

Revenue Administration – GAP Analysis Program



Presentation by Fiscal Affairs Department, IMF

An overview of FAD's Revenue administration's – Gap Analysis Program

Views are author's alone and should not be attributed to the IMF, its Executive Boards, or its management

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Overview

- What is RA-GAP?
- What is the Tax Gap?
- What does RA-GAP provide?
- What does RA-GAP involve?

What is RA-GAP

What is RA-GAP?

- Revenue Administration's Gap Assessment Program is a systematic evaluation of a revenue administration's operations designed to assess their effectiveness in collecting taxes.
 - This assessment is to be conducted by experts working closely with a local team familiar with administration operations, tax design and policy, and statistical data.
 - A long-run goal of the program is to build local capacity for execution of a similar domestic program.
- The ultimate goal of this assessment is to be able to estimate the “tax gap”.

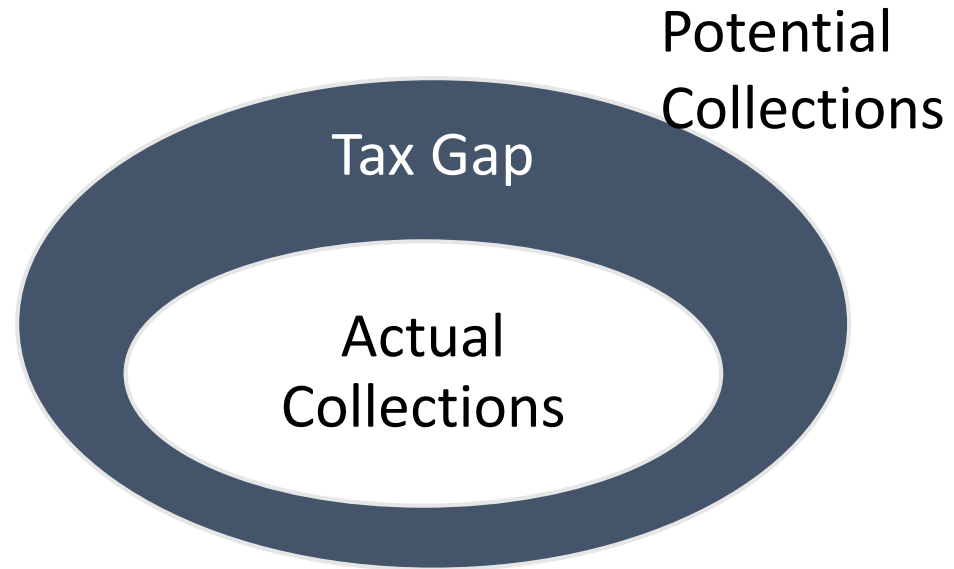
Why Measure the Tax Gap?

- Estimating the tax gap is key to measuring the effectiveness of a revenue administration.
 - It provides a direct measurement of the degree to which an administration is effective in maximizing revenue collection.
 - The tax gap is thus a crucial component of results based management for an administration.

What is the Tax Gap?

Defining the tax gap

- A loose definition for the tax gap is that it is the difference between actual collections and potential collections

