Mobilizing Public Revenue for Inclusive Growth and Development

G24 TECHNICAL GROUP MEETING

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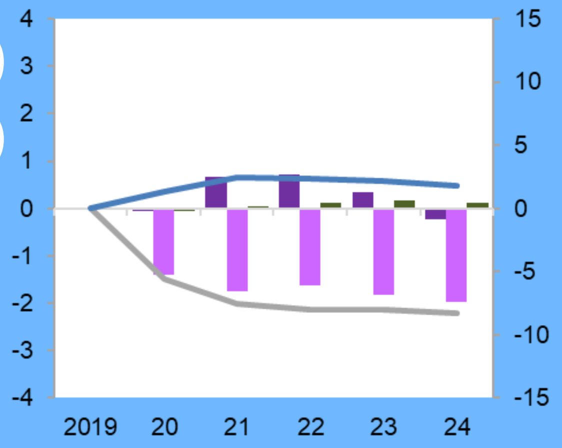
Revenue imperative for Developing Countries

Pre-COVID

Large revenue needs to support development

COVID-19

Further revenue shortfalls and higher spending needs

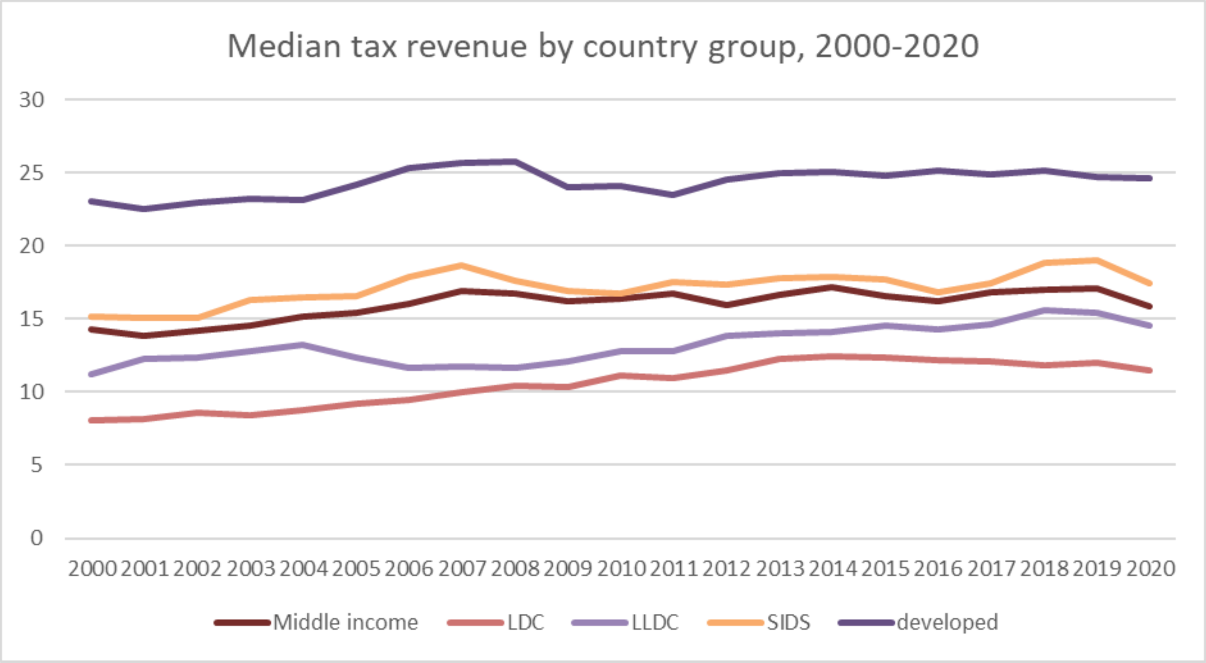


Post-COVID

Reinforced challenge to boost tax capacity

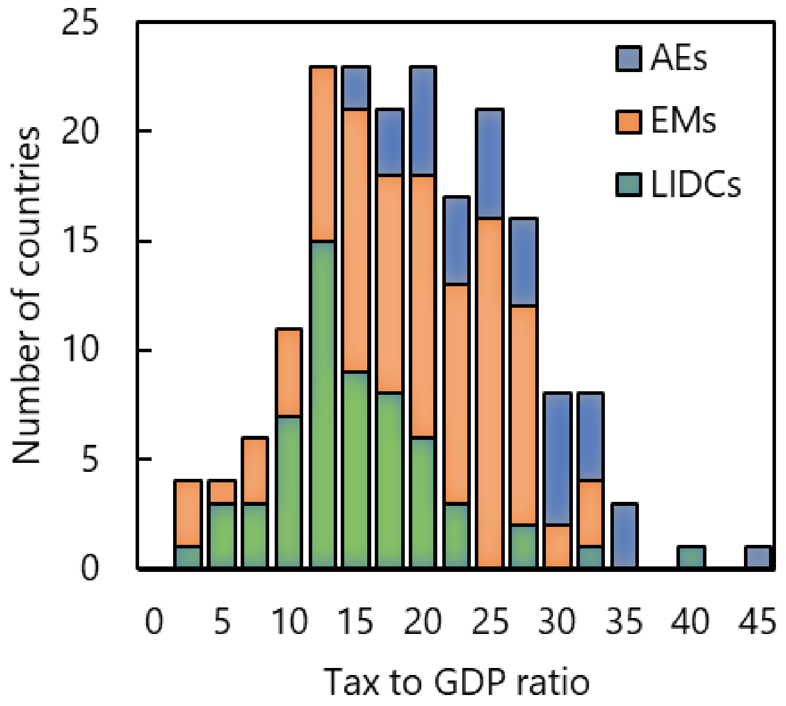
Pre-COVID-19:
Progress underway but uneven outcomes

Tax-to-GDP ratios have been rising since the early 2000s – although leveled off in recent years



