MEDIUM TERM REVENUE STRATEGIES (MTRS): AN UPDATE

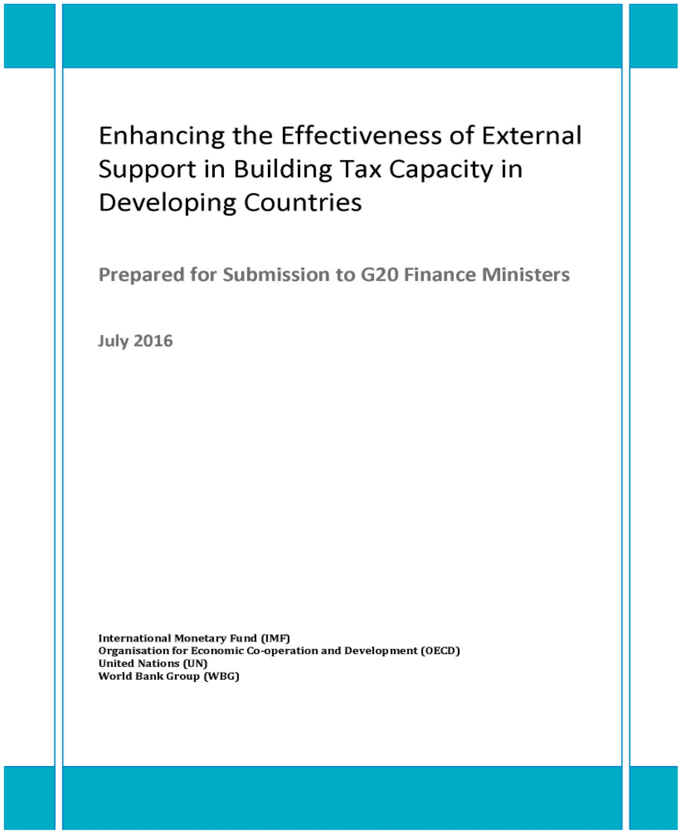
Michael Keen

Tenth IMF-Japan High-Level Tax Conference

For Asian Countries in Tokyo

April 26, 2019

The MTRS Approach to Tax System Reform



Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries

Prepared for Submission to G20 Finance Ministers

July 2016

International Monetary Fund (IMF)
Organisation for Economic Co-operation and Development (OECD)
United Nations (UN)
World Bank Group (WBG)

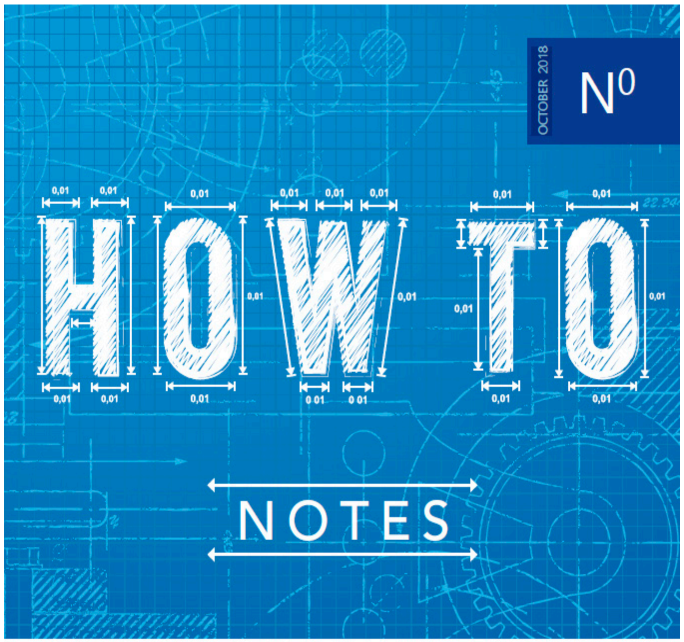
This report can be found at: https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Enhancing-the-Effectiveness-of-External-Support-in-Building-Tax-Capacity-in-Developing-PP5059.

An MTRS ideally aspires to:

1. Build broad based consensus for medium-term revenue goals, linked with expenditure goals
2. Develop a comprehensive tax system reform plan—policy, administration and legal framework
3. Commit to steady and sustained political support (government-led and whole-of-government) to implementation over multiple years
4. Secure adequate resourcing and coordinated support – domestically and from DPs – for effective implementation

Developing an MTRS

Forthcoming "How to" note



FISCAL POLICY

Transitioning a Country's Tax System Reform Efforts into a Medium-Term Revenue Strategy (MTRS) - Formulation

FISCAL AFFAIRS DEPARTMENT | INTERNATIONAL MONETARY FUND

Four steps

1. Understand the MTRS approach to tax system reform—including its four interdependent components

2. Take stock of ongoing reform initiatives

3. MTRS gap analysis—compare ongoing reform efforts with the four components of an MTRS

4. Address MTRS gaps by formulating an MTRS—building on ongoing tax system reforms efforts

Implementation

Development and/or beginning implementation in about a dozen countries

- Implementation begun: PNG, Laos

  —PNG plan online

- Various stages of engagement, some very advanced: Indonesia, Uganda, Senegal,..
- Others exploring in moving large reform programs to full MTRS
- Indonesia plan published in IMF book

CHAPTER 6

Implementing a Medium-Term Revenue Strategy

RUUD DE MOOIJ, SUAHASIL NAZARA, AND JUAN TORO

INTRODUCTION

Indonesia needs to substantially increase its government revenue level in a sustainable manner to finance additional expenditures that are critical for economic growth and development. With a ratio of general government tax revenue to GDP of just over 11 percent, Indonesia is the lowest among the Group of Twenty (G20) countries and trails other emerging market economies. Empirical evidence suggests that countries with a tax-to-GDP ratio of less than 15 percent tend to grow significantly more slowly than countries beyond this tipping point because it impedes opportunities for productive government spending. Therefore, adopting a medium-term approach to raising revenue will be critical to achieving the revenue-level change that Indonesia needs.

This chapter outlines a medium-term revenue strategy (MTRS) for Indonesia that aims to raise tax revenue by 5 percentage points of GDP in five years. The MTRS approach was developed for the G20 by the Platform for Collaboration on Tax and frames the tax system reform in a comprehensive and holistic framework of four interdependent components: (1) building broad-based consensus in the country for medium-term revenue goals to finance needed public expenditures; (2) designing a comprehensive tax system reform covering policy, administration, and the tax legal framework to achieve these goals; (3) committing to steady and sustained political support (government-led and whole-of-government

Ruud de Mooij and Juan Toro are affiliated with the IMF's Fiscal Affairs Department. Suahasil Nazara is Chairman of the Fiscal Policy Agency, Ministry of Finance, Republic of Indonesia, and professor of economics, University of Indonesia. The chapter is based on a technical assistance mission by the IMF, which worked closely with the staff of the Ministry of Finance. Other members of the IMF team include Aqib Aslam, John Brondolo, Annette Chooi, Michael D'Ascenzo, Hui Jin, Narine Nersesyan, and Thomas Story. The work benefited from comments by the Indonesian government's officials, as well as by IMF staff, including Michael Keen, Thornton Matheson, Debra Adams, and Christophe Waerzeggers. The views expressed in this chapter do not necessarily reflect those of the IMF or the Indonesian government.

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The book is at: https://www.elibrary.imf.org/view/IMF071/24870-9781484337141/24870-9781484337141/24870-9781484337141.xml.