

Core Elements of a Medium-Term Revenue Strategy



Presentation by Fiscal Affairs Department, IMF

Seminar on MTRS and Related Issues

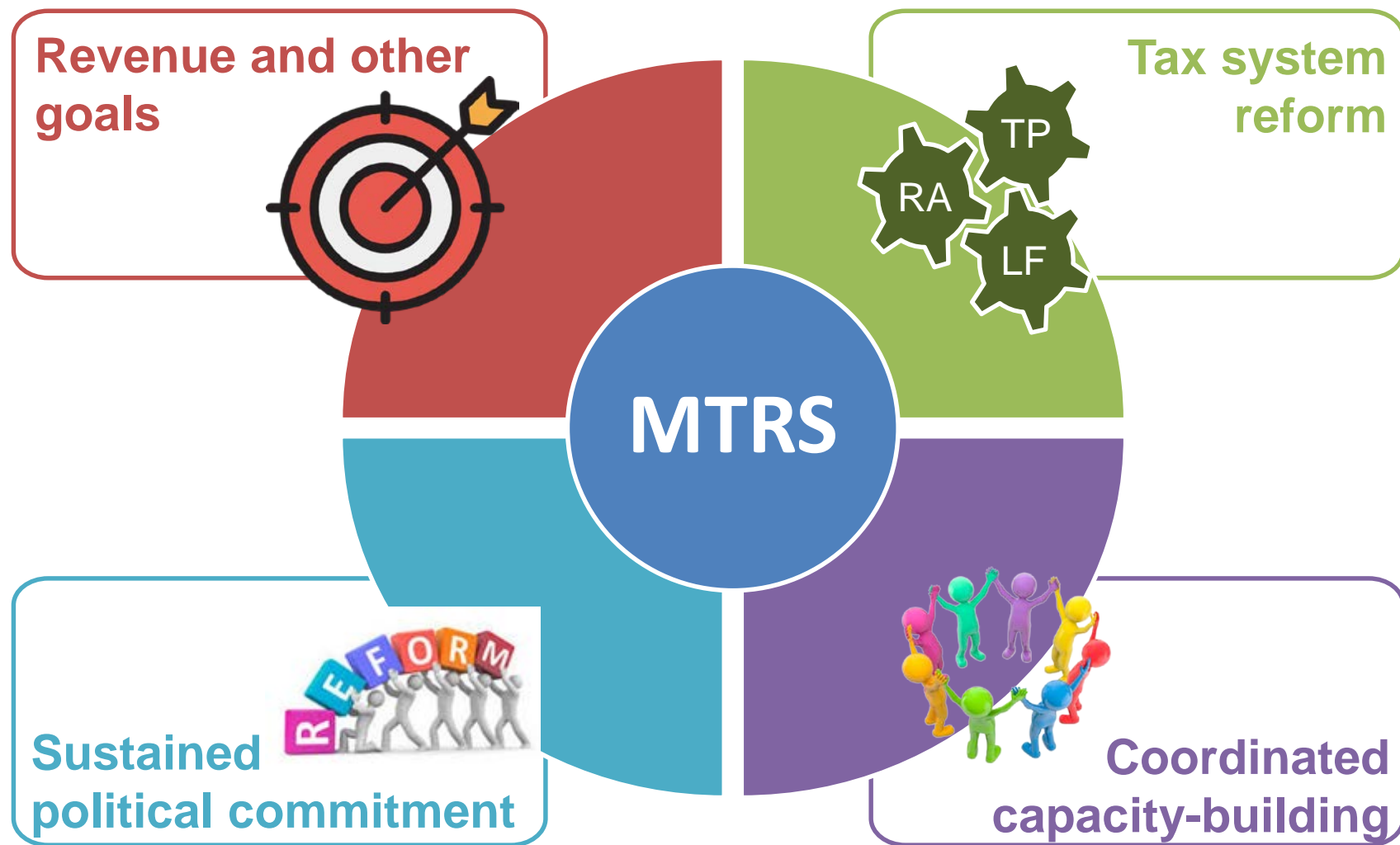
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Manila

December 2017



Outline: MTRS Components



1. Broad consensus on level of revenue mobilization effort



1. Broad consensus

- Broad consensus on medium-term revenue goals
- Government-led effort –whole-of-government approach
- Society’s expectations on public services –expenditure needs and SDGs agenda –social and economic development vision
- Inclusive –multiple stakeholders and community representatives
- Ideally reflected in medium term budget and formal documents –notably an MTRS document

2. Comprehensive tax system reform plan



2. Comprehensive tax system reform plan

- Reform of the tax system
- Prioritize reforms
- Carefully sequenced overhaul of tax system
 - *Redesigning tax policy settings*
 - *Reforming the revenue agencies*
 - *Strengthening the legal framework*
- Countries may be able to build an MTRS on the basis of their current reform efforts.



