

TAX REFORM TO IMPROVE TAX COMPLIANCE

Juan Toro

IMF's Fiscal Affairs Department -- Assistant Director



7th IMF-Japan High-Level Tax Conference For Asian Countries

Tokyo, April 5-7, 2016

Outline

- Challenges in *Revenue Mobilization*
- Managing tax compliance
- Supporting compliance management

CHALLENGES IN REVENUE MOBILIZATION

Current Challenges in Revenue Mobilization *Improving Tax Compliance*



INTERNATIONAL MONETARY FUND

CURRENT CHALLENGES IN REVENUE MOBILIZATION: IMPROVING TAX COMPLIANCE

January 29, 2015

EXECUTIVE SUMMARY

This paper addresses core challenges that all tax administrations face in dealing with noncompliance—which are now receiving renewed attention. Long a priority in developing countries, assuring strong compliance has acquired greater priority in countries facing intensified revenue needs, and is critical for fairness and statebuilding.

Measuring and analyzing ‘compliance gaps’ is a powerful first step to addressing noncompliance—and reducing them can raise significant amounts. Estimating and dissecting the difference between tax due and collected is becoming more common, but remains the exception—even in advanced economies. The aim is not to eliminate gaps, but reducing them can raise significant amounts: reduced VAT gaps in Latin America in the early 2000s, for example, may have raised revenue by about 15 percent.

Compliance worsened markedly in countries most affected by the crisis, which exposed structural weaknesses in many tax administrations. There are tentative signs that the effect may be short-lived, perhaps reflecting policy responses, but the need to address wider vulnerabilities remains.

Some basic instruments to deter evasion and facilitate compliance—and supportive tax policies—are critical for strong compliance. The value of withholding and third party information is well-established: where both apply, compliance in advanced countries is around 99 percent; even with only the latter it is over 90 percent. Taxpayer segmentation—primarily by size, but also in regard to ‘hard-to-tax’ segments such as high wealth individuals—is increasingly recognized as key for tailoring enforcement actions and the provision of taxpayer services. And policy design needs to be sensitive to compliance challenges, pointing to broad bases and potentially blunter tools in lower income countries.

Much remains to be done in many countries to build effective tax administrations. High turnover of senior staff, weak HQs, inadequate/unstable financing are recurrent concerns, as—especially in developing countries—are weaknesses in auditing, taxpayer services and legal frameworks. IT developments offer considerable opportunities—but also pose new compliance problems. Tax administrations also face increased pressure to take on non-revenue roles that can present considerable difficulty.

New tools can help countries address compliance problems by analyzing gaps, comparing indicators with peers, and assessing their own performance.

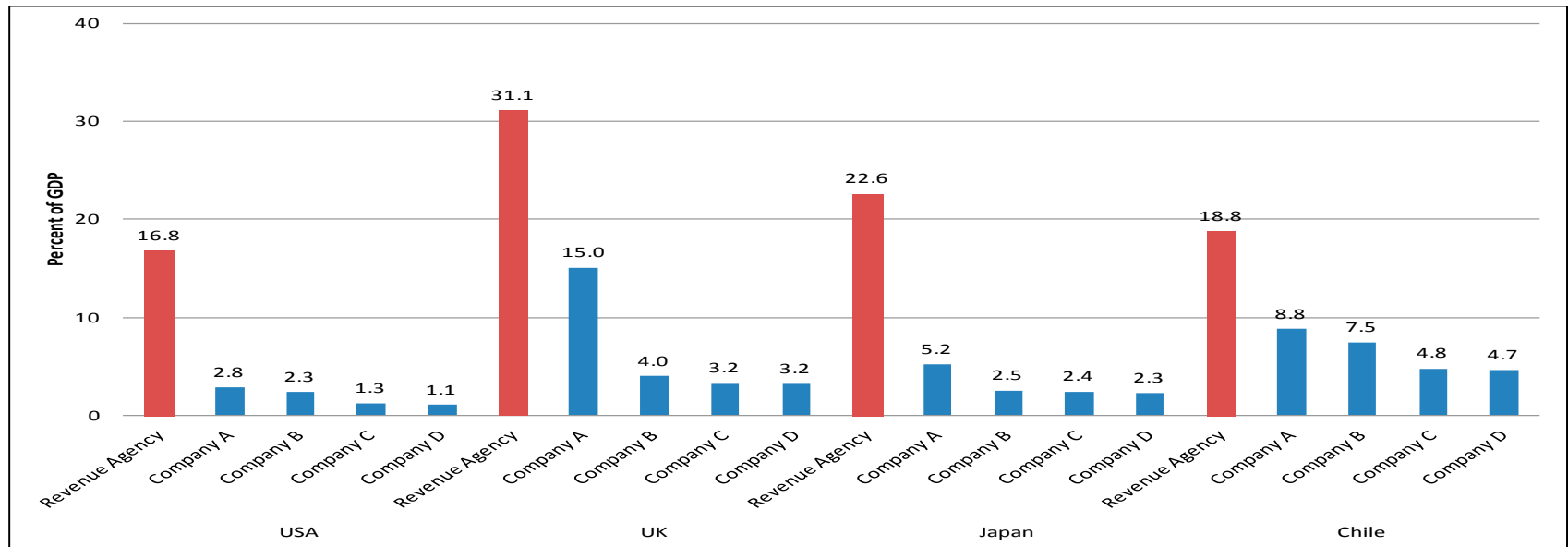
At IMF Web site: <http://www.imf.org/external/pp/longres.aspx?id=4944>