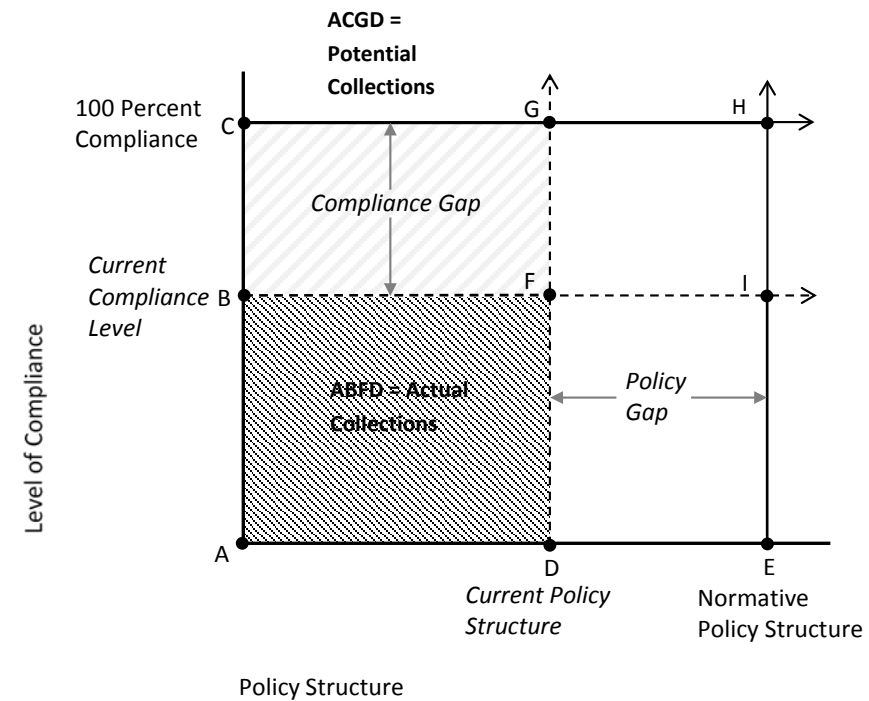


- But what are Potential Collections?

Potential Collections and the Tax Gap

- We can choose various definitions for potential collections, which will give us various gap measurements.
- Defining potential collections as the potential revenue given the current policy structure will give us the *compliance gap*
- Defining potential collections as the potential revenue given some normative policy structure (i.e. tax everything) gives us the *policy gap*

A more nuanced depiction of the tax gap



Why measure both?

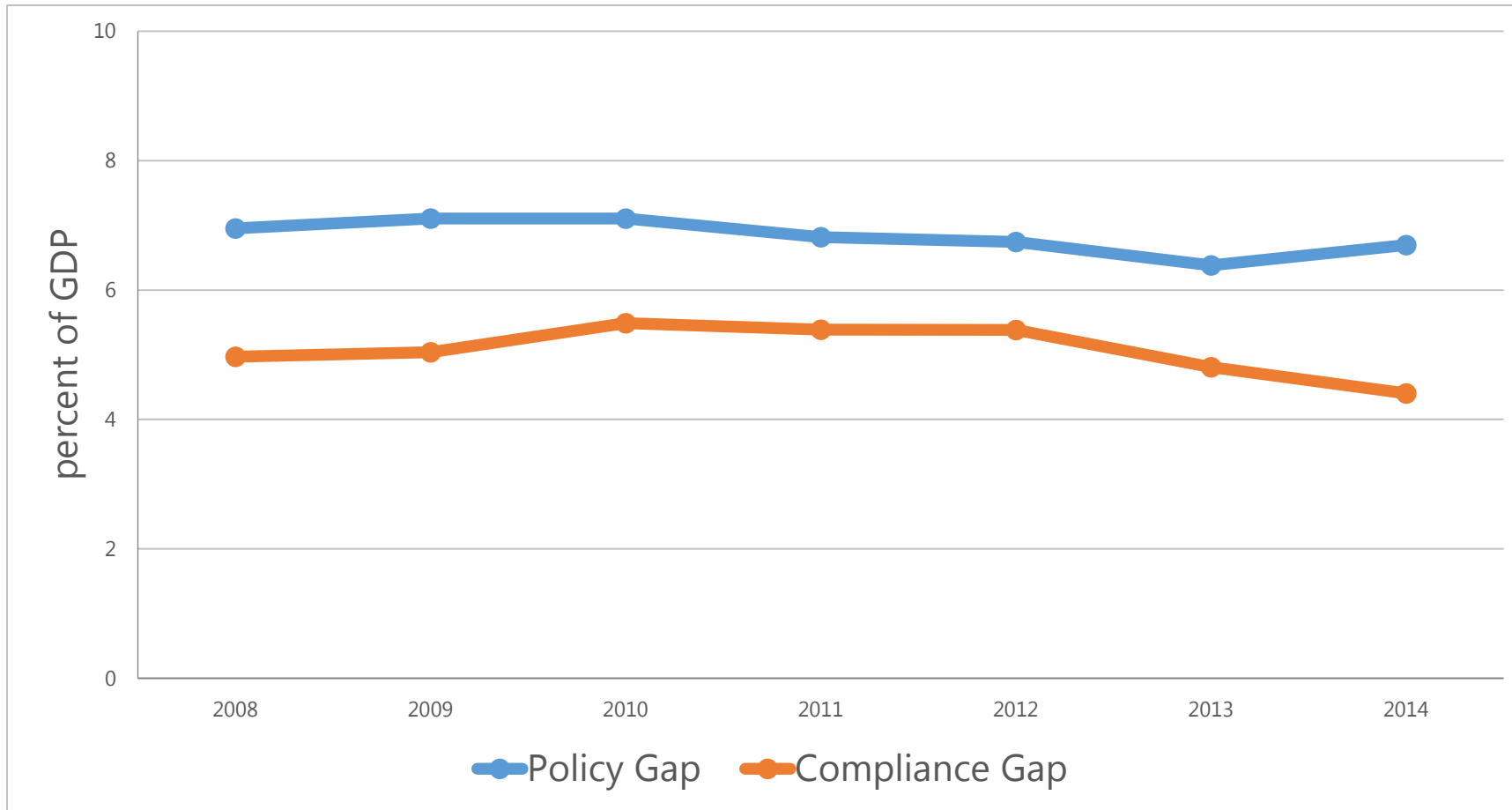
- Estimating the tax gap is crucial to fully understanding all the factors affecting tax revenue performance.
 - Measuring the compliance gap gives us an indication of the potential for revenue mobilization if the effectiveness of the revenue administration is improved.
 - Measuring the policy gap gives an indication of the amount of revenue being foregone due to tax policy design choices.
 - Having the two numbers together provides context for each value – It can be difficult to tell the relative magnitude of either value on its own.

