DRM Case Study of El Salvador’s Tax Reform

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Outline

1. DRM achievements in El Salvador
2. Ingredients for Success: Governance, IT, Legal System, and Logistics
3. Increases In Social Spending
4. Final Thoughts
## Key Achievements in Domestic Revenue Mobilization in El Salvador

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>2004</th>
<th>2010</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Tax Revenues as percentage of GDP</td>
<td>13.3%</td>
<td>15.6%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Indirect taxes as percentage of total tax collections</td>
<td>70.7%</td>
<td>65.8%</td>
<td>61.0%</td>
</tr>
<tr>
<td>Direct taxes as percentage of total tax collections</td>
<td>29.3%</td>
<td>36.2%</td>
<td>39.0%</td>
</tr>
<tr>
<td>VAT Evasion</td>
<td>27.4%</td>
<td>24.7%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Use of data mining for tax control</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>E-filing system in place</td>
<td>NO</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Integrated tax control system in place</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Anticorruption Unit in place</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Criminal Tax Investigation in place</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Transfer pricing control fully implemented</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Taxpayers' services under IT solutions</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>
Ingredients for Success: Governance

- Embracing automation
- Improved taxpayer services and voluntary compliance
- Strengthen tax audit techniques
- Sustained political support and institutional resources
- “Whole-of-society” engagement
Ingredients for Success: IT

- Development of an integrated tax information system
- Risk-based case selection management system
- Creation of an e-filing system
- Custom-developed IT systems, in-house
- Data mining
Ingredients for Success: Legal System

Support the drafting and enacting of:

1. Transfer pricing regulation
2. Tax fraud regulation
3. Strengthening tax administration statutory power
Ingredients for Success: Taxpayer Services

Reducing the compliance burden for taxpayers and improving the effectiveness of tax administration:

1. Improved efficiency of process and procedures
2. Creation of call centers for taxpayers services and collections
3. Better technical tools and facilities to enhance productivity
Greater Social Spending

• Increased tax revenues allowed for greater social spending from GOES: social spending went from 7.1% of GDP in 2007 to 9.1% in 2018 overall.

• Public spending in education increased from 3.38% in 2007 to 3.61% in 2018.

• Public spending in health increased from 2.0% in 2007 to 2.3% in 2018.

• Spending on the security sector has risen disproportionately
Experience in El Salvador: Public and Private Health Expenditure as % of GDP, 2008-2018

Source: Data from MINSAL and the Central Reserve Bank of El Salvador
Experience in Guatemala: Public and Private Health Expenditure as % of GDP, 2007-2016

Source: WHO Global Health Expenditure Database
Experience in Honduras: Public and Private Health Expenditure as % of GDP, 2007-2016

Source: WHO Global Health Expenditure Database
Final Thoughts

• DRM *enables* greater financing for development, self-reliance and does not always require major policy shifts

• A strong partnership between functional and IT expertise is central to both effectiveness and sustainability

• Improved fiscal policy and administration contributes to macroeconomic stability.