



**FISCAL AFFAIRS**

# **13<sup>th</sup> IMF- Japan High-Level Tax Conference for Asian Countries**

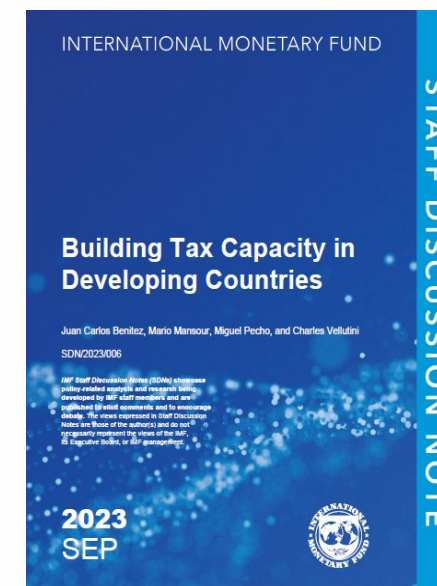
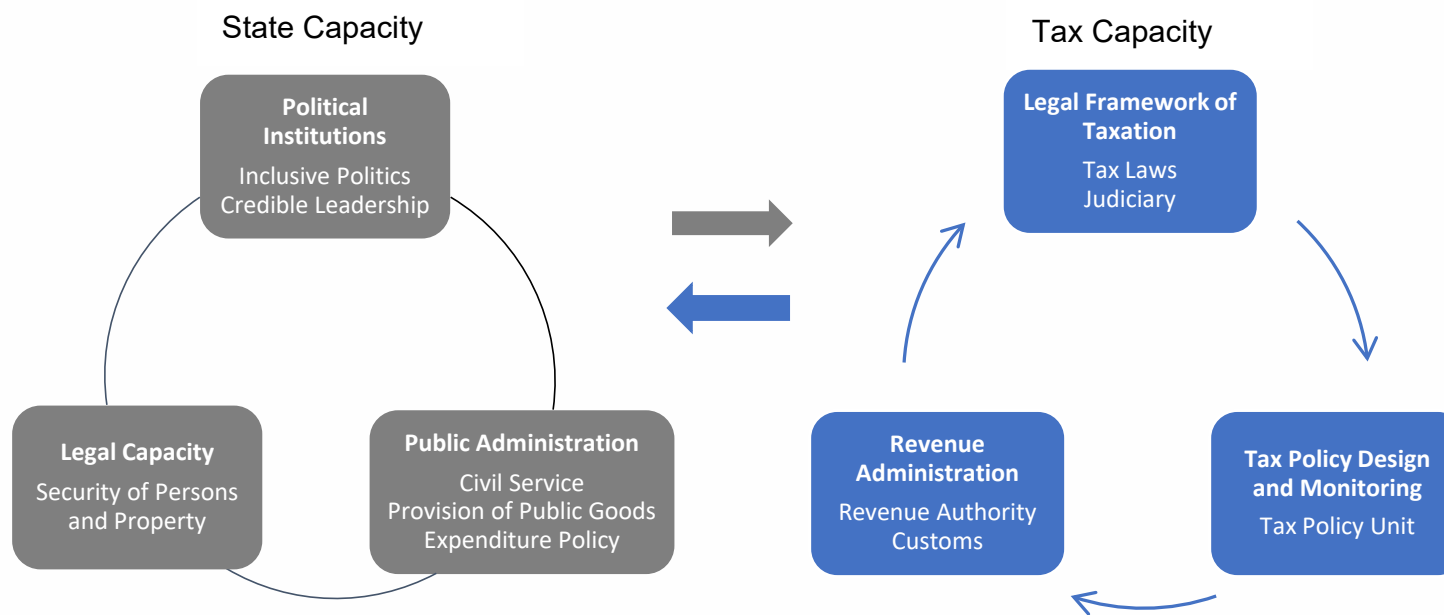
**Building Institutions  
for Good Tax Governance**

April 26, 2024

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Deputy Director, Fiscal Affairs Department