What does RA-GAP provide?

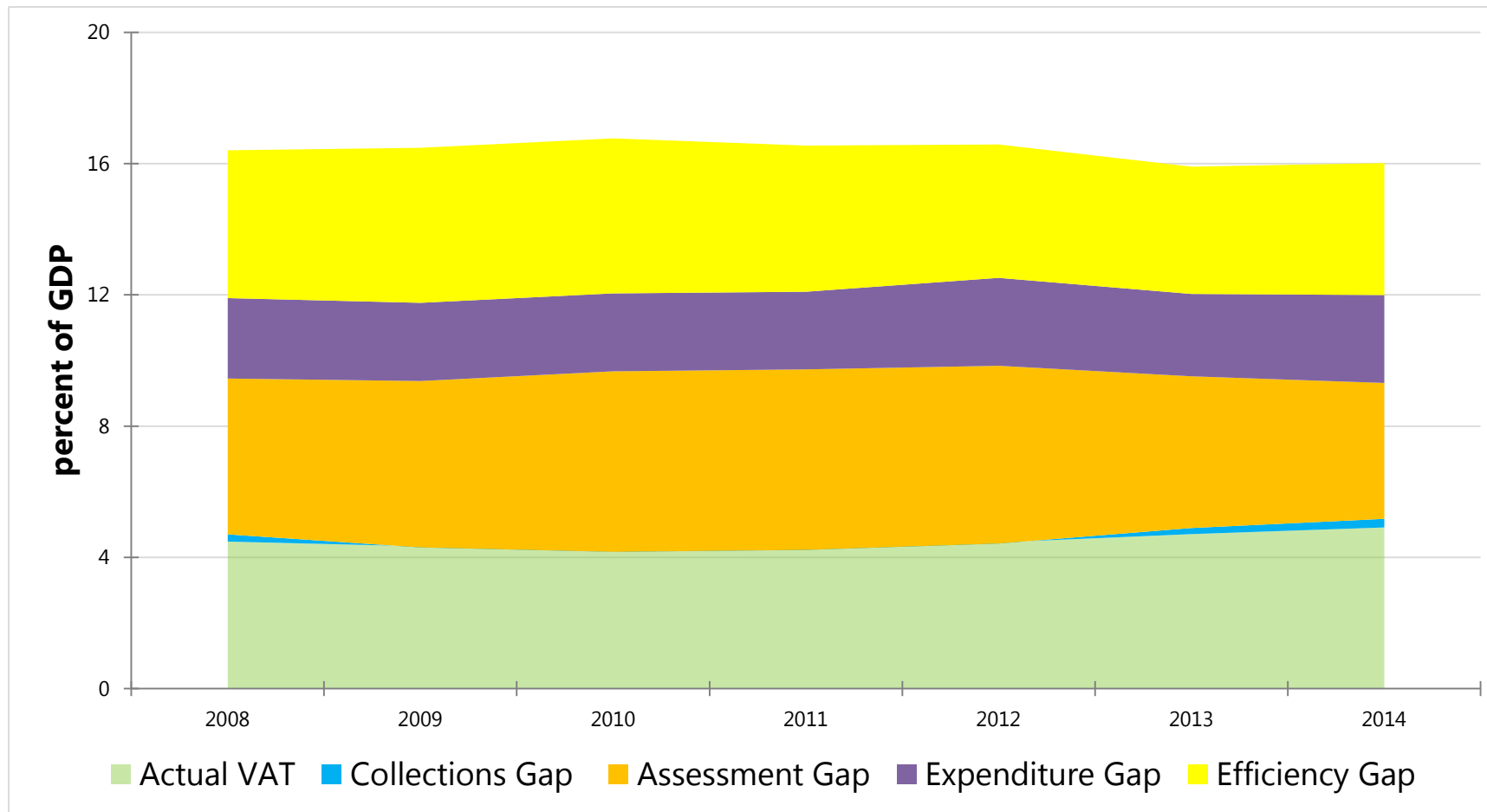
RA-GAP beyond estimating VAT gap

- Overall tax gap estimates don't tell how to fix it.
- RA-GAP narrows down which group of taxpayers are contributing to the tax gap, and identifies potential causes and sectoral gaps.
 - How? It uses detailed tax record data, which allows for:
