



Good Governance, Better Results

GOVERNANCE
THEMATIC GROUP

IMF-ADB Seminar on Medium Term Revenue Strategy: ISORA and ADB's Comparative Series on Tax Administration

Presentation by:

Richard Highfield

Consultant in Tax System Administration (ADB)

1-2 December 2017, Manila

Structure of this Session

- Developments with analysis of tax administration and tax system performance.
- ADB's series on tax administration (3rd edition):
 - Approach and Progress.
 - Emerging research findings.
 - Next steps

Comparative Analysis of Tax System Performance

- Interest has grown enormously in better understanding tax system performance since the global financial crisis in 2008.

Tax System Structure & Performance Trends



OECD Revenue Statistics

- OECD members (35)
- L. America/Caribbean (25)
- African economies (16)
- Asian economies (7)

EU Tax Trends (28 economies)

Tax Administration Systems/Performance



- OECD Tax Administration (7 editions, 55 economies)
- ADB Tax Administration Series (2 editions, 21 economies)

Tools to Support Analysis of Tax System Performance

Name	Description
EU Fiscal Blueprints	A diagnostic framework to examine the appropriateness of tax administration frameworks critical for a well-functioning tax system.
RA-FIT	A web-based data gathering tool to establish baselines of current revenue body performance to improve comparative study and benchmarking.
RA-GAP	A technical assistance service that assists revenue bodies in monitoring taxpayer compliance through tax gap analysis.
TADAT	A diagnostic tool to deliver an objective and standardized assessment of a country's system of tax administration, focusing on nine key performance areas.
ISORA	A standardised survey tool for gathering multi-economy data on tax administration set ups and performance, introduced by the IMF, OECD, IOTA, and CIAT.

Why Have a Comparative Series on Tax Administration?

- Collecting taxes is hard! Revenue bodies are subject to numerous demands and ongoing reform challenges, eg.

➤ Demands for more revenue.	➤ New and complex tax laws.
➤ Changing business models.	➤ Globalisation Trends
➤ New international tax rules.	➤ 'Difficult to administer' taxes.
➤ Ageing workforces	➤ Technology developments.
➤ Need for more skilled staff	➤ Never enough resources!

- Resource mobilisation is key for many economies.
- Revenue bodies are constantly looking to do better.
- Reform is ongoing- *lots to learn from others!*
- Opportunities to benchmark tax system performance
- Greater knowledge also assists technical assistance providers



Why Have a Comparative Series on Tax Administration?

- Asia lacks a permanent and dedicated tax body with wide representation.
- Lack of systematically-gathered comparative data on tax system design & performance:
 - ADB's membership totals 48 economies **but...**
 - Revenue Statistics Asia (2017) – 7 economies
 - ADB's Tax Administration Series (2016) - 21 economies.
- Knowledge levels of tax administration and system performance across the region are fairly low.
- *Revenue Statistics Asia and ADB's Comparative Series* are good initiatives but greater coverage & depth would increase their value significantly.



ADB's Comparative Series- 3rd Edition

- Coverage objective is to include all Asian economies from East to West Asia: **32 economies**
- Survey is based ISORA(**).
- Use OECD/ IMF data for 14 economies- 18 to survey.
- Survey data are being captured on a shared database (RA-FIT).
- Research of revenue body's corporate documents and other materials.



(**) ISORA=IMF, OECD, IOTA & CIAT.

ADB's Comparative Series- 3rd Edition

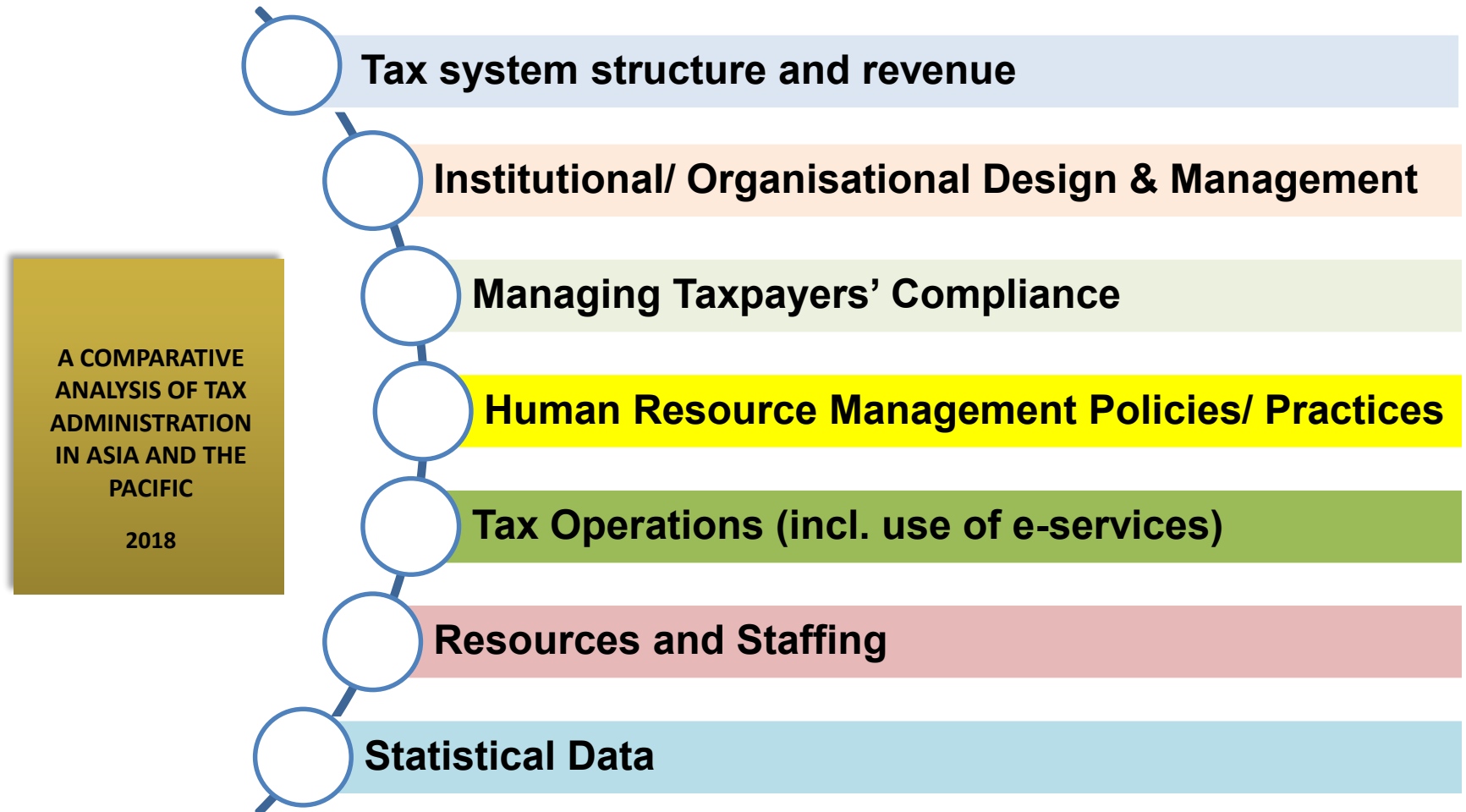
- Survey forms sent to revenue bodies in **July/ August 2017**.
- The series' value relies on wide and (ideally) full participation.
- Survey data received (some with many gaps)-26 economies.