# Tax capacity defines the essence of a state to play its role effectively

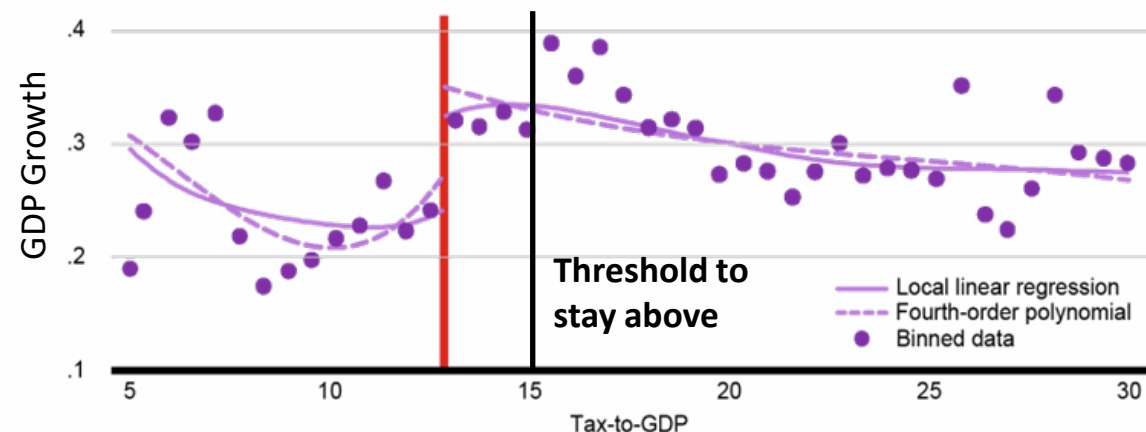


Source: J. Benitez, M. Mansour, M. Pecho and C. Vellutini, 2023, Building Tax Capacity in Developing Countries. IMF Staff Discussion Note, 2023/006.

# Quantifying the role of tax capacity for development

- **Tax-to-GDP ratios below some threshold are problematic as growth only accelerates beyond this point**

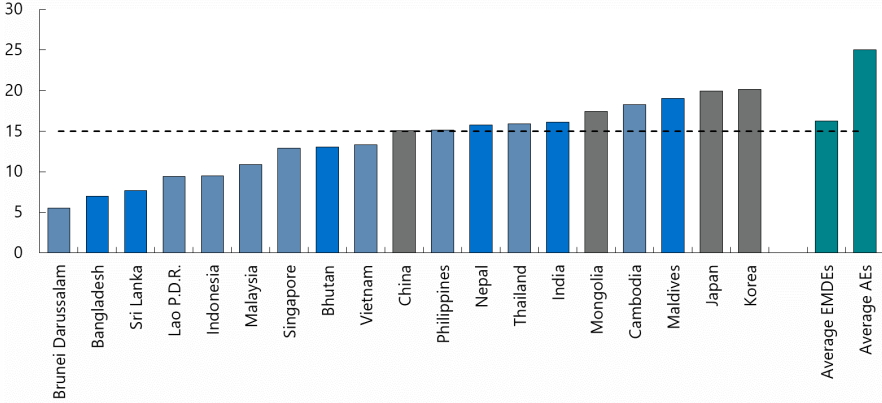
- ▶ Consistent with the idea that tax capacity is vital for state capacity, allowing the state to fulfil its role in supporting growth and development
- ▶ Threshold has been estimated at around 13% of GDP; allowing for a safe buffer, a rule of thumb is that tax ratios should exceed **15% of GDP**



Source: Gaspar, Jaramillo and Wingender (2016), *Tax Capacity and Growth: Is there a Tipping Point?*, IMF Working Paper WP/16/234.

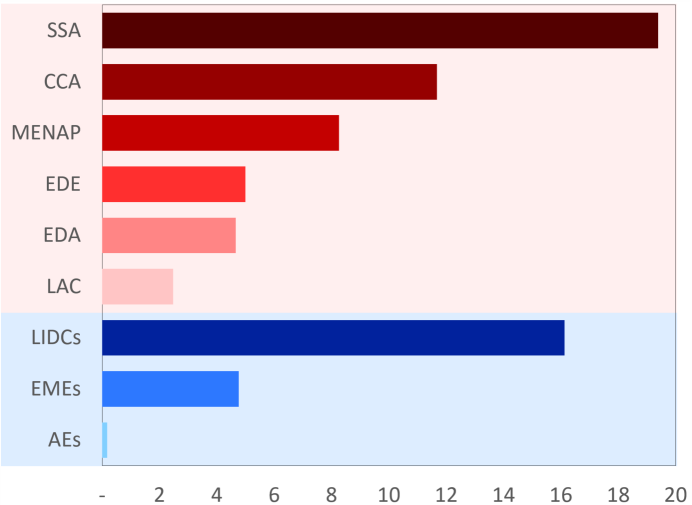
# Many countries need to raise more ...

- The distribution of tax-to-GDP ratios across countries indicates that several countries in Asia below 15% threshold



Source: WoRLD database.