 - Breaking the gap across taxpayer segments/sectors.
 - Estimating /comparing with other type of operational gaps: filing and registry gaps, payment and refund gaps, reporting and audit gaps.
 - Decomposing the compliance gap into the *collections gap* and the *assessment gap*.

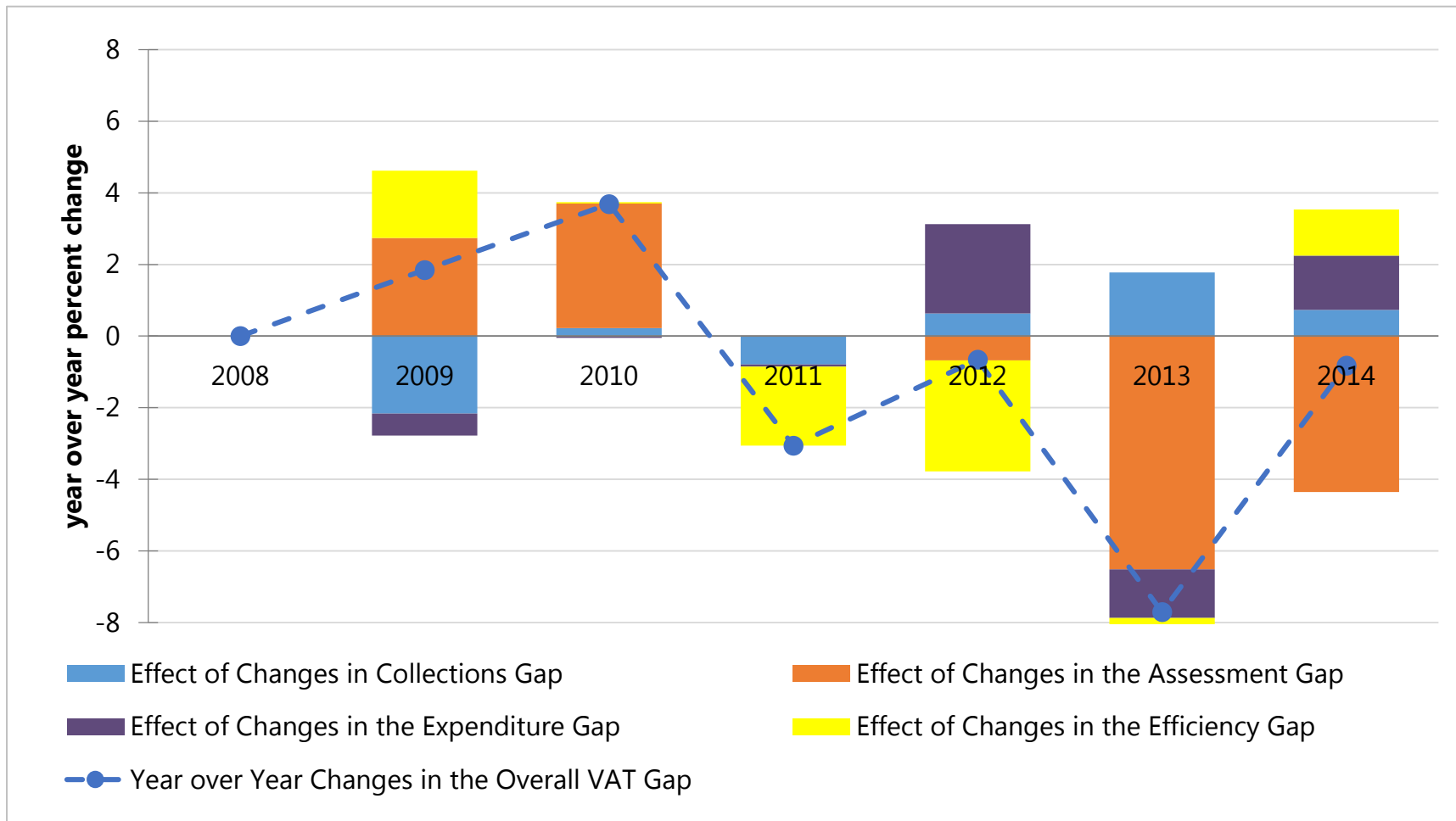
RA-GAP looks at the whole gap...



