Should tax expenditures be integrated into the budget process?

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Tax expenditure calculations have been presented in the annual spring budget proposals since the spring of 1996. The reason for this is to throw light on departures from the taxation system's "principle of uniformity" and from the 1990/91 tax reform, as well as to highlight tax expenditures that are comparable to transfer payments on the expenditure side of the budget. Eventually, the tax expenditure calculations could also be given a more formal role in helping to enforce budget discipline. Expenditure reforms that involve a risk of pushing expenditure above the expenditure ceiling can often be replaced by analogous tax reductions. If such devices come into widespread use, there is a risk that the purpose of the expenditure ceiling would be undermined. A complete integration of tax expenditures into the budget process would remove the incentive to circumvent the expenditure ceiling by reducing taxes instead.

Introduction

Transfer payments can be replaced by tax reductions.

The expenditure side of the government budget includes, besides public consumption, welfare spending in the form of grants and transfer payments to households and companies. This type of expenditure is also presented under different expenditure areas. Child allowances, for example, are stated under expenditure area 12 (Financial welfare for families and children). However, households and companies can also be given support via the tax sys-

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tem. Child allowances could be abolished and replaced by a tax reduction having the same effect on the family's disposable income as the existing child allowances. Such a tax benefit could also be stated under expenditure area 12. Tax benefits are already being provided today when certain categories of taxpayers or certain economic activities are taxed at a rate that differs from the general rate. The tax on private pension saving, for example, is levied at half the general rate charged on income from investments. People who invest in a private pension insurance plan thus enjoy a tax benefit. These kinds of tax benefit are regarded as deviations from the general tax rate and are known as "tax expenditures".

The government publishes its tax expenditure calculations in its annual spring budget proposals.

The government has been publishing its tax expenditure calculations in an appendix to the annual spring budget proposals since the spring of 1996.[1] The spending departments also indicate in the autumn budget bill, based on the calculations in the spring budget bill, the tax expenditures that are linked to the expenditure area in question and if new tax expenditures will arise on account of the proposals presented in the budget. One purpose of the government's tax expenditure report is to clarify departures, if any, from the principle of uniformity applied to the tax system; another is to highlight any tax benefits that are directly comparable to transfer payments on the expenditure side of the budget. The principle of uniformity, which was one of the keystones of the 1990/91 tax reform, is based on the idea that economic activities of a similar nature should be subject to similar tax rules. In other words, the guiding ethic of the tax system is that it should not put particular economic activities or tax-payers at an advantage or a disadvantage. Since the 1990/91 tax reform was based on the principle of uniformity, the tax expenditure report can also be seen as one way of maintaining the integrity of the tax reform.

Tax expenditure reporting is also central to a discussion on tax policy priorities, since it shows the extent of tax revenues that do not reach the government because of tax expenditures. If these tax expenditures were abolished, it would strengthen the public sector budget, which could be applied to other ends.

The tax expenditure report currently has no formal importance in the budget process.

Even if the tax expenditure reporting should have some effect on budget discipline, currently it has no formal importance in the budget process. In 1997, an expenditure ceil-

[1] These calculations are primarily based on the proposals made in the report "Förmåner och sanktioner" (Benefits and sanctions), (SOU 1995:36).

ing was introduced for the (central) government's nominal expenditure. This includes individual expenditure ceilings for each expenditure area. The purpose of the expenditure ceilings is to improve budget discipline. However, there are many ways of getting round the ceiling if it looks as if it might be exceeded. The committee of enquiry set up to evaluate and make proposals for the further strengthening of the budget process[2] identified ten or so different types of measure that could be taken to get around the expenditure ceiling. The committee's report explained, among other things, how the ceiling could be evaded by replacing expenditure reforms that might cause spending overruns beyond the ceiling with analogous tax reductions. In contrast to spending proposals, tax reduction proposals are neither subject to a limit nor to the same type of careful scrutiny within the budget process as spending proposals. A concrete example of this is the recently announced temporary employment support of 3 billion kronor, which, under certain conditions, will be allotted to the local government sector this year in the form of a municipal tax account credit. It requires no feat of imagination to see that such support could have been provided far more simply if the government had given the municipalities extra grants-in-aid of 3 billion kronor instead. However, given the current state of public finances, there was a risk that such an increase in the grant-in-aid could have caused a spending overrun beyond the expenditure ceiling.

