the proportionality thresholds so that level 1 now covers schemes between EUR 5 and 20 million, level two between EUR 20 and 100 million, and level 3 above EUR 100 million.
- Developing a template approach, a tool allowing measures to be clearly identified as tax expenditures and distinct from the benchmark.

These guidelines set out best practice but are not legally required. Indeed, the guidelines state that due to data, resource and time constraints, not all evaluations will be able to meet the standards set out in these guidelines. However, there is a legal requirement for tax expenditures with a sunset clause to be reviewed by the end of the sunset period.

A number of tax expenditure reviews occur over the course of each year, with tax expenditure evaluation work generally carried out by the tax division within the Department of Finance, and the Irish Government Economic and Evaluation Service. These are generally published alongside Tax Strategy Group papers or published alongside the subsequent budget. In 2025, this included 11 tax expenditure reviews, examples of which include (Government of Ireland, 2025^[62]):

- Proposed Extension of the Income Tax Relief for Retrofitting Landlords
- Proposed Extension of the Income Tax Exemption for Households for Profits from the Micro-generation of electricity.
- A review of the reduced rate of Universal Social Charge for Medical Card Holders.

Table 9. Key evaluation questions in 2024 evaluation guidelines

Questions in **bold** were added to the 2024 version of the guidelines

<i>Ex ante evaluation</i>	<i>Ex post evaluation</i>
What is the objective of the tax expenditure?	Is the tax expenditure still relevant?
What market failure is being addressed?	How much did the tax expenditure cost?
Is a tax expenditure the best approach to address the market failure?	What was the impact of the tax expenditure?
What economic impact is the measure likely to have?	What was the impact of the tax expenditure from an equality perspective?
How much is it expected to cost?	What was the impact of the tax expenditure from an environmental perspective?
What impact is the tax expenditure likely to have from an equality perspective?	Was it cost efficient?
What impact is the tax expenditure likely to have from an environmental perspective?	What additional data would be necessary to improve future reviews?
Are the data collected sufficient for the purpose of reviews?	

Source: (Government of Ireland, 2024^[52])

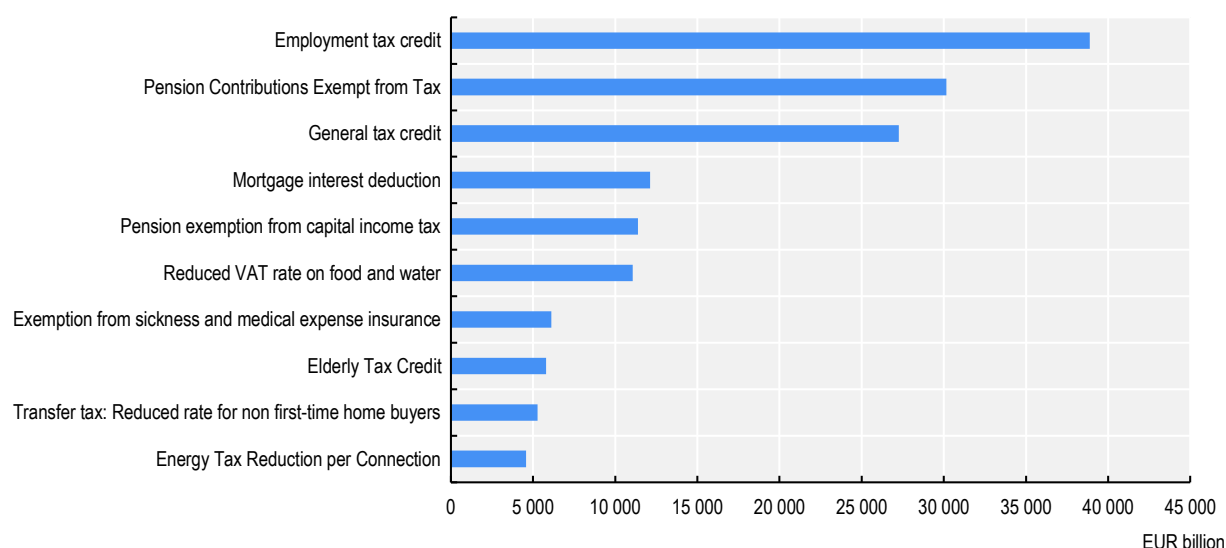
Case study – The Netherlands

Tax expenditures in the Netherlands

Prior to 2018, in the Netherlands the Ministry of Finance used a definition of tax expenditures that distinguished between various different types of tax expenditures. However, following a review the Dutch government decided to use a broad guideline to identify tax expenditures, rather than establish a concrete benchmark (Ministerie van Financiën, 2022^[63]). As of 2024, one regulation is considered a tax expenditure if (Rijksoverheid, 2024^[64]):

- The regulation has an intended policy objective (e.g. encouraging a specific activity), separate from the general objective of the tax instrument to which the regulation applies,
- The regulation ultimately results in an intended loss of government revenue, whether or not considered in conjunction with related regulations in the same area.