- | | | |
|--|--|--|
| <ul style="list-style-type: none">• Australia*• Bangladesh• Bhutan• Brunei Darussalam• Cambodia• China*• Hong Kong, China*• India*• Indonesia* | <ul style="list-style-type: none">• Japan*• Kazakhstan• Korea*• Kyrgyz Rep.• Lao PDR• Malaysia*• Mongolia• Myanmar* | <ul style="list-style-type: none">• Maldives*• New Zealand*• PNG*• Philippines• Singapore*• Taipei, China• Tajikistan• Thailand• Vietnam |
|--|--|--|

- We hope to include a few more-Sri Lanka, Nepal, & Pakistan?

* Sourced from OECD or IMF

What's will the Comparative Series Report?



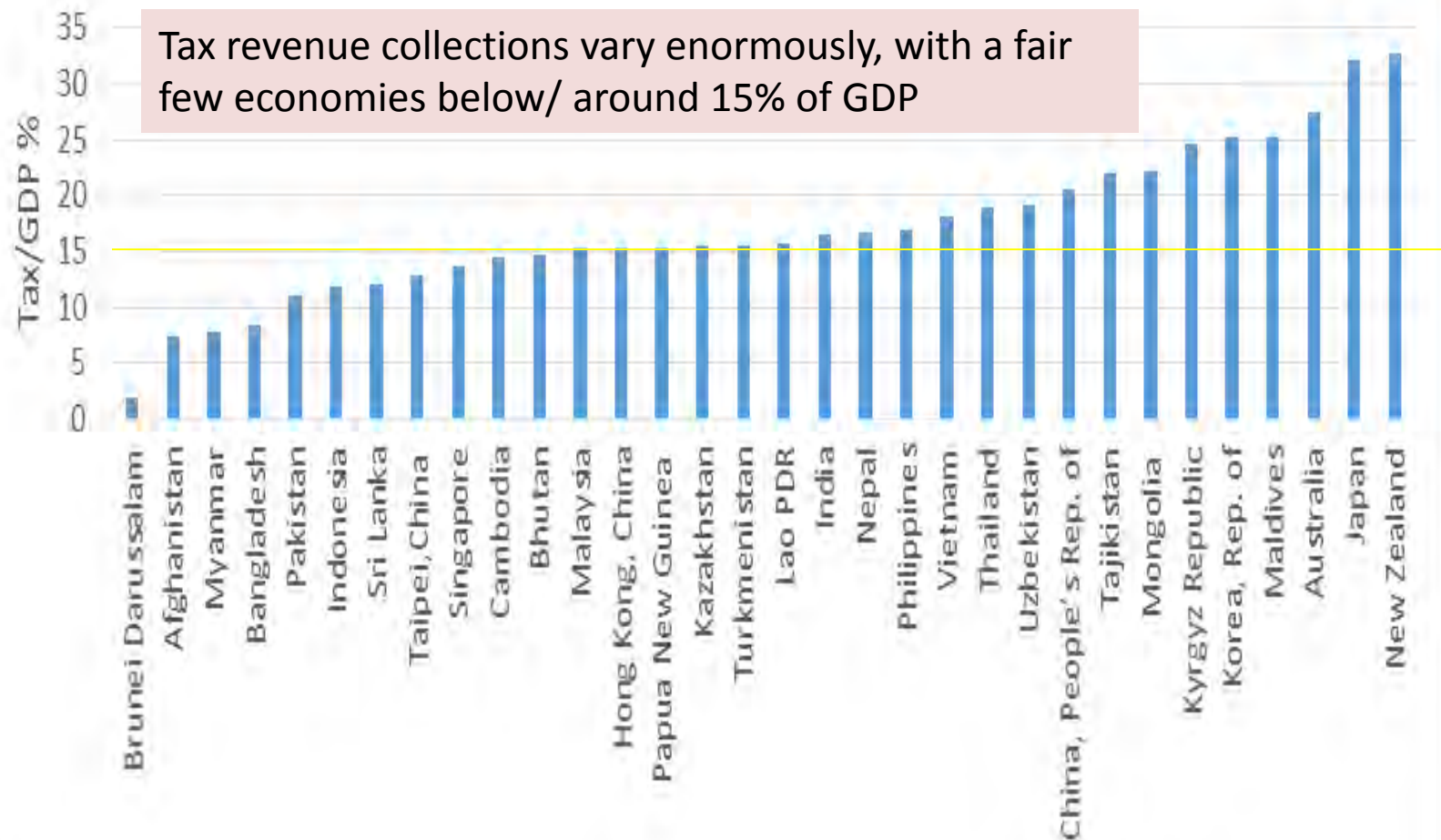
**** SERIES DOES NOT RANK OVERALL PERFORMANCE OF REVENUE BODIES**



