

REVENUE MOBILIZATION IN DEVELOPING COUNTRIES—ISSUES AND INITIATIVES



Michael Keen

G24 Technical Group Meeting

Addis Ababa, February 28, 2017

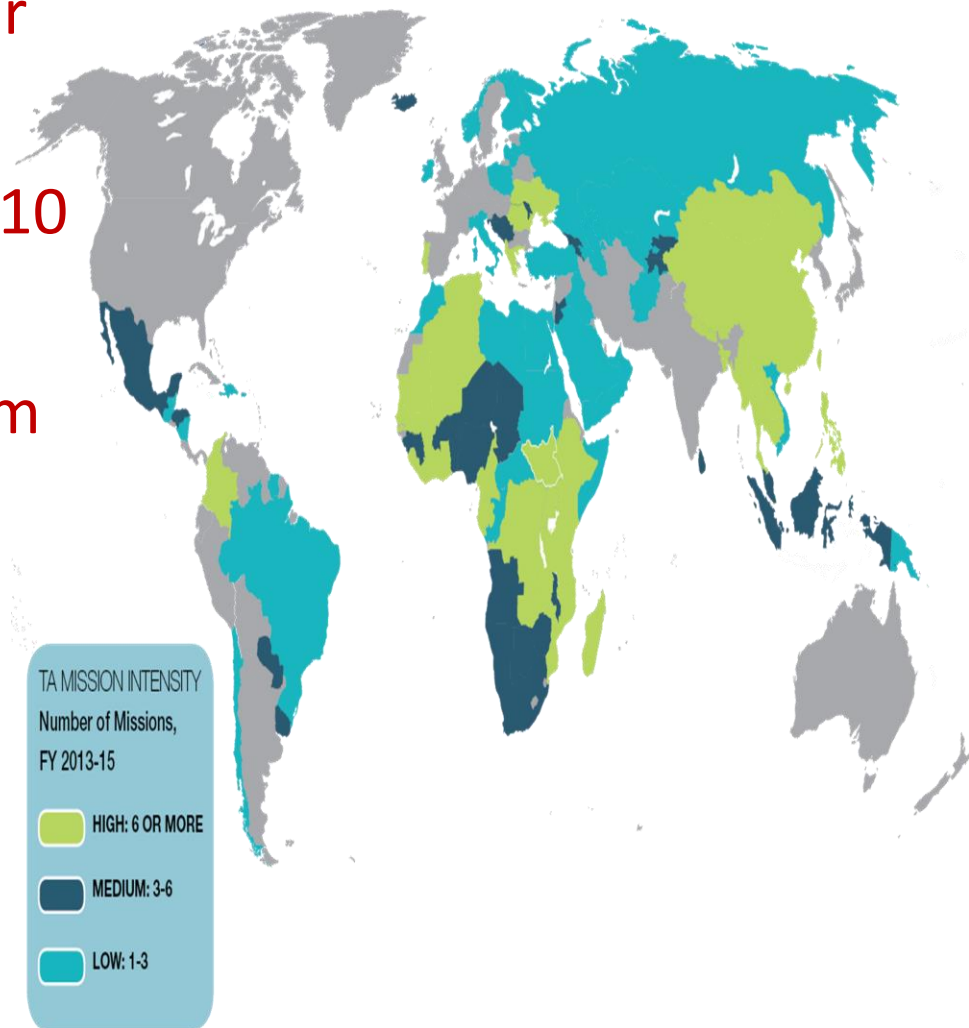
Context

- Heightened interest in supporting revenue mobilization
 - SDGs
 - Addis Tax Initiative
- G20 international tax initiatives (BEPS, (A)EOI)
 - BEPS implementation” OECD’s Inclusive Framework
 - (A)EOI: Global Forum
- Other developments
 - Platform for Collaboration on Tax

IMF support on RM

- Over 100 countries each year
- More than doubled since 2010
- HQ missions, short/long-term experts
- Ten regional TA centers
- Policy development work