In 2025, the Ministry of Finance identified 195 tax expenditures which represent a significant revenue loss to the government. These tax expenditures totalled EUR 166 billion (2024), equivalent to about 15% of GDP (Rijksoverheid, 2024^[64]). Figure 5 shows the most recent data on the top 10 by estimated cost.

Figure 5. Top 10 tax expenditures by cost

Note: This information shows an overview of the predicted budgetary impact of the top ten tax expenditures in 2027.

Source: (Ministry of Finance, 2026^[65]).

Some of these large tax expenditures are not recorded in the same way in other OECD Member countries, including those examined in this paper. For instance, this includes the employment tax credit (*arbeidskorting*) and general tax credit (*algemene heffingskorting*), two of the largest measures reported. In both cases, these tax expenditures were added to the overall list of tax expenditures following a report by the Court of Audit, which stated that these tax expenditures are used to influence disposable income and income distribution, which can be considered policy goals, and therefore should be considered policy (van Opstal, 2024^[39]).

Recent changes to tax expenditure

Since 2010, governments in the Netherlands have generally reduced the number of tax expenditures rather than increase them. This was likely influenced by the Dutch fiscal consolidation agenda, in which the government made efforts to bring the budget deficit within the fiscal rules of the European Union Economic Governance Framework, including by broadening the tax base and curbing certain major tax expenditures, such as the mortgage interest deduction (Kickert, 2015^[66]).

The government also redefined several tax expenditures, for example, in the 2011 Budget Memorandum, several tax expenditures were no longer included in the tax expenditure statement as they did not serve an instrumental purpose (Ministerie van Financiën, 2022^[63]).

The Netherlands has several measures to reduce the cost of tax expenditures for higher earners. These are intended to combat what is known as the upside-down subsidy effect, where higher earners tend to benefit to a greater extent from tax expenditures due to their higher tax liability. This approach first came into being for mortgages specifically, where, starting in 2014, the maximum deduction rate for the top income bracket was cut by 0.5 percentage points. In 2024, the scope of this policy was clarified, with it extending to several other deductions including expenses for specific health care costs, SME profit exemption, and self-employed persons deduction (Belastingdienst, 2025^[67]).

Other initiatives that contributed to reducing the cost of tax expenditures were from the reports published in 2020 and 2022.

- In 2020, the Ministry of Finance published a report that examined options for simplifying the tax system. It warned that once tax expenditures are incorporated into the tax system, it can be difficult to remove them, particularly as the fiscal framework for tax schemes is less stringent than that of expenditure schemes. It underlined the importance of being able to remove ineffective schemes, and as such recommended only introducing tax expenditures that are able to be evaluated (Ministerie van Financiën, 2020^[68]).
- In 2022, the Advisory Group on Fiscal Policy (*Studiegroep Begrotingsruimte*), an advisory body responsible for providing recommendations on budgetary rules for the upcoming cabinet term, released a report stating that unlike direct expenditure, tax expenditures are not well regulated once implemented. This means that their budgetary impact is not monitored, and changes are relatively unlikely to occur regardless of whether the scheme ends up costing more or less than expected. It stated that it would be desirable for tax expenditures to be considered on the expenditure side of the budget, especially in cases where they have many characteristics of a subsidy (i.e. the tax incentive for fuel-efficient cars), although it acknowledged that in practice this is difficult to implement (Ministerie van Financiën, 2022^[63]).

Institutional arrangements for tax expenditure

Coalition governments

The Netherlands has a tradition of forming coalition governments, and it is standard practice for fiscal parameters and policies to be set as a part of the coalition agreement. This includes an expenditure framework, which sets out the maximum allowable expenditure in a year, and a revenue framework, which aims to keep the tax burden (although not tax receipts) constant. These frameworks provide the boundaries within which the government can then implement fiscal policy. Tax expenditures are considered within the revenue framework. This generally requires that if there is a new tax relief, there must be a compensating increase elsewhere, so that the net effect is neutral or consistent with the framework (Ministry of Finance, 2024^[69]).

The Advisory Group on Fiscal Policy plays a major role in the development of these frameworks. Its reports are sent to parliament and published, generally receiving media attention.

Budget authorities

The main body responsible for taxes in the Netherlands is the Ministry of Finance. As such, it is the primary body responsible for tax expenditures, including their regulation, enforcement, and evaluation. The Tax Policy Division within the ministry is responsible for preparing the costings in the budget memorandum and the annexes on tax expenditures within the budget, using data from the Tax Authority and other sources such as Statistics Netherlands. (van Opstal, 2024^[39]).

The CPB also plays an important role to review the costing of new tax expenditure policies by the Ministry of Finance. It also provides analysis of policy proposals during negotiations over the coalition agreement; and is represented in the Advisory Group on Fiscal Policy (van Opstal, 2024^[39]).

Line ministries

While the Ministry of Finance is responsible for determining what counts as a tax expenditure, and setting the methodology for estimating and reporting them, administration of tax expenditures is split between the Ministry of Finance and the line ministries. Table 10 demonstrates how these tax expenditures are divided amongst ministries.