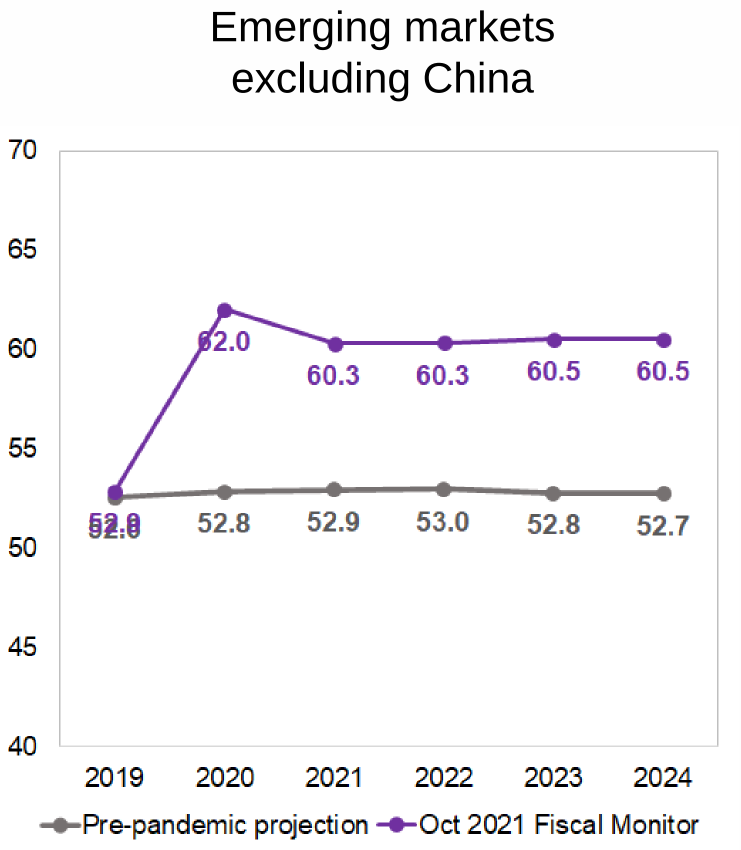
Source: IMF WoRLD Database

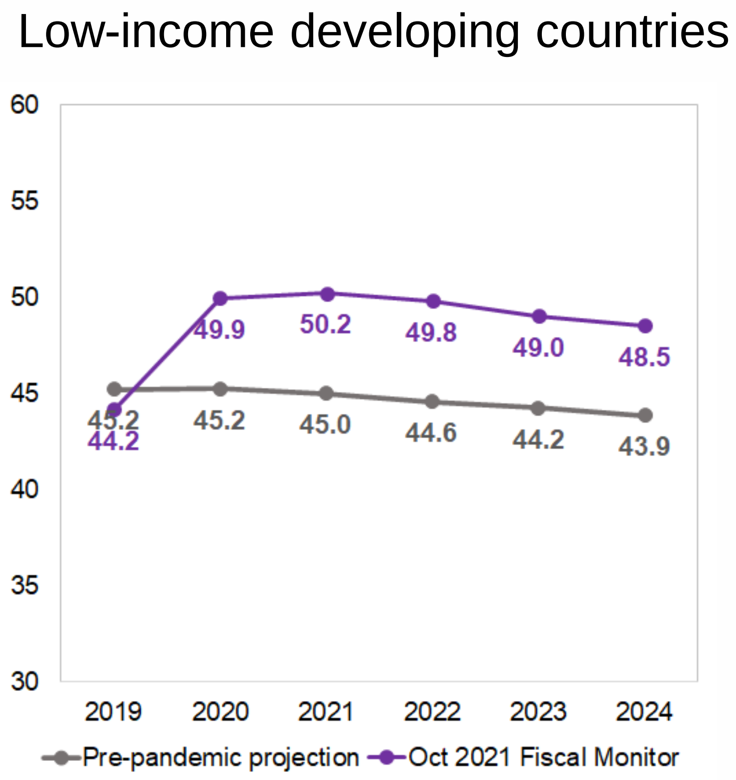
Tax-to-GDP ratios are still very low in developing countries