FAD Technical Assistance Missions, 2013-2015



An IMF perspective

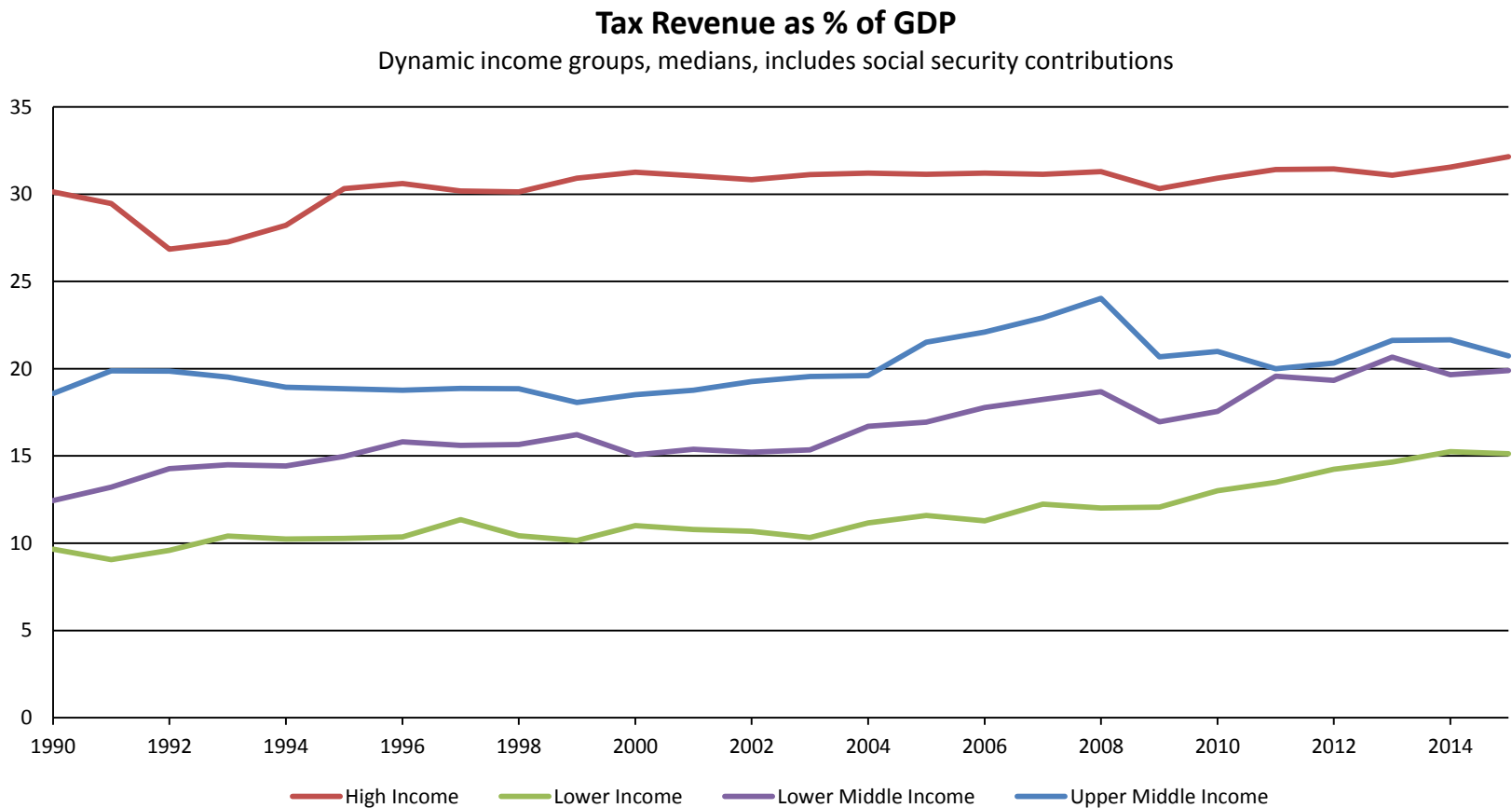
- Objectives
- Selected Issues
- Making support more effective