Table 10. Ministry responsibility for tax expenditures

Number of tax expenditures under the responsibility of different ministries

Ministry	Number of tax expenditures
Ministry of Finance	44
Ministry of Social Affairs and Employment	27
Ministry of Infrastructure and Water Management	12
Ministry of Economic Affairs and Climate Policy	9
Ministry of Education, Culture and Science	5
Ministry of Agriculture, Nature, and Food Quality	4
Ministry of Health, Welfare and Sport	3
Ministry of Justice and Security	2
Ministry of the Interior and Kingdom Relations	2
Ministry of Defence	1
Ministry of Foreign Affairs	1
Ministry of Finance (via employee insurance schemes)	9

Note: Based on the list of tax expenditures reported in Annex 11.

Source: Annex 11 of the National Budget.

Parliamentary oversight

The Standing Committee for Finance is the main standing committee responsible for changes to tax law. When a proposal to change tax law is sent to parliament, it is first discussed in this standing committee before then being debated in parliament. If parliament votes on an amendment to the proposal, it is included in the tax law (van Opstal, 2024^[39]).

Parliamentary amendments have led to both reductions and increases of tax expenditures. For example, in the 2022 tax plan a proposal for the abolition of a tax expenditure for small breweries was included, but was withdrawn after an amendment by the House of Representatives (Ministerie van Financiën, 2023^[70]).

Tax expenditure approval and execution**Table 11. Overview of approval processes for direct expenditure vs tax expenditure**

Aspect	Direct expenditure	Tax expenditure
Cabinet/Ministerial Approval	Spending limits formed March-May based on ministries' funding requests. Draft budgets prepared in June by ministries and checked by the Ministry of Finance. Final budgets submitted in August using CPB's Outlook.	New tax proposals with budgetary impact decided in the same period (March-May), where expenditure and revenue are interconnected. Finalised in August alongside ministry budgets.
Parliamentary Approval	Ministry budgets presented to parliament on Budget Day. Parliament discusses, may amend, and approves them. Each ministry must submit an explanatory memorandum covering intended policies and spending instruments.	New tax expenditures are presented in the Tax Plan, submitted to parliament with the budget. Government must provide annexes analysing expected take-up, effects, and budgetary consequences. Tax expenditures are included in ministries' budgets but listed separately. Explanatory notes are not required; ministries instead refer to the Tax Plan.
Spending Limits	Subject to fixed expenditure ceilings under the Medium-Term Expenditure Framework (MTEF). Expenditure must remain within these limits.	No overall expenditure ceiling, but some specific schemes have fixed annual budgets. Tax expenditures are included in the revenue framework rather than the expenditure framework.
Evaluation/Review	Direct expenditures are generally scrutinised more closely. Ministries must justify them in explanatory memoranda, and outcomes are reviewed in annual reports and audits.	New/changed tax expenditures must undergo an assessment framework and be abolished or adjusted if negative. Ministries must report tax expenditures annually. Evaluations listed in annexes to the budget.

Source: OECD authors' elaboration.

Procedures for approval and authorisation

Any new tax proposals with budgetary consequences are proposed through the Tax Plan, which is submitted to parliament alongside the budget. The Competency Act 2016 requires that when using tax expenditure provisions as policy instruments, the government provides analysis on these policies to parliament. This is done through two annexes to the budget discussed in the “Reporting” section below.

Tax expenditures are authorised by parliament through individual bills for each ministry. This commences between July and August, when the Ministry of Finance sends a budgetary overview of tax expenditures to the departments, which ministries use to insert the correct tax expenditure data into their own budgets. Each ministry’s budget is divided into policy articles, which for direct expenditure list the spending instruments (e.g. subsidies, grants, and loans) and their budget figures. However, tax expenditures are considered to be outside accounts (*extra-comptable*) and as such are listed after the direct expenditure section, with the following text included:

In addition to the instruments mentioned in this budget article, there are tax regimes that relate to this policy area. The table below shows the budgetary importance of these schemes. The figures are taken from the corresponding annex ‘Tax arrangements’ in the Millions Note. For a description of the schemes, the objective, the forecast basis, a reference to the last evaluation carried out and a programming of evaluations for future years, see the Annex to the ‘Explanatory Memorandum on Tax Schemes’. (Rijksfinancien, 2025^[71])

Each ministry must also put forward an explanatory memorandum for their budget, which gives an explanatory overview of their policies and what they intend to achieve. However, this is only required for direct expenditure. For tax expenditure, ministries simply need to refer to the Tax Plan. A more general explanatory note also exists for the budget as a whole, which provides an overview of more general government priorities. While it mostly concerns itself with direct expenditure, if a tax expenditure serves multiple purposes across different ministries, it must also be included.

Under Dutch fiscal rules, the Ministry of Finance must assess how changes in the tax rate affect the erosion or growth of that tax base. However, because a large number of tax expenditures are monitored continuously, the Ministry’s annual overview assumes that taxpayer behaviour remains unchanged. Once a specific tax expenditure comes under political scrutiny, the underlying estimates are updated to account for behavioural responses, which can lead to substantial revisions of the reported figures (Rijksoverheid, 2024^[64]).