Source: IMF WoRLD Database

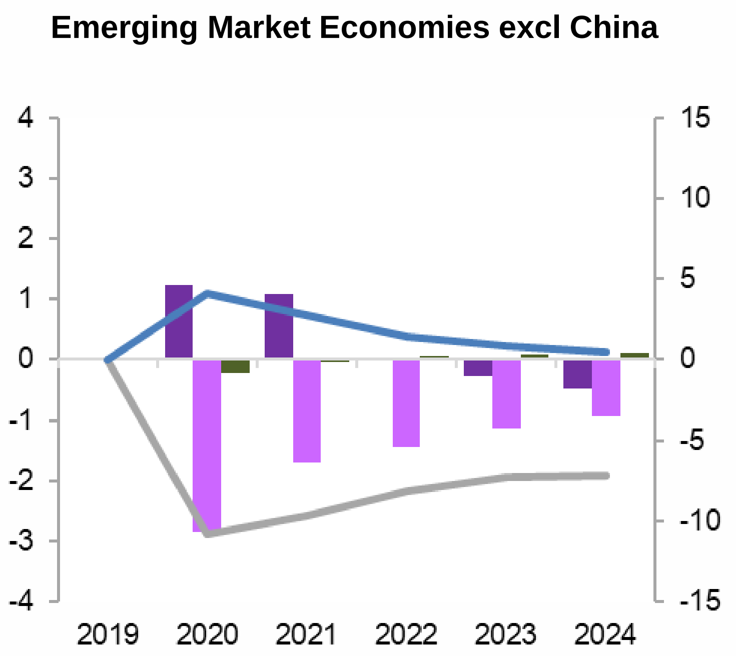
COVID-19 (1): Increased Public Debt

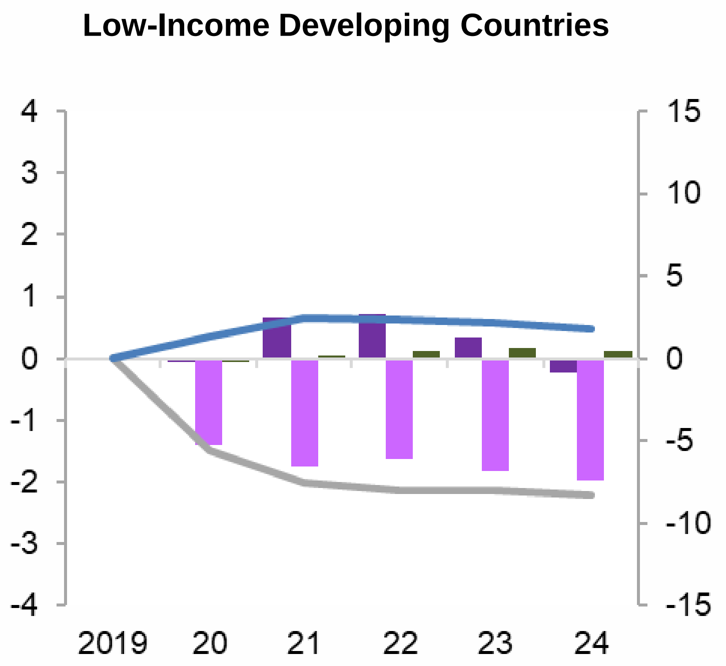




Sources: IMF World Economic Outlook database and October 2021 Fiscal Monitor.
Note: Public Debt across Income Groups, 2019-24 (Percent of GDP). Pre-pandemic projection refers to October 2019 WEO database.

COVID-19 (2): Revenue Shortfalls