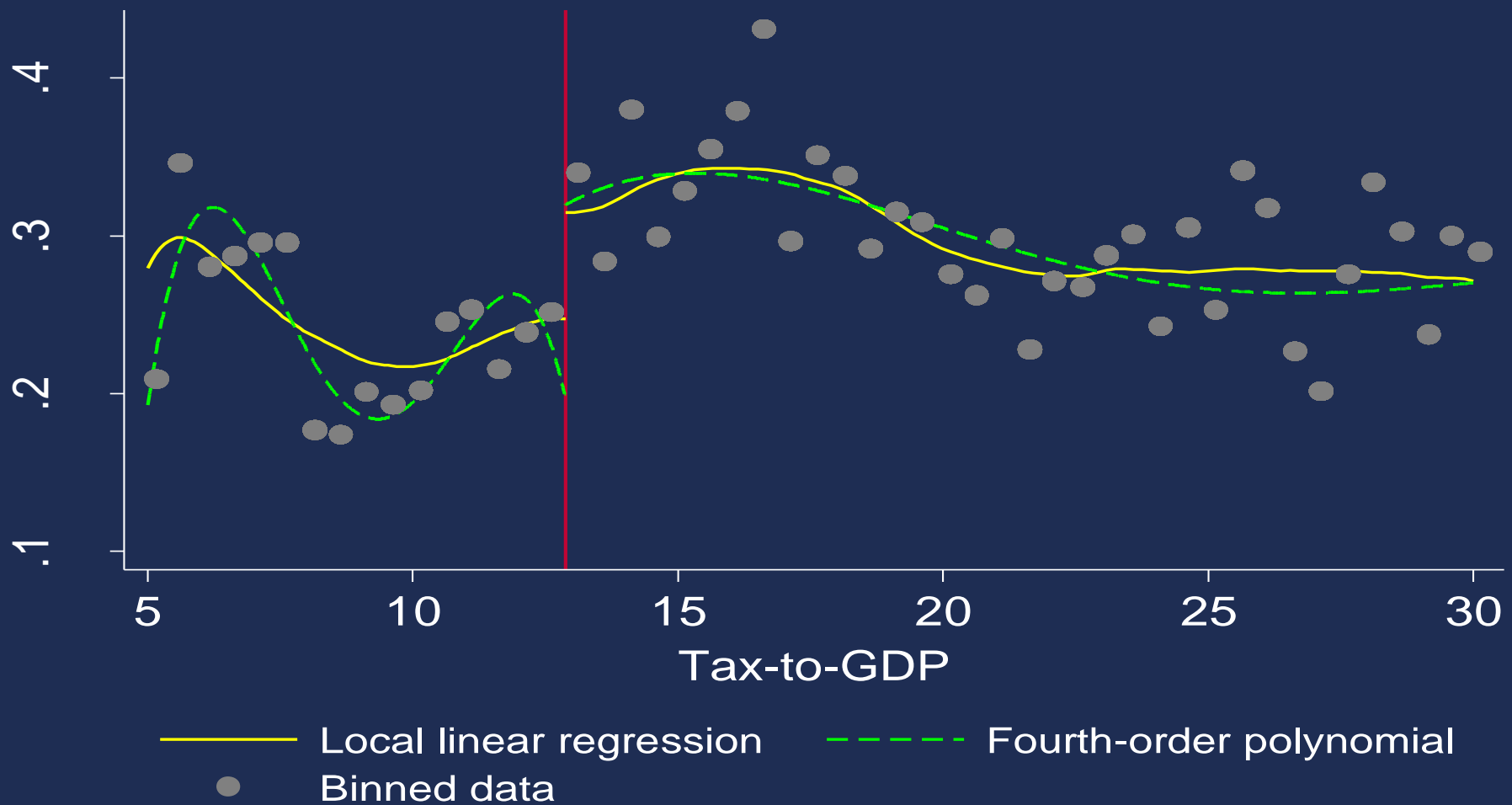
Objectives

Increasing revenue

Central to macroeconomic stability, and achieving SDGs



A tipping point?



Gaspar, Jaramillo and Wingender (2016), "Tax capacity and growth: Is there a tipping point?" IMF WP/16/234.

But more than that: Efficiency, growth,..

For developing counties,
limited evidence but signs:

- Of efficiency and revenue gains from VAT
- That CIT may not be worst
- And that trade liberalization fosters growth



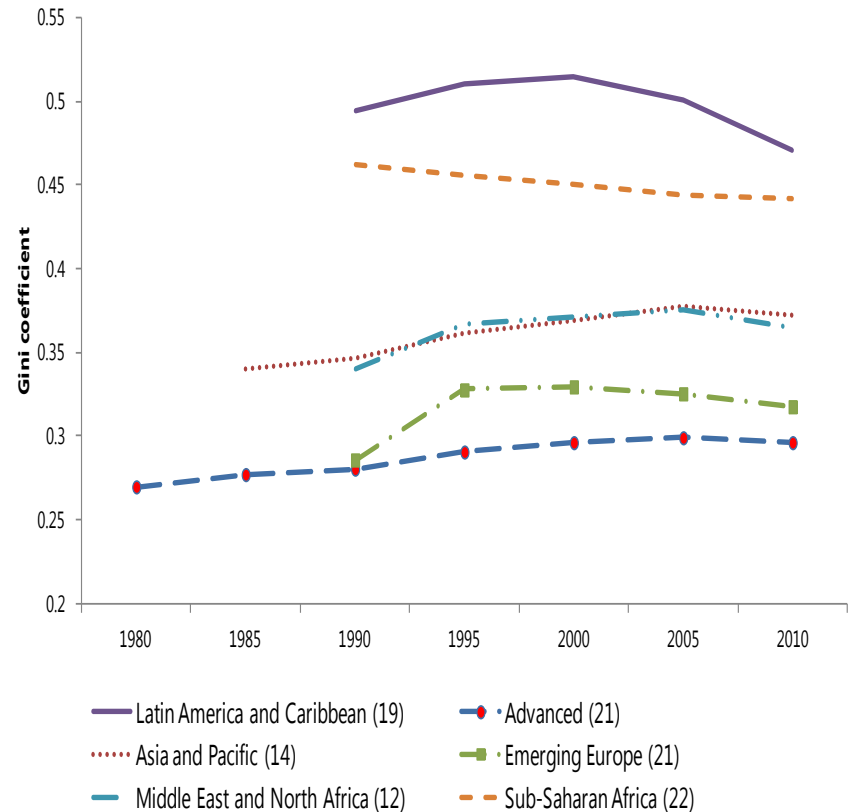
...fairness,...

