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Characterization of Fiscal Sacrifice and the Importance of Incorporating Its Cost in the Public Process of Budget: A Phenomenological Approach

Monasterio-Pérez Johnny
(Faculty of Economic and Social Sciences, Department of Banking, Accounting, and Auditing, Universidad Metropolitana, Venezuela)

Abstract: The following article reveals that the characterization of fiscal sacrifice depends on the interdisciplinary treatment given to the area of tax expenditures and tax benefits. Certain interpretations have arisen from knowledgeable subjects regarding the following questions: How can tax sacrifice be characterized in the regulatory framework of the Venezuelan context? Which tax benefits are considered tax expenditures? To answer these questions, it is proposed that tax sacrifice comprises an economic effort by the State, which directly affects the development of certain economic sectors and the fulfillment of social objectives that are aimed at improving the collective welfare. Furthermore, the dialogical analysis was used as methodology in this article, from Husserl's phenomenology (1997), as an approach and method, which tries to understand, in an immediate way, the world of man through an intellectual vision based on the intuition of the thing itself. The instruments used to gather information are represented by semi-structured interviews applied to key informants, as well as a structured intentional analysis matrix according to the dimensions of the study. In conclusion, the following categories were revealed: Phenomenological characterization of tax sacrifice; Effects of tax sacrifice on the budget planning process; and Identification of the approach to define the tax references and tax expenditures present in the national taxation regulatory framework.

Key words: tax sacrifice, tax expenditures, public budget, tax expenditure budget
JEL code: E62

1. Introduction

Public finance, in its general and governmental form, seeks to analyze how the State generates revenue and incurs expenditures (Villegas, 2001). To accomplish this, the State engages in financial activities that enable it, first, to manage revenue collection through coercive or voluntary monetary transfers (public resources) and, second, to assess the processes and methods used to secure the necessary funds to achieve its objectives and meet collective needs.

To carry out the process of resource acquisition through tax collection, the State employs tax systems to manage the tax administration of its economic policy, thereby facilitating the regularization of aspects of

Monasterio-Pérez Johnny, Doctor, Research Professor, Faculty of Economic and Social Sciences, Department of Banking, Accounting, and Auditing, Universidad Metropolitana; research areas: managerial sciences. E-mail: jmonasterio@unimet.edu.ve, ORCID: https://orcid.org/0000-0003-0762-4724.

macroeconomic stabilization and control (LOAFSP, 2015). It is noteworthy that the function of the tax system includes not only the execution of legislative activities for tax harmonization and coordination but also the articulation of governance aspects with various public entities and other parties. These efforts guide the design and formulation of public policies aimed at ensuring the stability of the economic system, financing public expenditure, and progressively improving the tax collection system.

The identification of public expenditure includes the treatment of tax expenditures established within the Venezuelan tax framework. This involves a series of stages, including analyzing the purpose and objectives of the sanctioned tax norms and verifying that the tax laws have been drafted in compliance with all constitutional precepts. In this way, the tax system will operate without violating the guarantees established by the Constitution of the Bolivarian Republic of Venezuela (CRBV, 1999) and the principles of tax legality that prevail in Venezuela (AVDT, 2013). This principle and its scope in tax provisions are established in Article 3 of the Organic Tax Code ("COT" or "Código Orgánico Tributario") (2020), which sets forth the creation, modification, or elimination of taxes, as well as the power to grant exemptions and tax reductions, and the authorization for the Executive Power to grant exonerations and other fiscal benefits or incentives.

From these essential elements, it can be observed that the establishment of tax obligations is inherent to the power of the State through the constitutional principle of tax legality. However, the State also has the authority to grant exemptions, exonerations, or incentives that it deems necessary to apply. These benefits implicitly carry specific objectives that are considered essential to implement, primarily to create favorable conditions for the development of certain economic sectors and to promote the achievement of collective well-being. Although these benefits reflect a combination of goals, such as equity, administrative convenience, and the promotion of economic growth, it has been identified in Venezuelan practice that there is no budgetary methodology to estimate the cost of tax expenditures from such fiscal concessions. This information should be included in a statement of accounts accompanying the resource budget project, with one section specifying the taxes with exemptions and another detailing the revenues forgone due to each of the benefits granted (Mijangos, 1991; cited by Monarres & Bernal, 2019), as established by the Organic Law of Financial Administration of the Public Sector (2000).

According to Sánchez (2016), the first Organic Law of Financial Administration of the Public Sector (LOAFSP) in 2000 included a series of provisions related to how the number of resources and expenditures considered in public budgets should be presented. These provisions aimed primarily at showing the true economic significance of these variables and the purposes pursued with them. Sánchez (2016) states that, over time, norms have emerged that reinforce the principle of integrity of revenues and expenditures. By stating that "public budgets will include all revenues and expenditures, as well as financing operations without compensations between them," these norms require that budget annexes also indicate the fiscal risks typically incurred by public financial administration (p. 727). In this regard, Article 12 of the Organic Law of Financial Administration of the Public Sector established that, with the Annual Budget Bill, the financial authority must present financial statements that describe social security plans and the nature and significance of identifiable fiscal risks, such as tax expenditures (exceptions, exemptions, deductions, deferrals, and other fiscal sacrifices) that may affect the forecasts for the estimated fiscal revenue of the fiscal year. The obligation established in this article was not enforceable when such data could not be quantified or when the total or partial content of such data had been declared secret or confidential in accordance with the law.

With the novel enactment of the Organic Law of Financial Administration of the Public Sector (LOAFSP) (2000), the aim was to articulate the constitutional principles of solvency, efficiency, responsibility, transparency, and fiscal balance, which were directed toward establishing macro-fiscal discipline rules. These rules were intended to make the objectives of long-term fiscal management more evident and define the way to achieve them: to correct the deficit bias of public finances, reduce discretion in fiscal policy, achieve macroeconomic stability, and improve the quality of implementing courses of action (public policies).The regulation contained in this original version of the Organic Law of Financial Administration of the Public Sector regarding the principles of fiscal discipline ended up deviating from its application not only due to the non-compliance and ignorance of its rules and principles by those responsible for applying the norm but particularly due to its progressive dissolution as a result of the seventeen (17) reforms it underwent from its initial enactment in 2000 until the last reform in 2015 (Sánchez, 2016). In this regard, this reform, published in the Official Gazette of the Bolivarian Republic of Venezuela No. 6,210 (E), eliminated the provision that required the Annual Budget Bill to be presented alongside the financial statements describing the social security plans, as well as the nature and significance of identifiable fiscal risks.

In this context, to ensure the accurate development of budgetary resources necessary for issuing these types of financial statements, it is crucial to quantify and consolidate all fiscal resources. This process involves analyzing and managing various types of public revenue, including income generated from hydrocarbon exploitation and related activities (oil revenue) and tax collection from non-oil sources. Fiscal income estimates are typically based on effective collections, calculated by subtracting all tax expenditures — such as exemptions, exonerations, non-liabilities, and other fiscal privileges—from the total revenue, whether these expenditures are explicitly stated in the tax framework.