Primary Expenditure | Revenue | Interest Expense | Real GDP (right scale) | Primary Balance (right-scale, deficit is a + value)

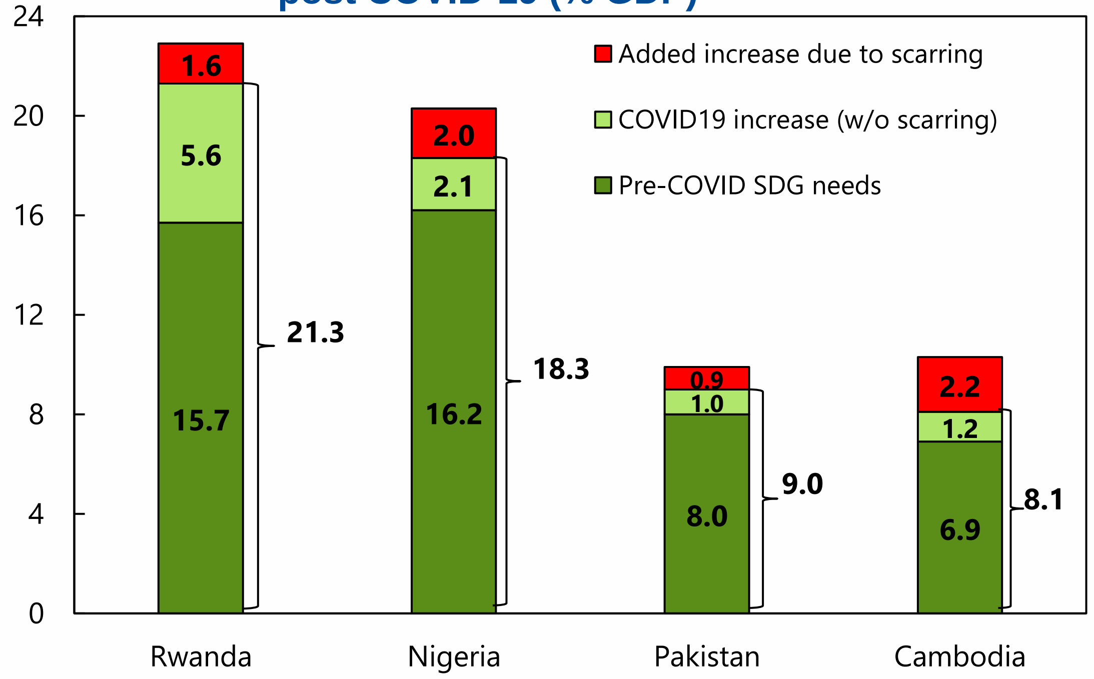
Note: Real average deviation from projection as a percentage of 2019 GDP (left scale); percent (right scale)
Sources: IMF World Economic Outlook database and October 2021 Fiscal Monitor.