MANAGING COMPLIANCE

Revenue administrations

Key for assuring compliance and wider state-building
...and are large complex organizations

Tax Receipts Compared to Revenues of Largest National Companies

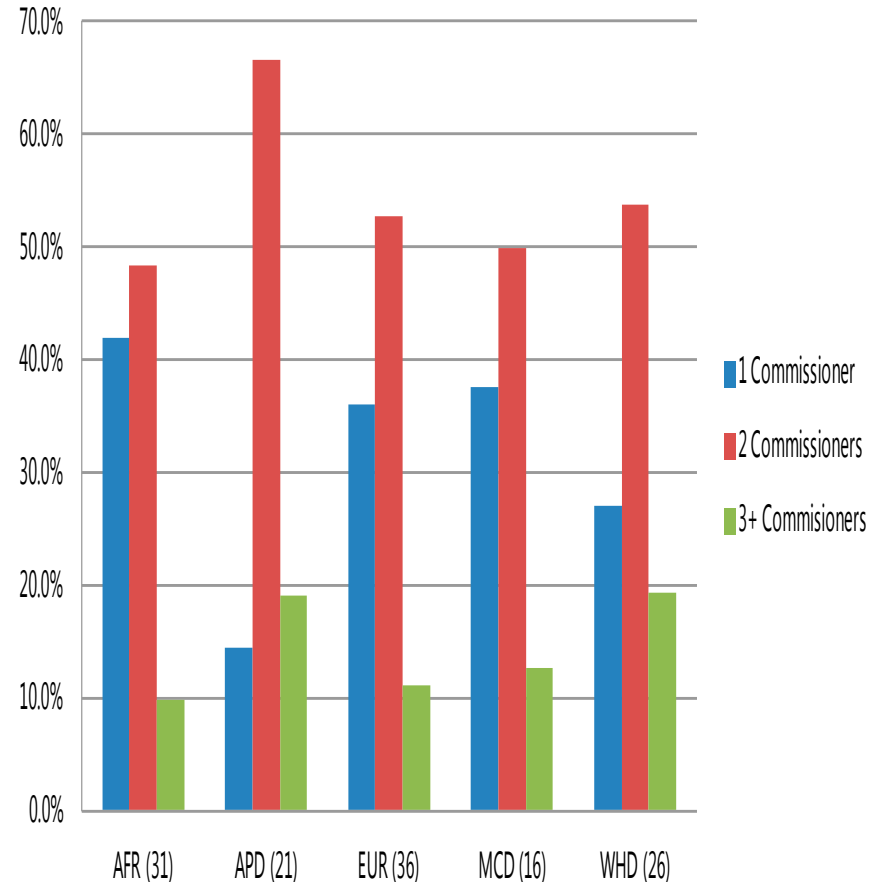


That have been through turbulent times and face rapidly changing environment ahead

Organizational management requires....

- Strong and empowered HQs
- Streamlined office network
- Sufficient Autonomy
- Assuring Integrity
- Adequate, stable financing...