Not only income inequality,
but:

- Like treatment of like
- Due process

Importantly:

- It is combined effect of tax AND SPENDING that matters



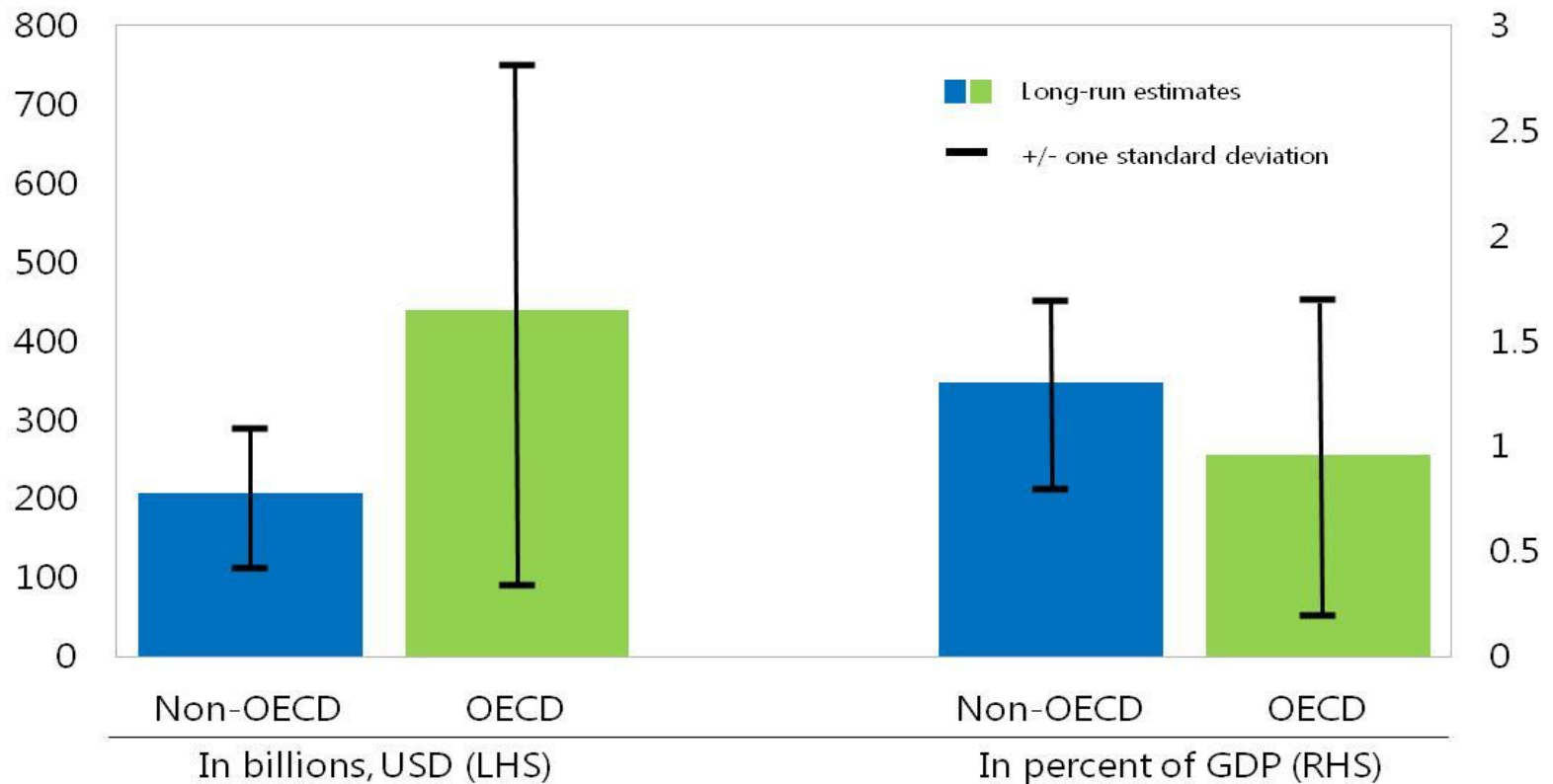
...and 'state building'

- Taxation a key point interaction citizen and state—focus of increased academic attention
- How to build good dynamics?
 - E.g. more attention to small businesses than revenue potential warrants?



Selected issues

International tax matters...