The purpose of the expenditure ceiling could be undermined if spending reforms were replaced by tax reductions having the same effect.

There is a risk that the purpose of the expenditure ceiling would be undermined if spending reforms that threaten to exceed the ceiling were replaced by analogous tax reductions. The point at issue is whether it is possible to make the budget process more stringent as a means of avoiding this problem. One proposal that has been discussed is to integrate the tax expenditures in the budget process. That is, tax reductions that can be regarded as benefits, i.e. support that could equally well have taken the form of a transfer payment, should always trigger a reduction in the expenditure ceiling. Such a budget rule would entirely remove any incentive to circumvent the expenditure ceiling by proposing tax reductions instead of transfers.

The purpose of this article is to provide a brief account of how the Swedish tax expenditure calculations are made[3] and to discuss some problems of applica-

[2] SOU (2000:61).
[3] See also Appendix 2 to the 2002 spring budget bill.

tion that arise. The matter of how the principle of uniformity is to be interpreted and applied is also discussed. These issues are pivotal to an assessment not only of what are to be considered as benefits in the tax system, but also of whether it is possible to fully integrate tax expenditures into the budget process.[4]

A brief presentation of the tax expenditure calculations

A tax expenditure (deviation) can be either a tax benefit or a tax sanction.

A tax benefit or tax expenditure is the result of levying tax at a reduced rate in relation to a particular tax norm.[5] In order to identify a tax expenditure, therefore, the actual tax rate charged (the existing tax system) must be compared with the chosen norm.[6] The norm that is used for the government's tax expenditure calculations is based, as noted in the introduction, primarily on the principle of uniform taxation of economic activities of similar types.[7] This norm means, for example, that all types of income shall be taxed according to uniform principles, and that all consumption of goods and services shall be subject to the same level of VAT.[8] A departure from a uniform tax charge is perceived to be a tax benefit if a particular category of tax-payers enjoys some form of tax relief in relation to the norm. A couple of examples can serve to illustrate this point:

i) The standard rate of VAT is assumed to be 25 per cent. The reduction in VAT on food from 25 per cent to 12 per cent is therefore treated as a tax benefit.[9]

ii) According to the norm, all income from capital shall be taxed at the same general rate of 30 per cent. However, income from private pension schemes is

[4] The object is not to assess whether full integration of tax expenditures into the budget process is politically desirable. The argument is sometimes put forward in the political debate that expenditure ceilings per se involve excessive policy constraints. A complete integration of tax expenditures into the budget process would make these constraints even more stringent.

[5] One usually uses the term "tax expenditures" when referring to tax deviations in the tax system. A more general term would be just "tax deviations", since a deviation from a benchmark can be either a tax benefit or a tax sanction. A tax sanction is the result of levying tax at a higher rate than the norm. However, following the specialist literature, the term "tax expenditures" is used in the remainder of this paper.

[6] See also OECD (1996).

[7] However, there are some exceptions from this norm, mainly in the field of energy taxation, where excise duties have for the most part been introduced for environmental management purposes, and in view of this purpose it would appear eccentric to apply the principle of uniformity. However, some excise duties on energy, such as energy tax, have been introduced for strictly fiscal reasons. In the case of these taxes, the norm is that the tax should be proportional to the energy content.

[8] For a detailed discussion of the principle of uniformity, see, e.g. Grosskopf, Rabe & Johansson (1995), pp. 47–52.

[9] The reduction of the tax rate has been performed in different steps. The latest reduction in 1996, from 21 to 12 per cent, was implemented to "compensate" consumers for a contemporary reduction in the unemployment benefit, and was a result of an agreement between the government and the Centre Party.

taxed at the lower rate of 15 per cent. Individuals who save through such private pension schemes thus enjoy a tax benefit.[10]

These tax expenditures are reported by tax area and, in those cases where the tax expenditure is obviously linked to an expenditure area, to that expenditure area. For example, carbon dioxide tax is not levied on domestic flights. The civil aviation sector thus enjoys a tax benefit, which is stated under the tax area "Excise duties" and under expenditure area 22 (Transport and communications).[11]

Not all tax changes can be linked to economic activities that are covered by the principle of uniformity.