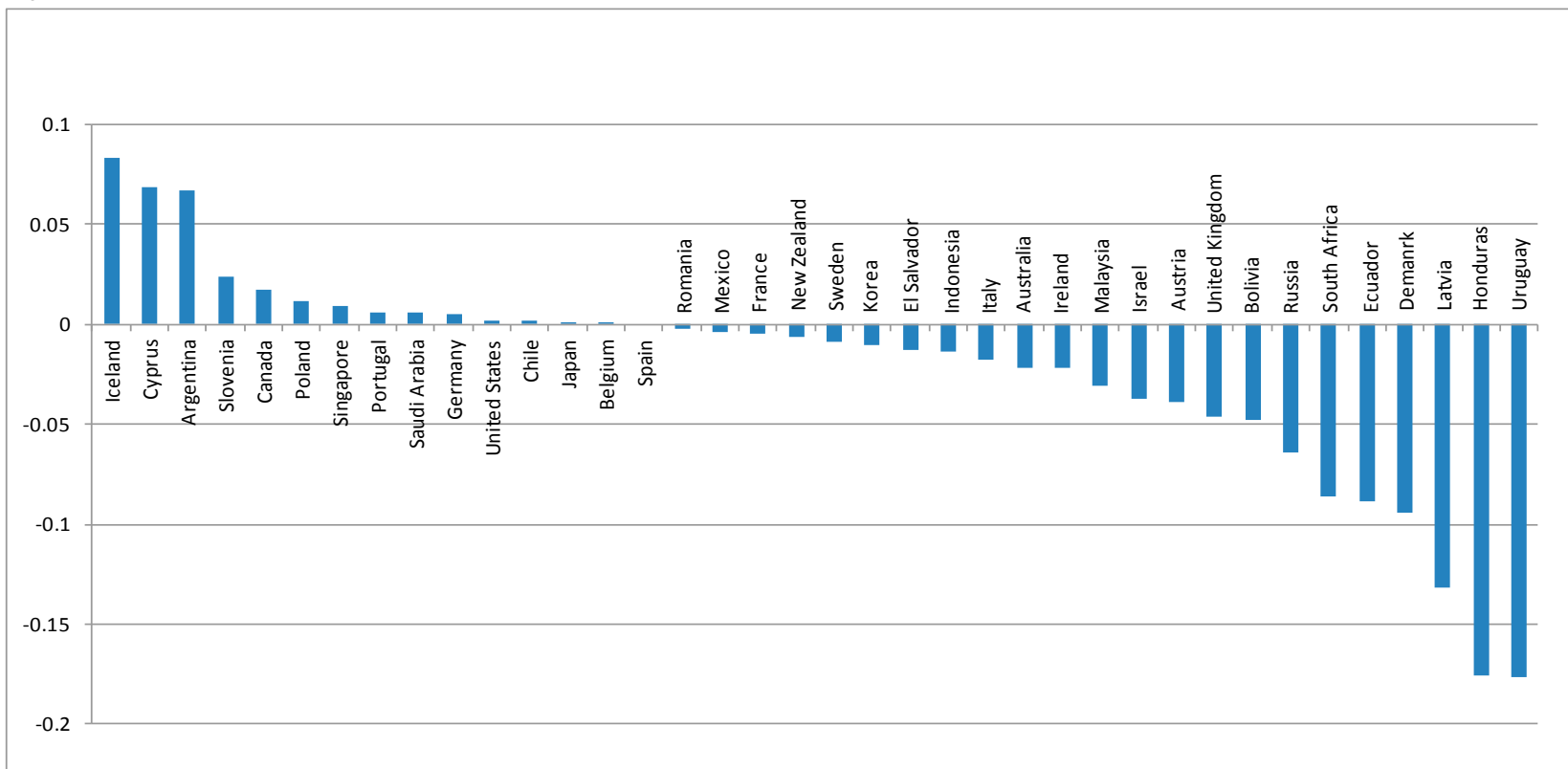
Turnover of Commissioners by Region 2009–2013



...as was an issue during the crisis,

Changes in Tax Administration Spending, 2008-2011

In percent of GDP



Source: CIAT, RA-FIT, OECD

And squaring up to challenges, such as

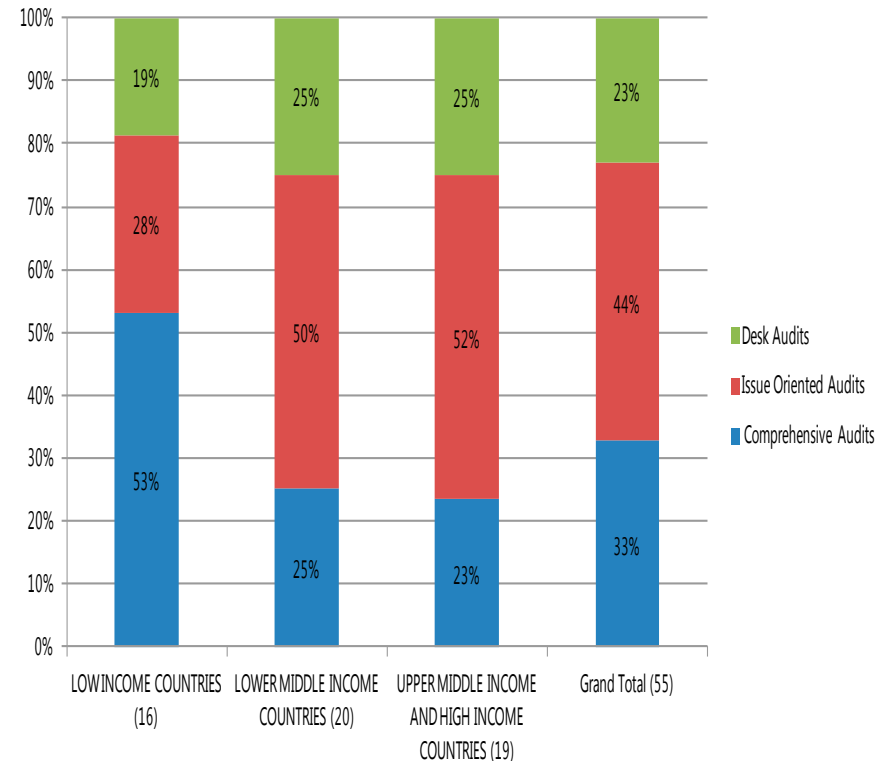
- Pressure to take major expenditure functions...
...with a quite different set of clients and needs
- Change management
 - reform while maintaining revenue performance