Short-run estimates →

	USD, billions	Percent of GDP
Non-OECD	28	0.2
OECD	95	0.2

New book addresses these for the extractive industries...



INTERNATIONAL TAXATION AND THE EXTRACTIVE INDUSTRIES

Edited by Philip Daniel,
Michael Keen,
Artur Swistak and
Victor Thuronyi



 Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

 Ministry of Foreign Affairs of the
Netherlands



MNRW
TRUST FUND

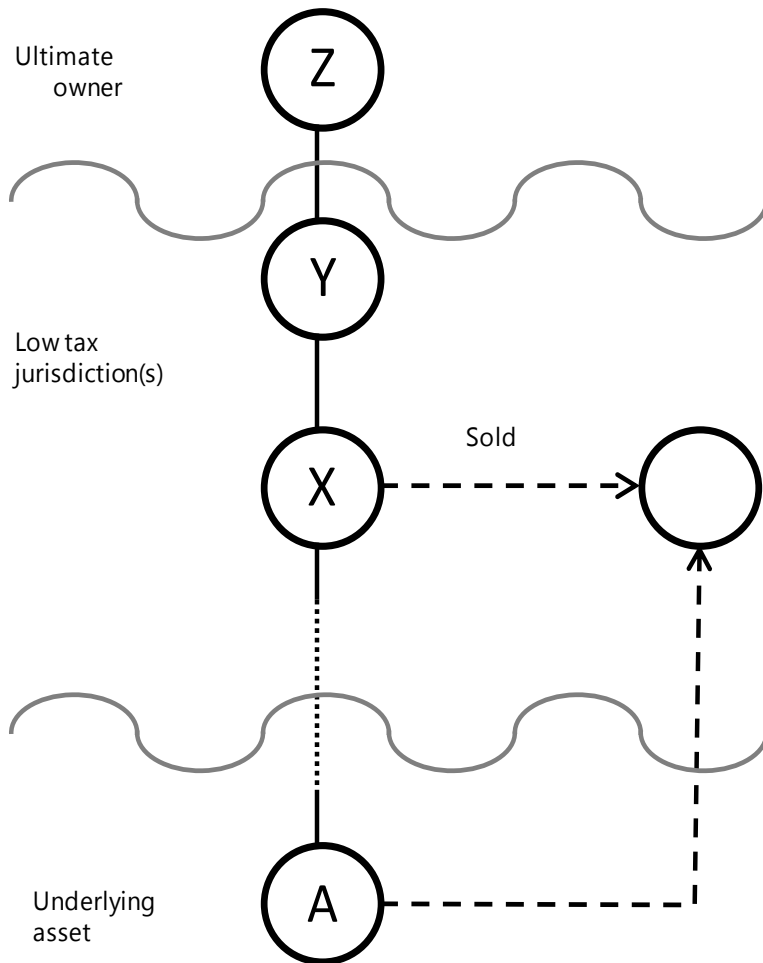
**Australian
Aid** 

 **Norad**

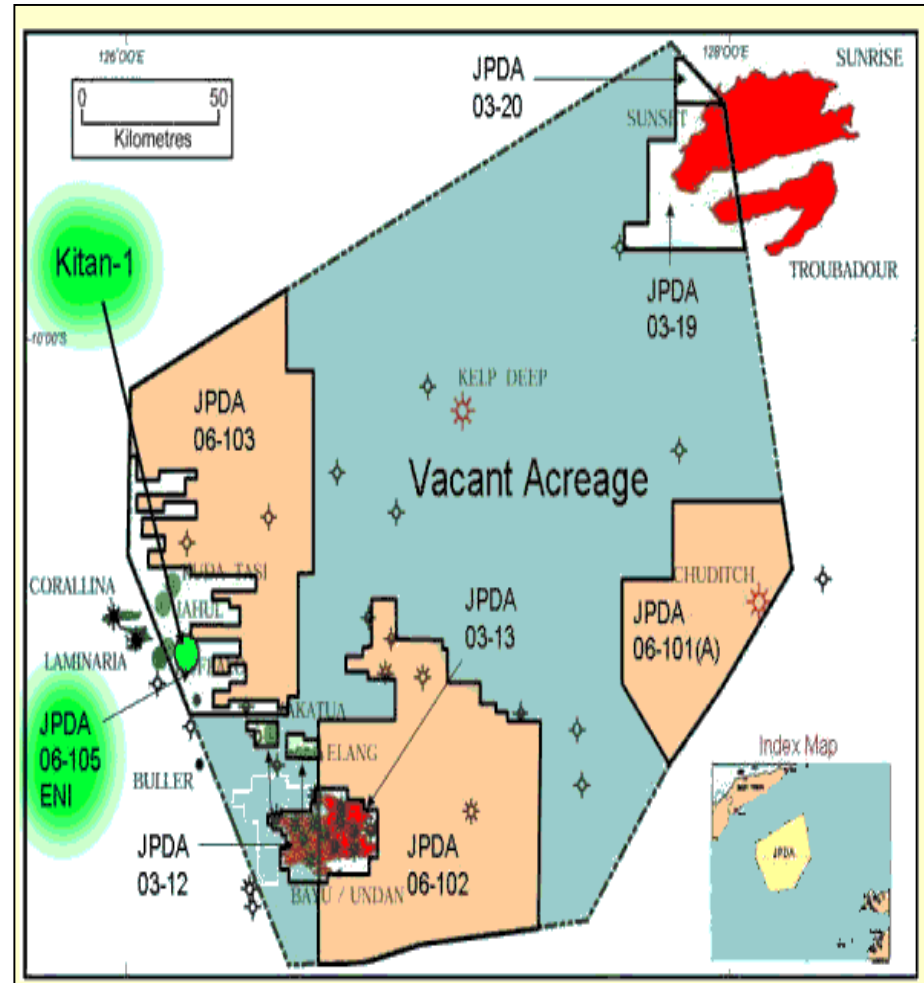


...covering two broad sets of issues, e.g.:


'Indirect transfers'



Cross-border deposits



Many other (less dramatic) issues —such as incentives,..


INTERNATIONAL MONETARY FUND

October 2015

OPTIONS FOR LOW INCOME COUNTRIES' EFFECTIVE AND EFFICIENT USE OF TAX INCENTIVES FOR INVESTMENT

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following document(s) have been released and are included in this package:

A Report by Staff on "Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment;" an accompanying Background Document including tools for assessment.

Informal Session to Brief:

The attached report was prepared by IMF staff jointly with staff of the OECD Center for Tax Policy and Administration, the World Bank Group, and the United Nations (collectively, the "IOs"), at the request of the G20's Development Working Group (DWG). Countries often face pressures to attract investment by offering tax incentives, which then erode the countries' tax bases with little demonstrable benefit in terms of increased investment. The IOs were asked to use their shared expertise to assist low income countries in making better and more efficient use of tax incentives. Drawing on recent country experiences and an extensive range of academic and other studies, the IOs prepared a report aiming to take a fresh look at tax incentive policies in low income countries. A separate background document also attached here reviews practical tools and models to assess the costs and benefits of tax incentives, and to enhance transparency and support informed decision making. The report was presented to the IMF Executive Board in an informal session on October 22, 2015. Such informal sessions are used to brief Executive Directors on policy issues. No decisions are taken at these informal sessions. The views expressed in this paper are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