- To meet the SDGs, higher tax ratios needed
  - ▶ IMF estimates that emerging and developing Asian countries need 4.7% of GDP in additional spending



Source: Carapella, Mogues, Pico-Mejia, and Soto (2023).

# ... and better

## Not just quantity, but also quality matters

### ■ Equity

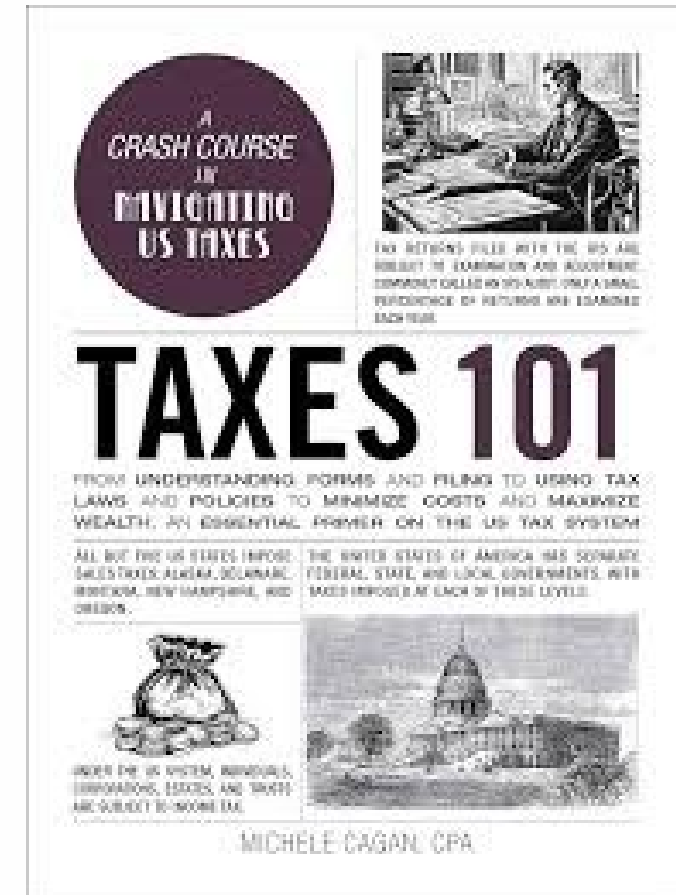
- ▶ Distribution of income and wealth

### ■ Efficiency

- ▶ Investment, competitiveness, growth
- ▶ Sustainability, e.g. climate
- ▶ Health objectives, e.g. smoking, drinking