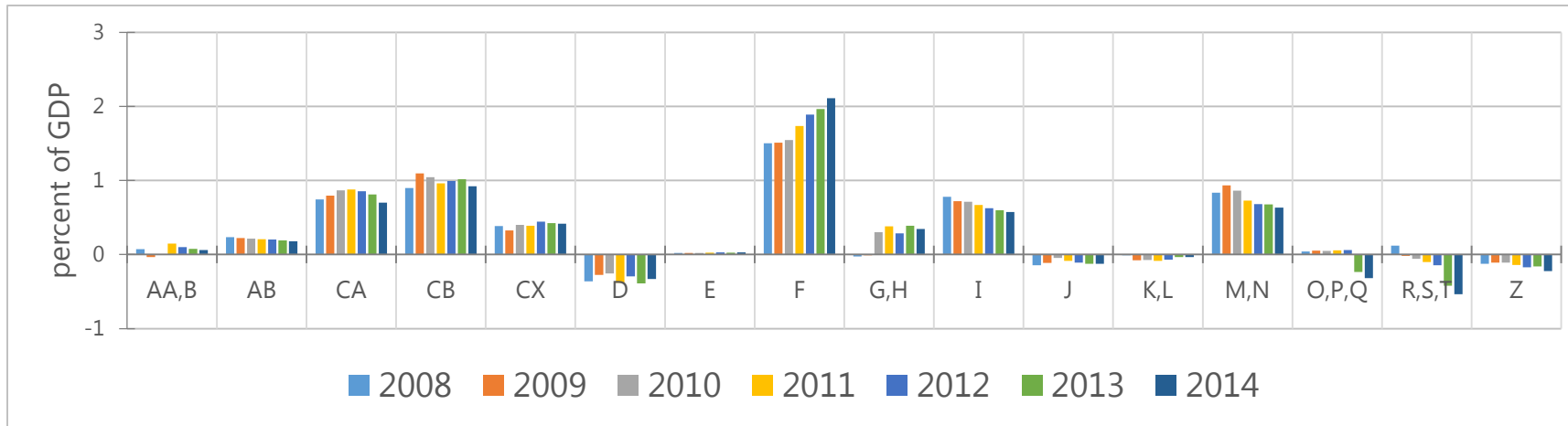
... provides a decomposition of the gap...



... identifies the drivers of change...



