

## Evaluation

Since tax expenditures are alternatives to direct spending programs, they are generally evaluated using budgetary criteria and not tax policy criteria (though tax policy criteria can inform the analysis). There are three questions that can be asked about a particular tax expenditure:

1. What government objective is being served by the tax expenditure?

The answers usually identify some market failure that the expenditure is trying to correct. However, this is not necessarily the case. The expenditure may be there to further some other objective such as social welfare or social justice.

2. The Second question is really a series of inter-related questions that look at the wisdom and desirability of using the tax expenditure in the circumstances and in light of the objective. These considerations are the traditional budgetary criteria.

- Are the benefits distributed fairly?
- Is the program targeted efficiently (are the benefits well targeted at the intended beneficiaries and not unreasonably over or under inclusive of those beneficiaries)?
- Are the administrative and compliance costs of the program reasonable?
- Does the government have control over the spending program and is it politically accountable for it?
- Is the program appropriately implemented?

3. Can the objects served by the tax expenditure be better served by some other government policy instrument?

Proponents of using tax expenditures to provide social benefits argue that they: (a) are simpler in design and administration than direct subsidies, (b) involve less bureaucratic discretion, (c) encourage private decision making, (d) use the established framework of tax administration efficiently, (e) involve less stigma than direct government handouts.

Those that oppose using tax expenditures to deliver subsidies argue that they are automatic cheque writing programs rather than discretionary grant programs that are open ended with little government control. As tax deductions, they benefit those in the higher marginal tax rates disproportionately to those in lower tax rates. As credits they provide no benefits at all to low income earners that have no positive tax liability, unless they are refundable tax credits. Arguments against tax expenditures also identify the fact that they increase the complexity of the tax system, the increase the perceived unfairness of the tax system, and are less transparent than direct subsidies.