TECHNICAL ASSISTANCE REPORT

DOMINICAN REPUBLIC

Revenue Administration Gap Analysis Program (RA-GAP) – Gap in the Tax on Transfers of Industrialized Commodities and Services (ITBIS)

JULY 2025

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Table of Contents

Annexes

Abbreviations and Acronyms

BCRD	Central Bank of the Dominican Republic
COVID-19	Coronavirus disease detected in 2019
DGA	Directorate General of Customs
DGII	Directorate General of Internal Taxes
FAD	IMF Fiscal Affairs Department
GDP	Gross domestic product
IMF	International Monetary Fund
ITBIS	Tax on the Transfer of Industrialized Commodities and Services
LIDC	Low-income- developing country
RA-GAP	Revenue Administration Gap Analysis Program
SNA	System of National Accounts
SUT	Supply and Use Table
VAT	Value-added- tax
VGAPx	IMF online course on applying the RA-GAP VGEM
VGEM	VAT Gap Estimation Model

Preface

In response to a request from the Director General of the Dominican Republic Directorate General of Internal Taxes (*Dirección General de Impuestos Internos* – DGII), Mr. Luis Valdez Veras, the IMF's Fiscal Affairs Department (FAD) conducted a mission to estimate the gap in the Tax on the Transfer of Industrialized Commodities and Services (ITBIS) using the VAT Gap Estimation Model (VGEM) of the Revenue Administration Gap Analysis Program (RA-GAP). The mission was conducted in hybrid form, through three activities carried out between December 2024 and March 2025. DGII staff were actively involved in data collection, VGEM execution, and the interpretation of results. These results were presented to the DGII authorities at the end of the mission. This report is being made available to the DGII for corrections and comments, which will then be incorporated into a final report.

Executive Summary

This report presents the results of applying the VAT[1] gap estimation methodology of the Revenue Administration Gap Analysis Program (RA-GAP) for the ITBIS of the Dominican Republic during the period from 2018 to 2023. The RA-GAP methodology employs a "top-down" approach to estimate the potential VAT base, using statistical data from the System of National Accounts (SNA) on value added -generated in each sector. There are two main components to this methodology for estimating the VAT gap: (1) estimate the potential VAT collections for a given period; and (2) determine the accrued VAT collections for that period. The difference between the two values is the VAT gap.

RA-GAP provides estimates of the two components of the tax gap: the compliance gap and the policy gap (Box 1). In order to put the compliance gap level and trends into context, the level and trends of the overall tax gap and the policy gap must be analyzed.

Box 1. Tax gap components (summary)

The overall VAT gap is the sum of the compliance and policy gaps, which measure revenue losses due to taxpayer noncompliance and policy reliefs, respectively.

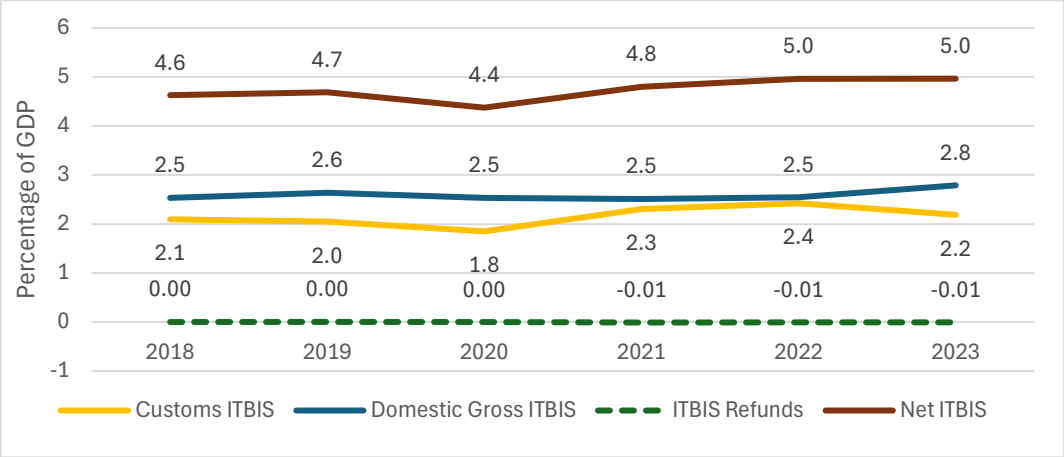
Overall VAT gap	The difference between potential VAT if all final consumption were taxed at the current standard rate and actual VAT revenue. The overall VAT gap is the sum of the *compliance* gap and the *policy gap*.
Compliance gap	The difference between potential VAT given the current policy framework and actual VAT revenue.
Policy gap	The difference between potential VAT if all final consumption were taxed at the current standard rate and potential VAT given the current policy framework.