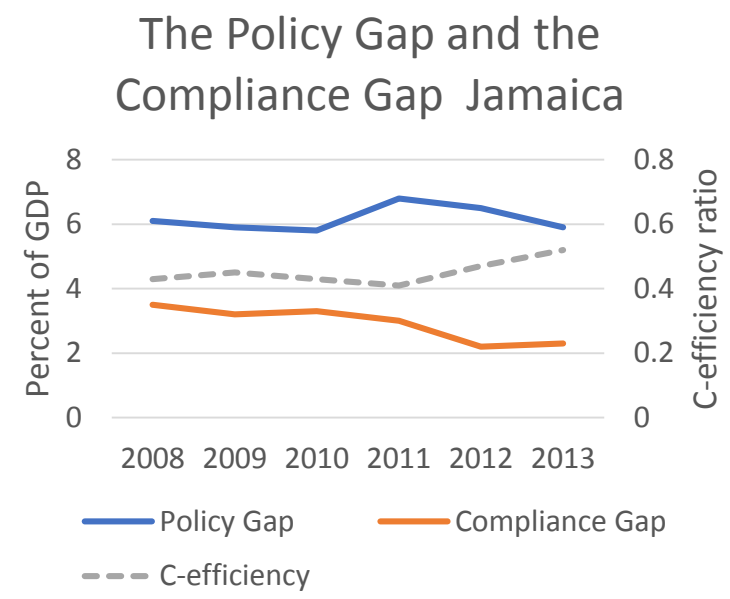
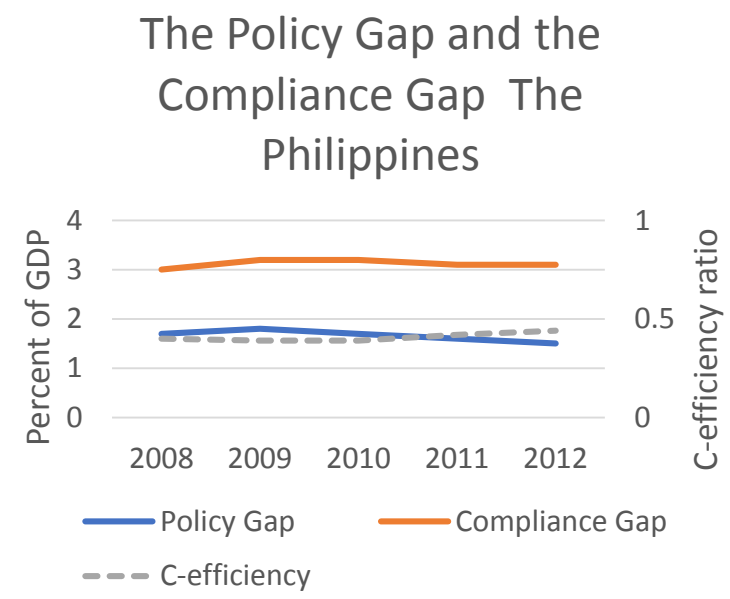
... and provides a sectoral breakdown of the compliance gap.



Sector Code	Sector Description	Sector Code	Sector Description
AA,B	Agriculture, Fishing, Extractive	G,H	Trade, Transportation
AB	Forestry	I	Hospitality
CA	Manufacturing - Food	J	Information and Communications
CB	Manufacturing - Beverages, Tobacco	K,L	Finance, Real Estate
CX	Manufacturing - Other	M,N	Professional, Business Support Services
D	Electricity	O,P,Q	Public Administration, Health, Education
E	Water and Waste Management	R,S,T	Other Services
F	Construction	Z	Unknown