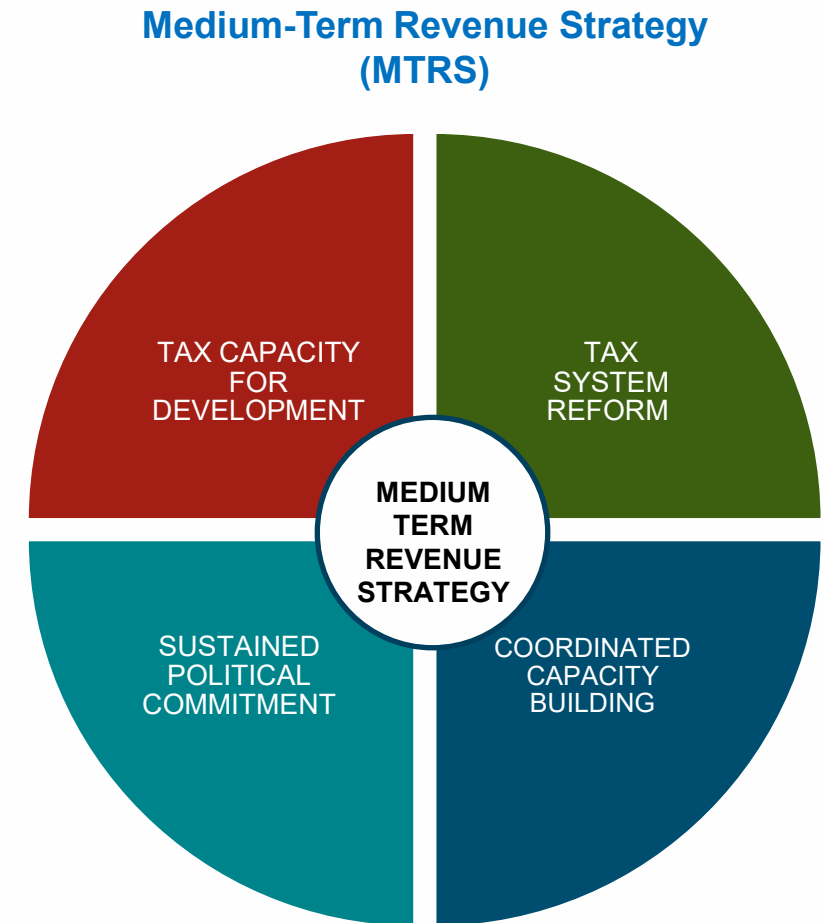
### ■ Enforcement

- ▶ Administrative and compliance costs
- ▶ Commensurate to administrative capacity

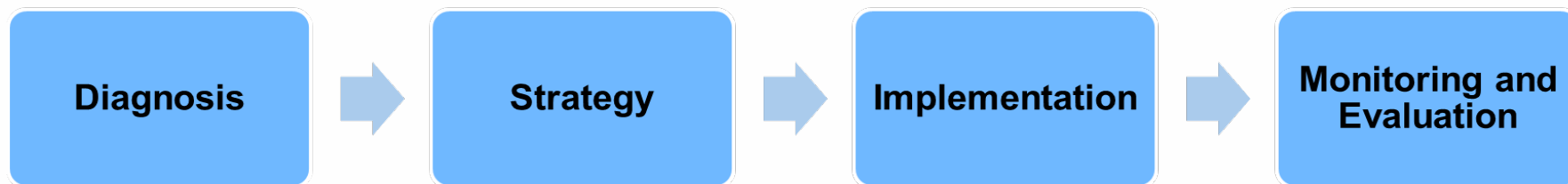


# How to Build Better Tax Capacity?

- **Linking revenue to development (eg SDGs)**
  - Spending needs driving revenue goals
  - Support narrative underpinning tax reform
- **Holistic system approach**
  - Good tax policy, administration, legal
  - Proper (quantitative) analysis key
  - Diagnose – Strategize – Implement – Evaluate
- **Beyond technical**
  - Manage political and implementation challenges
  - Country-led and whole of government
  - Involve stakeholders in timely manner
- **Coordinate external support**



# Analysis across stages of the reform process



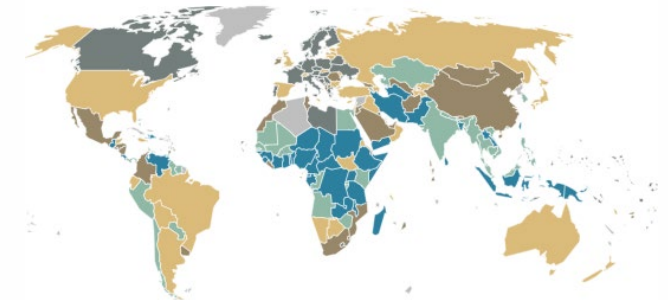
**At each stage of the reform process, analysis helps to ...**

- Identify best options
- Empower government in leading a structured public debate
  - Comparative tax analysis
  - Revenue analysis
  - Distributional analysis
  - Economic impact analysis