Quantifying tax expenditures involves characterizing and defining the scope of this fiscal sacrifice, identifying the benefits and other fiscal privileges established in Venezuelan tax laws based on a specific approach, determining a coherent methodology for estimating the cost of tax expenditures, integrating them into the public budgeting process, and continuously reviewing and evaluating the courses of action (public policies) that justify the criteria and procedures for granting tax benefits and other fiscal concessions.

In light of the aspects involved in the study of this characterization and the identification of fiscal sacrifice (tax expenditures), according to the criteria for developing fiscal policies that address collective needs, and by virtue of the management and administrative innovation schemes that involve understanding the processes adapted for quantifying fiscal sacrifice and presenting the respective reports and financial statements within the public budget, the following questions arise: How can fiscal sacrifice (tax expenditures) be characterized within the regulatory framework of the Venezuelan context? Which fiscal benefits are considered tax expenditures within the Venezuelan tax framework? These questions demand justification of the necessary and sufficient premises to develop the following objectives:

a) General Objective

- Explain the importance of quantifying fiscal sacrifice and its incorporation into the Venezuelan public budgeting process.

b) Specific Objectives

- Characterize the fiscal sacrifice and tax expenditures present in national tax practice, considering the epistemological criteria achieved by the discipline of tax budgeting.
- Identify the effects of incorporating the cost of fiscal sacrifice into the Republic’s budget.
- Identify the reference approach, benefits, and other fiscal privileges established in the national tax framework of the Venezuelan tax system.

2. Tax Exceptions: Exemptions, Exonerations, and Other Forms of Fiscal Incentives

According to the Center for Public Finance Studies (CEFP, 2007), tax systems support the existence of fiscal benefits, special regimes, preferential rates, and other fiscal privileges. This means granting benefits to specific economic sectors and promoting preferential conditions, which creates inequality among taxpayers and undoubtedly reduces the state's revenue collection. In response to this reduction in government revenue, proportional distortions occur in the allocation of resources through expenditure budgets, leading to an increase in tax expenditures, which represent the government's fiscal effort in distributing its resources. The reason for these benefits and concessions is associated with the government's intention to promote the development of certain economic sectors for a specified period.

One of the distinctive properties of tax concessions is related to the number of their potential users, which divides them into those with a general character, meaning they can be utilized by all or most taxpayers, and those of a particular or special type, where only some taxpayers can benefit from them. According to Craig and Allan (2001), tax concessions involve contextualizing and characterizing the term "tax expenditures", considering that the objective or function to which these tax concessions are oriented is relative. The underlying intention of the concept of tax expenditure is to identify those tax concessions that the state uses to indirectly finance its policies and that, by definition, are utilized by a small number of beneficiaries. This understanding emerges from the definitions most found in literature.

In this regard, the OECD (2004) defines tax expenditures as transfers of public funds that occur through reductions in tax liability relative to reference taxes (benchmarks) instead of direct expenditures. According to research by this organization, one of the main problems in determining and defining tax expenditures under specific legislation is correctly agreeing on the standard or reference tax with which the provisions of the law are compared. The quantification of tax expenditures can vary significantly depending on the definition used, which means, among other things, that it is not possible to reliably compare the proportion of tax expenditures between different countries. In this context, from the perspective of fiscal technique, tax expenditures can take many diverse forms when they are established. Table 1 refers to these forms:

Table 1 Types of Tax Expenditures

Tax Expenditure	Definitions
Exemptions	Income or transactions excluded from taxable bases. In legal standards, they are found under various terms such as "exemptions", "exonerations", "non-taxable events", etc.
Deductions	Amounts that are allowed to be subtracted from taxable bases.
Credits	Amounts that allow for a reduction in taxes.
Reduced Rates	Tax rates that are lower than the general rates applied.
Deferrals	Postponement or delay in the payment of a tax.

Source: Based on Villela, Lemgruber, & Jorratt (2009).

2.1 Tax Privileges and Fiscal Sacrifice

According to Cantón (2014), the terms tax expenditure, benefit, and incentive refer to three different perspectives: budgetary, fiscal, and economic, respectively. Therefore, "the tax benefits contemplated in tax regulations are reflected in the budget through tax expenditures and affect economic policy through fiscal incentives" (p. 34). In this way, "as tax laws reveal loopholes, tax expenditures lead to lower revenue collection" (Gómez & Jiménez, 2010, cited by Monarres & Bernal, 2019, p. 7). On the other hand, tax expenditures are associated with the administrative costs of the tax system. According to Oviedo (2003), they are closely related to the complexity of the regulatory framework, as it implies bearing the costs derived from the complexity in handling capital gains, the proliferation of tax privileges such as exemptions and deductions, the existence of levies on specific tax types, and the accumulation of changes via tax reforms. "Tax expenditures in complying with the tax burden reduce welfare and can nullify the equity or efficiency merits of the tax system" (p. 15).

Fiscal privileges that affect the actual collection of tax revenues — through the forgone revenue from certain taxpayers, activities, or sectors — impact the allocation of resources via the public budget. These privileges are largely based on the selection of fiscal policies, which involve various economic, social, and political criteria. From this perspective, "governments use tax systems and fiscal incentive schemes to promote economic policy objectives, such as encouraging savings, stimulating employment, or supporting and protecting domestic industry" (Villela, Lemgruber, & Jorratt, 2009, p. 3). In such circumstances, the tax system performs a role like that of public spending, but in this case through the total or partial forgone revenue, a phenomenon referred to as fiscal sacrifice.

The term "fiscal sacrifice" describes the state's economic effort in which it partially or entirely waives tax revenue that it is entitled to collect from certain taxpayers to incentivize specific economic sectors or activities (Monasterio, 2021). Over time, the characteristics of this economic effort have evolved, leading to its classification as tax expenditures. This is because it involves "resources not collected that could have funded explicit public spending programs in favor of those whose tax burden is reduced" (Pecho, 2014).

According to the IDB (2009), "the international community's demand for greater transparency in fiscal policy, along with a growing trend towards the use of tax concessions, has extended interest in the topic of tax expenditures to the rest of the world" (p. 6). This demand has resulted in the establishment of codes of good practice concerning fiscal transparency. Additionally, the OECD (2021) has published recommendations emphasizing the importance of tax expenditures and their quantification. Quantifying the totality of fiscal resources requires analyzing and addressing various tax expenditures. This process involves first conceptualizing and characterizing the fiscal sacrifice, and second, identifying the benefits and other fiscal privileges outlined in tax laws.

2.2 The Management of Fiscal Sacrifice and It's Budgeting as Public Policy

One significant contribution to evaluating the revenue sacrifice represented by tax privileges (specifically exemptions) was made by Lauré (1960) when he first approached the concept of fiscal expenditure. Lauré was a pioneer in proposing the presentation of a fiscal expenditure budget, "by suggesting that a statistical table specifying taxes with exemptions be included alongside the draft budget of expenditures, and another with the revenues lost due to each granted benefit" (Mijangos, 1991, p. 446). However, beyond Lauré's contributions, the term "tax expenditures" was first used in 1967 by Stanley Surrey, in a speech delivered in New York City, where he was then serving as Assistant Secretary of the Treasury of the United States (Surrey, 1973). This event marked the beginning of the implementation and development of estimates for fiscal expenditures.

