

Key Features for Tax Modernization Success

Prepared for:



Who We Are



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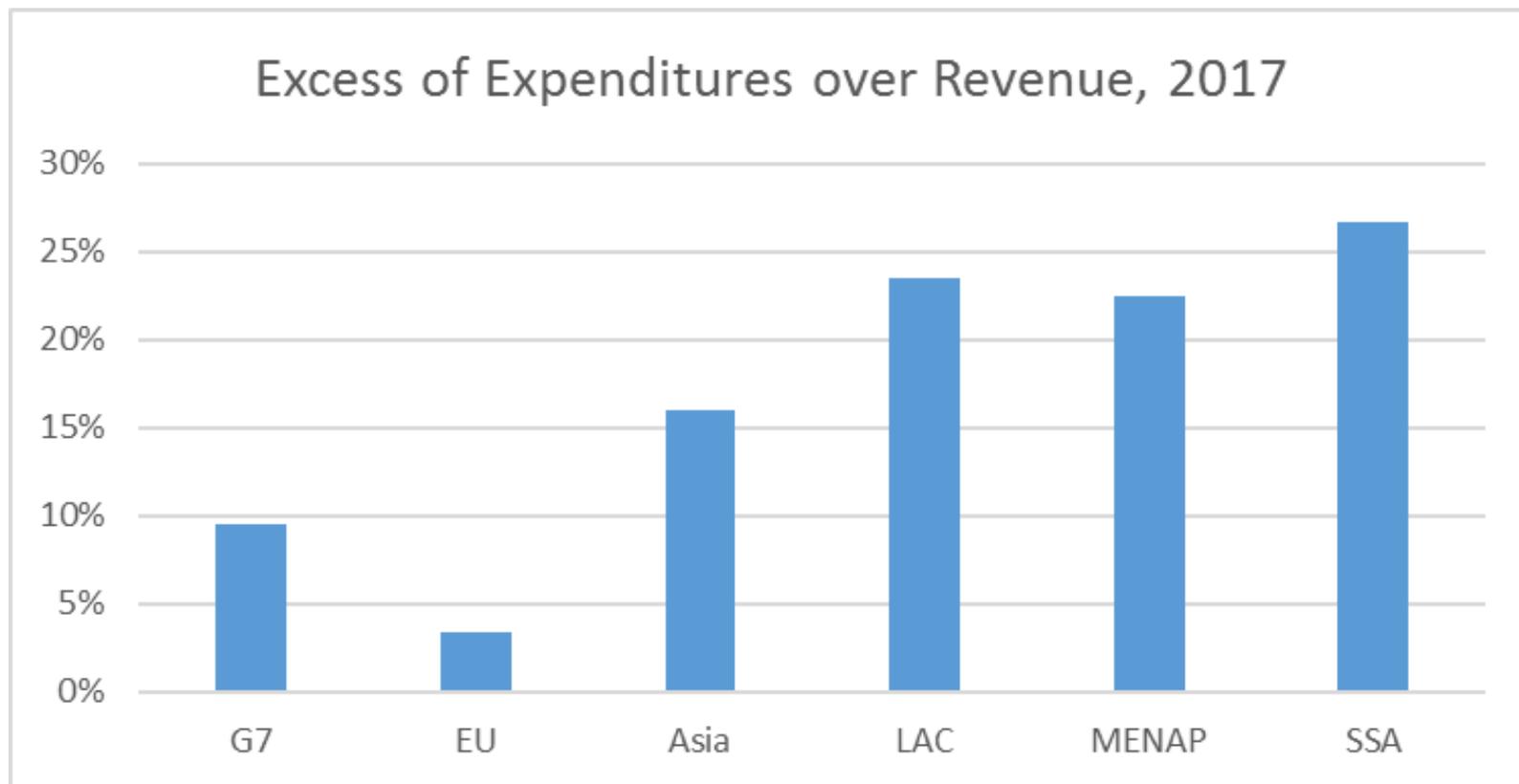
Agenda