# Comparative tax analysis

## World Revenue Longitudinal Data (WoRLD)

Total Revenue in Percent of GDP



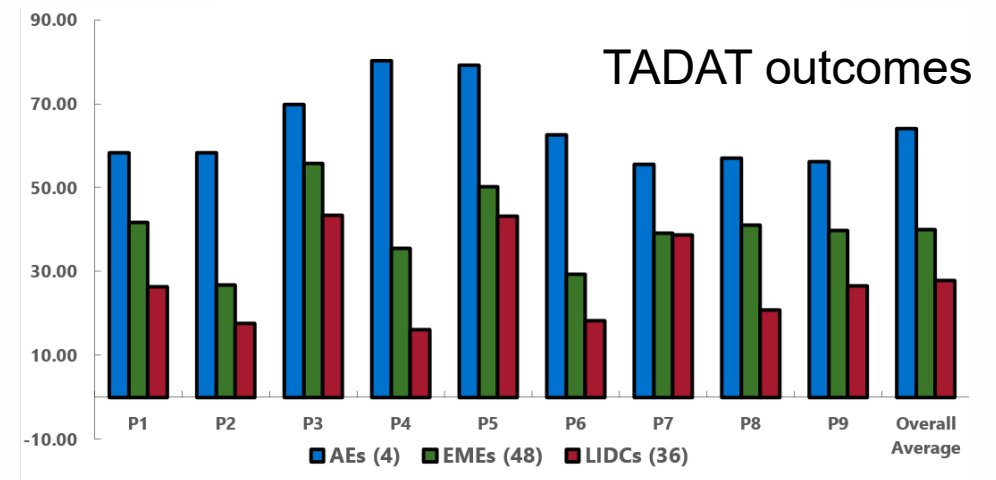
## Global data on revenue

- IMF World
- OECD Revenue Statistics

## Institutional comparisons

- Standard rates of VAT, CIT, PIT, excise, etc
- Tax base indicators – thresholds, incentives, tax expenditures, effective tax rates, C-efficiency
- Performance indicators: tax gaps, gini coefficients, administration scores (TADAT, Isora)

→ Often available to Ministry of Finance



Source: IMF staff calculations based on reports provided by the TADAT secretariat.

P1: Integrity of the Registered Taxpayer Base; P2: Effective Risk Management; P3: Supporting Voluntary Compliance; P4: Timely Filing of Tax Declarations; P5: Timely Payment of Taxes; P6: Accurate Reporting in Declarations; P7: Effective Tax Dispute Resolution; P8: Efficient Revenue Administration; P9: Accountability and Transparency.



# Revenue analysis (1) – Forecasting

## Forecasting baseline revenue

- Often macro indicators, tax buoyancy and tax elasticity
- Time series analysis

## Revenue analysis of reform proposals

- Microsimulation models for PIT and CIT
- Input-output models for VAT
- Partial equilibrium models for excises
- Fiscal analysis of resource industries

→ Basic requirement for every Ministry of Finance



**Related Links**

- [Fiscal Analysis of Resource Industries \(FARI\) Methodology](#) ▶
- [Mining FARI Model 2023](#) ▶
- [Petroleum FARI model 2023](#) ▶
- [IMF Online Course: Macroeconomic Management in Resource-Rich Countries \(MRCX\)](#) ▶
- [FARI Model 2016](#) ▶

**Fiscal Analysis of Resource Industries (FARI)**

Good tax policy design requires evaluating fiscal regimes for extractive industries (EI) with economic and financial analysis at the project level. This website introduces key concepts and methodology used by the Fiscal Affairs Department (FAD) in its fiscal analysis of resource industries (FARI) framework. FARI is used in advisory and capacity development work by FAD on fiscal regime design. In parallel to that, FARI has also been used for revenue forecasting and management (including quantification of fiscal rules), integrated in the country macroeconomic frameworks, and revenue risk assessments. In 2016, the IMF published a Technical Note on the FARI methodology and the simplified FARI model. In 2021, updated versions of the simplified models were published with enhanced user-friendliness.

# Revenue analysis (2): Tax Expenditures

## Tax expenditures

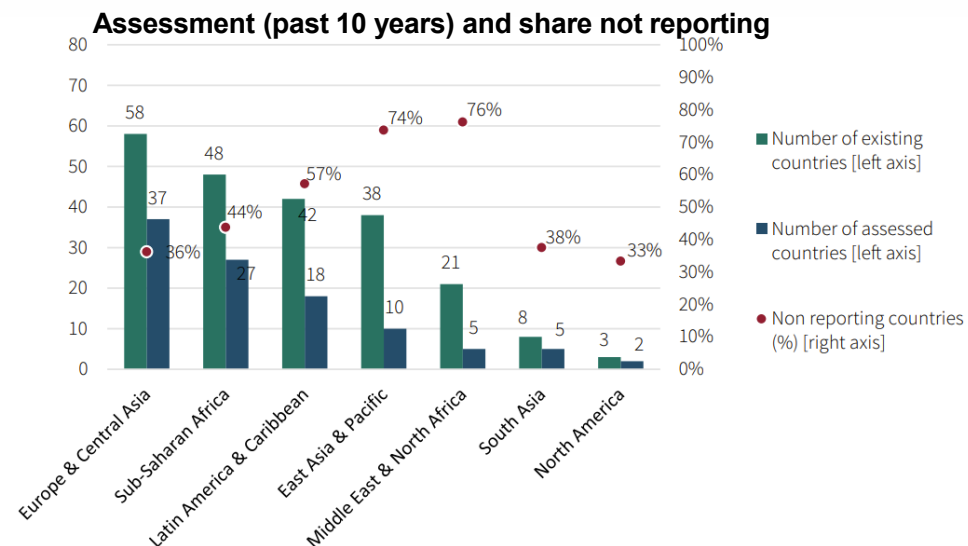
- “Specific means by which governments provide relief to individuals and companies to serve policy objectives (exemptions, allowances, deductions, credits, special rate reliefs, tax deferral)”
- Occur in all taxes: VAT, CIT, PIT, excises