Spending limits and budget execution

In the Netherlands, incoming cabinets traditionally commit themselves to a set of detailed fiscal rules, laid down by letter to parliament. These include fiscal rules on tax expenditures, but do not have a formal legal status. This includes the development of an expenditure limit and a revenue framework, where tax expenditures are included within the revenue framework. The budgetary development of tax expenditures is monitored annually in the Budget Memorandum, and are included both in budgets and in annual reports.

In recent iterations, these fiscal rules have specifically referred to tax expenditures, including that all new tax expenditures on the revenue side must undergo an assessment, and that if a tax expenditure is evaluated negatively, it should be abolished or adjusted. It also underlines that tax expenditures are included in its revenue framework, and requires that ministries account for tax expenditures on an accrual basis (Tweede Kamer der Staten-Generaal, 2024^[25]).

There are no formal expenditure ceilings for tax expenditures as a whole. However, the budget rules prescribe the use of an assessment framework for new (or amended) tax expenditures. Furthermore, some tax expenditures differ from regular income measures by having a set annual budget. As a consequence, their spending must be monitored during the year, and they must be suspended when the budget limit comes into sight. For example, the Environmental investment deduction and the arbitrary depreciation of environmental investments have an annual budget that for 2025 has been set to EUR 189 million and EUR 20 million, respectively.

Tax expenditure reporting, evaluation and audit

Reporting

Information on tax expenditures is reported through an annex in the budget memorandum (Annex 4) as of 2026, released in September each year (Ministerie van Financiën, 2024^[72]). This generally consists of a summary analysis and a description of each tax expenditure.

The summary analysis provides an overall summary of tax expenditures, a costing of major tax expenditures, and a discussion of notable developments. This is discussed in terms of the budget year and the previous five years. In addition, the report provides costings for new policy measures in the budget, covering the current year, budget year and the next three years. The Annex excludes analysis of measures with a fiscal impact under EUR 5 million, measures required by European Union legislation, and measures for which data is unavailable for costing or where reporting would introduce a disproportionate administrative burden. Changes in costing are categorised based on whether they were endogenous to the policy (e.g. where the growth of the tax base increased the cost of the relief), or the result of policy changes or technical adjustments (Ministerie van Financiën, 2024^[72]).

The annex also provides a qualitative description of tax expenditures. It covers a larger set of measures. The information provided on each measure is set out in Table 12.

Table 12. Structure of detailed reporting on tax expenditures

Row	Summary content
Measure	Name of the tax expenditure measure
Description	Describes the tax reliefs
Objective	Summarises the main purpose of the measure
Ministry	Identifies the ministries responsible for the tax expenditure policy (usually the ministry of finance and a line ministry)
Law	Gives the law and relevant clauses that establish the tax expenditure measure
Evaluation	Lists the most recent evaluation of the measure
Sunset clause	Notes whether the law includes a sunset clause and when it will apply.
Basis for estimation	Describes the main source of data and models used to prepare the estimates. It also explains which estimates are forecasts and which are based on actual tax data.

Source: Authors' summary based on Ministerie van Financiën (2024^[73]).

Evaluation

Each year, the government sends a policy letter to the Council of Ministers, which indicates the matters that should be considered in their decision making around the implementation of the budget. This letter includes proposals for tax expenditure measures, which are to be accompanied by an evaluation using the Fiscal Arrangements Review Framework. This is led by the Ministry of Finance, but will usually involve the line ministry responsible for the policy area. It comprises several questions, including why a tax subsidy is preferable to a direct subsidy, and whether evaluation of the measure is sufficiently ensured (Rijksfinancien, 2025^[71]). A new tax expenditure should only be considered if all questions in the Framework can be answered in the affirmative.

The Netherlands' fiscal rules also require that the government regularly evaluate tax expenditures once they are implemented. This results in an evaluation calendar by the Ministry of Finance that is published annually, and details the specific tax expenditures (Ministerie van Financiën, 2024^[74]). The evaluations can be conducted by a variety of actors, although the department on whose budget the tax expenditure is listed is ultimately responsible for a timely completion of the evaluation. Generally, tax expenditures are subject to evaluation every 4-7 years, but in practice there is leeway around this. The rules list a number of accepted exceptions, such as when there is little new information since the last evaluation. It also lists

criteria for prioritisation, which are the general availability of data, the arrival of new information, the existence of policy interest, and the estimated cost of the tax expenditure.

A negative evaluation is presumed to lead to either abolition or improvement of the respective tax expenditure. When deviating from this rule, the Minister of Finance is required to provide an explanation to parliament. If the evaluation shows that a spending instrument would provide a preferable alternative, then the presumption is that the tax expenditure will be replaced by that alternative. Again, any deviation from this requires the Minister of Finance to provide an explanation to parliament. Finally, if it is difficult or impractical to conduct an evaluation, then the Minister of Finance must provide parliament with an explanation as to how this will be mitigated. In reality, the evaluation agenda has led to a large number of negative or inconclusive evaluations. As of 2022, only 7% of tax expenditure evaluation results were positive, while 22% were negative and 32% inconclusive, often without policy consequences (Kranendonk and Wagteveld, 2022^[75]).