Main findings

Official ITBIS revenue expressed as a percentage of GDP increased from 4.6 to 5.0 percent between 2018 and 2023 (Figure 1). The observed change reveals a drop in tax revenue to 4.4 percent of GDP in 2020 and then a recovery in 2021 and subsequent years. Revenue from the gross domestic ITBIS fluctuated between 2.5 and 2.8 percentage points, while that of the customs ITBIS ranged between 1.8 and 2.4 percentage points during the same period. ITBIS refunds, in turn, have a very low impact on tax revenue.

[1] The RA-GAP methodology is published in an IMF technical note, see "*The Revenue Administration–Gap Analysis Program: Model and Methodology for Value-Added Tax Gap Estimation.*" In addition, the IMF online course, VGAPx, which offers comprehensive training in this methodology, is available.

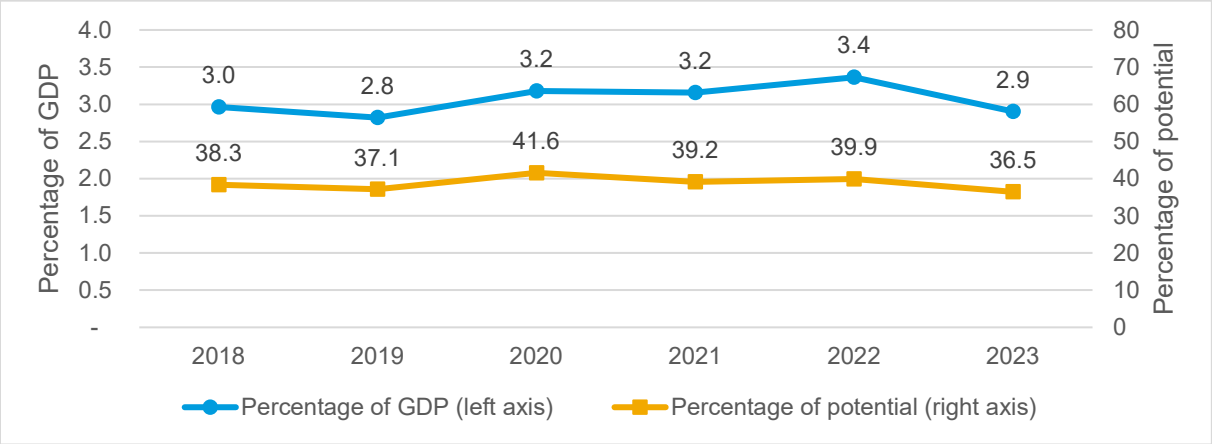
Figure 1. Net ITBIS revenue published by the DGII (2018–2023)



Source: This mission based on DGII.

The compliance gap ranged from 36.5 to 41.6 percent of potential ITBIS during the period from 2018 to 2023 (Figure 2). The compliance gap peaked at 41.6 percent in 2020 (equivalent to 3.2 percent of GDP). Conversely, the lowest value was recorded in 2023, with 36.5 percent of the potential (equivalent to 2.9 percent of GDP).

Figure 2. VAT compliance gap (2018–2023)



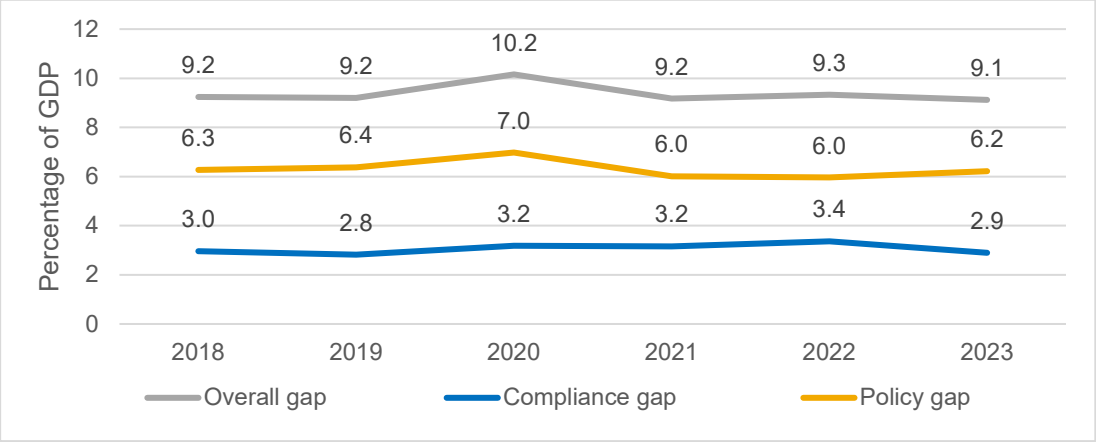
Source: This mission.