Some Emerging Observations and Findings

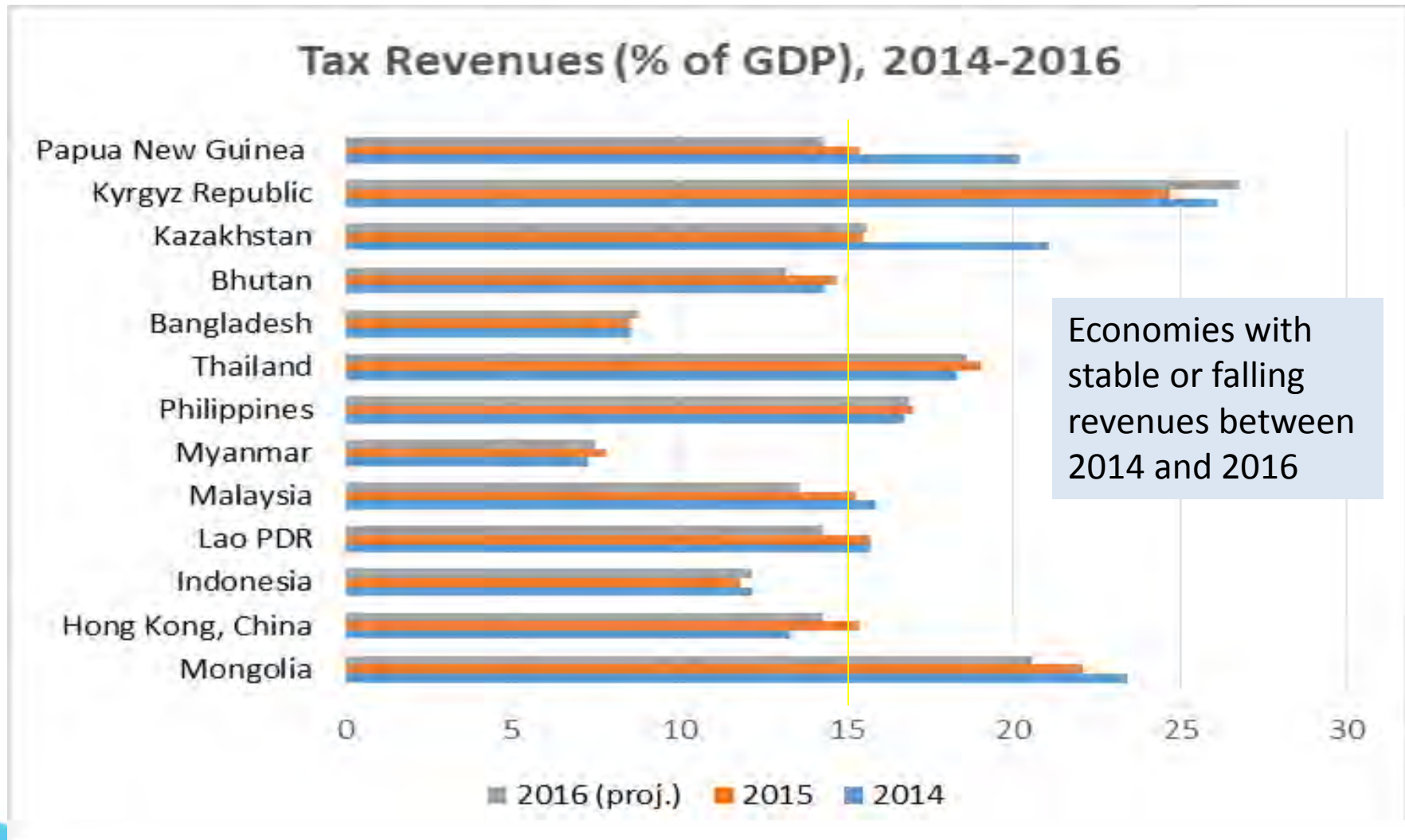
Progress for some but still a lot to do....

Total Tax Revenue (share of GDP), 2015



Sources: OECD Revenue Statistics, ADB Key Indicators, and IMF Art. IV Reports.

Recent times have been difficult for some.....