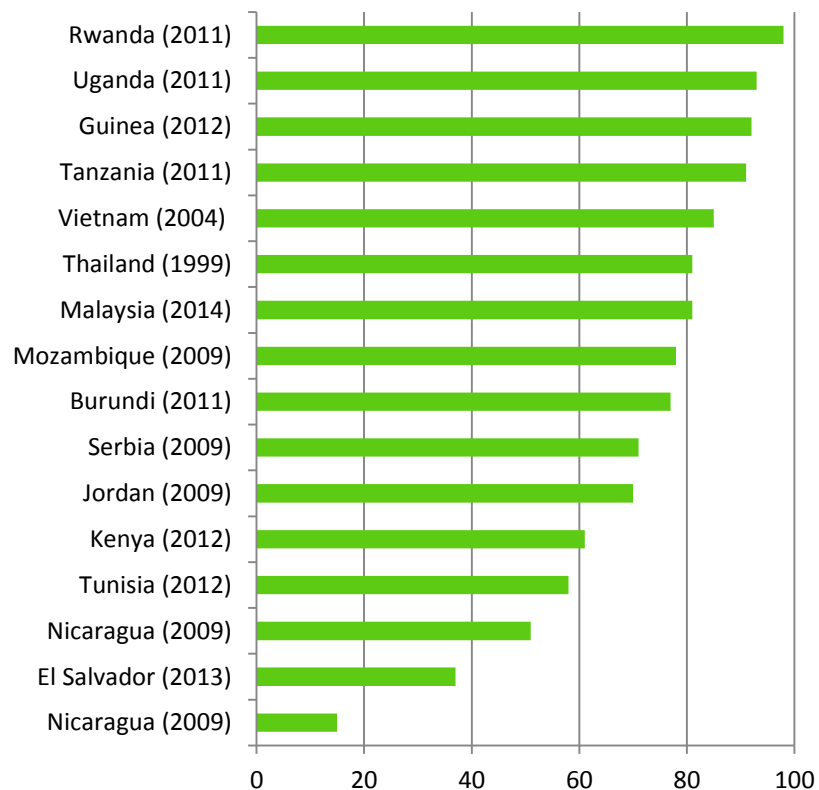
The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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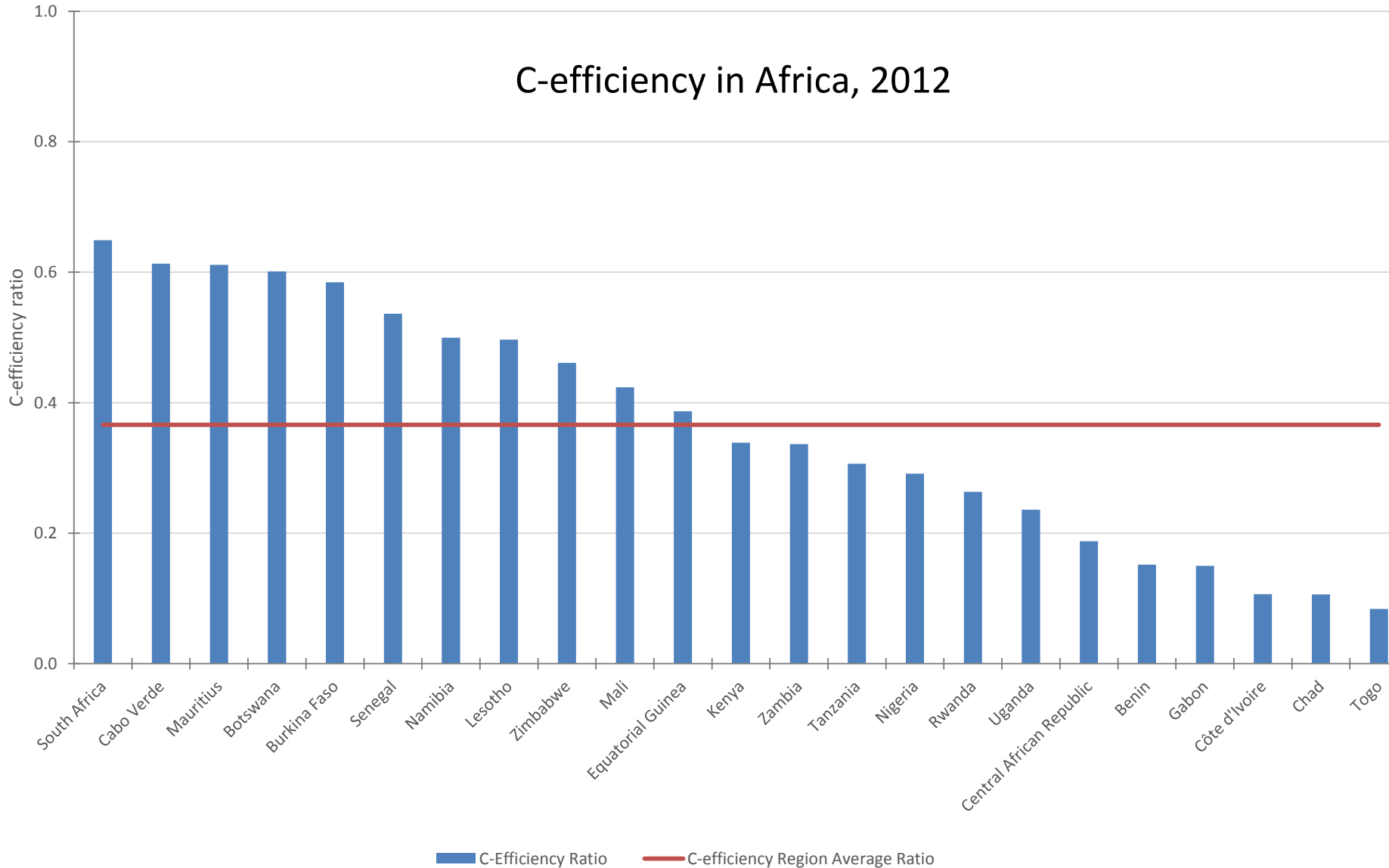
Risking revenue for little benefit



Redundancy ratios


...improving the VAT,..

C-efficiency in Africa, 2012



...with administration critical,..

- Weak HQs, high turnover of senior staff
- Inadequate/unstable financing
- Weaknesses in information management, processes and legal frameworks
- IT developments offer opportunities—but also new problems
- Corruption—lasting impact on compliance



INTERNATIONAL MONETARY FUND

April 2015

CURRENT CHALLENGES IN REVENUE MOBILIZATION: IMPROVING TAX COMPLIANCE

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following document(s) have been released and are included in this package:

- The **Staff Report** prepared by IMF staff and completed on January 29, 2015.

The report prepared by IMF staff and presented to the Executive Board in an informal session on February 6, 2015. Such informal sessions are used to brief Executive Directors on policy issues. No decisions are taken at these informal sessions. The views expressed in this paper are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

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...and much else!