A. Redesigning tax policy

- How efficient, equitable and effective is the current tax policy framework in meeting revenue needs? How should be adjusted?
- Detailed diagnosis of:
 - policy design features (e.g. neutrality versus bias)
 - tax mix (e.g. consumption, labor, capital, natural resources)
 - economic and social impact (e.g. on growth and equity)
- Design a multi-year high level road map of tax policy options
- Consistent with medium term fiscal and expenditure framework
- Quality and quantity considerations
- Stakeholder engagement



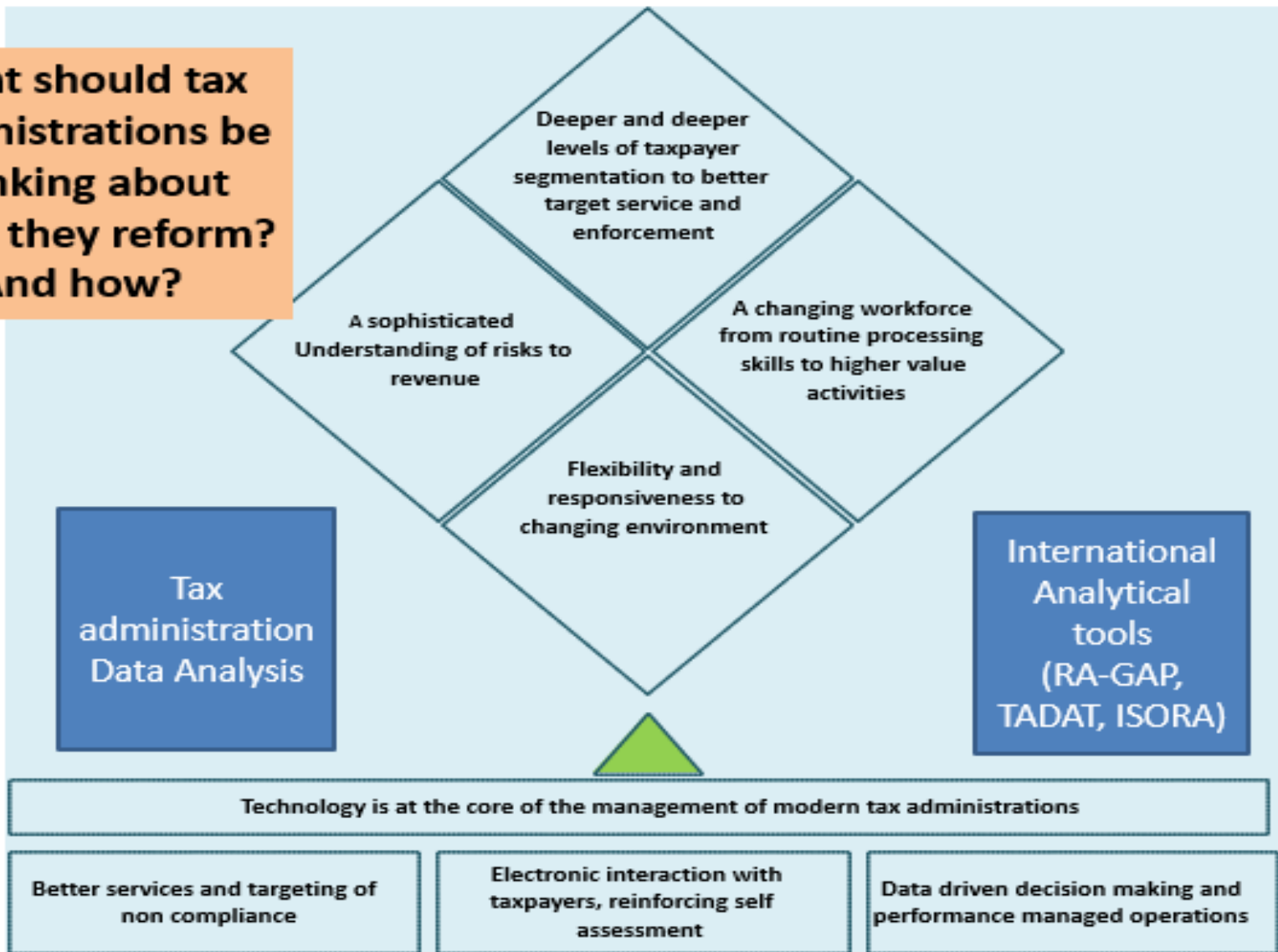
B. Reform of revenue administration

- Meeting revenue needs depends on taxpayers' compliance - efficient and effective revenue agencies are crucial
- Diagnosis across three levels:
 - levels/rates of taxpayers' compliance with main taxes
 - institutional management and governance arrangements against good international practice and trends
 - management and performance of core revenue administration functions against international benchmarks and trends
- Without a well-organized reform management process, institutional reforms are more difficult to achieve



Reform of revenue administration

What should tax administrations be thinking about when they reform? And how?