COVID-19 (3): Increased financing needs

- IMF study on cost of meeting SDGs by 2030 in education, health and infrastructure
  - Pre-COVID estimates suggest average financing need of 18 percent GDP in LIDCs
  - COVID-19 increased these by multiple percent of GDP

- Additional spending being explored in other areas
  - Climate change
  - Digital infrastructure

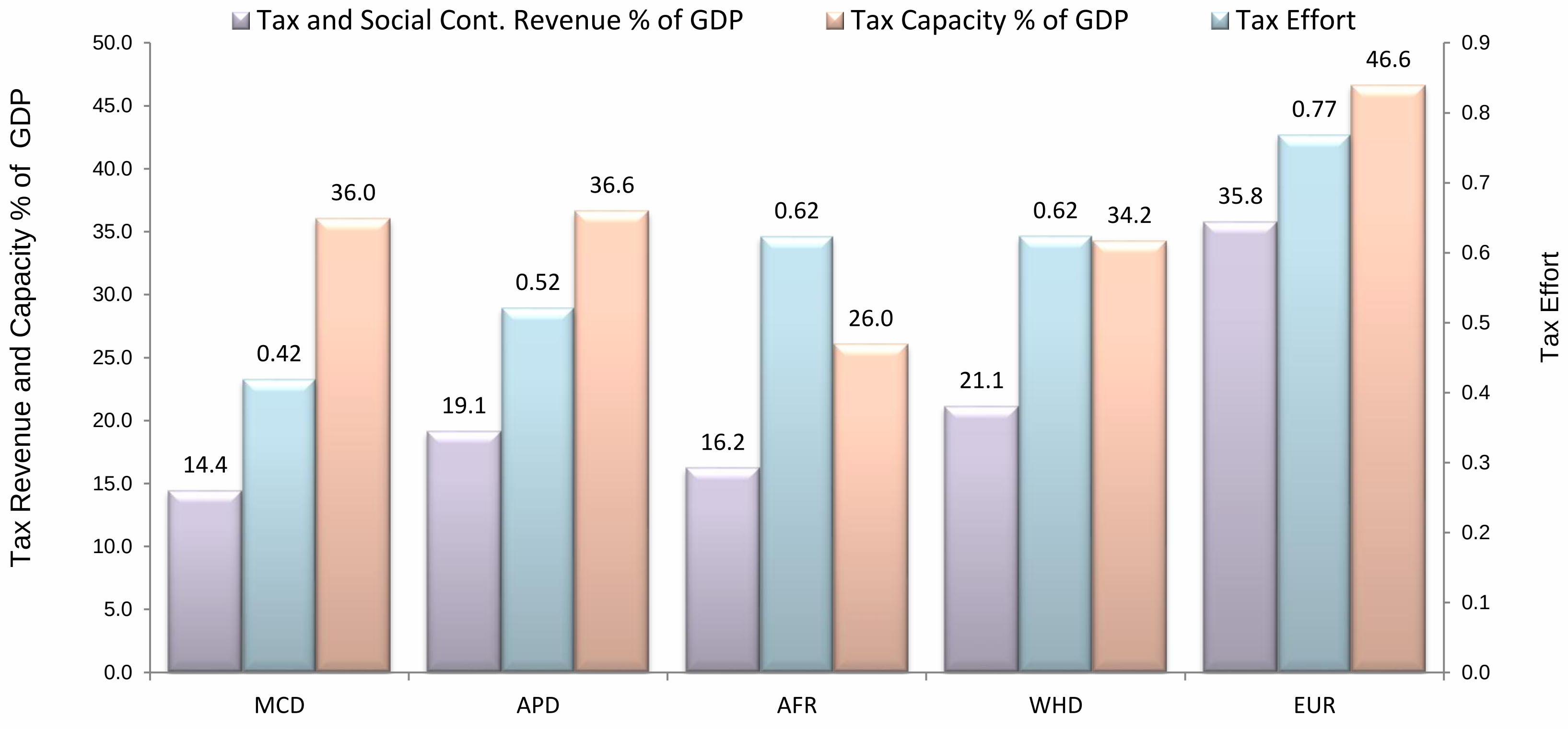
Additional spending needs pre- and post COVID-19 (% GDP)