However, not all tax changes can be linked to economic activities that are covered by the principle of uniformity, particularly in the case of straightforward tax reductions that are not connected to any specific tax. However, in many cases even these tax reductions can still be deemed to be a benefit that could equally well have been provided in the form of a grant, in which case they would have been subject to the expenditure ceiling. A case in point is the tax reduction consumers can get if they connect their home to the broadband network. Such tax expenditures are designated *general tax reductions* in the tax expenditure report and are reported under a special heading. However, the fact that tax reductions cannot always be related to a norm or a particular tax area does not necessarily mean that they lack any tie with an expenditure area. The tax reduction for joining the broadband network cannot be related to a particular tax but is reported under expenditure area 19 (Regional equalisation and development), since the main purpose of the reduction is to promote the installation of broadband facilities outside of the metropolitan regions.

Tax expenditures can be converted into public sector transfer payments.

As noted by way of introduction, a benefit of the same size as that obtained by means of a tax cut could instead be provided in the form of a public transfer payment. Tax expenditures can thus be converted into transfer payments. In the tax expenditure report, the government has opted to base its figures on the norm whereby all transfer payments shall be liable to taxation. To be able to compare a proposal to cut certain taxes with a spending proposal having the same effect, it is therefore necessary to present the tax reduction proposal

[10] The purpose of the deviation is to create an incentive for individuals to save for their pension.

[11] In view of the fact that the uniformity norm is based on the belief that economic activities having a similar character should be subject to similar tax rules, one alternative would be to report the tax expenditures by type of economic activity rather than by tax area. For example, a reduction in tax on private pension schemes could be reported under the tax heading "saving", which would provide a clearer picture of what types of saving benefit from various types of tax relief.

on a *gross* basis. However, tax expenditures are reported both gross and net. A *net* tax expenditure shows the amount of the *tax-free* transfer payment that would provide full compensation for the category of tax-payers that enjoys the tax benefit if the benefit were to be removed. A net tax expenditure can (in certain circumstances) also be calculated as the loss of tax revenue caused by the tax reduction. A *gross* tax expenditure shows the level of the corresponding *taxable* transfer payment that would compensate the tax-payers covered by the tax benefit, if it were abolished. The following example is a simple illustration of the difference between net and gross reporting of tax expenditures.

A presentation of new tax expenditures could be used to lower the expenditure ceiling.

The reduction of the tax on income from capital invested in private pension schemes is estimated to cause a loss of 11.5 billion kronor in tax revenue this year.[12] This is the *net* tax expenditure and also the tax-free transfer payment that would be needed to fully compensate the category of tax-payers covered by this tax benefit if it were abolished. The taxable transfer (the *gross* tax expenditure) that also would compensate the tax payers covered by the tax benefit, if it were abolished, is calculated as follows: Suppose that the tax-payers were to pay tax on this compensatory transfer payment under income from capital, for which the normal tax rate is 30 per cent. The gross tax expenditure can therefore be estimated at 11.5/(1–0.3) = 16.4. To express it another way: if the reduction in tax on income from capital invested in private pension schemes were removed, and the category of tax-payers who currently enjoy this tax benefit were paid a grant of 16.4 billion kronor, which then became liable for taxation as income from capital, these tax-payers would in practice have enjoyed a benefit of 11.5 billion kronor [16.4 x (1–0.3) = 11.5]. Unlike the tax expenditure, a transfer having the same effect would have been stated on the expenditure side of the budget and would also have been covered by the expenditure ceiling. The inclusion of new tax expenditures in the budget process could therefore be used to lower the expenditure ceiling in so far as integrating tax expenditure reporting completely into the budget process is considered to be politically desirable.

[12] See 2002 Spring budget proposals, appendix 2.

Problems of application

Principle of uniformity

The underlying reason for the principle of uniformity is the view that the tax system should neither encourage tax avoidance nor distort the allocation of production resources.

The underlying reason for the principle of uniformity is the view that the tax system should neither encourage tax avoidance nor distort the allocation of production resources. It would probably not be difficult to create a consensus in favour of such a principle for structuring the tax system. On the other hand, it is not immediately obvious how the principle of uniformity should be defined and how strictly it should be applied in practice. The need for strict application of the principle of uniformity has to be weighed against the interest in having simple tax rules that can be understood and applied in practice. If the tax expenditure reporting is to be used to identify tax benefits and, in the long run, to be fully integrated into the budget process, it is important to be sure of the existence of a broad political consensus in the Riksdag with regard to how the principle of uniformity should be defined and applied. This section explains how the *government* has decided to interpret and apply the principle of uniformity within the framework of the tax expenditure reporting. It also looks at some of the problems associated with this view.