Sources: OECD Revenue Statistics and IMF Art. IV Reports

Understanding What Taxes Deliver

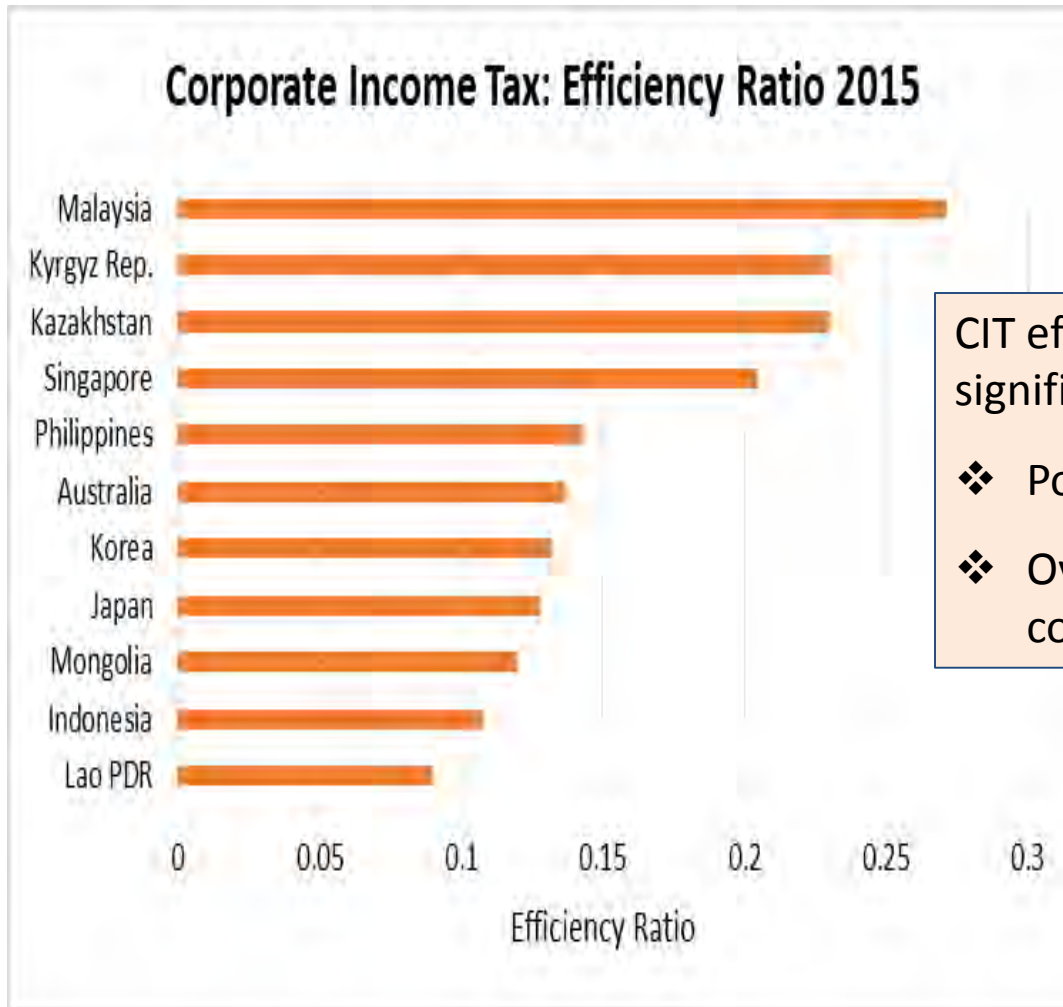
Tax Revenue Productivity

Measure	Definition
Efficiency ratio	This ratio is calculated for a tax by dividing its tax ratio (i.e. tax/GDP%) by the statutory standard rate of tax. This ratio is often used by the IMF to contrast the relative productivity of corporate income tax (CIT) and VAT regimes across different economies.

EXAMPLE (CIT):

Country	Tax/ GDP % 2015	Standard rate	Efficiency ratio
Malaysia	6.5	24.0	0.271

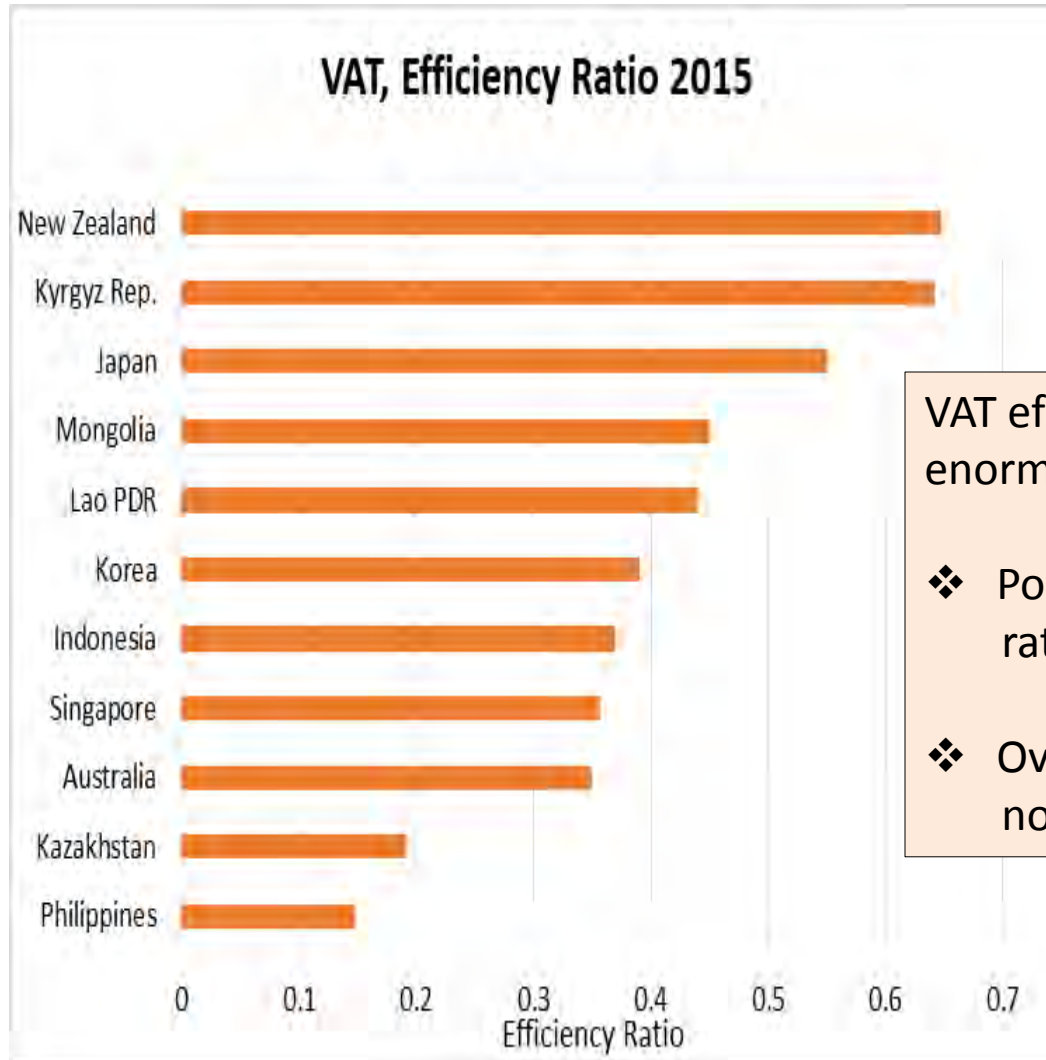
Corporate Income Tax Productivity for Selected Economies



CIT efficiency ratios vary significantly due to differences in:

- ❖ Policy choices re concessions;
- ❖ Overall levels of tax non-compliance.