IMF Staff Discussion Note: A Post-Pandemic Assessment of the Sustainable Development Goals, April 2021

Post-COVID-19:
How much revenue can be raised?

In most developing countries, there is scope to raise much more



IMF Staff Discussion Note: A Post-Pandemic Assessment of the Sustainable Development Goals, April 2021 (background note)

***Tax Capacity**: Empirically assessed ‘frontier’ of revenue in % of GDP*

***Tax Effort**: Ratio of actual revenue and tax capacity*

(How) can countries achieve that? Medium Term Revenue Strategy

- Quantified spending needs derived from development strategy (e.g. SDGs)
- Inclusive and green recovery from pandemic

- High-level road map of tax system reform over 4-6 years
- Policy/law and administration
- Proposals concrete & quantified

- Managing tax system reform
- Country-led
- Government-owned

Priorities for Developing Countries' Tax Agenda's

Priorities in (re-)building tax capacity

VAT remains key source of revenue for developing countries… (4-6% GDP)

- With scope for better policy
- And achieving the significant untapped potential by improving administration
- E.g. moving gaps in LICs to global average could raise 2 percent GDP

… and so are customs duties (2-3% GDP)

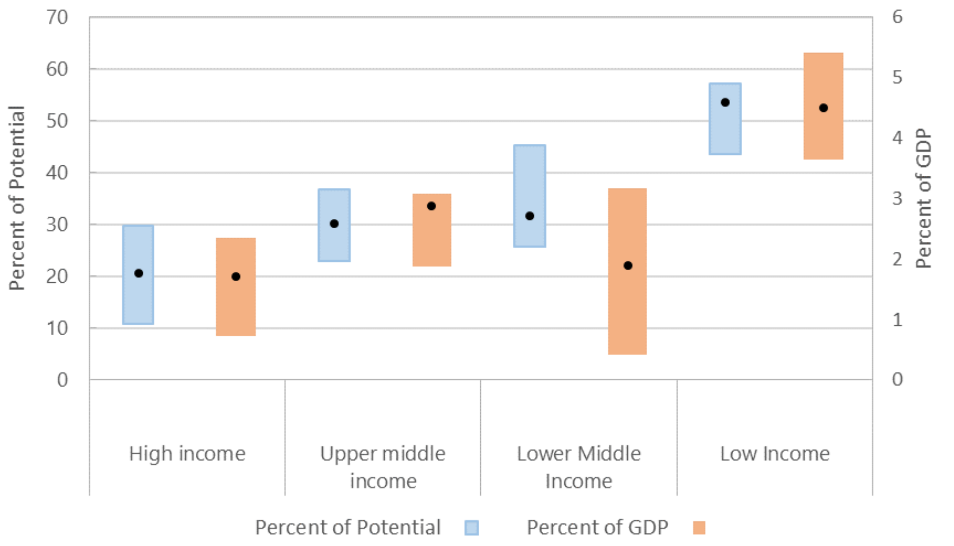
- With scope for compliance improvements from digitalization (forthcoming FAD book)

Reshaping PIT for inclusion (1-3% GDP)

- Strengthen progressivity of PIT – incl. by more effective taxation of capital income (see recent IMF WP on progress and scope)