Audit

The Court of Audit has an extensive history of reviewing tax expenditure in the Netherlands. For example, it publishes *Insight into tax relief schemes* (*zicht op belastingverlichtende regelingen*), and an annual report known as the State of National Accountability (*staat van de rijksverantwoording*) which regularly examines tax expenditure. The 2020 and 2021 audits found areas for improvement regarding the use of tax expenditure. Of note, the Court concluded that tax expenditure provisions were used too often and too easily. It further found that the assessment framework was insufficiently applied and its monitoring inadequate. Moreover, the obligation to evaluate was not always met (van Opstal, 2024^[39]).

The Court of Audit also found several deficiencies in the tax expenditure system from *ad hoc* reporting. For example, one report found that parliament does not have a periodically updated view of the number and size of tax regimes, providing an impetus to expand Annex 9 in the budget memorandum. (Ministerie van Financiën, 2022^[63]). In a more recent report (National Audit Office, 2025^[76]), the Court of Audit recognised the information included on tax expenditures in budget documents, stating that it offers substantial insight into the budgetary significance and effects of the measures.

Case study – United Kingdom

Tax expenditures in the United Kingdom

As of 2024, the United Kingdom identified 1 190 tax reliefs and recognised only 344 of them as tax expenditures. The official statistics differentiate between structural and non-structural reliefs, and each is reported separately. Structural reliefs are integral to the tax system, while non-structural reliefs are designed to advance economic or social objectives and are most commonly associated with the concept of a tax expenditure (HM Revenue and Customs, 2024^[77]). As of the January 2026 data, 90 non-structural reliefs have been costed for the 2025-2026 year.

The United Kingdom does not take a benchmark approach in its identification of tax expenditures, with the IMF (2016^[78]) describing the approach as “pragmatic and policy-oriented”. HM Revenue and Customs (HMRC) (2024^[77]) notes that its categorisations “remain under continuous review.”

The fiscal costs of tax expenditures are driven by a relatively small number of policies. The top five largest tax expenditures make up 58.7% of the cost of the 90 non-structural tax reliefs most recently costed by HMRC, and the next five bring the total cost to 74.1%. These ten largest non-structural tax reliefs are laid out in Table 13.

Table 13. Ten largest non-structural tax reliefs in the United Kingdom

As per HMRC’s January 2026 figures

Tax Type	Tax Expenditure Provision	Amount, GBP billion
Income Tax	Registered pension schemes	33.5
Capital Gains Tax	Private residence relief	32.9
VAT	Food	27.4
National Insurance Contributions	Contributions to, and benefits from, registered pension schemes	25.6
VAT	Construction and sale of new dwellings (includes refunds to do-it-yourself builders)	14.6
Income Tax/Capital Gains Tax	Individual Savings Accounts	9.7
National Insurance Contributions	Employment Allowance	7.4
VAT	Domestic fuel and power	7.0
VAT	Domestic passenger transport	5.8
Corporation Tax	Research and development tax reliefs: R&D Expenditure Credit	5.4

Source: (HMRC, 2026^[79])

Recent changes to tax expenditure

Recent forecasts show that estimates of total tax expenditures have grown for all of the major taxes (HM Revenue and Customs, 2024^[80]). This growth in tax expenditures is partly explained by the rise in tax collection, as tax revenues have generally risen as a share of GDP since the early 1990s. However, policy changes have also played their part. Between 2017 and 2019, the government created seven new tax expenditures and removed four, but also extended or restricted 47 other reliefs in the same period (National Audit Office, 2020^[13]).

One significant change to the tax expenditure system was the use personal tax credits as an alternative to transfer payments for individuals within the welfare system. This approach was implemented in 2003 and ended in 2025. It was replaced by means-tested benefits as part of rolling-out of the new Universal Credit. However, HMRC continues to provide other tax credits, including for R&D and for high-end TV productions (Kennedy, 2005^[81]; NAO, 2024^[82]).

The Parliament has raised questions over the complexity of the tax system, as the complexity has increased through the creation of reliefs that are not subsequently reformed or withdrawn (House of Commons Treasury Committee, 2023^[83]). The 2011 and 2012 Budgets stated that the government would abolish 7 and 28 tax reliefs respectively (National Audit Office, 2020^[13]). There have also been notable reforms to both personal and company tax credits in recent years. However, the view in parliament remains that there are stronger incentives to create tax reliefs than to remove them (House of Commons Treasury Committee, 2023^[83]).

The Office for Budget Responsibility (OBR) has also raised the risks associated with the level of transparency and scrutiny of tax expenditures, particularly in its 2019 Fiscal Risks Report (National Audit Office, 2020^[13]). This has not been a significant theme of subsequent reports on fiscal risk sustainability, and OBR's concern has eased as HMRC has published further costings.