Thus, the fiscal expenditure budget enables the tax system to obtain an approximate quantification of what it foregoes in revenue, and based on this, to make decisions about the appropriateness of the fiscal sacrifice involved in granting certain benefits (Surrey & McDaniel, 1985). These authors note that initially, there were gaps or loopholes in taxation that acted as routes for tax avoidance not seen by the legislature but discovered by tax officials. These measures were later deliberately adopted and referred to as tax benefits. According to Monarres and Bernal (2019), the conceptualization of the term fiscal expenditure "was the next step in recognizing that these tax benefits were actually covert government assistance programs through the tax system" (p. 7).

These experiences have led to the current need to provide and present information on the budget for tax expenditures. This requires a methodological approach that allows for estimating their cost, controlling processes before the relevant government bodies, and managing information for appropriate and timely decision-making. This will enhance transparency in the public accountability process, "thus reducing potential political interference and administrative discretion in the distribution and utilization of benefits" (Villarreal, 2004, p. 171). According to ECLAC (2006), the goal is to estimate the budgetary consequences of the corresponding fiscal losses and, specifically, to compare them with the direct costs of replacement. While data on tax expenditures can be categorized by the type of tax applied to different sectors and areas of destination, it is possible to identify the "winners" and "losers" of such policies and, consequently, trace their distributive effects.

Estimating this type of information (through budgeting) is necessary because tax expenditures ultimately serve as instruments to achieve various policy objectives. Consequently, "these expenditures should be subject to the same outcome evaluations as subsidies directly charged to the budget" (Villarreal, 2004, p. 172). Furthermore, for public policy evaluations to be more effective, they should cover all state intervention mechanisms. In this regard, applying the same cost-benefit estimation techniques to tax expenditures would be beneficial (Lerda, 1999). Hence, institutional public management must adhere to constitutional principles of transparency and accountability, specifically the "duty to formally and effectively prove the accuracy of administration in managing or protecting resources" (COFAE, 2015, p. 7). Such accountability "is technically an act performed after the closure of the financial year, in which budget data is compared with the actual performance of the year to identify discrepancies and determine their causes" (Massimo, 1991, p. 402).

3. Materials and Methods

3.1 Research Design

To analyze information about past events and study logical results supported by reliable research sources, a documentary research design was employed. This design involved collecting and selecting information through the review of doctoral dissertations, scientific articles, documents issued by international organizations, books, and existing bibliographies. Additionally, the research was given a qualitative approach, focusing on human action. This approach is epistemologically informed by the phenomenological perspective, as it recognizes the latent levels of interdependence between the subject and the object in the knowledge process. This knowledge is shaped by the social and personal characteristics of the observer. This means that various interpretations of the object of study are accepted, and the researcher is influenced by, rather than remaining neutral to, the perspectives and realities perceived by key informants (KIs). The adopted methodological approach is dialogical, where beliefs, mentalities, prejudices, and feelings are recognized as elements of analysis to generate insights into human reality. This approach is grounded in Husserl's (1997) phenomenology, which serves as both the framework and method. According to Husserl, this method aims to "immediately understand the human world through an intellectual vision based on the intuition of the thing itself, meaning that valid knowledge is acquired through intuition that leads to immediate and original data" (p. 36).

3.1 Key Informants

Key informants assist the researcher in the inquiry process and in establishing clear and relevant ideas regarding the research, as they are the subjects of the study. According to Martínez (1991), key informants "are all individuals who, in one way or another, will provide valuable and consistent information that allows the researcher to delve deeper into the problem being addressed" (p. 37); in other words, they are primary sources of information. For this study, five experts were selected with the following profiles: two government employees from the tax sector, one expert in public management, and two academics with experience in the field of public administration. All five individuals have at least twenty-five years of experience in various roles of responsibility within different public and private organizations, including administrative, managerial, and executive positions. Their extensive experience in public management has allowed them to integrate their knowledge and expertise, thus contributing ideas that enhance the effectiveness of public management processes.

3.2 Techniques and Instruments for Data Collection

The instruments used during the data collection phase included semi-structured interviews, also known as colloquial dialogue. Martínez (1991) defines this as "the instrument that allows for understanding the nature of the being, relying on the structure of the interlocutor's personality as well as verbal contexts" (p. 93). It is noteworthy that the semi-structured interview, as a data collection tool in qualitative research, is particularly suited for dialogue aimed at gathering the required information. The questions included in the instrument were as follows: a) From the perspective of public spending categorization, how do you characterize tax expenditure and/or fiscal sacrifice?; b) In terms of relevance, timeliness, and scope, what is your opinion on the tax benefits and/or privileges provided within the Venezuelan legal framework?; c) How do you believe fiscal sacrifice impacts the Republic's budget?; d) Considering the specialized literature, what approach do you consider appropriate for defining reference taxes and identifying tax expenditures?; e) What are your thoughts on including the cost of tax expenditures (fiscal sacrifice) into the budget?

3.3 Analysis of Data Collection

Given that this research is framed within an interpretive phenomenological approach, the collected data were categorized using matrices that mapped the relationships between the identified categories and their emerging attributes or properties, which were then analyzed and interpreted. It should be noted that the information was collected through semi-structured interviews and observation, supported by the video conferencing platform Zoom. Following this phase, the information was compared with the collected evidence, leading to interpretations that contributed to the results. This process involved coding, categorization, and triangulation, based on the organization, comparison, and contrast of the obtained data with specialized literature. This approach established various relational links that facilitated the interpretation of the identified situations, resulting in a structured analysis matrix aligned with the dimensions of the research and considering the potential interconnections between the units of analysis.

3.4 Analysis and Interpretation of Results

The general objective of this research was to explain the significance of quantifying fiscal sacrifice and its integration into the Venezuelan public budgeting process. The research was conducted in three phases: a) planning for data collection; b) data analysis; and c) interpretation of the results. The technique used for analyzing and interpreting the data was content analysis. This approach aimed to incorporate multiple qualitative methods, such as participatory observation and semi-structured interviews, to assess the same issue by exploring its effects and meanings, critically evaluating existing findings, and drawing reliable and valid conclusions relevant to the research context (Krippendorff, 1990, p. 28).

4. Research Findings

4.1 Fiscal Sacrifice from a Phenomenological Perspective

From the previous discussion, categories emerged for analyzing the results, derived from the study's questions, which served as the basis for conducting interviews concerning the characterization of tax expenditure and/or fiscal sacrifice, the considerations regarding tax benefits and/or privileges within the Venezuelan regulatory framework, and its incorporation into the budget formulation process. Figure 1 displays the diagram of categories resulting from the analysis and interpretation process.