## Insights from international comparison

- About one quarter of tax revenue in EMEs and LIDCs – or between 2 – 4% GDP
- VAT tax expenditures are particularly large

→ Basic requirement for every Ministry of Finance

Number of countries conducting a Tax Expenditure



Source: GTED Flagship Report 2023

Average TE in % GDP	
HIC (39)	4.7
HMIC (27)	3.7
LMIC (27)	3.2
LIC (12)	2.1

E.g. countries covered in Asia: *Bhutan, India, Japan, South Korea, Kazakhstan, Maldives, Mongolia, Pakistan, Philippines, Papua New Guinea, Sri Lanka*

# Revenue analysis (3): Tax Gap Analysis

## Determining tax potential and tax gap

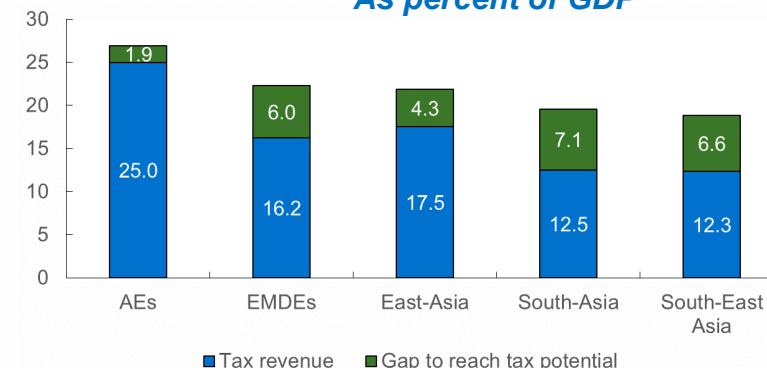
- Tax potential can be empirically estimated as the frontier of tax-to-GDP, given economic and institutional characteristics of a country

## Compliance gap – IMF’s RA Gap Program

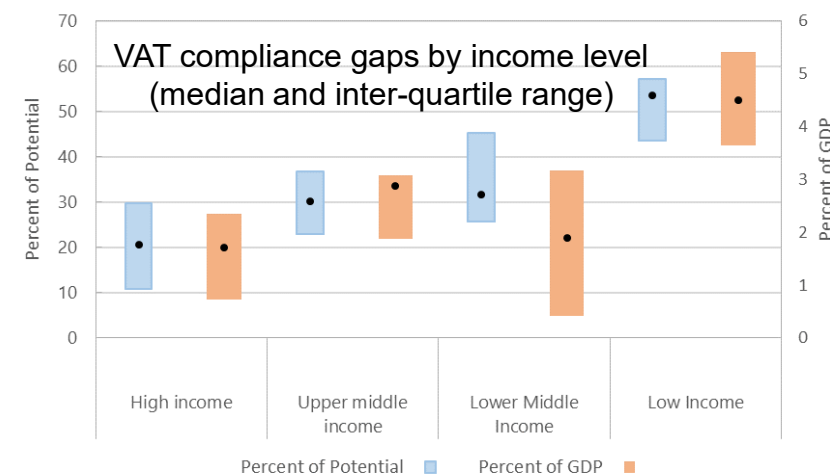
- Revenue foregone from non-compliance
- VAT compliance gaps in LIDCs estimated at 4% GDP, compared to 2% GDP in AEs and 3% GDP in EMEs
- Gap programs also for CIT and PIT

→ Medium/advanced – can be supported by IMF with on-line training; supported self-assessment

Tax potential versus tax revenue (2020)  
As percent of GDP



Source: J. Benitez, M. Mansour, M. Pecho and C. Vellutini, 2023, Building Tax Capacity in Developing Countries. IMF Staff Discussion Note, 2023/006.