Exploit property tax more and better

VAT compliance gaps by income level (median and inter-quartile range)



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

Greater role for “corrective” taxes

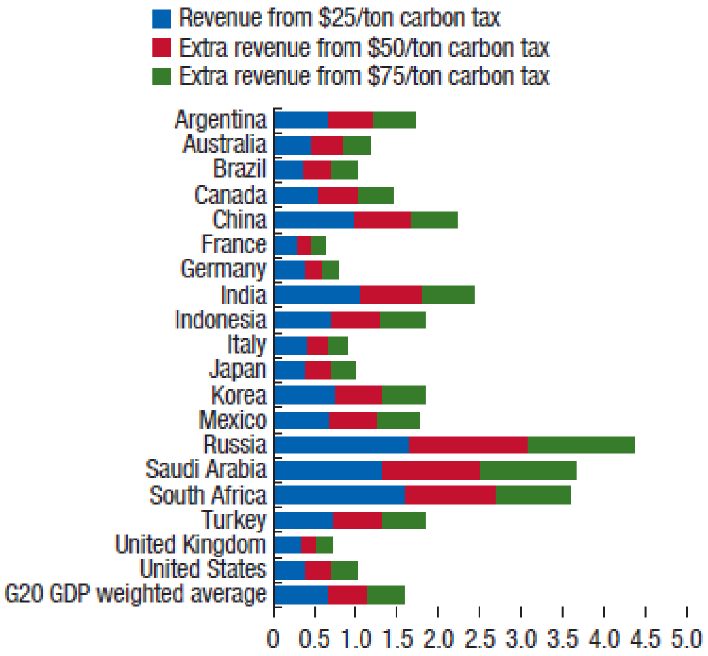
Meeting Paris goals requires carbon price of $75 per ton – today’s global price is $2

- Revenue potential carbon tax on average 1.5% GDP
- Domestic benefits (reduced mortality, congestion)
- Partly use revenue for compensating poor
- Coordination needed (e.g. differentiated price floor)

Excises for externalities and self-control (‘internalities’) (1-2% GDP)

- Traditional ones – alcohol, tobacco
- New issues: health-related food taxes, e-cigarettes

Figure 1.3. Revenue from Comprehensive Carbon Taxation in 2030, Selected Countries
(Percent of GDP)



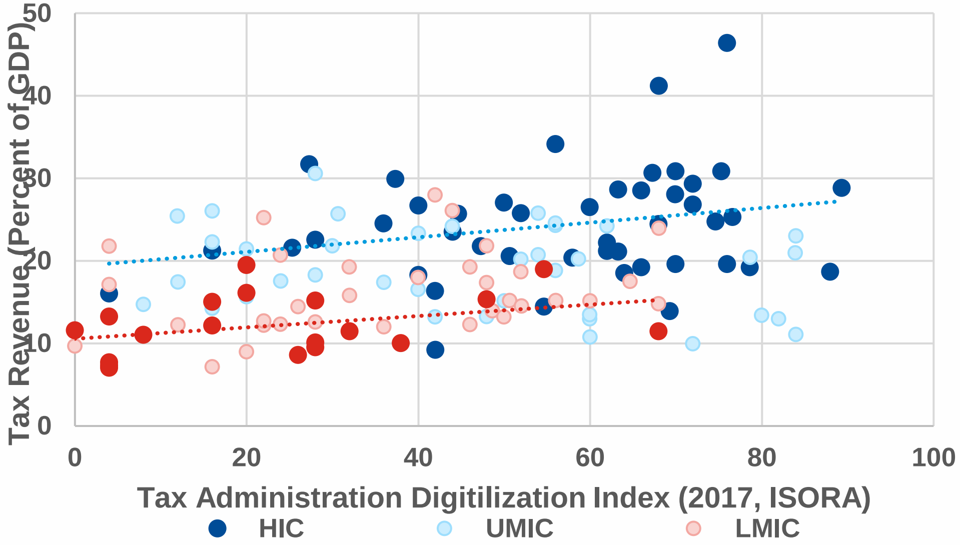
Source: IMF staff calculations.
Note: G20 = Group of Twenty.