For reasons of practicality, the principle of uniformity should be interpreted to mean that the tax rules should be neutral but not necessarily identical.

Does the principle of uniformity mean that tax rules should be identical or that they should be neutral? Tax neutrality can be said to exist when the economic effect of any preferred alternative is not affected, either positively or negatively, by the structure of the tax system. If, say, the taxation of residential property were neutral the tax system would neither favour nor penalise any particular type of dwelling in relation to another. Tax neutrality can be arrived at without the need for identical tax rules. The company taxation systems provide examples of this. Business can be carried on within many different types of legal structure. It would seem reasonable to suppose that the principle of uniformity means that limited liability companies and sole traders are taxed in a similar way. A limited liability company pays company tax on its income while a sole trader pays tax on income from employment. The tax system, however, provides certain "compensation" in the form of interest distribution and expansion funds to give the sole trader a similar opportunity to pay tax as if on income from capital. As the various types of legal structure differ from one another it is not always possible, in practice, to have identical rules. For reasons of practicality, therefore, the principle of uniformity should be interpreted to mean that the tax rules should be broadly neutral rather than identical.

The tax expenditure calculations are worked out on the basis of the Haig-Simons income principle, according to which the income that is subject to taxation consists of the sum of expenditure on consumption and the change in the value of net assets during the taxation period.[13] This principle means that any capital gains arising during the taxation period shall be liable for taxation, regardless of whether they are realised or not. In practice, capital gains are not taxed until they are realised, which means that if the owners of the assets retain them for a long time, they have obtained a tax credit, according to this way of thinking.[14] Such tax credits are included in the government's tax expenditure report as tax benefits, albeit only in the case of increases in the value of listed shares, private houses, and co-operative flats. The report is therefore not complete.

In practice, regular taxation of unrealised capital gains would involve serious problems. Firstly, the tax authorities would need to have information on the changes in value of all types of asset. As things are, they don't have this information. Consistent application of the Haig-Simons principle, which is that increases in value should be taxed when they arise and not when they are realised, would, in the case of the taxation of the imputed income from owner occupied housing, involve serious practical problems.[15] It is also hard to imagine the government, in accordance with the Haig-Simons principle, hitting upon the idea of introducing a tax system in which increases in the value of shares are taxed when they arise rather than when they are realised. In the light of these problems, it is pertinent to ask whether the tax norms in the tax expenditure reporting really should be based on the Haig-Simons definition of income. Another point of interest in this context is whether norms that are considered to be theoretically "correct", but which are not capable of ready application on account of a variety of reasons, should be used in tax expenditure calculations. One conclusion to be drawn from this is that

In practice, regular taxation of unrealised capital gains involves serious problems.

[13] See Simons (1938).

[14] To put it another way, when assets are owned for long periods of time, the effective rate of capital gains tax will be considerably lower than the nominal rate (see King (1977)).

[15] See Boije & Shahnazarian (2000) and Boije & Lind (2002). Failure to tax imputed income from owner occupation is only treated as a tax expenditure in a minority of countries, according to a survey provided by the OECD (1996). The reason for this is a combination of theoretical and practical difficulties, according to the survey.

either the practical shortcomings of the theoretical norms should be accepted, as maintaining them offers many advantages, or else the tax expenditure reporting should be based on a more pragmatic and intuitively comprehensible application of the principle of uniformity.

The government does not apply the principle of uniformity consistently to different types of income.

The government does not apply the principle of uniformity consistently to different types of income. The Haig-Simons principle makes no distinction between income from employment (wages and salaries) and income from capital. In practice, income in the form of interest is taxed at 30 per cent, while the average marginal tax rate on income from employment is far higher than that. However, this difference is not taken up as a tax expenditure in the present tax expenditure reporting. The reason is (probably) the dual income tax model that was introduced in connection with the 1990/91 tax reform, in which income from capital is taxed separately from income from employment. Even though it might be justified, from other perspectives, to tax income from employment at a higher rate than income from capital[16], it is inconsistent not to apply the Haig-Simons principle to a comparison of the rates at which income from employment and income from capital are taxed. The wide gap between the two rates of taxation is critical, for example, when it comes to the formulation and application of the 3:12 rules that apply to the taxation of income from close companies.[17] Applying the Haig-Simons principle so strictly within a given income class, as the government does (considering that capital gains should be taxed when they arise and not when they are realised), but not between one class of income and another, is inconsistent. If, on the other hand, the sole purpose of the tax expenditure reporting were to report deviations from the 1990/91 tax reform, this inconsistency in the reporting could possibly be justified.