The overall ITBIS gap fluctuated around 9.4 percent of GDP between 2018 and 2023 (Figure 3). In 2020, the gap peaked at 10.2 percent of GDP, while in 2023 it reached the lowest value of the period at 9.1 percent of GDP.

The largest compliance gaps were found in the construction-trade, hotel and restaurant, and professional services sectors (Figure 4). In the construction-trade sector, no specific trend can be seen throughout the period. In the hotel and restaurant sector, on the other hand, there is a marked

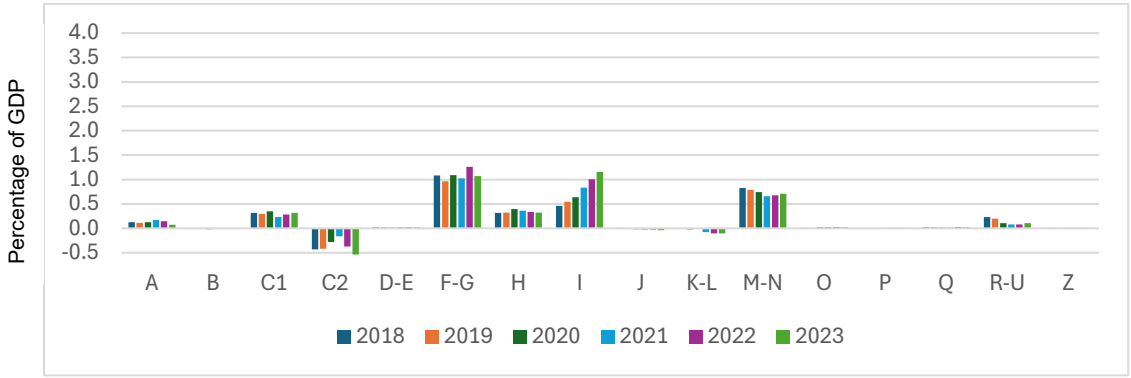
upward trend in the compliance gap throughout the period, and in the case of the professional services sector, the trend observed is downward.

Figure 3. Overall VAT gap, compliance gap, and policy gap (2018–2023)



Source: This mission based on DGII.

Figure 4. Compliance gap by sector (2018–2023)