C. Reform of legal framework

- A robust and enabling legal framework is needed to support policy and administrative improvements:
 - substantive laws setting the taxes
 - procedural laws establishing the revenue agencies' powers and taxpayers' rights is also crucial to enable fair and effective administration of the tax system
- Sequencing of all reforms is vital, given the usual lengthy timelines to amend or pass new legislation
- An unreformed legal set up could become a significant impediment to broader reforms

3. Country's commitment to implementation



3. Country commitment

- Strong when urgencies arise; diverse motivations –quick fix too often
- Governments must lead the tax system reform –a country-owned objective at highest level of government
- Most success factors depend on government decisions – strategy aims, governance, teams, political support, timeframe of effort, reform management process, communication, institutionalization, monitoring and accountability

4. Secured financing and external support

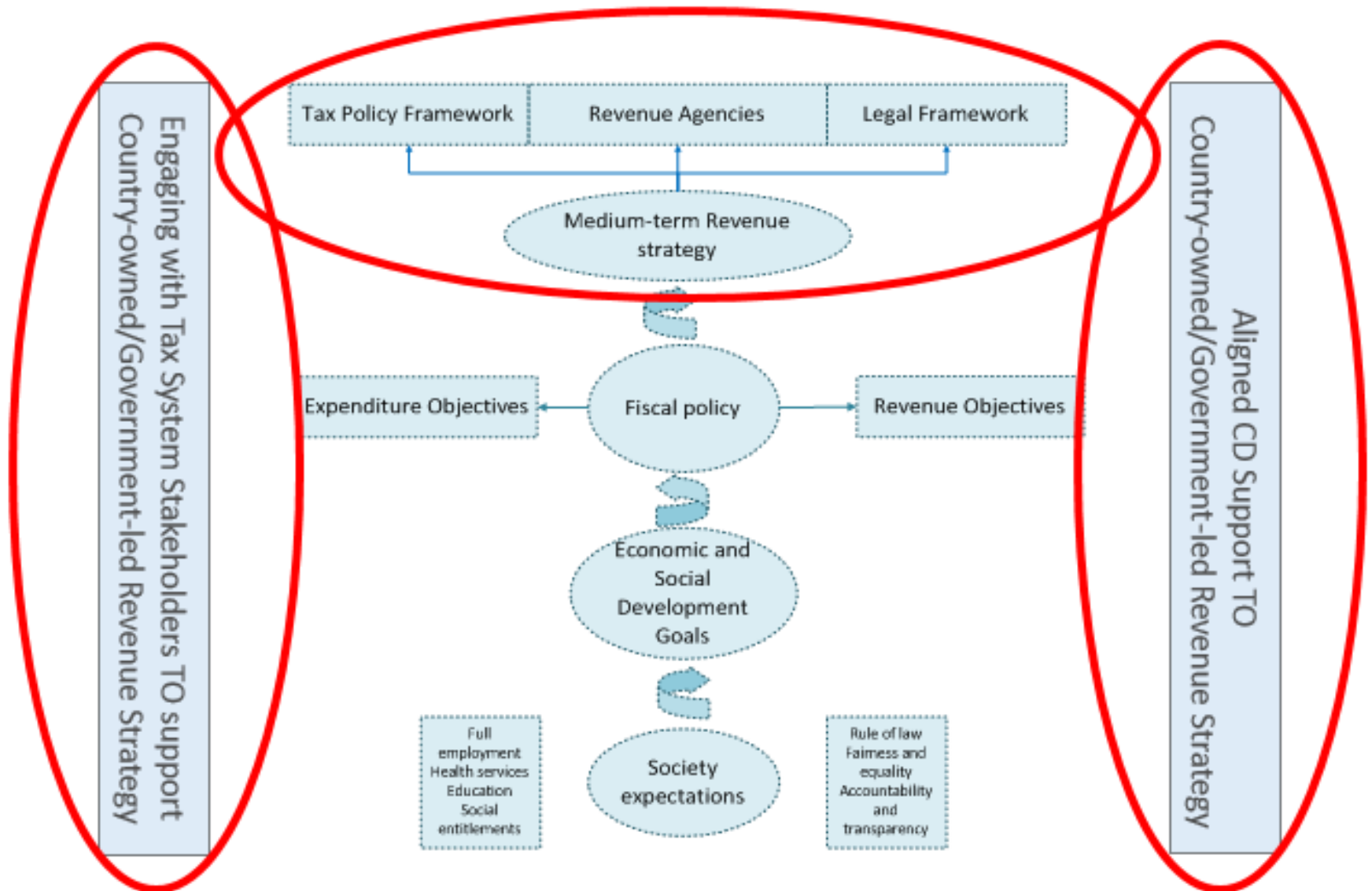


4. Finance and external support

- TA to help formulate and implement MTRS is crucial