Not all departures from the principle of uniformity are included in the tax expenditure report.

Not all departures from the principle of uniformity are included in the tax expenditure report. A case in point is the zero rate of VAT on financial services, another is exemptions from wealth tax. According to the current definition, unlisted shares and holdings of shares classified as "working capital" are not liable to wealth tax.

[16] It is frequently claimed that, as the tax base for income from capital is more exposed to the internationalisation process than that for income from employment, this is an argument in favour of lower taxation of income from capital.

[17] The object of these rules is to prevent the owners of close companies from withdrawing income from employment in the form of income from capital, and thus paying a lower tax.

Owners of such shares thus enjoy a tax benefit in relation to owners of assets that are liable to wealth tax (shares on Stockholmsbörsen's "A" list, on which shares are chargeable on 80 per cent of their value, or private homes charged on 75 per cent of their estimated market value).[18] Further examples are provided by the taxation of capital goods. According to prevailing norms, the property tax on private houses is classified as a taxation of (imputed) income from capital. If all capital goods were to be taxed in the income from capital class, untaxed assets, such as boats, cars, works of art and jewellery, would also have to be reported as tax benefits.[19]

Calculation problems

Various technical problems are associated with the calculation of the tax expenditures. This might not be a serious problem as long as the tax expenditure reporting is only used to provide rough estimates of the value of the various tax benefits, and as long as the tax expenditure reporting has no formal importance in the budget process. However, if the tax expenditure reporting were to be fully integrated into the budget process in connection with the allocation of budget funds to the various expenditure areas, these problems would be critical. In this final section, we will look at some of these problems.[20]

Net tax benefits are not necessarily accurate measures of the losses of tax revenue.

The tax expenditures are calculated on the assumption that tax bases are static. This means that the tax expenditure calculations take no account of the possibility that the tax bases could change if the tax expenditures were to be abolished. For example, a higher rate of property tax on private houses would probably cause a fall in market values and consequently also of tax assessment values.[21] Calculating the tax expenditure without taking this point into consideration would result in the tax expenditure being over-estimated. In the case of most tax benefits, the tax base

[18] This "shortcoming" in the tax expenditure reporting could perhaps be justified with the argument that the Haig-Simons principle does not directly state that wealth per se should be liable to taxation. It is changes in value that are to be taxed according to this principle. This could, on the one hand, be used as a pretext for regarding wealth tax as a tax sanction. On the other hand, provided that wealth tax is levied on fiscal grounds or as a distribution policy instrument, consistent application of the principle of uniformity would – as was pointed out by Boije (2000) – mean that asymmetries in wealth taxation should also be included among the tax expenditures.

[19] The reporting of what are known as "tax expenditures not affecting the budget balance" is not complete either. These tax expenditures consist largely of public sector transfer payments of various types that are entitled to full or partial tax relief. One of the advantages of not taxing such transfer payments is that it helps to keep down the overall tax ratio. Another advantage is that the "policy of giving with one hand and taking with the other" in the tax and transfer payment systems can be reduced.

[20] The government has also highlighted some of these points in the introduction to the tax expenditure report in the 2002 Spring budget proposals.

[21] See Boije (1999, 2000).

would probably contract if the benefit were removed. The reverse applies to tax sanctions. This also means that statically calculated net tax expenditures are not necessarily accurate measures of the potential tax revenue the government has lost.

Transparency regarding the object of the different tax expenditures would promote a discussion of tax policy priorities.

It is not always obvious to which expenditure area any given tax expenditure relates. The object of the existing reporting system is that it is the purpose of the tax expenditure that determines which expenditure area the tax expenditure should be linked to. However, the purpose of the various tax expenditures is, unfortunately, not disclosed in the tax expenditure report. Naturally, there can be many good reasons for a tax expenditure, which makes it even more useful to highlight the purpose of it. Transparent reporting of the purpose of the tax expenditures would promote a more informed discussion of fiscal policy priorities.

It is not obvious what tax rate should be used when calculating the gross tax expenditure.