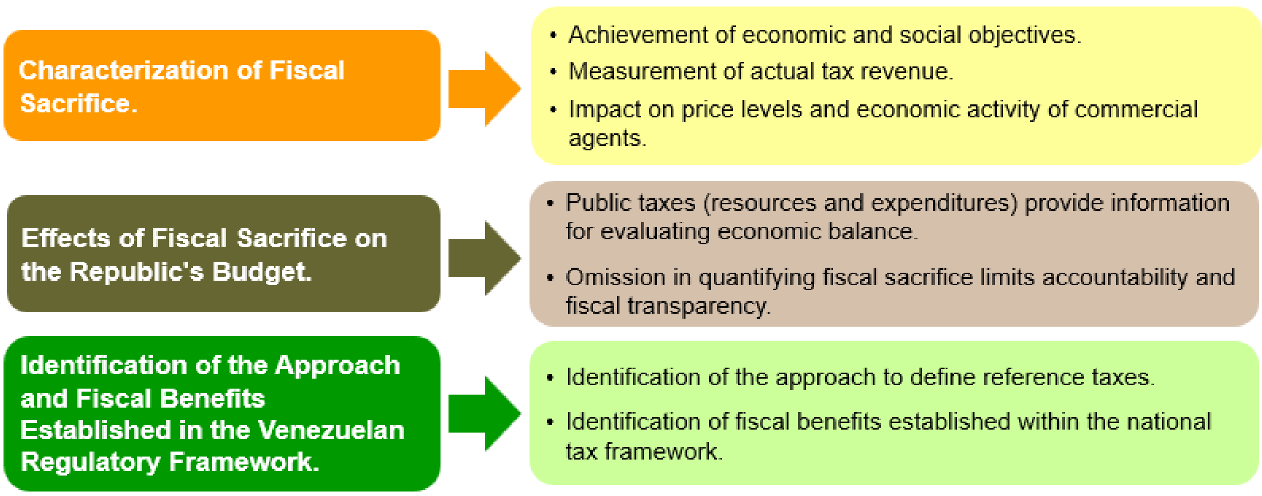

Figure 1 Diagram of Categories

4.2 Phenomenological Characterization of Fiscal Sacrifice

The term related to tax concessions falls within the category of exceptions, whether established or not in legislation, that diverge from the conceptual spectrum and materialize as an exemption from taxation on the taxed matter, regardless of the fiscal benefit (tax expenditures). Martín (2009) provides a conceptual framework for this type of expenditure and defines it as “the set of tax concessions that particularly benefit certain taxpayers, activities, regions, etc., and aim to finance policies carried out by the State” (p. 86). This author identifies two characteristics that must be verified to recognize tax expenditures: i) the existence of special tax concessions, meaning those that can only be utilized by a limited number of beneficiaries, and ii) these concessions must assist the State in indirectly financing certain public policies.

The fiscal privileges granted to specific taxpayers are reflected, particularly, in economic and/or social benefits for the country. The purpose of these measures is primarily oriented toward protecting and stimulating various sectors of the economy. The proposed effects mainly translate into reduced prices for certain economic activities carried out by commercial agents, with the beneficiaries typically being the final consumers of products and services. According to Monasterio (2021), fiscal sacrifice does not necessarily imply a tax expenditure. This terminology encompasses the loss of income that is not collected through taxation due to the granting of fiscal privileges to certain taxpayers. The management of this type of sacrifice ultimately represents a significant political and specialized element within the field of fiscal and tax policy.

Normally, tax exceptions are intended for a common purpose rather than a specific one. The goal is to achieve various economic or social objectives by not imposing taxes on activities that promote productive sectors or by favoring the most vulnerable populations. However, the reasons for granting fiscal benefits do not necessarily favor the lower-income sector of the population but often address political or economic circumstances. Quílez and Puente (2021) state that variations in indirect tax rates (value-added tax) at the end of 1998 and the beginning of 1999 coincided not only with the reduction in crude oil prices for 1997 but also with electoral events.

The adoption of criteria for designing fiscal benefits involves other social and economic aspects. According to the National Survey in Venezuela (ENCOVI, 2019), 96% of the population in Venezuela lives in poverty, with 79% living in extreme poverty. In this sense, the criteria should be oriented toward primarily benefiting this segment of the population. Although economic objectives aim to protect national production, stimulate consumption, and encourage national or foreign investment, the budget for such actions should ultimately incorporate a global perspective that encompasses the social benefit of the population, particularly the most vulnerable with scarce resources. Table 2 summarizes the different perspectives on the studied terminology.

Table 2 Phenomenological Interpretation of Tax Expenditures and/or Fiscal Sacrifice

IC	Expert Criteria	Researcher's Observation
IC1	Fiscal benefits (tax expenditures) materialize through exemptions, waivers, or tax reductions; their purpose is to protect the economy and stimulate exports.	The subjective experience manifests in evaluating the amount and economic benefit reported to the nation.
IC2	Includes any exemption or waiver of tax obligations for any economic agent; it may affect price reductions, which depend on the economic activity of these agents.	Includes elements related to price reductions and their impact on the productive activity of economic agents.
IC3	Represents anything that implies reduced revenue; it is linked to methods of decreasing tax payments. The waiver (total or partial) must be aimed at a common purpose, not a specific one.	Adds aspects related to tax revenue and characterizes the exception as general rather than specific.
IC4	A waiver by the state to achieve various economic or social objectives. The reasons for granting these exemptions do not necessarily benefit lower-income populations but may address electoral events and political and economic situations.	Specifies that the waiver should aim at achieving economic or social objectives, primarily benefiting the most vulnerable populations.
IC5	An expense due to transfer, as it involves a waiver directly related to fiscal revenues.	Transfer obtained from the partial waiver of a portion of effective revenue.

The interpretative contributions of key informants arise from their knowledge and experience in characterizing tax expenditures and fiscal sacrifice. These contributions offer a phenomenological and interdisciplinary perspective. IC1 emphasizes the economic value and the benefit it can provide to the nation through tax expenditure and/or fiscal sacrifice. IC2 introduces the economic element related to price reduction and its impact on the productive activities of economic agents. IC3 underscores the need for exceptions to serve a common purpose rather than a specific one. IC4 points out that the goal of fiscal sacrifice is to achieve various economic or social objectives, while IC5 categorizes fiscal sacrifice as a transfer resulting from the partial waiver of effective revenue. Table 3 summarizes the interpretations provided by key informants on the topic of fiscal sacrifice.

Table 3 Characterization of Fiscal Sacrifice

Object	Scope	Disadvantage
• Protects the economy and stimulates exports. • The exception must be aimed at a common purpose rather than a specific one. • Achieves various economic or social objectives.	• Includes any exemption or waiver of tax obligations. • Represents anything that implies reduced revenue through tax expenditures. • Effort made by the state by foregoing fiscal revenues.	• Affects price levels and the economic activity of commercial agents. • Does not necessarily benefit lower-income populations.

4.3 Identification of Approach for Defining Benchmark Taxes and Fiscal Benefits Within the Venezuelan Tax Framework

The identification of tax expenditures can be understood through the broader concept of tax concessions, which refers to exceptions established by legislation concerning the conceptual definition of the tax previously adopted, and which the literature refers to as a benchmark (OCDE, 2003). "The relevance of this definition arises from the fact that the amount and significance of tax concessions, and therefore tax expenditures, will depend on the benchmark adopted" (Martín, 2009, p. 91). International experience varies widely regarding the identification of benchmark taxes, and there are no international standards, apart from the OECD's Best Practices Guidelines for Tax Expenditures (OCDE, 2004) and the IMF's Fiscal Transparency Manual (FMI, 2001), for preparing reports or statements on tax expenditures. This lack of standardized norms hinders the comparison of results across countries.