- MTRS framework helps coordinate capacity development with government in the lead
- Designate a lead TA provider
- All support provided and received under MTRS umbrella
- A formal agreement with donors/partner (e.g. MOU)
- Embracing the above coordinating approach is an important distinctive feature of the MTRS

Practical tips

Involve all stakeholders



Undertake gap analysis of ongoing reform efforts vis-à-vis an MTRS

I. Setting a revenue mobilization target to finance needed public expenditures

- ✓ Revenue target (match with expenditure needs).
- ✓ Consultation.
- ✓ Other objectives.

II. Designing a comprehensive set of tax system reforms to achieve the revenue goals

- ✓ Reform components.
- ✓ Specify revenue-raising initiatives.
- ✓ Quantification.
- ✓ Transformational initiatives.
- ✓ Good practices.

III. Committing steady and sustained political support and reform management

- ✓ Multi-year effort
- ✓ Whole-of-government approach.
- ✓ Resources (3-4).
- ✓ Reform governance.

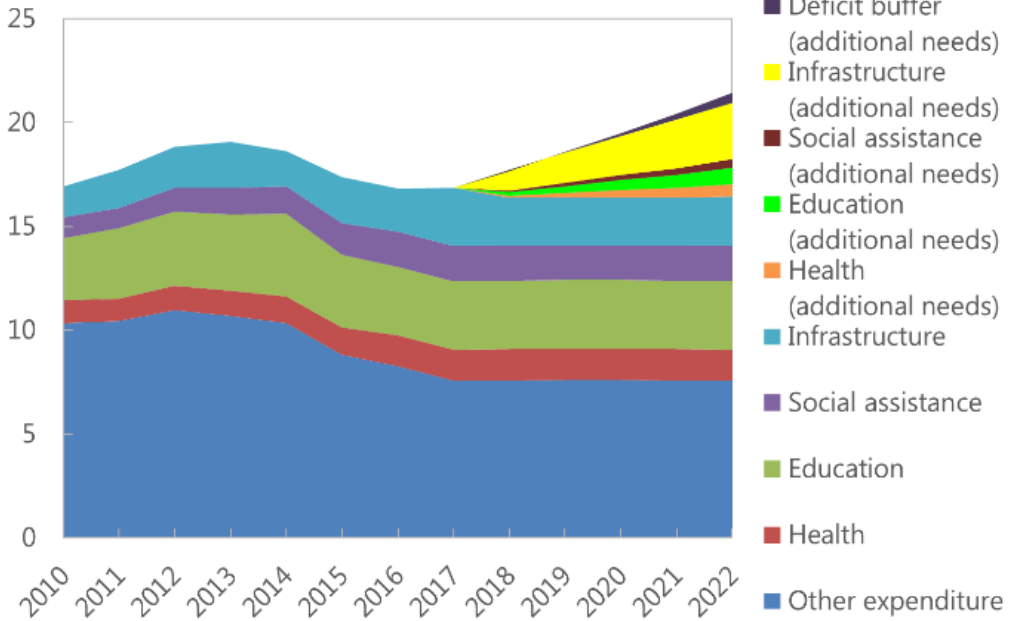
IV. Securing adequate resourcing to support the implementation

- ✓ Donors support / Aligned support.