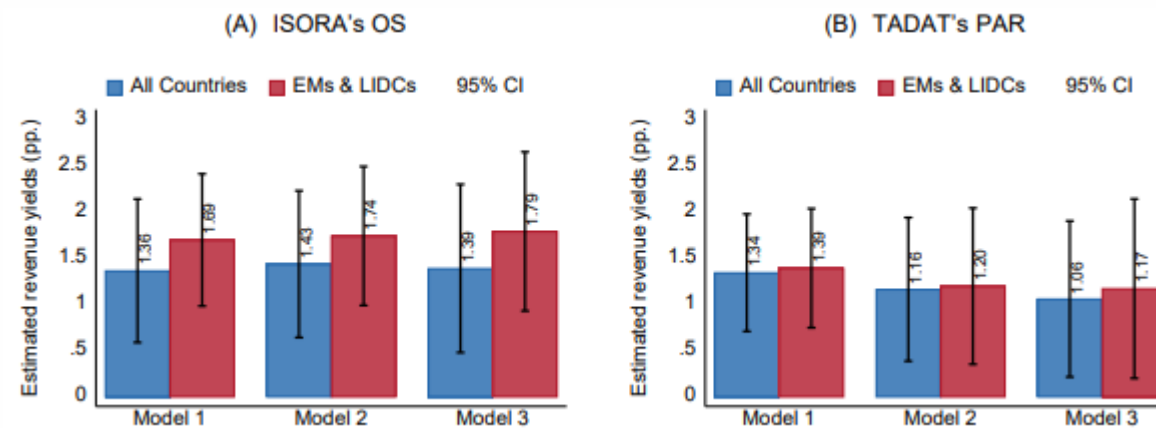


Source: IMF staff calculations using results of VAT gap studies conducted in 32 countries. Regions based on IMF internal administrative regions.

# Revenue analysis (4): Tax administration reform

- **New analysis finds that revenue can increase by >3% GDP in 6<sup>th</sup> year following comprehensive reform**
  - Largest effects from
    - Public accountability
    - Segmentation (large-taxpayer office)
    - Compliance risk management
      - Measuring, identifying and addressing root of non-compliance
      - VAT, professionals, wealthy—to improve effective tax progression
- **Undertake TADAT:** objective assessment of country's tax administration that can help prioritize reforms

## Estimated revenue yield from an increase in strength of tax administration (from 40<sup>th</sup> to 60<sup>th</sup> percentile)



Source: Adan, Atsebi, Gueorguiev, Honda and Nose, *Quantifying the revenue yields from tax administration reform*, IMF Working Paper 23/231.

# Distributional Analysis

**Distributional effects** often dominate public debate on tax reform

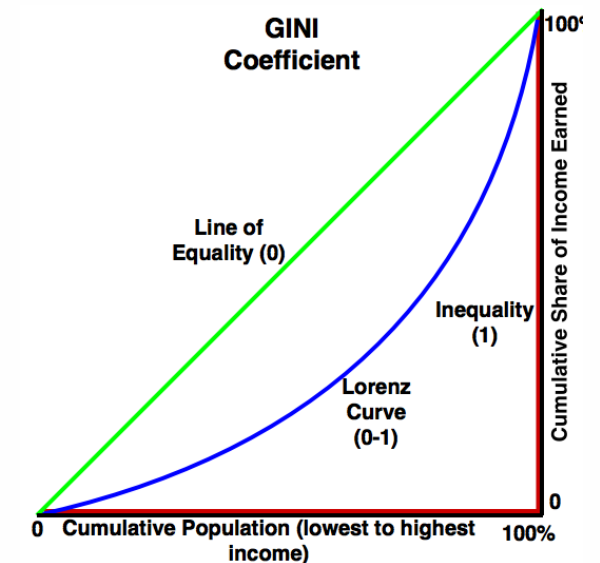
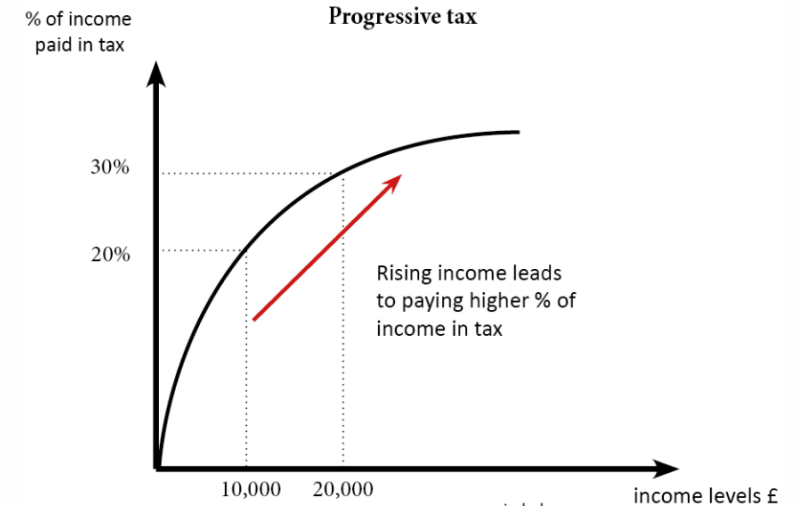
## Average tax rates/wedges