VAT Revenue Productivity for Selected Economies



VAT efficiency ratios vary enormously due to:

- ❖ Policy choices re reduced rates & exemptions etc;
- ❖ Overall levels of non-compliance.

Revenue Mobilisation: Measures Planned/Under Consideration

Research findings for selected economies (incomplete)

- ***Afghanistan***- planning for a VAT regime in 2019.
- ***Bangladesh***- VAT reforms in 2017.
- ***India***- New GST in 2017.
- ***Kazakhstan***- lower VAT threshold, raising excises, natural resources.
- ***Kyrgyz***- natural resources, excise reforms, luxury property tax.
- ***Lao PDR***-strengthening large tax administration, indirect taxes.
- ***Mongolia***- excises on petrol & tobacco, raising PIT rates, review of tax structure, simplified regime for SMEs, tax expenditures review.
- ***Sri Lanka***- VAT reforms, new Inland Revenue Act to modernise administrative provisions.
- ***Vietnam***- environmental taxes, unifying VAT, property taxation.

Source: IMF Art. IV reports in 2017

Examples: Administrative Modernisation Initiatives Underway

- ***Kazakhstan (2015-18)***: Includes comprehensive review of its structure at all levels, rationalisation of office network, review of HRM policies, new workforce planning strategy, redesign of business processes, IT infrastructure redevelopment.
- ***Cambodia (2014-18)***: Major reform program including modernising core business functions, new call centre, increased resources for taxpayer services, new e-filing and e-payment services, new risk assessment methods, revamped HRM policies and practices.
- ***Mongolia (2017-18)***: Common tax administration legislative framework; new compliance improvement strategies for large, medium and small taxpayers and performance monitoring.
- ***Japan (2015)***: Introduction of taxpayer identification numbering system for all individuals and corporations.

Source: Revenue body reports and IMF Art. IV reports in 2017

Institutional Arrangements for Tax Administration

- All countries except India & Malaysia have a unified revenue body for direct & indirect taxes administration.
- Institutional setups:
 - * Single department within the MOF-10 ;
 - * Unified semi- autonomous body-10
- Compared to many OECD and some Asian economies, revenue bodies in the region tend to have less autonomy.

Relatively high autonomy	Relatively limited autonomy
Australia, Kazakhstan, Malaysia, New Zealand, & Singapore.	Brunei, Cambodia, China, Indonesia (*), Japan, Korea, Lao, Myanmar & Thailand.

- Areas of least autonomy: 1) Deciding internal structure; 2) Flexibility in budget management; 3) Appointing and promoting staff; 4) Placing staff in a salary range; 5) Staff dismissals.

Aspects of Organisational Design

- Most revenue bodies have a hybrid-type structure (i.e. function, segment, tax) in line with international practice.
- Around 80% have a dedicated Large Taxpayer Division.
- Some revenue bodies have very large office networks and few consolidated centres > future efficiencies?

Economy	Regional offices	Local offices	DPC and SC	Labour Force (m)
Kazakhstan	20	219	0	9.0
Tajikistan	4	68	0	2.3
Japan	12	524	2	65.4
Vietnam	63	711	1	51.8
Bangladesh	71	907	0	72.0
Thailand	12	968	1	36.5
Australia	14	0	30	12.6

Managing Taxpayers' Compliance

- International bodies strongly encourage revenue bodies to have a strategic compliance risk management framework.
- Around 80% of revenue bodies report they have a compliance risk management framework/ system.
- From a specified menu of compliance risks, the risks most frequently ranked “high” were:
 - Aggressive domestic tax avoidance (16)
 - VAT fraud (15)
 - Base erosion and profit shifting (14)
 - Underground economy (13)
 - Transactions with tax havens (11)
 - High net worth individuals (11)
- However.....

Globalisation & Digitalisation Threats

Observations from related research

- A few economies have very small tax treaty networks.
- Corporate tax regimes in many economies require reform to deal effectively with profit-shifting & other tax avoidance eg.
 - **Do not follow OECD transfer pricing guidelines, no provision for APAs, no CFC rules, no GAAR.**
- Many economies are yet to engage with global collaborative processes in place to deal with BEPS and EOI issues:
 - **One third are not members of Global Forum on Transparency etc.**
 - **One quarter are not members of BEPs inclusive framework.**
- Many VAT regimes do not appear to be geared to handle cross-border trade (B2C) in services and intangibles.

Budgets and Staffing

- Series contrasts a range of measures over multiple years:
 - **Relative staffing levels & administrative expenditures;**
 - **Levels of IT expenditure;**
 - **Efficiency-related ratios and trends.**
- For some countries (e.g. Bangladesh, Cambodia, & Philippines) the ratios suggest a very low investment in revenue body resources.
- A number of economies report significant increases in staff investments in 2015 (e.g. Cambodia and Indonesia), while some (e.g. Bangladesh) report big reductions.
- Data on IT investments for tax administration are hard to isolate and can vary significantly when quantified.