Institutional arrangements for tax expenditure

HM Treasury

HM Treasury has broad responsibilities for economic and fiscal policy. A 2014 Parliamentary hearing stated that there is accountability to parliament for tax through both the Treasury and HMRC Accounting Officers, and that there is parliamentary scrutiny on both tax administration and underlying policy and design (HM Treasury, 2014^[84]). HM Treasury officials advise ministers on the effectiveness of tax policies and the impact on the economy, the public finances and on the overall coherence of the tax system. They share the function for tax policy with HMRC, working together to predict the impact of changes to tax expenditure and produce statistics on tax reliefs (National Audit Office, 2020^[13]). HM Treasury usually takes the lead responsibility in developing policy reforms (HM Treasury, 2025^[85]).

HM Revenue and Customs

HMRC is the revenue administration for the United Kingdom. It works alongside HM Treasury with policy development and leads on tax policy maintenance and implementation (HM Treasury, 2014^[84]). The department publishes the official statistics on tax expenditures and is responsible for the evaluation of tax expenditure policies and administration. This role includes identifying and costing tax expenditures, as well as the monitoring and evaluation of several specific tax expenditure policies (Sinfield, 2025^[86]).

Tax expenditures are generally managed as part of the administration of each tax head. Some tax expenditures are managed separately if they require specialist knowledge or involve significant payments. In 2016, HMRC created a central team to oversee the management of tax reliefs. This team identified tax reliefs and the officials responsible, and established both compulsory guidance for work on tax reliefs and a framework to record information on tax reliefs consistently across HMRC (National Audit Office, 2020^[13]).

Line ministries

As mentioned above, there are clear lines of accountability for tax through both the Treasury and HMRC Accounting Officers, although ultimately Ministers are responsible to Parliament for tax measures. Even refundable tax credits, which are included in the estimates and accounts as an expenditure, are mostly recorded in the budget for HMRC, not the line department. However, HM Treasury and HMRC will seek inputs into tax expenditure policies from relevant departments and may also collaborate closely during policy implementation.

Office for Budget Responsibility

The OBR is an independent fiscal institution with responsibilities for fiscal forecasting, assessing fiscal risks and commenting on progress against the government's fiscal targets. It decides when and how to incorporate the impact of tax changes, including tax expenditures, on the economy in its macroeconomic forecasts (Pope, Tetlow and Advani, 2023^[87]).

Parliamentary oversight

The House of Commons exercises oversight of tax and spending through a number of committees. The Treasury Committee, which scrutinises tax policy, and the Public Accounts Committee, which considers the management of tax expenditures.

There have also been several cases of *ad hoc* Parliamentary reviews of tax expenditures leading to governance reforms. In 2020 the Public Accounts Committee held an Inquiry into tax expenditures on the basis that there were insufficient tests of effectiveness and value for money of tax expenditures. In its response, government agreed with the Committee that it should establish criteria to determine which reliefs to evaluate and noted HMRC would aim to publish more information where the cost of reliefs deviated from forecast.

The United Kingdom Treasury Committee also released a report in 2023 calling for increased scrutiny and simplification of the tax expenditure system. This report highlighted concerns that the system is overly complex and lacks sufficient transparency, and emphasised the need to ensure tax expenditures are clearly justified and deliver value for money.

Tax expenditure approval and execution

There are a number of notable differences in the way tax and spending policies are approved and executed. The fiscal year runs from 1 April to 31 March, while the tax year starts a few days later on 6 April and runs until 5 April. Tax expenditure policy is mostly decided through the annual budget and finance bill, under the responsibility of HM Treasury and HMRC. In contrast, direct expenditure by departments is planned through a periodic “Spending Review” and authorised each year through a Supply and Appropriations Bill, for which each department’s accounting officer is responsible to parliament.

Table 14. Overview of approval processes for direct expenditure vs tax expenditure

Criteria	Direct expenditure	Tax expenditure
Cabinet/Ministerial approval	Planned through spending reviews led by HM Treasury, responsibility for execution lies with each department’s accounting officer.	Decision-making process occurs through the fiscal events process. Cabinet is informed of tax changes in the morning of Budget.
Parliamentary approval	Authorised annually through the Supply and Appropriation Bill, based on Estimates. Scrutiny by portfolio committees. Modifications rare in practice	Authorised mainly through the Finance Bill, initiated by government. Receives multiple readings and scrutiny (Committee of the Whole House, Public Bill Committee). Changes are possible in secondary legislation if delegated powers are legislated for.
Spending limits	Governed by Departmental Expenditure Limits (multi-year ceilings set in Spending Reviews) and Annually Managed Expenditure (forecast-based, binding once approved).	No specific overall limits on number or cost of tax expenditures beyond general fiscal objectives incl. welfare cap.
Evaluation/Review	Departments must publish Annual Reports and Accounts reviewed by Parliament. Includes objectives, performance, and audited financials.	HMRC tracks monthly data and compliance risks. Since 2017, monitoring framework. HMRC and HM Treasury publish reports, but no regular structured parliamentary scrutiny. HMRC and HM Treasury maintain a tax reliefs evaluation plan.