In many cases, calculations include both items considered as tax expenditures and those excluded from this category, due to general tax concessions. According to Martín (2009), "for identifying the benchmark and subsequently measuring tax expenditures, the legal approach is more commonly applied, although some countries use the conceptual approach" (p. 94). According to Craig & Allan (2001), the legal approach is based on the current tax framework to define the benchmark tax and identify tax expenditures. "The main problem with the legal approach, compared to the conceptual one, is that many tax concessions may remain hidden due to the tax techniques applied by legislators" (Villela, Lemgruber, & Jorratt, 2009, p. 14).

Regarding this issue, key informants agree that the legal approach has the necessary characteristics for identifying tax expenditures within the national tax framework. This approach allows for comparing an unaltered tax with one affected by normative deviations. Since the treatment of tax expenditures varies by country, the most favorable approach is to identify different movements of stability and public policy management. In this sense, identifying these elements could indicate how fiscal sacrifice impacts the national budget. Table 4 summarizes the perceptions of the interviewed experts.

Table 4 Phenomenological Interpretation of the Approach to Define Reference Taxes within the National Tax Framework

IC	Expert Criteria	Researcher's Observation
IC1	To define reference taxes and identify tax expenditures, the most appropriate approach is the legal approach, as it allows comparison between an unaltered tax, and one altered by normative deviations.	The application of the legal approach could reflect how fiscal sacrifice/e affects the budget formulation process.
IC4	Based on the normative framework, the same rate (VAT) would be applied to all taxation without distinguishing between tax concessions (exemptions, non-subjections, reduced rates, deferrals); subsequent adjustments would be made for normative deviations (exonerations).	Under this criterion, all taxation would be covered (taxable event, exempt, non-subject) and the reference for identifying tax expenditures would be established.

It is appropriate to consider that the most precise definition of the tax structure is the one provided by the tax legislation itself. In this sense, the legal approach includes concessions to tax treatments that deviate from what is generally established in the tax law. This is clearly reflected in the tax framework through provisions that implicitly establish and enumerate various types of tax expenditures, such as exemptions, deductions (reductions), non-attachments, rate distinctions (reduced rates), credits, and deferrals. Table 5 provides an inventory of these fiscal benefits as defined within the Venezuelan national tax framework. It classifies information on various fiscal benefits by type of product, good, service, entity, and beneficiary of tax concessions, as well as by type of regulation: Income Tax (ISLR), Value Added Tax, Inheritance, Donations, and Other Related Taxes (ISDDRC), Large Financial Transactions Tax (IGTF), Large Wealth Tax (IGP), Selective Consumption Taxes (ISC), Gambling Taxes (IAJEA), and Stamp Tax (ITF).

Table 5 Inventory of Tax Privileges Contained in the Venezuelan Legal Framework (National Taxation).

		ISLR			IVA		IGTF	IGP	SDYDRC		IAJEA			IAEA	TF
Classification	**Tax Expenditure Items**	**Exemption**	**Contributions**	**Reductions**	**Not subject to**	**Exemption**	**Exemption**	**Exemption**	**Exemption**	**Reductions**	**Not subject to**	**Exemption**	**Waiver**	**Exemption**	**Exemption**
Consumer Goods	Vegetable oils, food and products for human consumption, fertilizers and natural gas, corn used in food for humans and animals, medicines, agrochemicals, minerals, and concentrated liquid food for animals					X									
	Ethanol and alcoholic substances lost through evaporation													X	
Intangible assets	Enrichment: Public debt bonds, savings, and pension funds	X													
	Investments in agricultural, livestock, aquaculture, and fish activities							X							
Personal property	Books, magazines, brochures, newspapers, and the paper for their editions; motor vehicles with special adaptations					X									
	Sales of movable intangible assets				X										
Fees and Payments	Inheritance share corresponding to the relatives of the deceased								X						
	Debts arising from the purchase, sale, and transfer of securities						X	X							
	Interest generated from investment returns	X													
	Donations for collective utility purposes		X												
	Payment of fees, small sailing vessels, certified copies subject to payment, certificates (INCES or "National Institute for Training and Socialist Education"), primitively constructed vessels														X
	Money loans				X										
Entities	Savings in savings banks and cooperatives	X													
	Venezuelan public entities	X			X		X	X	X						
	Industries producing alcohol and alcoholic beverages													X	
	Charitable social assistance institutions	X							X						
Import	Import of: essential food and beverages, goods donated from abroad to institutions, goods brought into free ports and free trade zones, banknotes and coins (BCV), explosives and arms (CAVIM), scientific and educational equipment, and goods imported by diplomats, travelers, and crew members.					X									
	Temporary import of movable assets				X										
Individuals	Diplomats and diplomatic officials	X					X								
	Surviving spouses, children under 21 years of age, and individuals over 60 years of age									X					
	Donors, heirs, and legatees	X								X					
	Scholarship students, pensions, and retirements for individuals	X													
	Partially and totally disabled individuals									X					
	Labor compensations, insurance contract compensations for individuals	X							X						
	Organization of gambling or betting games by individuals												X		
	Individuals and their spouses, ascendants, and descendants			X											
Rendering of services	Operation of lottery games by official public welfare and social assistance institutions												X		
	Operation or management of horse racing events												X		
	Insurance and reinsurance operations				X										
	Banking operations and services in general				X		X								
	Organization of recreational or leisure games											X			
	Water, urban sanitation, telephone, gas, residential electricity; raising of cattle, goats, sheep, pigs; transportation of fuel, derivatives, and goods; food services provided to students and workers; lodging, land and water transportation, educational and medical assistance services; admission to artistic, cultural, and sporting events, national parks, museums, and zoos					X									

Definitions:
ISLR: Income Tax
IVA: Value Added Tax (VAT)
IGTF: Tax on Large Financial Transactions
IGP: Tax on Large Wealth
SDYDRC: Tax on Inheritances, Donations, and Other Related Matters
IAJEA: Tax on Gambling and Betting Activities
IAEA: Tax on Alcohol and Alcoholic Beverages

4.4 The Importance of Estimating Fiscal Sacrifice and Its Effects on the Public Budgetary Process

If tax expenditures are part of the State's fiscal management, it is essential to review the criteria that justify their conceptualization. A thorough presentation of quantitative data in public budgets, combined with the ongoing evaluation of this measurement and regular updates of these criteria, will enable an assessment of whether fiscal benefits meet their intended objectives. This evaluation can be approached from two perspectives: the effectiveness of the tax system and the impact of the social benefits provided. "The fact that tax expenditures appear netting out fiscal revenues limits the political system's ability to review their effectiveness and affects the composition of the public budget" (BID, 2009, p. 7). The more the information related to the cost of tax expenditures (fiscal sacrifice) can be quantified, the greater the possibility of assessing the effectiveness of these expenditures.