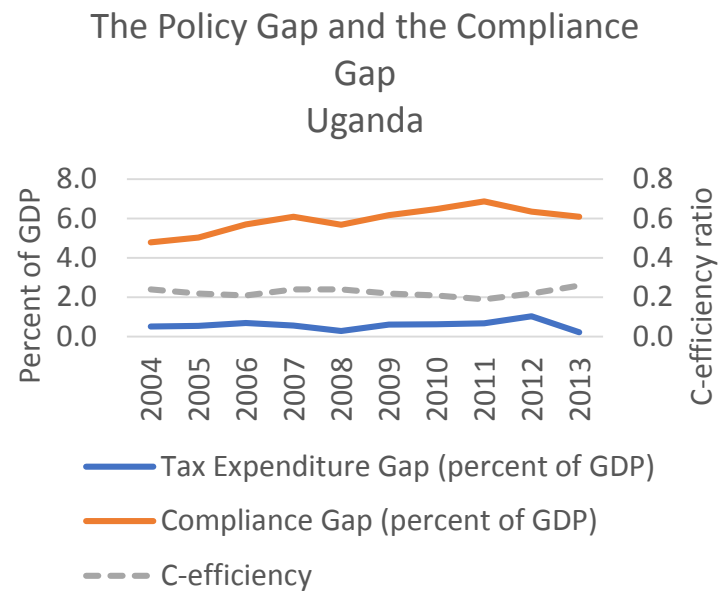
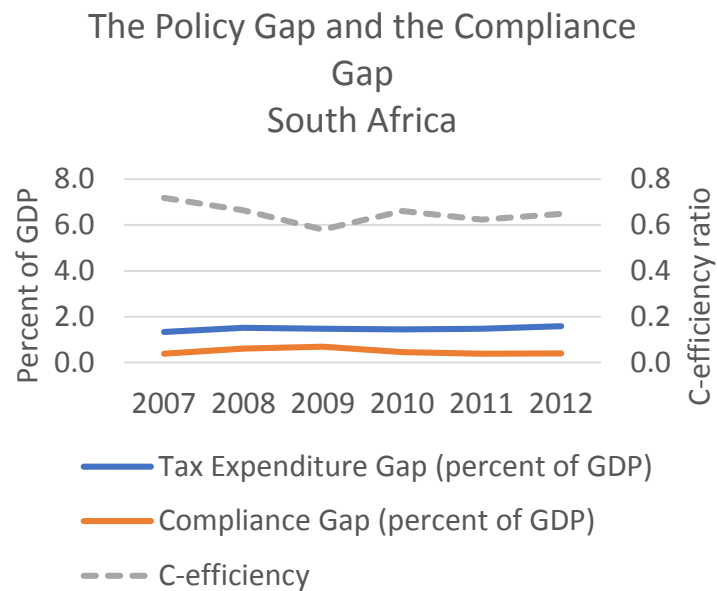


Some Results from RA-GAP





Some Results from RA-GAP, ctd.



What does RA-GAP Involve

- How it is conducted, and what it provides

It all starts with the data

- For a VAT program, what is needed is:
 - the taxpayer registry - including the type of activity a taxpayer is engaged in,
 - tax return records – including both originally submitted values and the latest assessed values,
 - tax payment and refund records,
 - customs records,
 - detailed National Accounts data,
 - detailed input-output or source-use tables.

With a good stock of data comes a stock of good indicators

- In addition to a tax gap estimate, this data can provide:
 - Filing and registry activity and gap indicators
 - Payment, collections and refund performance indicators and gap estimates
 - Assessment and audit activity, and filing accuracy indicators.

Registration and Filing Activity

- Combining the registry and tax return data provides:
 - Filing rates; both overall and on-time
 - Registration stock levels and flow data on the trend in registration and deregistration
- This is provided on an overall basis, but also broken down by sector of activity and size of taxpayer.
 - Regional breakdowns can also be provided, by location of tax office or location of taxpayer.

Payment, Collections and Refund Activity

- Combining the registry, payments, and returns data provides statistics on:
 - timeliness of payments,
 - arrears flow,
 - distribution of net VAT,
 - collections on an accruals basis.
- This can again be broken down by sector and segment of taxpayer
- Similar statistics can be compiled on the performance in the payment of refunds
 - Understanding refund performance is important in evaluating the effectiveness of a tax administration.
 - While withholding refunds can improve cash performance it does not reduce the tax gap.

Assessment and Audit Activity, and Filing Accuracy

- Reviewing the submitted values from the tax return data can provide some information on taxpayer's filing accuracy:
 - what lines do they get wrong,
 - what information is being left out.
- Comparing the submitted values to the assessed values on the return can provide details on the assessment and audit activity:
 - where are corrections being made,
 - why are corrections being made,
 - what is the overall impact of audit and assessment activity on improving data accuracy.

RA-GAP can be successful without producing a tax gap estimate

- The first step in the program is to identify available data and assess its quality
 - The simple task of reviewing the quality and scope of available tax record data can improve an administration's performance.
- Factors contributing to the gap can be identified without necessarily estimating the size of the gap.

Thank you