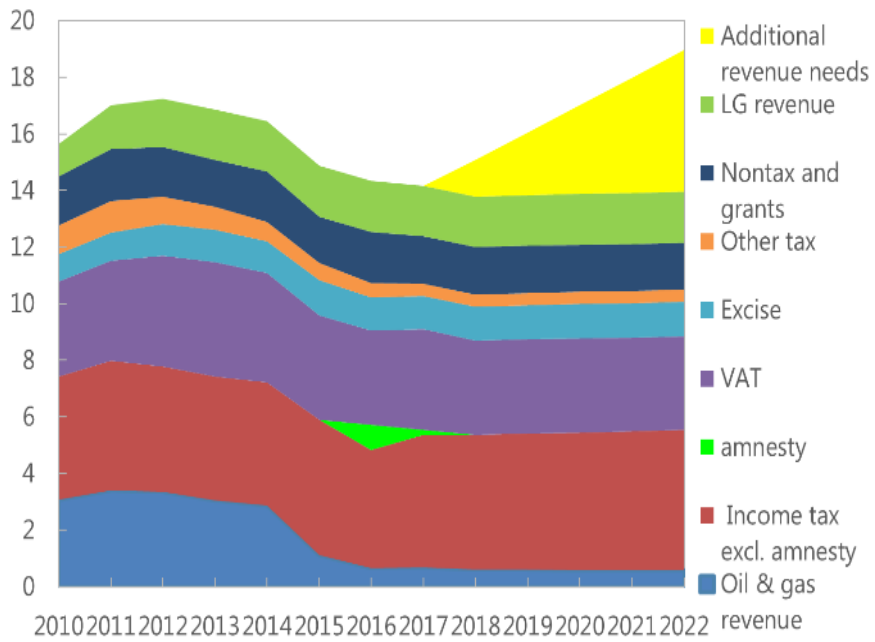


Be disciplined- revenue needs driven by spending needs

General Government Expenditure: Baseline Forecast and Needs
(in percent of GDP)



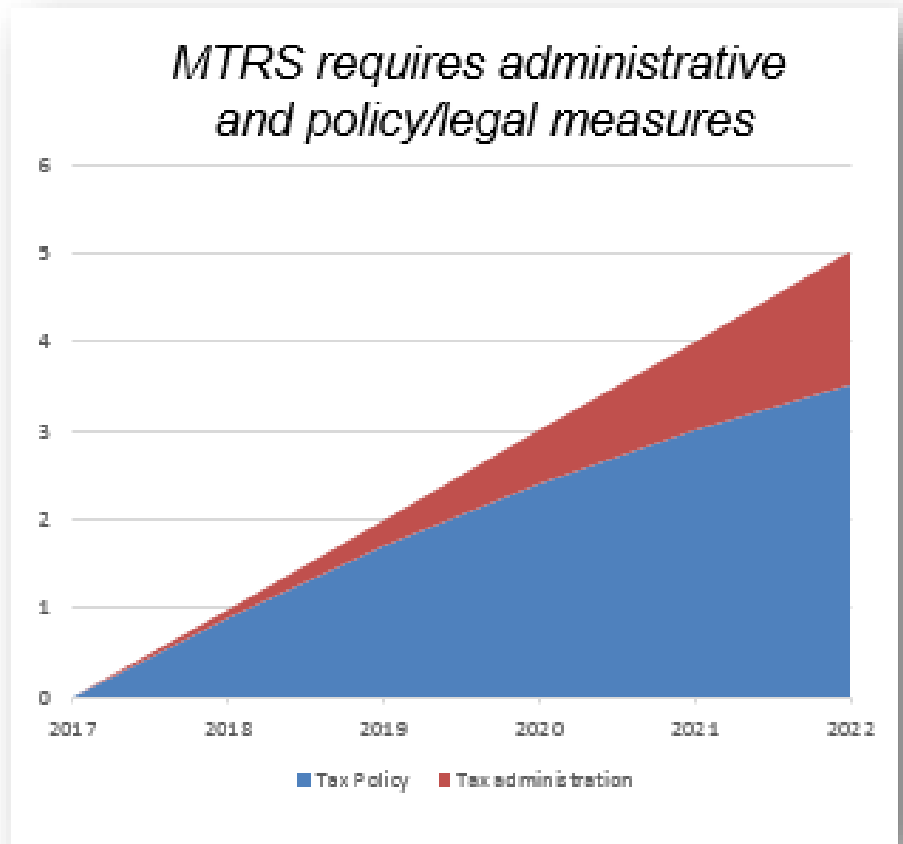
General Government Revenue: Baseline Forecast and Needs
(in percent of GDP)





From concept to concrete measures

- Concrete roadmap
 - Realistic & evidence-based
 - Policy & administration
 - Reform implementation
- Criteria to assess revenue raising options
 - Effective
 - Efficient
 - Equitable
 - Easy to administer/comply





Risks

- High expectations – ultimately decisions lay on government lead ad they have to implement
- Inflation of the concept – not every revenue reform is or needs to be an MTRS
- Inability to review, refocus and recalibrate during implementation – things will not go to plan
- Supply driven technical assistance may linger

Thank You