Source: Authors

Spending reviews and budgets

The government sets multi-year limits for all departments through periodic spending reviews. These limits (ceilings) are guided by the government’s fiscal objectives and revenue forecasts, which are prepared and published by the OBR. The 2025 Spending Review set ceilings for a four-year period, with plans to revisit these after two years. As it currently stands, these spending reviews do not consider tax expenditures.

Legislative authorisation

There is no one single process for reviewing tax and spending by parliament, and parliamentary authorisation also works differently for voted and non-voted spending, such as tax credits. These differences in procedure are partly mitigated by the important role that the Treasury Committee plays in leading the scrutiny of both the spending review and budget.

Ministers generally announce tax reliefs through fiscal events, which are legislative changes made once a year, in the Autumn. However, the legislative process for tax reliefs is not the same as for expenditure, as Parliament applies different procedures to them. In several cases, tax policy proposals in the budget are adopted through the Finance Bill. However, others go through bills introduced by other departments, which are not necessarily in the Finance Bill. By contrast, most expenditures are authorised through the Estimates cycle that involves a Supply and Appropriation Bill. These have different parliamentary procedures, with the Finance Bill generally receiving more intensive legislative scrutiny and debate than the appropriations.

The government can also make minor changes to existing tax expenditures through regulations; under authority Parliament has previously granted in Finance Acts or other statutes. These are usually used for technical or administrative adjustments and allow for more limited parliamentary scrutiny. In a few cases, such as with national insurance contributions and VAT, certain tax thresholds may also be altered through regulation. However, most substantive changes to what is taxed and at what rate are made through a Finance Act (which occurs annually) or other primary legislation.

Spending limits and execution

There are two constraints on tax expenditures in the United Kingdom's fiscal framework – the government's fiscal objectives and the welfare cap. However, beyond these general limits on fiscal policy, there are no restrictions on the overall cost or number of tax expenditures. The use of sunset clauses for specific policies is also rare (House of Commons Treasury Committee, 2023^[83]).

Most governments since the 1990s have set fiscal objectives for the budget balance, public debt or both. In principle, this sets an overall constraint on fiscal policy, including the revenue impact of tax expenditures. However, regular changes to the fiscal targets since 2009 means that they have not been binding on the government's long-term fiscal strategy (Pope, Hourston and Sangha, 2024^[88]).

Since 2014, a portion of expenditure that included personal tax credits has been subject to a parliamentary approved “welfare cap” that is set in cash terms at the start of each parliamentary term with a margin to allow for forecast uncertainty. Since 2025, personal tax credits and work credits have been consolidated into universal credit, which is still subject to the welfare cap. If spending exceeds the welfare cap and margin, the government must either justify the breach, enact policies to cut forecast spending or request parliament to increase the level of the cap (Keep, 2025^[89]).

Within these general limits on fiscal policy, control over tax expenditures is exercised by HM Treasury and HMRC through regular monitoring, with additional oversight from the OBR. In 2017, HM Treasury introduced a framework for monitoring tax expenditures valued over GBP 40 million per year with specific policy objectives. HMRC also created a framework with 57 questions to guide the management of tax expenditures, helping to document information in a consistent way, including on costs, public awareness and promotion of the tax expenditure and monitoring and evaluation arrangements (National Audit Office, 2020^[13]).

Once enacted, tax expenditures are generally not subject to regular parliamentary scrutiny. By contrast, government departments must publish annual reports and account for expenditure, which must be sent to Parliament and examined by parliamentary committees. These reports set out objectives, past performance, risk management, and audited financial statements.

Identification and estimation

Since 2019, HMRC has dedicated additional resources to costing previously uncoded tax reliefs, prioritising non-structural reliefs. As such, the number of uncoded reliefs was reduced by around 100 measures between 2020 and 2024, meaning over three quarters of tax expenditures now have costs estimated (Sinfield, 2025^[86]).

HMRC (2024^[77]) describes its costings as “estimates of the amount of relief which is claimed and subsequently granted each year”. As in other countries, it notes that the estimates may not reflect the actual revenues that the government would collect if the tax expenditure policy were abolished, which reduces the comparability with public spending figures. Unlike the official statistics, policy costings published with the budget do factor in behavioural assumptions or interactions between policies (National Audit Office, 2020^[13]).

Tax expenditure estimates are accompanied by an “uncertainty rating” associated with each tax expenditure in the official statistics and for policy costings that accompany the budget. This uncertainty may be rated low, medium, or high, where a high uncertainty rating means there is little, incomplete or poor-quality data behind the estimate. Official statistics also explain the reasons why some tax expenditures are not coded, or why a costing is not disclosed even if it is available to the government (HM Revenue and Customs, 2024^[77]).