It is not immediately obvious what tax rate should be used when calculating the gross tax expenditures. Should we assume that the compensatory transfer payment will be paid to the tax subject who is legally obliged to pay the tax, or can it be assumed to go to whoever it is in practice that enjoys the tax benefit? An example can illustrate this problem: The most recent reduction in VAT on food was made on grounds of distribution policy. The intention was that consumers primarily should benefit from this reduction. In the existing tax expenditure reporting the effective corporate tax rate is used for calculating the gross tax expenditure, with regard to VAT tax expenditures. At present it is assumed, when calculating the gross tax expenditure, that a corresponding benefit could have been brought about by paying to "the producer" (who is legally obliged to pay in VAT to the state) a grant or subsidy that would be liable to corporate taxation. As it is the purpose of the tax expenditure that should determine which expenditure area the tax expenditure is linked to, it may appear inconsistent if it is the obligation to pay in the tax that determines what tax rate is used when calculating the gross tax expenditure. If the purpose of the tax expenditure is that it should provide a benefit for food consumers, it would appear more natural to assume that the "compensatory contribution" goes to food consumers rather than to producers, in the event of the tax expenditure being abolished. In such a case, it is the weighted average marginal tax rate on income from employment that should be used to calculate the gross tax expenditure, not the effective corporate tax rate. However, this would result in a far higher gross tax expenditure, since the average marginal tax on income from employment is considerably higher than the effective corporate tax rate.

As the case above shows, some gross tax expenditures are based on the calculation of the effective corporate tax rate. However, calculating this tax rate is complicated. The nominal rate of corporate tax is 28 per cent. The effective tax rate is a great deal lower on account of the use of net allocations to untaxed reserves[22] and of tax adjustments[23]. In the most recent tax expenditure report, the effective corporate tax rate was estimated at 26.6 per cent.[24] However, this calculation only takes into account the rules for transfers to periodisation reserve, and not all net allocations to untaxed reserves and tax adjustments. The figures presented in the budget proposals for 2000 show that the average effective corporate tax rate can be as low as 18 per cent, if all net allocations to untaxed reserves and tax adjustments are taken into account.

Calculating the effective corporate tax rate is complicated.

The existence of differentiated tax rates means that a "standard tax rate" needs to be defined. In the case of VAT, for instance, the highest applied tax rate of 25 per cent is considered to be the "standard rate". Such an assumption is reasonable as long as the predominating part of total consumption is subject to VAT at 25 per cent. If the reductions became extensive enough, one alternative would be to define the "standard tax rate" as the then most widely used tax rate.

Owing to the absence of relevant data, it is in certain cases not possible to quantify all tax expenditures. This situation would naturally become a serious problem in the event of a complete integration of tax expenditures into the budget process.

It is not possible to quantify all tax expenditures, which would be a serious problem in the event of full integration of tax expenditures into the budget process.

If the tax expenditures are to be fully integrated into the budget process, the question also arises as to whether nominal changes in already existing tax expenditures, caused by nominal changes in the tax bases, shall make it necessary to correct allocations of budget funds and expenditure ceilings or whether only new and removed tax expenditures should make an adjustment necessary. The former alternative is likely to be very impractical.

[22] E.g. accelerated depreciation for tax purposes of machinery and equipment.
[23] E.g. deduction of accumulated loss allowances.
[24] See also "Beräkningskonventioner för 2002" (Calculation conventions for 2002) published by the Ministry of Finance.

Summary and conclusions

The object of this article has been to explain the functioning and purpose of the government's tax expenditure reporting and to discuss various application problems that are pivotal if it should be thought desirable in the long term to integrate the tax expenditures fully in the budget process. The inventory of problems indicates that the uniformity principle, on which the tax expenditures are currently based, has some serious application problems. It is important that there exists a broad political consensus in the Riksdag on the interpretation of the uniformity principle, at least if the tax expenditures are to be fully integrated into the budget process.

It is *at present* not possible to fully integrate tax expenditures into the budget process.

The inventory of problems also indicates that the present tax expenditure calculations are flawed by some technical problems, and that they in many aspects are not complete. From this it may be concluded that it is not *at present* possible to fully integrate the tax expenditures into the budget process. Despite these shortcomings, the current tax expenditure report is important in that it provides rough estimates of the tax benefits in the tax system, and in that it, to some extent, identifies tax reduction proposals that are made with the object of by-passing the expenditure ceiling.

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