

DRM Case Study of El Salvador's Tax Reform

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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

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

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:

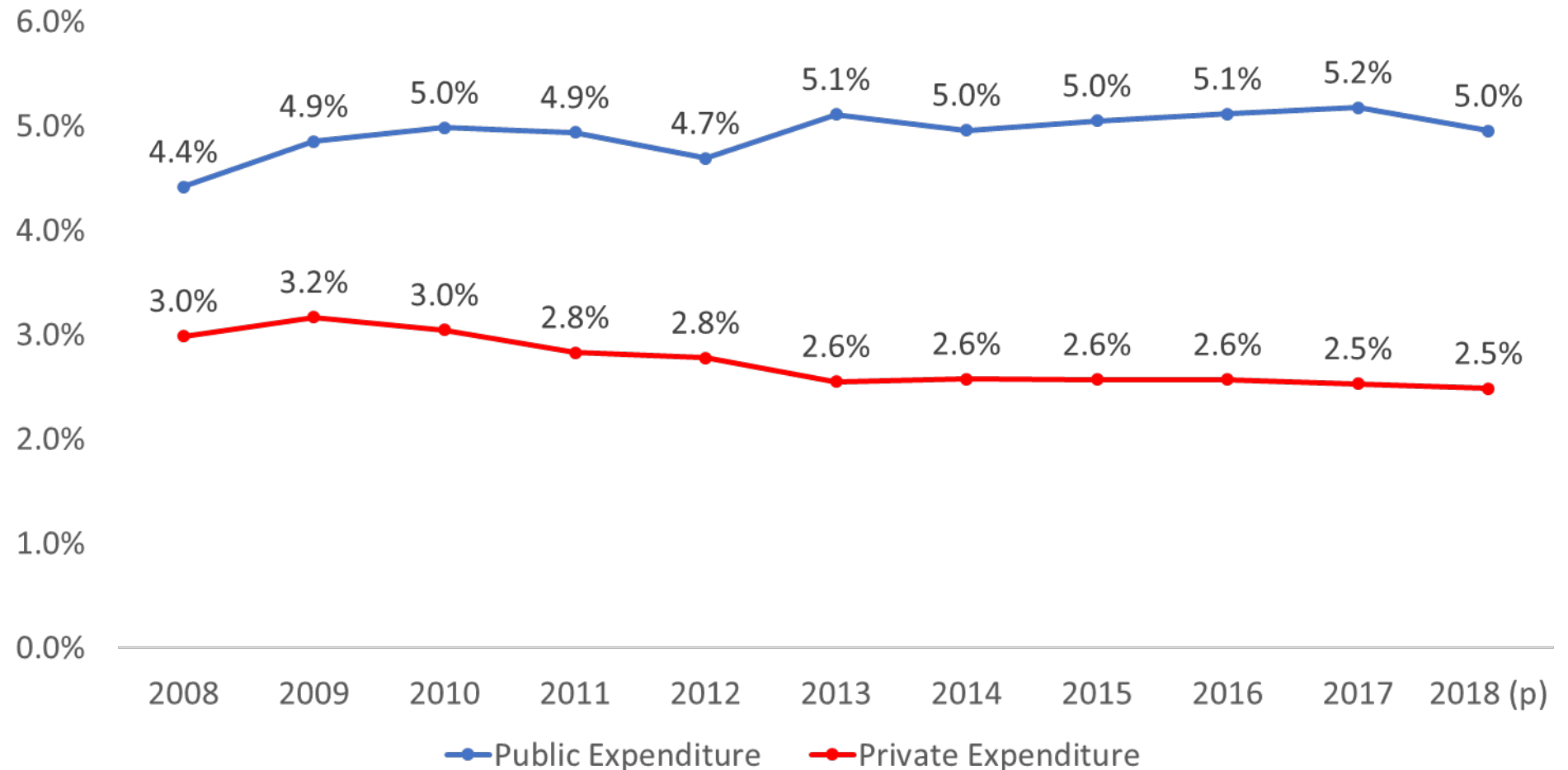
1. Improved efficiency of process and procedures
2. Creation of call centers for taxpayers services and collections
3. Better technical tools and facilities to enhance productivity
4. Built capacity of new technical units: a large taxpayer office, criminal investigations, transfer pricing, case selection management and fiscal studies.