- 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

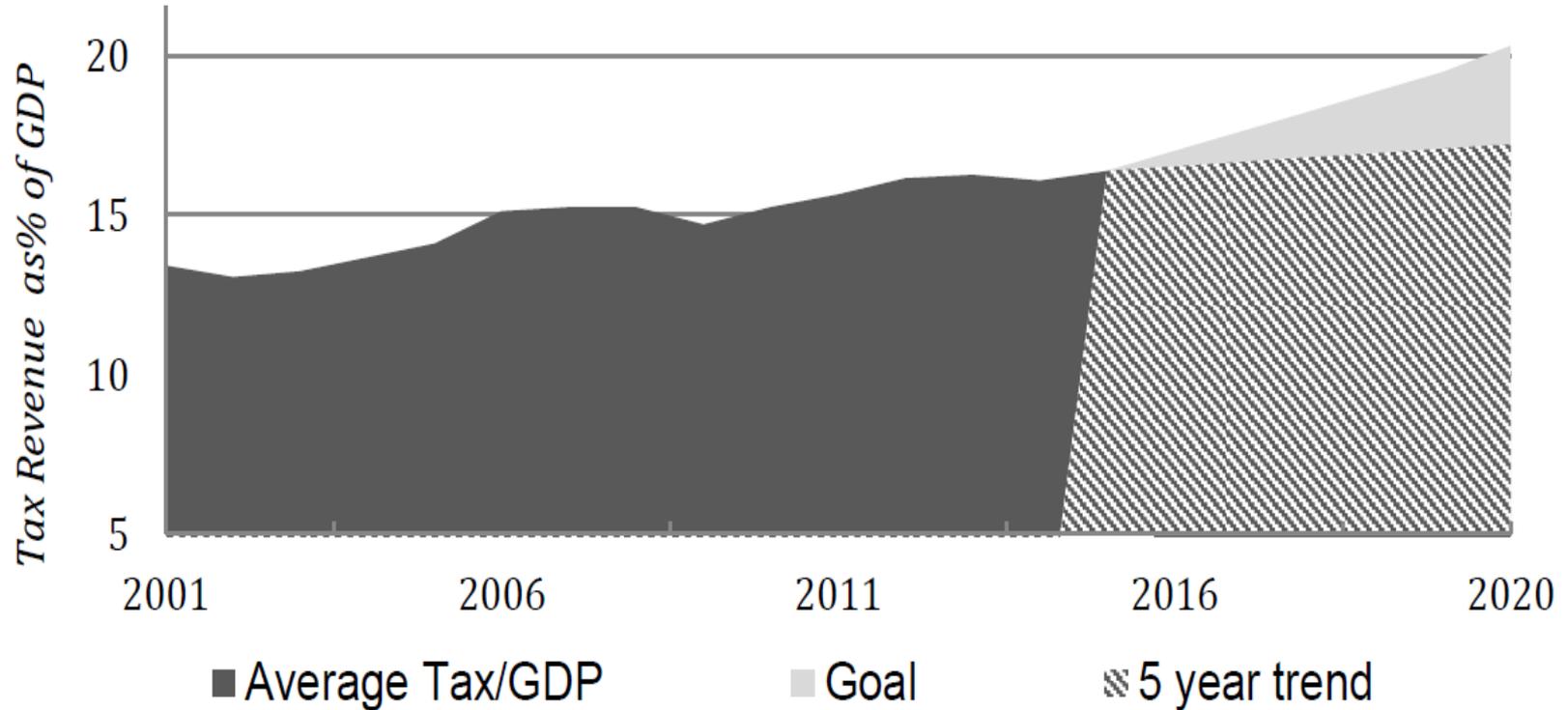
Sustainable development depends on adequate DRM