- Effects of tax reforms on different levels of income and wealth
- Effects on gender inequality
- Generational accounting
- Effective tax rates on companies/sectors

## Indicators

- Gini coefficient pre- and post tax
- Kakwani index

→ **Medium/advanced – increasingly common**



# Economic Analysis

## Economic models for ex-ante evaluation

- Different models for different purposes
- Estimated or calibrated using estimates from the literature
- Main economic aggregates: GDP, employment, investment, inflation, trade

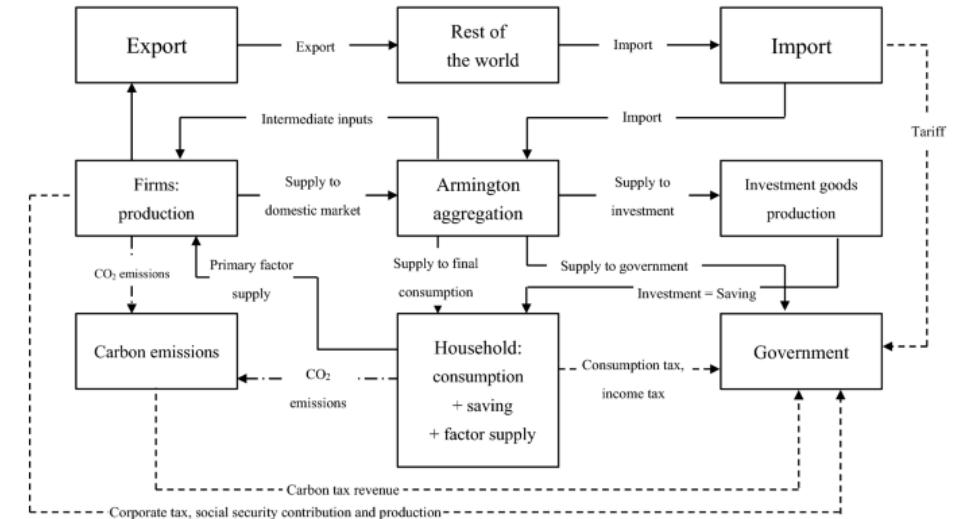
## Indicators

- Marginal tax wedge – to infer labor-supply effects
- Marginal and average effective corporate tax rates – to infer investment effects

**Ex-post policy evaluation** – measuring causal impact of policy changes

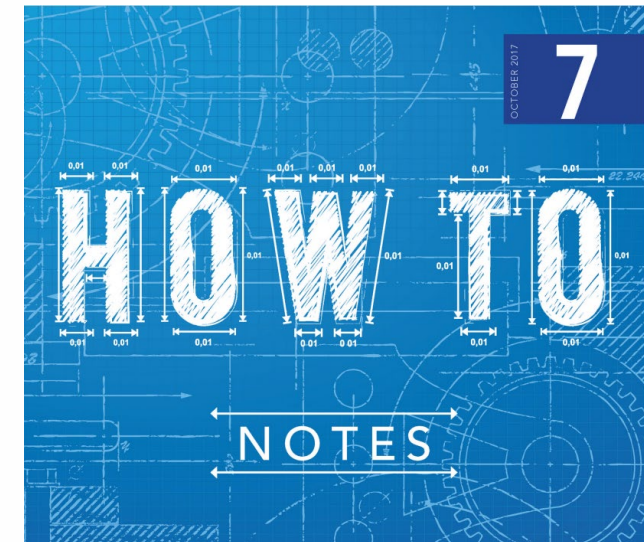
→ **Advanced analysis** – supported by international organizations, research institutes, universities

Fig. 1



# The role of tax policy units

- Policy design starts with good data, proper analysis and forecasting, and capacity to lead a public debate based on analytical results
- Institutionalizing **tax policy units** to support fiscal policy management can:
  - ▶ Inform policy choices by ex-ante analysis, monitoring and ex-post evaluation
  - ▶ Address more effectively the increasing cross-cutting nature of tax analysis –e.g., climate, industrial policy, health policy
  - ▶ Multiple disciplinary: economics, legal, political, accounting
- Over the past decade, at least **17 EMDEs institutionalized tax policy units**



**FISCAL POLICY**  
How to Establish a Tax Policy Unit

FISCAL AFFAIRS DEPARTMENT | INTERNATIONAL MONETARY FUND



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**Thank You!**