Figure 1. Labour force members/ revenue body FTE

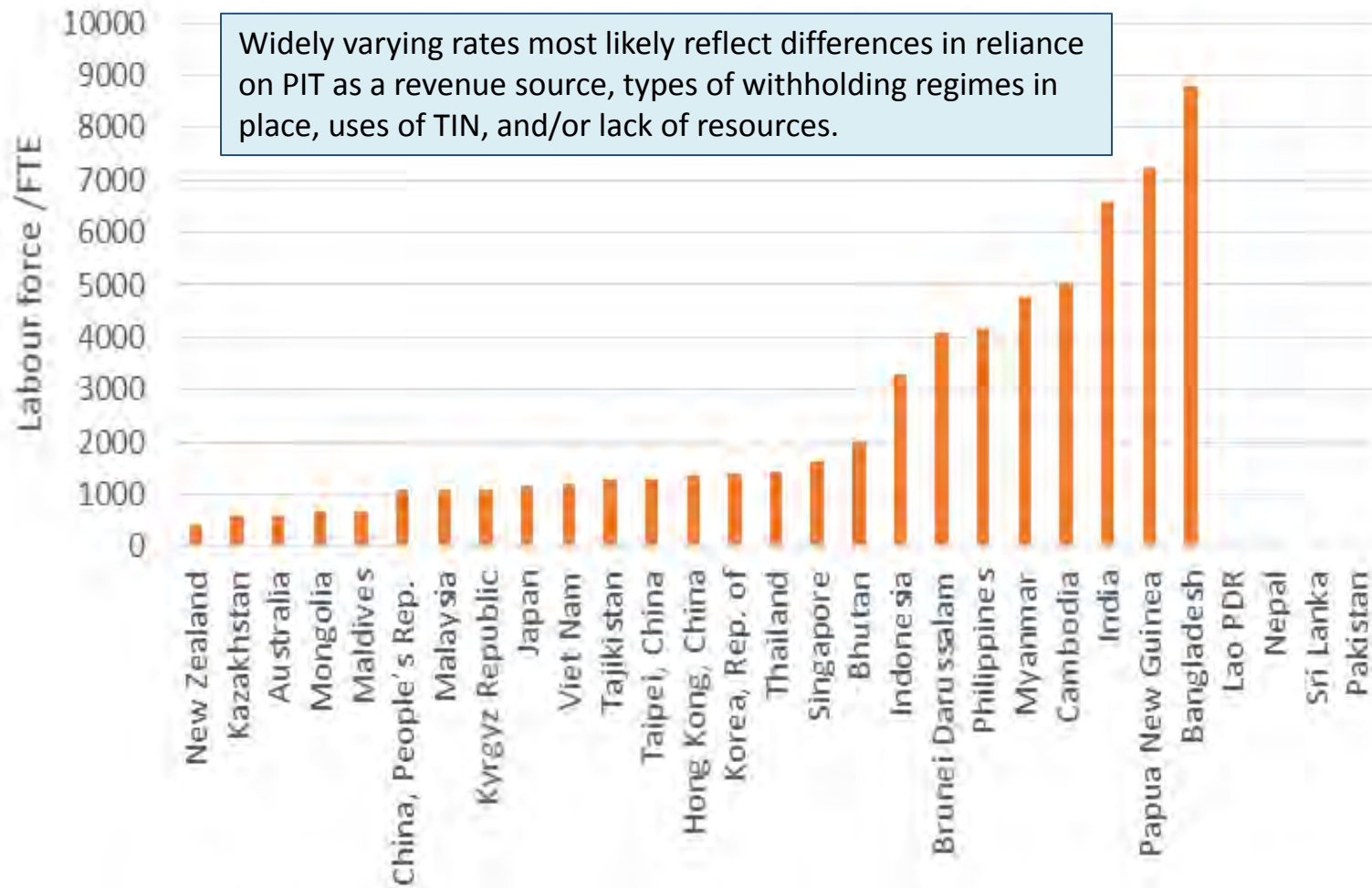
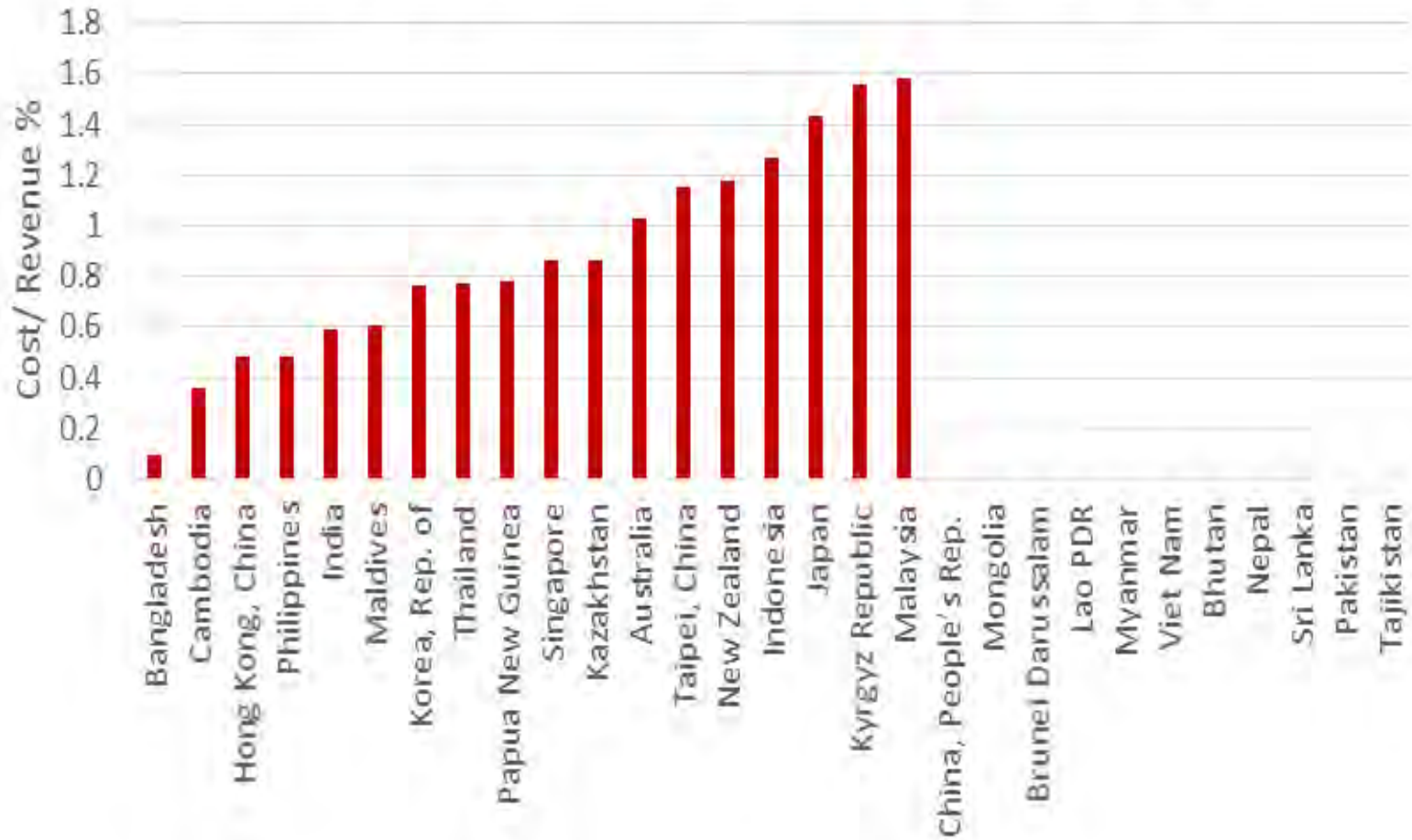
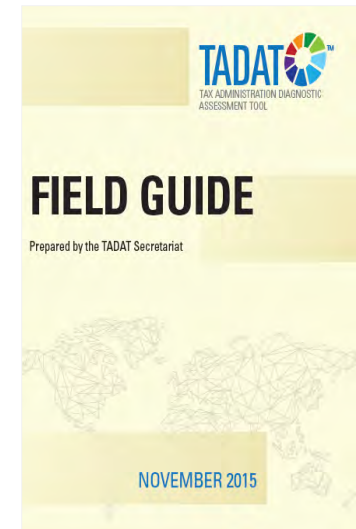