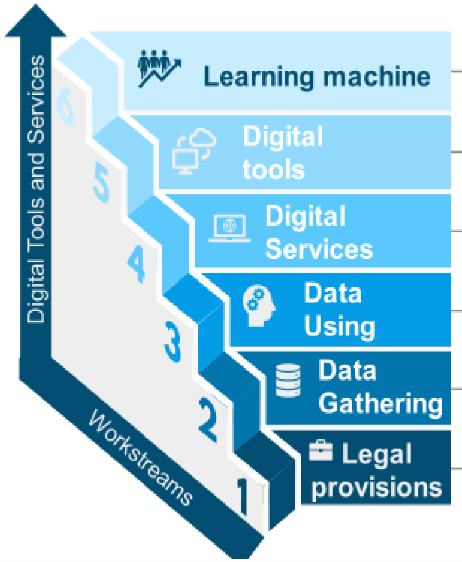
Source: Fiscal Monitor 2019

Exploiting the potential from digitalization

Pandemic a spur to wider use of digital methods in revenue administration

- With signs that those using them more have fared better
- But has to be implemented well!





Learning machine to improve taxpayers´ experience, reduce the burden on compliant taxpayers, while adopting target approaches on non-compliant taxpayers. Increases transparency and accountability

Pre-filled tax returns, electronic notifications, and other tools to reduce paper-based processes, improve services to taxpayers, and speed up tax arrears collection

E-invoicing, cloud services, mobile devices, and apps to facilitate taxpayers' and traders' access to tax and customs, link to bank services, and improve security and transparency

Data matching to enhance results-based management, direct risk management techniques, categorize and select taxpayers for audit and customs examinations

Electronic tax return and third-party information to reduce taxpayers' burden, improve data quality

Adjust legal provisions to legalize digitalization products and grant legal powers to the authorities

Opportunities, but challenges too

- Multinationals with no physical presence
- On-line platforms with hard-to-tax participants – but platforms can play role in tax collection too

New system for corporate taxation

A historic agreement in international tax to:

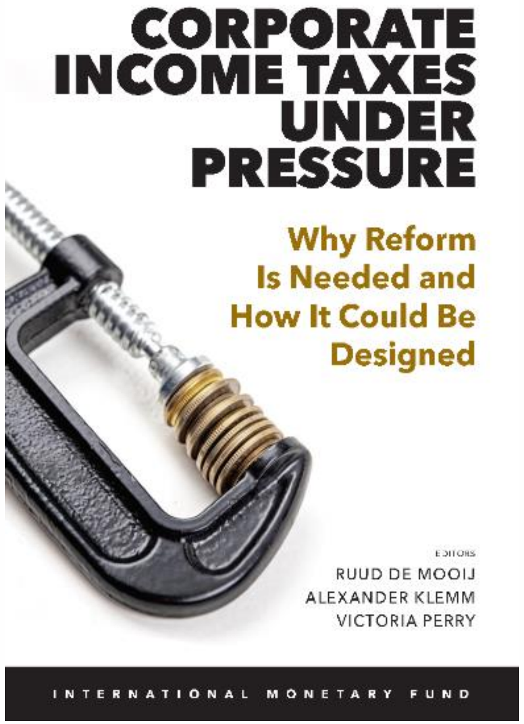
- Reallocate some taxing rights to the market, based on formulary methods (Pillar 1)
- Ensure effective 'minimum taxation' of global profits (Pillar 2), to address profit shifting and ease tax competition

IMF staff supports **multilateral solution**—in line with IMF (2019) assessment—but interest of **developing countries** should be well reflected

- Small expected revenue effect for LIDCs (upcoming Fiscal Monitor)
- Complexity key concern – better tailor to capacity

Shapes domestic **CIT agenda**, including

- Domestic simplified minimum taxes
- Rethinking investment tax incentives



Thank You!