- **Building an effective personal income tax**—beyond large firms and public employees
- **Property taxation**—Significant revenue/equity potential
- **Excises**—Dull but important
- **New technologies**—A current focus
- **Developing/supporting analytical capacity**
 - Good news: Upsurge of academic work
 - WoRLD revenue data set online



Making support more effective

Report of the Platform for Collaboration on Tax

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

Prepared for Submission to G20 Finance Ministers

July 2016

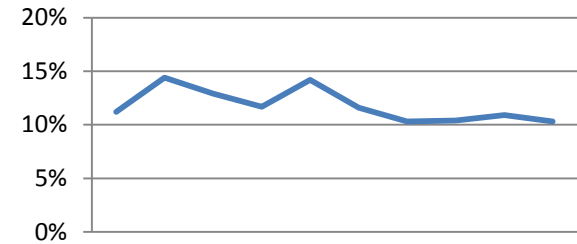
International Monetary Fund (IMF)
Organisation for Economic Co-operation and Development (OECD)
United Nations (UN)
World Bank Group (WBG)

Highlights:

- Prerequisite: **A country-driven commitment to reform within a supportive political environment**
- Potential for **medium term revenue strategies**

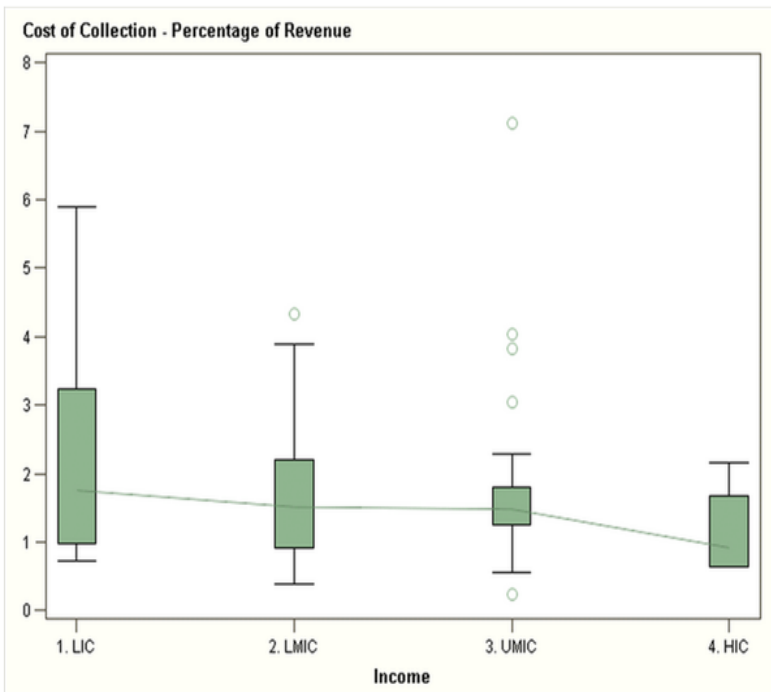
...with new analytical tools

RA-GAP: Actual vs full compliance



ISORA: Collects RA data and establish baselines/benchmarks

TADAT: Assessment tool



THE DESTINATION-BASED CASH FLOW TAX—A PRIMER



Michael Keen

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Addis Ababa, February 28, 2017

How it would work

“Cash flow” means:

- Immediate expensing of investment (instead of depreciation)
- No interest deduction

Base of DBCFT is thus ‘rents’ (= profits in excess of minimum required)

“Destination-based” means:

- ‘Border tax adjustment’ (BTA) Imports are taxed, exports not taxed

Key things to remember

- Not a tariff! Domestic sales taxed same as imports
- Equivalent to broad-based (subtraction) VAT plus wage subsidy at the same rate
- To get to DBCFT from 'standard' corporate tax:
 - Remove tax on normal return
 - Border adjust: move tax base from production to consumption

Adjustment to BTA

In simplest case, no real effects. Either:

- Exchange rate appreciates
 - Lower cost of imports offsets the tax imposed
 - Lower receipts in domestic currency offsets removal of tax
- Increase in all prices
- Or some combination

Many qualifications....

Things to like about the DBCFT

- Eliminates debt bias
- Does not distort level or location of investment
- Eliminates whole range of avoidance (BEPS) possibilities
 - e.g., Currently, if country A has higher statutory rate than B, set artificially low price for exports from A to Bbut under DBCFT, export price irrelevant in both A (not taxed) and B (not deductible)

Some issues

- Inconsistency with WTO and, perhaps, tax treaties
 - but not for VAT-based approach
- BEPS problems lightened for adopter, but worsened for non-adopters
- Treatment of losses: principle clear but risk of fraud/adverse perception
- Many design issues...