Figure 2. Total Administrative Costs/ Net Revenue 2015



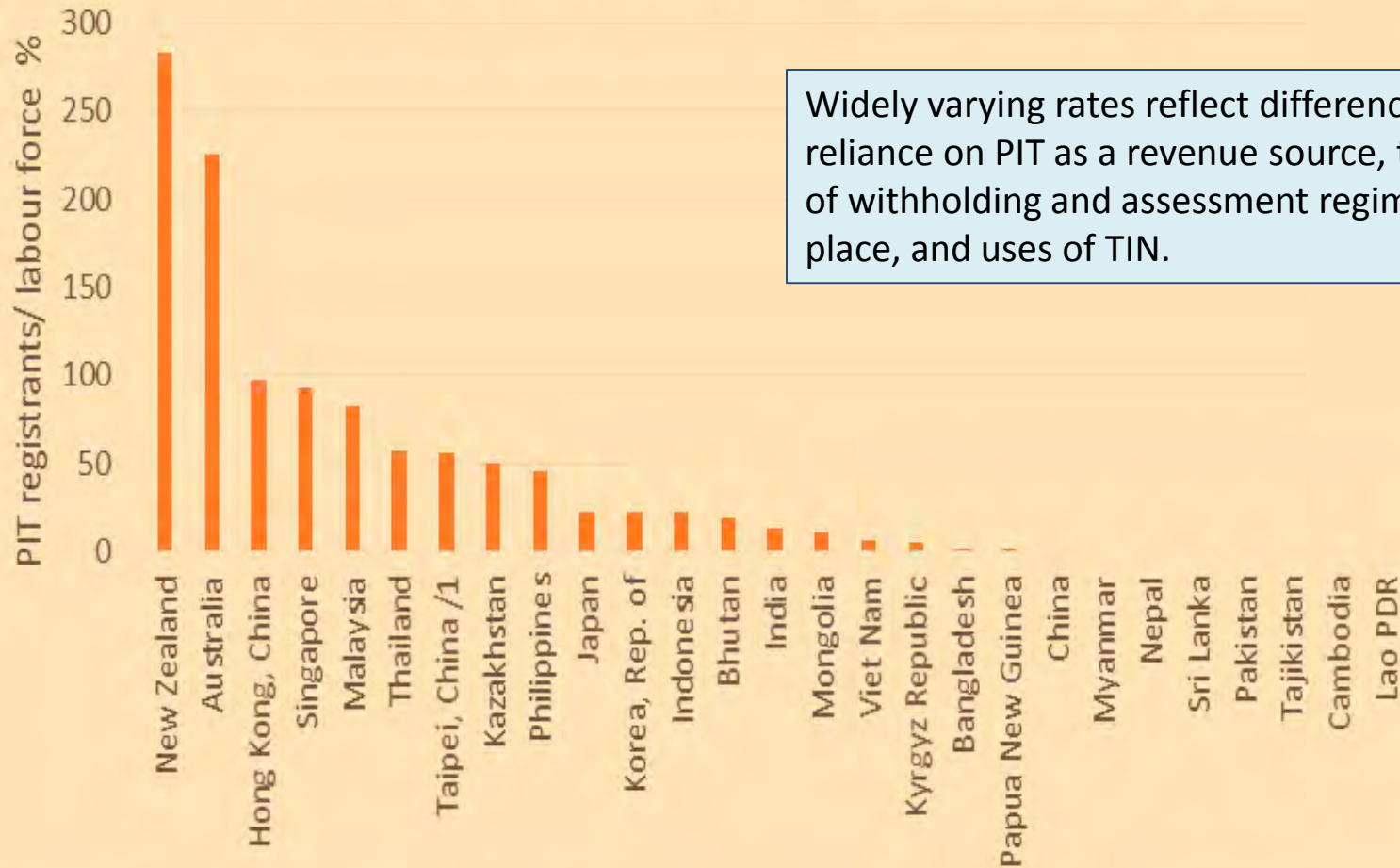
Revenue Collection Operations

- Series provides performance data over one or more years for taxpayer registrations, taxpayer services, e-filing, verification work, debt collection, & disputes resolution.
- Uses examples of guidance from the IMF's Tax Administration Diagnostic Assessment Tool (TADAT) and other sources to support findings.
- Outlines revenue bodies' powers to support verification and debt collection programs.
- Observes many gaps in the performance data reported, suggesting scope to improve the performance measurement systems in place?