Reporting, evaluation and audit

Reporting

Changes to policies on tax reliefs are generally accompanied by a detailed policy costing and a tax information and impact note that provides further information on the purpose, administration and impact of tax policy changes. The full estimated costs of tax expenditures are then reported through the official statistics on tax reliefs published by HMRC. The statistics are discussed in two separate reports for structural and for non-structural reliefs, both of which are usually published in December (Pope, Tetlow and Advani, 2023^[87]).

The report on non-structural reliefs analyses the coverage of reporting and the headline statistics on the cost and number of reliefs. It provides a list of all tax expenditures that have been identified with a description of each measure. The list of uncoded measures explains why a costing could not be provided. The list of coded measures provides the estimated cost, either for a single year or over a six-year period with a note on the assumptions used and information on the number of claimants (HM Revenue and Customs, 2024^[80]).

Most of the content that accompanies the official statistics on non-structural reliefs is focused on a subset of policies. In 2024, the headline statistics analysed 107 tax reliefs which had a cost available for the most recent tax year (2023-2024). A more detailed description and analysis discusses 37 tax expenditures, with an explanation of the measure, its cost and how this has changed over a six-year period, a brief distributional analysis and a summary of relevant research and evaluations.

The timing of the publication of the official statistics on tax expenditures is generally too late to influence the main debates over the Budget and subsequent Finance Bill. For example, Parliamentary scrutiny of the 2024 Autumn Budget would have relied on figures published in December 2024, covering the period up to April 2025.

Evaluation

Tax policy evaluations are typically run by HMRC. In 2020, HMRC published a tax reliefs evaluation criteria, focusing specifically on non-structural tax reliefs. The criteria were as follows (National Archives, 2024^[32]):

- The annual cost of a relief.
- Whether the relief has already been evaluated recently.
- Whether the relief's design has recently changed substantially.
- Whether the relief's data makes an evaluation methodologically feasible (this includes whether sufficient time has passed for a large enough body of data to be generated).
- Whether an evaluation's results would be usable and timely to feed into strategic decision making.

Evaluations can also consider whether the relief is achieving its stated objective, and indirect effects, such as what other behaviours a relief may incentivise, and its impact on the wider economy.

However, a number of limitations have constrained evaluations in the past HMRC has a limited budget for evaluation that covers all of the department's responsibilities. In 2019-2020, this budget was around GBP 2 million. Furthermore, the budget for evaluation of tax reliefs specifically is ring-fenced. The department has also noted that some tax expenditures are difficult to evaluate because they have multiple or unclear objectives or because the objectives are not easily assessed (National Audit Office, 2020^[13]).

The lack of systematic evaluation of tax expenditures was a key finding of the National Audit Office evaluation in 2020 and subsequent recommendations by the Public Accounts Committee (National Audit Office, 2020^[13]). Since 2021, HMRC (2023^[90]) has published a tax reliefs evaluation plan and a list of tax expenditures that are currently being evaluated. The report on non-structural tax expenditures has also added a brief summary of relevant research and evaluations for major tax expenditures (HM Revenue and Customs, 2024^[80]). Additional commentary on the performance of specific tax reliefs is available in the annual report published by HMRC. In 2024, the National Audit Office stated that HMRC and HM Treasury had taken steps to further improve the evaluation system through the introduction of a joint review framework setting out the work teams are expected to carry out throughout the lifecycle of the tax expenditure (Sinfield, 2025^[86]).

The monitoring framework established by HM Treasury in 2017 assesses value for money. By 2019, the assessment process had covered 63 tax expenditures (National Audit Office, 2020^[13]).

Audit

Tax expenditures that are classified as expenditure, including a number of tax credits, are included in departmental accounts and audited by the National Audit Office. Most of these are discussed in the audit report for HMRC.

The National Audit Office has also conducted three performance audits into the management of tax reliefs by HM Treasury and HMRC. The first two audits were published within 6 months of each other in 2014, and reviewed the landscape of reliefs and how these were managed (National Audit Office, 2014^[91]; 2014^[92]). This was followed in 2020 by a further audit on "The management of tax expenditures".

Other performance audits have explored specific tax expenditures or policies that make use of tax expenditures. Examples include the 2019 audit of "Business support schemes", 2021 audit on "Environmental tax measures" and 2024 value for money audit on "Tax measures to encourage economic growth".

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Notes

¹ These figures are based on the Global Tax Expenditures Database (GTED) for all five countries. This database does not cover all tax expenditures, excluding those for which no data is available, those under the value of USD 500 000, and those not published for confidentiality reasons.

² The largest tax expenditures for each country, alongside the monetary amounts, can be found in the country case studies in the annexes.

Use of tax expenditures in budgeting

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This paper considers how tax expenditures are managed within national budget processes, based on case studies of four OECD Member countries - Canada, Ireland, Netherlands and United Kingdom. It is part of a research project by the OECD for the Korea Institute of Public Finance, and looks at the topic across six key dimensions, identifying practices to support the better integration of tax expenditures into budget processes. The paper contributes to the OECD Restoring Public Finances initiative.