Key Features for Tax Modernization Success

Prepared for:

ICGFM
The International Consortium on Governmental Financial Management
Who We Are

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Agenda

• Domestic revenue mobilization (DRM) core to public financial management (PFM)

• Reform Objectives

• Adapting approach and policy recommendations to context

• Achieving strong and sustainable results

• Tax modernization success factors

• Take away
Domestic Revenue Mobilization core to Public Financial Management

• DRM policy impacts on most aspects of an economy:
  – The amount of security that the country can afford,
  – The type of programs and services provided by the government,
  – The extent of public investment to promote economic growth and development,
  – The level of fairness, equity and well being in the country,
  – The amount of corruption associated to revenue collection, and
  – The legitimacy of the state and the social contract with citizens
Sustainable development depends on adequate DRM

Excess of Expenditures over Revenue, 2017

Source: IMF Fiscal Monitor, October 2017
Evolution of Domestic Resource Mobilization, 2001-2020

Figure 1. Tax-to-GDP trends in LIC & LMIC

Source: based on IMF WoRLD database

Source: Oxfam Briefing Note: State of DRM, December 2017.
COMPARISON OF INCOME PER CAPITA AND TAX REVENUE TO GDP RATIO

Source: October 2015, World Economic Outlook

Source: Revenue Mobilization and Reform in Action, IMF, December 2015
Reform Objectives

• Identify new revenues to fund social priorities and public investments,
• Improve buoyancy and efficiency of revenue mobilization,
• Stabilize the deficit or contain the debt,
• Improve the international competitiveness of the economy,
• Combat corruption,
• Enhance fairness of the tax system,
• Ease tax compliance and administration, and
• Promote voluntary compliance.
Adapting approach and policy recommendations to the context

- The US tax reforms of the 80s
- The VAT reform in the Soviet Union in the 90s
- Post conflict situation such as in Iraq and Afghanistan
- Montenegro tax legislation “void”
- Georgia post-Rose Revolution
- Greater buoyancy of the system
  - Indonesia fiscal adjustment 2000s
  - Jordan IMF Extended Fund Facility program
Achieving strong and sustainable results

- Comprehensive tax, economic & social statistical information,
- Models that allow to compute the fiscal, distributional and economic impacts of the tax measures,
- Capacity to:
  - Prepare policy recommendations,
  - Defend the proposed measures with Cabinet, Parliament, the public, the business community, IMF or rating agencies,
  - Draft clear and comprehensive legislation that reflects the local judicial system, eases compliance and promotes effective enforcement,
- Administrative and legislative tools to protect national revenue from sophisticated internal and international tax planning,
- From day one, integrate the tax administration that can implement the changes, and
- Capacity to communicate proposed changes.
## Requirements for Tax Modernization Success

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<th>Policy and Legislation</th>
<th>Implementation</th>
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<td>Understanding the context</td>
<td>Determining scope and approach</td>
<td>Preparing Tax Administration</td>
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<td>Developing policy proposals</td>
<td>Drafting legislation</td>
<td>Communicating policy proposals</td>
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<tr>
<td>Clearly define purpose of the undertaking</td>
<td>Present clear policy proposals accompanied with distributional and revenue impacts</td>
<td>Include tax administration officials from day one</td>
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<td>Comprehensive vs. targeted</td>
<td>Draft clear and comprehensive legislation</td>
<td>Provide adequate time to the tax administration to implement changes</td>
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<td>Develop data base and modeling capacities</td>
<td>Integrate tax laws into a unified tax code</td>
<td>Plan the necessary tax administration resources to implement the changes</td>
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<td>Identify and state fiscal targets</td>
<td>Identify measures that promote tax compliance and reduce tax planning opportunities</td>
<td>Develop clear and comprehensive tax administration compliance forms and instructions</td>
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<td>Issue a comprehensive policy paper</td>
<td>Rely on a separate tax policy unit for developing proposals</td>
<td>Determine type and timing of consultation</td>
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<td>Include donors and/or IMF as part of the discussion</td>
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<td>Prepare and disseminate detailed information on proposed changes</td>
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Takeaways

- DRM is core to PFM
- Sustainable development requires improved DRM
- Define clear reform objectives supported by fact based analysis
- Need to identify a “champion” to carry the reform
- Adapt approach and policy recommendations to context
- Prepare clear and comprehensive legislation
- Provide adequate support and resources to prepare tax administration for reform
- Communicate
Questions and Answers
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