To do lists: 1. Operational management

- Better focus, especially in DCs, on main compliance risks
 - Identify compliance gaps and sources
 - Better segmentation of taxpayers to tailor responses
 - More effective audit and collection of tax debts
 - Strengthened taxpayer services
- Legal changes may be needed

Over-reliance on comprehensive audits...

Audit Mix, 2010



2. Information management

- Back to basics—key for reliable data
- Enhance RA capacity to monitor compliance
 - Front- and back-ends
- New frontiers—and new risks
 - Pre-populated tax return
 - e-invoicing, e-accounting, etc.
 - Extending digital services to banking, accounting sites

3. Stakeholder relations

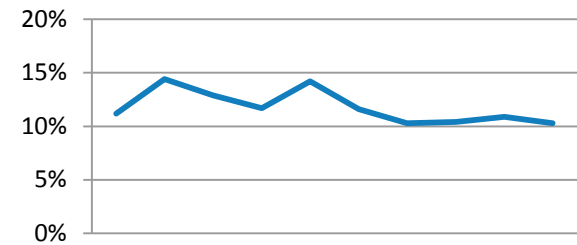
(Accountants, industry associations, etc.)

- Still largely ad-hoc
- Need for proactive relationship with taxpaying community in developing countries
 - Variety of channels, formal and informal
- Fairly recent approach of ‘enhanced relationship’
 - Risky for countries with weak enforcement capacity

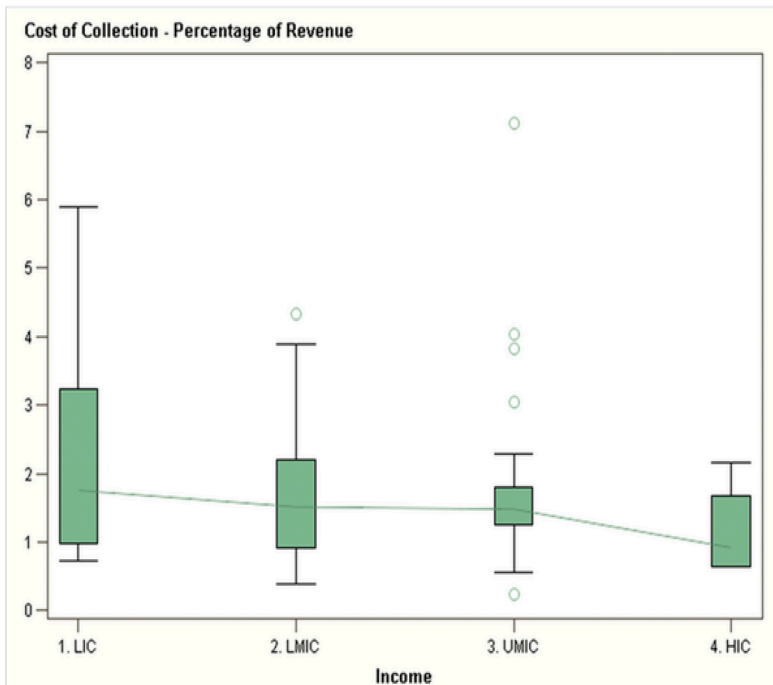
SUPPORTING COMPLIANCE MANAGEMENT

...with new analytical tools

RA-GAP: Actual vs full compliance



RA-FIT: Collects RA data and establish baselines/benchmarks



TADAT: Assessment tool



**THANKS FOR
YOUR ATTENTION**