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

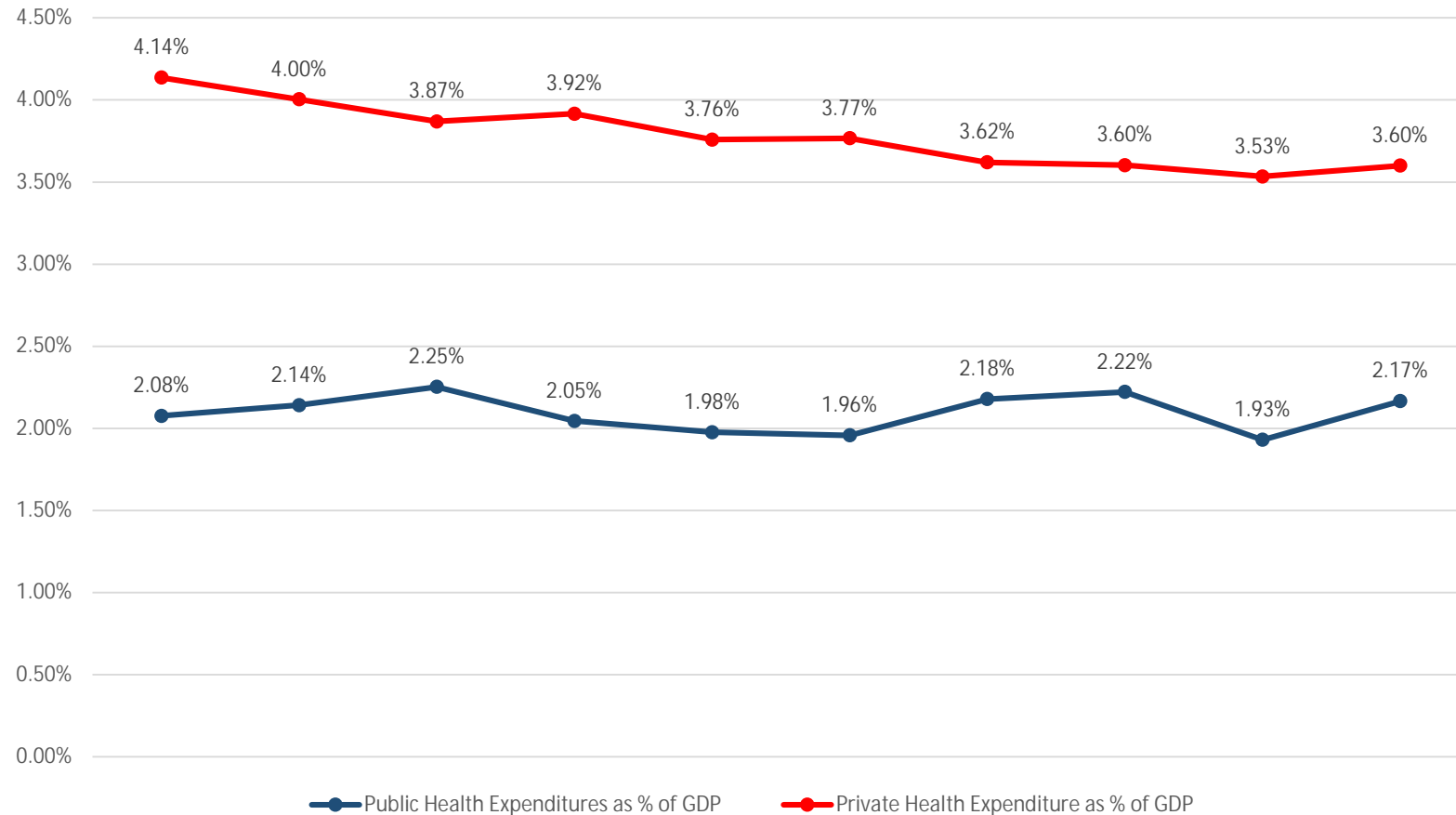
Experience in El Salvador: Public and Private Health Expenditure as % of GDP, 2008-2018