Source: IMF Fiscal Monitor, October 2017

Evolution of Domestic Resource Mobilization, 2001-2020

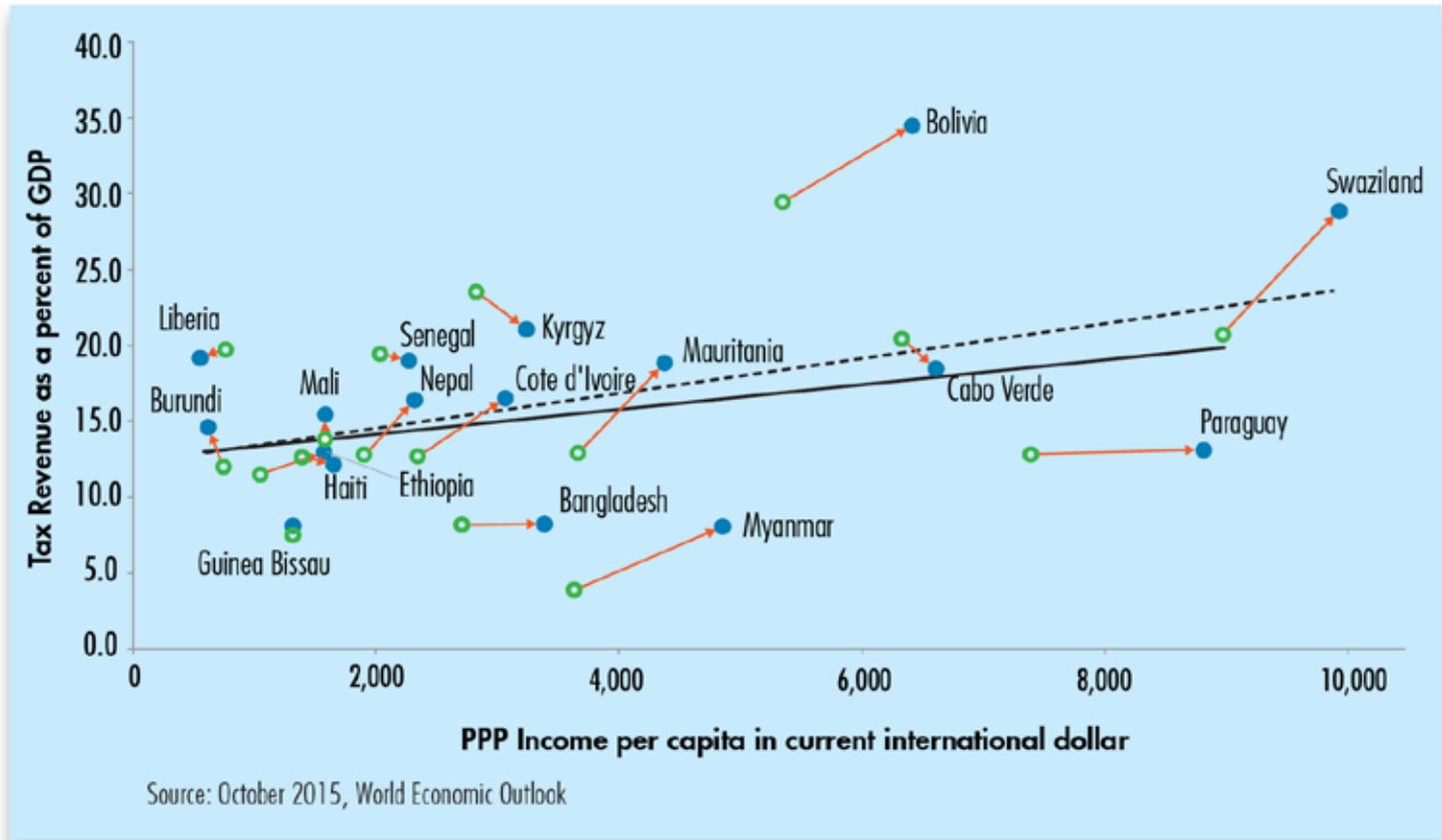
Figure 1. Tax-to-GDP trends in LIC & LMIC



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

- 2014
- 2011
- Linear (2014)
- Linear (2011)

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



<p>Clearly define purpose of the undertaking</p> <p>Determine champion to drive the proposals</p> <p>Include donors and/or IMF as part of the discussion</p>	<p>Comprehensive vs. targeted</p> <p>Develop data base and modeling capacities</p> <p>Identify and state fiscal targets</p> <p>Issue a comprehensive policy paper</p>	<p>Present clear policy proposals accompanied with distributional and revenue impacts</p> <p>Identify measures that promote tax compliance and reduce tax planning opportunities</p> <p>Rely on a separate tax policy unit for developing proposals</p>	<p>Draft clear and comprehensive legislation</p> <p>Integrate tax laws into a unified tax code</p> <p>Involve legal drafters from various organizations – government, parliament</p>	<p>Include tax administration officials from day one</p> <p>Provide adequate time to the tax administration to implement changes</p> <p>Plan the necessary tax administration resources to implement the changes</p>	<p>Determine type and timing of consultation</p> <p>Prepare and disseminate detailed information on proposed changes</p> <p>Develop clear and comprehensive tax administration compliance forms and instructions</p>
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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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