In Venezuela, there is limited information on the amount of fiscal sacrifice undertaken by the Republic through national taxation and the methodology for quantifying this waiver. Regulation No. 1 of the LOAFSP (2005) states that the explanatory memorandum of the Budget Law Bill must contain, among other things, the information referred to in the LOAFSP (2015) article related to reports or statements of all quasi-fiscal activities. This will allow for both regulatory and procedural consideration of resource reduction in the budget formulation process. Hence, it is crucial that proposals involving fiscal privileges are accompanied by relevant sectoral impact studies and social forecasting plans that address the nature and relevance of fiscal risks related to tax expenditures.

The Venezuelan budget formulation experience does not collect quantitative information on this type of estimation. As a result, tax expenditures are treated as indirect expenditures because these tax waivers benefit certain economic or social groups. Since not all relevant information is included in the presentation of annual budget projects, the fundamental tenet of budgeting practice, which addresses the principle of universality, is overlooked (Sánchez, 2016). This principle asserts that the budget should reflect all revenues and expenses resulting from State activity, thereby avoiding the offsetting of expenditures with revenues. According to Gil (2001), netting should not occur by theoretical principle. However, the projected and executed budget balance, based on conventional practices, does not present an entirely accurate result. Accounting for net revenues without adequately reflecting the amount or extent of fiscal sacrifice (tax expenditures) introduces a bias of lack of transparency in the budget formulation process.

The public budgeting process quantitatively reflects, through public budgets, the short-term objectives set by the State by establishing timely projects or programs, while maintaining a long-term perspective. This long-term view influences the execution of economic and social development plans and facilitates the achievement of the goal of public management (OICG, 1992). In this context, Venezuelan public budgeting practice includes the methodological treatment of resources and expenditures according to the budgetary classifier of resources and expenditures. This classifier forms the budgetary structure for "different expenditure concepts, as well as the organization of statistical data through which budgetary statistics are summarized, consolidated, and organized to generate judgment elements for planning economic and budgetary policies" (ONAPRE, 2019).

According to ONAPRE (2019), this budgetary classifier facilitates the analysis of the economic and social effects of public sector activities and their impact on the economy or specific sectors, enabling both the formulation and financial execution of the budget. Its main objectives are: "i) to identify and record all flows of financial resources, and ii) to interrelate and present budgetary information on homogeneous and reliable bases, thereby facilitating the integration of State financial management systems" (p. 10). By using the budgetary classifier of resources and expenditures, a management tool is available that supports a series of operations (formulation, control, and evaluation of budget management), providing public officials with a resource to aid their decision-making process" (p. 13).

Regulation No. 4 of the Organic Law on Public Sector Financial Administration, concerning the Public Accounting System (2005), outlines the requirements for the public accounting system regarding the principles of universality, uniqueness of record, and integrated accounting. It specifies that: i) All economic and financial transactions that impact the Republic's assets and those of its functionally decentralized entities must be documented through the public accounting system (Regulation No. 4 LOAFSP, art. 12); ii) economic and financial transactions must be recorded only once to ensure that all necessary information for public financial management can be generated from this dataset. Therefore, the single entry of information must include all relevant data for subsequent processing (Regulation No. 4 LOAFSP, art. 13); and iii) the chart of accounts and/or classifiers used in SIGECOF must allow for modular coupling, thereby ensuring the integration of information (Regulation No. 4 LOAFSP, art. 14).

The above statements establish the principles and regulatory instructions for implementing the accounting framework necessary for quantifying fiscal sacrifice. The universality requirement ensures that all economic and financial transactions affecting the Republic's assets are recorded. The uniqueness requirement states that each economic and financial transaction must be recorded only once to generate all the information needed for public sector financial management. Additionally, the requirement related to the integrated accounting system ensures that classifiers and/or charts of accounts must allow for modular coupling, thereby ensuring information integration. Table 6 presents the phenomenological interpretation of the effects of omitting and presenting the quantification of fiscal sacrifice in the public budgeting process.

Table 6 Phenomenological Interpretation of the Effects of Omitting and Presenting Tax Expenditures (Fiscal Sacrifice) in the Republic's Budget

IC	Expert Criteria	Researcher's Observation
IC2	Fiscal sacrifice impacts the Republic's budget of resources and expenditures, affecting the assumptions established for the country's economic balance.	Non-compliance with criteria that integrate all variables in the budget formulation process prevents a reasonable and transparent presentation of the country's economic information.
IC3	According to LOAFSP, the Republic's budget project must be accompanied by reports or statements on all quasi-fiscal elements, including tax expenditures and other fiscal sacrifices that may affect estimates of fiscal revenue for the period.	The organic law framework mandated that the Republic's budget be accompanied by reports on tax expenditures; however, this requirement is now established in a subordinate regulation (Regulation No. 1; LOASFP).
IC4	The quantification of fiscal sacrifice is not considered in the Republic's budgeting process, due to procedural conditions.	The failure to account for fiscal sacrifice results in figures that "net" fiscal resources from expenditures.
IC5	The measure of fiscal sacrifice is not planned in the Republic's budget, which undoubtedly affects the accountability process of public agencies.	The omission of fiscal sacrifice quantification limits accountability and transparency, both of which are constitutional principles governing the performance of public entities.

The importance of quantifying fiscal sacrifice lies in its potential to enhance macroeconomic stability, fiscal integrity, and transparency in the formulation and execution of fiscal policies. This process involves incorporating the quantification of tax revenues that the State fails to collect compared to actual tax revenue. In other words, it provides information justifying the difference between actual (real) and estimated (budgeted) collections. The omission of quantifying the cost of tax expenditures leads to economic imbalances that affect the Republic's public budget for resources and expenditures. This omission alters the budget by failing to consider all elements involved in the budget formulation process (principle of universality) and restricts the public system's ability to implement policies aimed at reviewing the effectiveness of fiscal management (principle of accountability).

5. Discussion of Results

A key aspect of regulatory action is that human behavior is, to some extent, subject to legal requirements (Hart, 1994). Thus, "understanding the law is inherently linked to the ability to differentiate between true and false statements concerning legally required, prohibited, or permitted actions" (Navarro, 2000, p. 21). This understanding, combined with action, reveals various approaches for navigating organizational complexities and facilitates the coordination of essential elements and participants across different dimensions to address social issues.

To achieve these social goals, a regulatory framework outlines specific rules for managing the interactions between the principal parties: the State and society. Accordingly, each nation's Constitution seeks to establish the separation of powers and uphold guarantees rooted in the principles of justice and order. As the highest legal authority in the State, the Constitution defines the rights and obligations of citizens, specifies the roles of political powers and institutions, and provides the foundational guidelines for the nation's cultural, economic, and social development.

Regarding economic development, the Constitution of the Bolivarian Republic of Venezuela (CRBV), approved by popular referendum in 1999, establishes provisions regulating the socioeconomic system to "ensure integral human development and a dignified and productive existence for the community." This system is based on "the principles of social justice, democracy, efficiency, free competition, environmental protection, productivity, and solidarity" (CRBV, art. 299). In line with this principle of social justice, the Constitution also provides regulations for the budgetary system, and Article 316 states the following:

> The tax system aims to ensure the fair distribution of public burdens based on the taxpayer's economic capacity, in line with the principle of progressivity. It also focuses on protecting the national economy and improving the population's standard of living. To achieve these goals, it will rely on an efficient system for tax collection.