Personal Tax Registrations

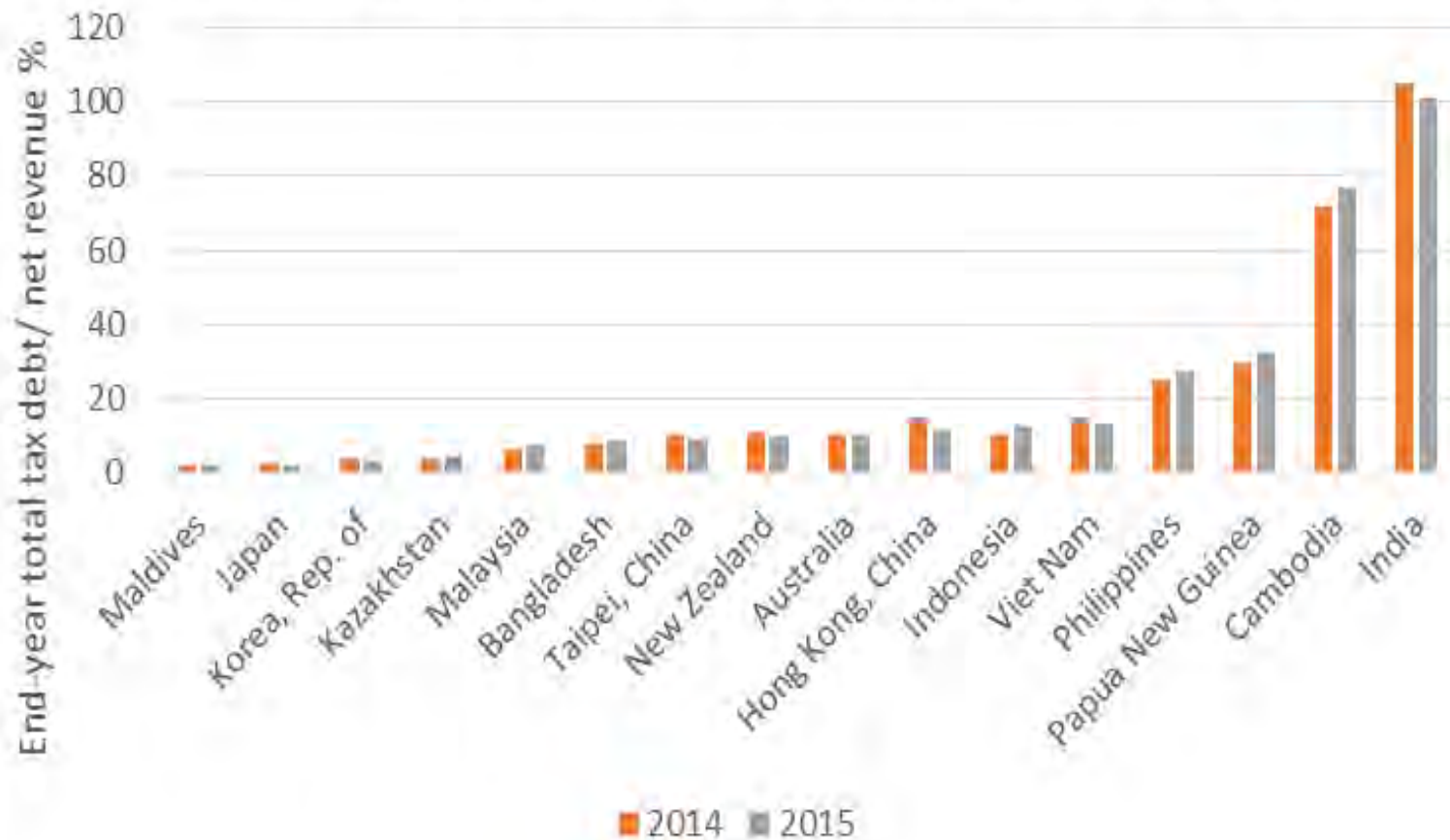
Figure 3. Taxpayer Registrations (% of labour force) in 2015



Taxpayer Services- Selected Findings

- All revenue bodies report having a taxpayer service strategy and standards but very few publish their results.
- Just over 50% conduct external research of taxpayers' satisfaction etc. but few make public the findings.
- Many revenue bodies have gaps in their tax rulings system.
- Specialised services for tax professionals vary significantly.
- Substantial progress with e-filing (e.g. India, Kazakhstan, and Mongolia).
- Mandatory e-filing obligations for some/ all taxpayers have been effective in a number of economies.
- Five revenue bodies yet to implement e-filing of tax returns.

Figure 3. End-year Tax Debt/ Net Revenue Collections %



NB: Tax debt levels are influenced by many factors in addition to payment compliance, for example, tax system design, audit quality, levels of tax in dispute, and write off policies.

Thank you to those revenue bodies and officials who have helped progress this work.

We look forward to ongoing support

Questions?

- Yuji Miyaki (ymiyaki@adb.org)
- Richard Highfield (richardhighfield@msn.com)