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Experience in Guatemala: Public and Private Health Expenditure as % of GDP, 2007-2016

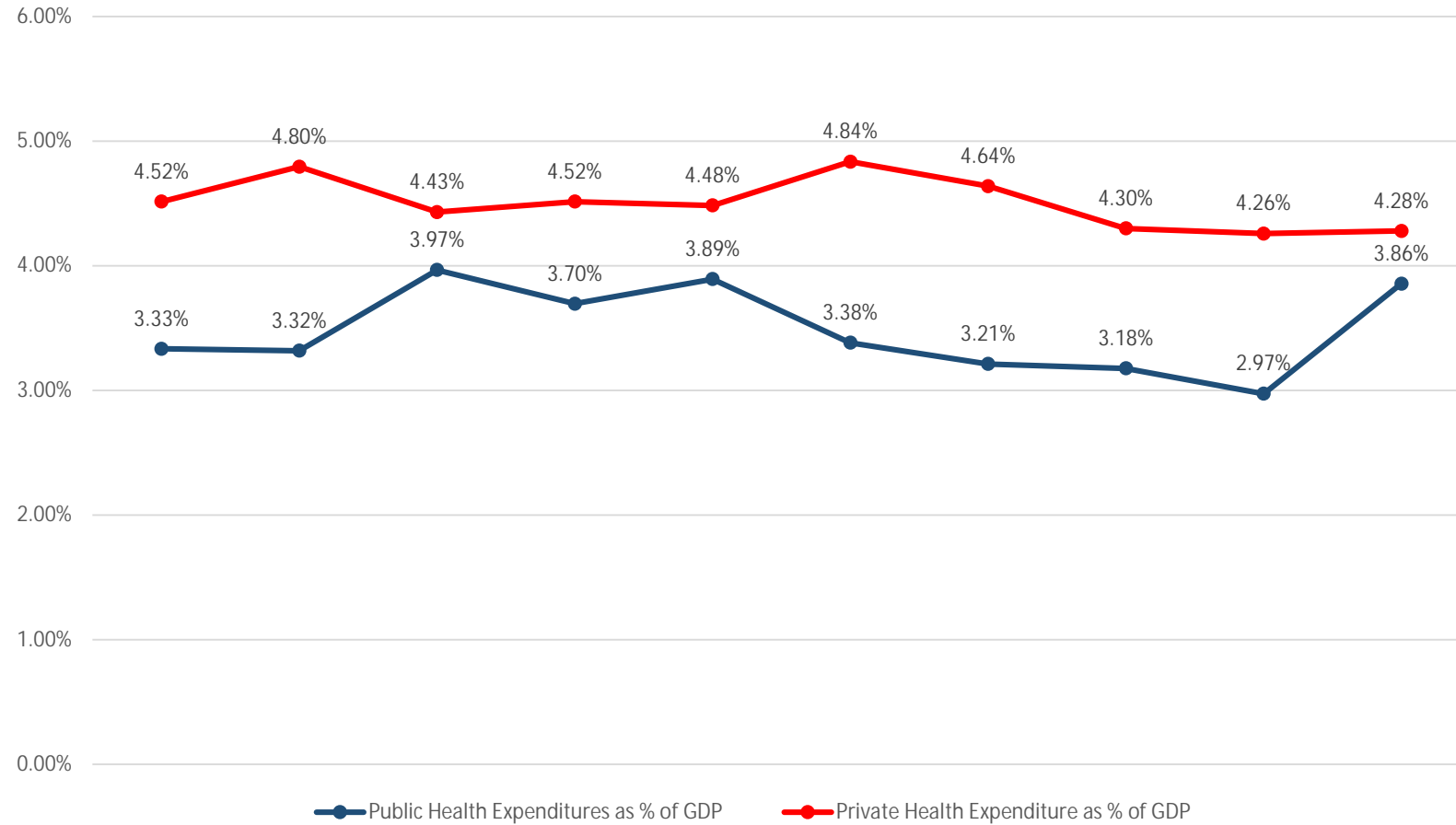
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Source: WHO Global Health Expenditure Database

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

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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.