In addition, Title VI of the constitutional norm outlines the provisions related to the fiscal and monetary regime: i) "Fiscal management shall be governed and executed based on principles of efficiency, solvency, transparency, responsibility, and fiscal balance" (CRBV, art. 311); ii) "The economic and financial management of the State shall be governed by a budget approved annually by law… the National Executive Office shall explicitly state the long-term objectives for fiscal policy" (CRBV, art. 313); and iii) "In the annual public expenditure budgets at all levels of government, each budgetary allocation shall clearly specify the particular objective that it is directed towards and the concrete results expected to be achieved" (CRBV, art. 315).

In this regard, it is evident that the Budget Law holds precedence in the fiscal and monetary domains and serves as the primary tool for planning and managing the State's economic and financial administration. Therefore, it is crucial for this public policy instrument to include all necessary elements for designing and formulating actions that ensure the fair distribution of public burdens, the protection of the national economy, and the improvement of the population's standard of living (CRBV, 1999, art. 316). Accordingly, the Organic Law on Public Sector Financial Administration (LOAFSP, 2015) sets regulations for presenting the resources and expenditures included in the budgets. These regulations are primarily aimed at demonstrating the true economic significance of these variables and the objectives pursued. The regulation further specifies that with the Annual

Budget Bill, the Ministry of Finance must present the accompanying financial statements detailing social forecasting plans and the nature and relevance of any identified fiscal risks.

This premise related to the supporting documents and appendices that must accompany the Annual Budget Bill is insufficient compared to the scope of the first LOAFSP (2000). The earlier LOAFSP included provisions on how to present the resources and expenditures considered in the budgets, primarily aimed at showing the true economic significance of these variables and the objectives pursued. Among these requirements was the presentation of financial statements describing social forecasting plans, as well as the nature and relevance of fiscal risks, which would identify tax expenditures (exemptions, deductions, deferrals, and other fiscal sacrifices) to evaluate their economic effects, and the efficiency of the policies expressed through these activities. Although these provisions were repealed in LOAFSP (2015), Article 29 of Regulation No. 1 of LOAFSP (2005) includes such content as a mandatory requirement in the justification of the Budget Bill.

This underscores the importance of incorporating the estimation and/or quantification of fiscal sacrifice into the budget formulation process. This includes: i) all exemptions or releases from tax obligations; ii) any situation involving reduced revenue due to tax expenditures; and iii) the voluntary waiver of tax revenue collection by the State. Incorporating the cost of tax expenditures into the social forecasting plans presented with the Annual Budget Bill provides valuable information for decision-making regarding the impact on the estimated fiscal revenue for the year. This approach enables the identification of the cost of fiscal sacrifice related to the provision of benefits and other privileges.

The process of identifying tax expenditures is accompanied by the planning carried out by the entities involved in budgeting the cost of fiscal sacrifice assumed by the Republic. With the reorganization of the state structure, particularly concerning the National System of Public and Popular Planning following the enactment of the 1999 constitutional text, the Organic Law on Public and Popular Planning (LOPPP, 2010) establishes that public and popular planning aims to ensure the linkage between the formulation and execution of plans and budget programming (LOPPP, art. 4). Furthermore, the National Annual Operational Plan serves as the basis for obtaining the funds allocated to the National Administration of the State in the Budget Law for the relevant fiscal year, in accordance with the financial guidelines and budgetary discipline set by the Executive Office and other national legal provisions governing public sector financial management (LOPPP, art. 54).

In this regard, the National Economic and Social Development Plan serves as a planning tool through which policies, goals, measures, tasks, and actions are established to achieve the national project outlined in the Constitution of the Republic. This plan involves the planned and coordinated participation of state authorities and instances of Popular Power, in alignment with institutional powers and relevant competencies (LOPPP, 2010, art. 26).

Both the Public Budget and the Operational Plan act as public planning tools that reflect the behavior and performance of fiscal management. While the budget quantitatively represents (in monetary units) the resources needed to cover societal expenditures for a given period, the operational plan qualitatively outlines the goals and objectives pursued in public management. Quantifying and qualifying the cost of tax expenditures is crucial for transparency and accountability, and it contributes to the ongoing review of fiscal policy criteria governing the granting of fiscal concessions and other tax privileges in the National Economic and Social Development Plans.

It is important to note that implementing budget formulation and public accounting processes requires integrating management actions for estimating, monitoring, and controlling tax expenditures. These administrative tasks are intricate due to their multifunctional nature — spanning various domains such as the tax system, planning system, and budgeting system — and their intergovernmental scope, involving multiple agencies including the Ministry of Popular Power for Finance, the National Integrated Customs and Tax Administration Service (SENIAT), and other governmental bodies. These functions encompass tax policy, tax administration, budgeting, and program evaluation. Consequently, it is vital to interlink sub-legal provisions to ensure effective operation.

It is possible to clearly identify the provisions that require the governing bodies involved to analyze modifications in classifiers and/or charts of accounts to enable modular integration and ensure information cohesion. This includes incorporating changes required by the Budgetary Classification of Resources and Expenditures to assess the impact on resources (revenue) through the recording of tax expenditures via national taxation. Figure 2 presents a proposed regulatory framework that includes the macro (highest level), organic law level, and regulatory levels for managing fiscal sacrifice in national taxation.

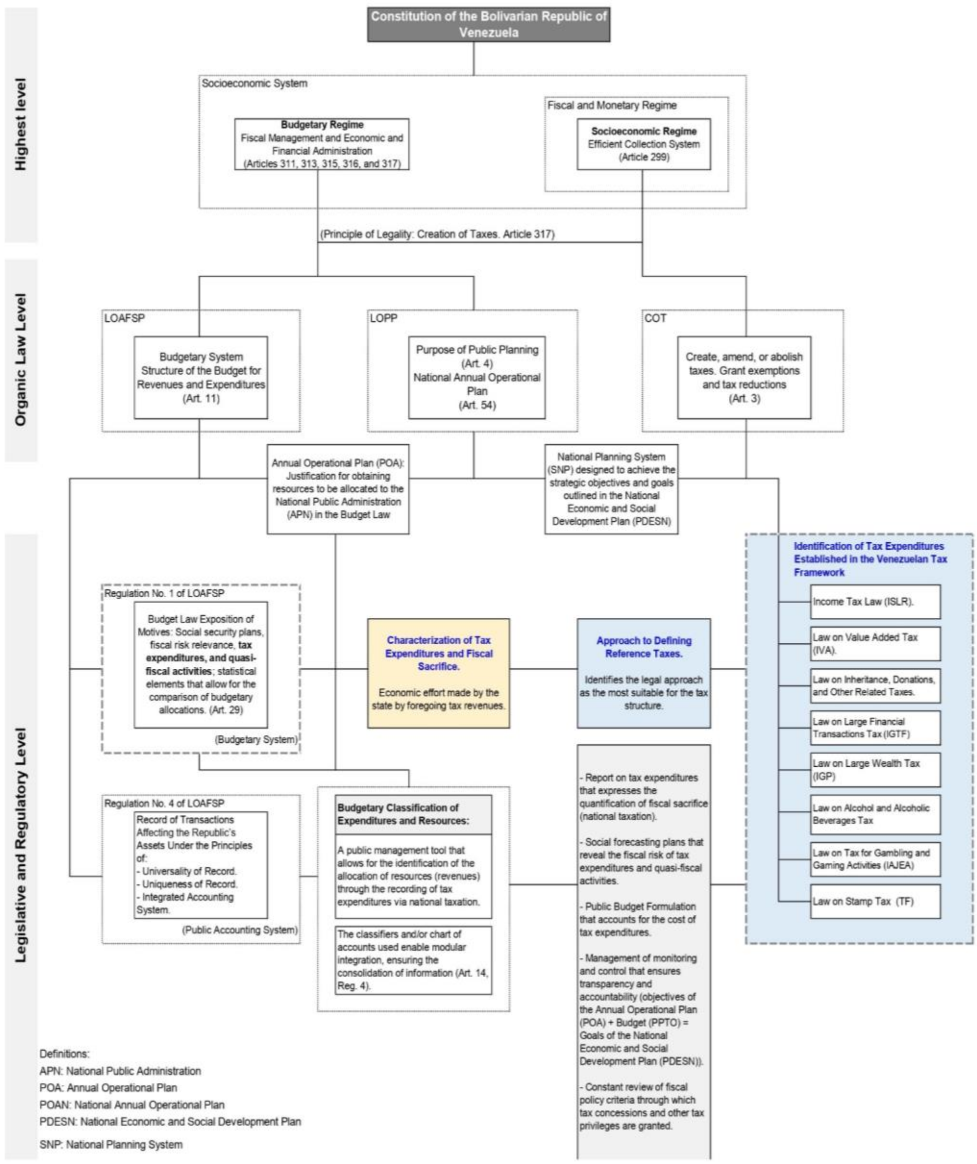

Figure 2 Proposed Normative Framework for Managing Fiscal Sacrifice

6. Conclusions

The conceptual reconfiguration of fiscal sacrifice involves several significant challenges in managing tax expenditures. One of these challenges highlights the substantial progress made in characterizing and addressing fiscal sacrifice and/or tax expenditures in Latin American countries. International organizations such as the Inter-American Development Bank (IDB), the OECD, the IMF, the Economic Commission for Latin America and the Caribbean (ECLAC), and the Inter-American Center of Tax Administrations (CIAT) have worked to develop guidelines and fiscal transparency manuals that compile best practices in public finance and include explicit references to tax expenditures. However, it is important to note that those tasked with estimating the cost of fiscal concessions and other tax privileges, in terms of tax revenue, face numerous difficulties. This ultimately means that such estimates are approximations of the magnitude of these revenue losses. The initial stage in the process of estimating tax expenditures should involve providing insights into the importance of each expenditure. Thereafter, the ongoing task will be to refine the estimation or calculation of this economic effort, which translates into fiscal sacrifice for the Republic.

The significance of assessing fiscal sacrifice is closely tied to fiscal transparency. The challenge intensifies when attempting to move beyond traditional objectives, such as boosting investment in particular economic sectors, encouraging the consumption of goods, and enhancing the efficiency and fairness of the tax system. Quantifying this economic effort can highlight its impact on commercial activities and, ideally, its contribution to achieving social goals that improve public welfare. Routine cost-benefit analyses in fiscal management are essential for justifying tax reforms aimed at eliminating or streamlining ineffective tax expenditures, which in turn enhances public services. The rationale for granting benefits and other fiscal privileges should also account for the benefits provided to the most disadvantaged groups, who often lack assured rights for social development and have insufficient income to meet their needs. This approach seeks to refine the criteria for granting fiscal benefits, especially exemptions for consumables accessible to final consumers.

Regarding the type of fiscal sacrifice being measured and how to measure it, continuous progress is required in identifying and estimating specific cases of tax expenditures. International experience varies greatly in practices for identifying reference taxes, and there are no standardized guidelines for preparing reports or statements that compile information on tax expenditures. This lack of standardization impedes the comparison of results across public management systems. Often, calculations are provided for both what is considered tax expenditure and what is not, given the involvement of general tax concessions. For this identification process, it is common to apply a legal approach and use a reference point for subsequent measurement of tax expenditures. Therefore, it is acceptable, at an initial stage, to compile a list of tax concessions considered “tax expenditures”, even if the monetary amounts involved are unknown, as this will highlight all cases of tax benefit concessions.

Although the legal approach relies on current tax legislation to define reference taxes and identify tax expenditures, it also involves selecting and applying a method for accurate estimation. International practice often favors the foregone revenue method as the most effective approach, but it also cautions that results should be adjusted for an equivalent tax margin when the transfer is subject to taxation. Quantitatively estimating foregone revenue poses a significant challenge for public sector management in our country. The main difficulty arises from the lack of comprehensive data on these variables from key entities involved in tax collection, such as the Ministry of Popular Power for Finance, National Integrated Customs and Tax Administration Service (SENIAT), and the central economic statistics agency (BCV). Access to information is limited, and data on national tax collection, the number of taxpayers by tax type, exempt and/or excluded bases, and the impact of reduced rates and discounts are rarely published.

Quantifying fiscal sacrifice necessarily depends on the methodological treatment of resources and expenditures using classifiers and/or charts of accounts used by ONAPRE (Budgetary Classification of Resources and Expenditures) and ONCOP (Manual for Income Recording) to ensure the universality and uniqueness of recording all economic and financial transactions that could impact the Republic's assets. This approach generates all necessary financial management reports for the public sector and supports modular integration for information coherence (Regulation No. 4, LOAFSP, 2005).

The information needed to estimate this foregone revenue and integrate it into the budget formulation process necessarily comes from the historical record of operations related to tax revenue collection and customs revenue. Although the Manual for Income Recording (ONCOP) establishes that revenues are recognized for recording purposes at the time they are accrued, regardless of cash movement, and that income is considered accrued when the right to receive a specific amount of resources is acquired (ONCOP, 1999), the criterion for breaking down exempt or exempted bases is based on accrued amounts rather than amounts to be paid, as the tax owed is determined once the applicable rates and tariffs are applied to the taxable base.

The process of quantifying fiscal sacrifice and integrating it into the budget formulation process implies that the amount generated from tax expenditures should be presented “side by side” with direct expenses. The classification of both expenses will reveal their budgetary impact and their purpose in fiscal management. Having this information prevents the public budget’s composition from being affected by administrative restrictions that impact the capacity and effectiveness of the political system. As the information related to fiscal sacrifice can be quantified, there will be greater opportunities to assess the impact of tax expenditures on the Republic's public budget. This underscores the importance of fostering research to develop specific methodologies aimed at estimating the cost of tax expenditures, facilitating their integration into the public budgeting process, and generating theoretical and practical public policy proposals that simplify and justify the criteria and procedures by which the Venezuelan State grants fiscal benefits and other tax concessions to various sectors of the national economy.

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