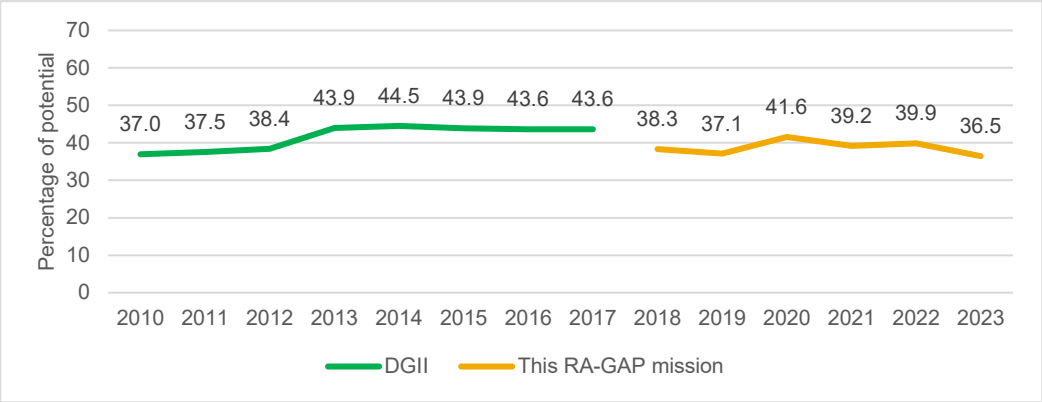


	Reporting sector	2018	2019	2020	2021	2022	2023
A	Agriculture, forestry, and fisheries	0.12	0.11	0.13	0.17	0.15	0.07
B	Mining, extractive activities	(0.00)	(0.00)	(0.02)	(0.00)	(0.00)	(0.01)
C1	Manufacturing - Food	0.32	0.30	0.35	0.23	0.29	0.32
C2	Manufacturing - Other	(0.43)	(0.42)	(0.28)	(0.16)	(0.38)	(0.76)
D-E	Electricity, gas, and water	0.02	0.02	0.02	0.02	0.02	0.02
F-G	Construction and trade	1.08	0.96	1.09	1.03	1.26	1.07
H	Transport and storage	0.31	0.32	0.40	0.36	0.34	0.32
I	Hotels and restaurants	0.46	0.55	0.64	0.83	1.00	1.16
J	Information and communications	0.01	(0.01)	(0.02)	(0,02)	(0,02)	(0,04)
K-L	Financial services, insurance, and real estate	(0.01)	(0.02)	(0.00)	(0.08)	(0.11)	(0.10)
M-N	Professional services	0.83	0.79	0.74	0.66	0.68	0.71
O	Government and defense, social security	0.00	0.01	0.02	0.03	0.03	0.02
P	Education	(0.00)	(0.00)	0.00	0.00	0.00	0.00
Q	Healthcare	0.02	0.02	0.02	0.02	0.03	0.02
R-U	Other services	0.23	0.20	0.11	0.08	0.08	0.11
Z	Unclassified	0.00	0.00	0.00	0.00	0.00	0.00
	Total	**2.97**	**2.82**	**3.18**	**3.16**	**3.36**	**2.90**

Source: This mission.

The DGII has previous estimates of the ITBIS compliance gap made by its Economic and Tax Research Division using figures obtained from a similar methodology based on supply and use tables (SUTs). The figures from previous estimates appear to be in a range of relatively similar magnitude to those obtained through RA-GAP.

Figure 5. Previous ITBIS compliance gap estimates (2010–2017) and RA-GAP (2018–2023)



Source: This mission based on DGII information.

Recommendations

Recommendation		Priority	Timeframe
1.	Based on the capacity created, apply the RA-GAP model to estimate the ITBIS gap for 2024.	High	6 months
2.	Extend the old DGII series to compare with the current RA-GAP series.	Low	12 months
3.	Retropolate the current RA-GAP series, if the Central Bank of the Dominican Republic (BCRD) produces macro aggregates prior to 2018 with 2018 as the base year.	Low	12 months
4.	Individually link payments, refunds, and ITBIS returns for all taxpayers.	Medium	10 months
5.	Further compare current sectoral ITBIS gap results with the DGII's oversight and audit experience in those sectors.	High	6 months
6.	Integrate the ITBIS compliance gap estimation process with the operation and review the DGII's overall risk rating consistency.	High	12 months

I. Background

1. The IMF's RA-GAP[2] program provides a comprehensive quantitative analysis of the gap between potential and actual revenues, known as the compliance gap. The program is led by the Revenue Administration Divisions of the IMF's Fiscal Affairs Department, focusing primarily on the analysis of the value-added -tax (VAT) gap. The RA-GAP model uses an approach that allows for a breakdown of the compliance gap by sectors of economic activity, thus helping tax administrations to monitor and identify components that contribute to this gap.

2. This report presents an estimate of the level of the ITBIS gap and recent trends in this gap in the Dominican Republic using the RA-GAP approach. For this purpose, available[3] SNA data have been used to quantify potential revenues under current ITBIS legislation. The potential ITBIS revenues were compared with the actual revenue data, reallocating these to the period in which the underlying economic activities took place. The difference between potential revenue and actual revenue collected represents the gaps associated with the degree of taxpayer noncompliance.

3. The ITBIS gap was estimated through a joint effort between the IMF team and specialized units of the DGII. DGII staff had access to the VGAPx[4] online course and, based on its contents, a large number of work sessions were held in order to coordinate the preparation of statistical and administrative data from the DGII itself, as well as from the Directorate General of Customs (DGA) and the BCRD. The coordination and development of the work sessions were led by Ms. Pamela Ogando, Manager of the Economic and Tax Research Division, and Ms. Crisbel Marte, Head of the International Cooperation Section of the Department of International Taxation. The team that acted as the technical counterpart and recipient of the mission's capacity development was that of the Economic and Tax Research Division; however, technical discussions were also held with officials from the Legal Division, Special Regimes Division, Audit Management Oversight Department, Selective Planning Division, and Collection Division of the DGII, as well as with personnel from other public entities, such as the Central Bank and the DGA. The mission recognizes the high level of professionalism and commitment of all the managers and officials who participated in achieving the results.[5]

4. The estimate was prepared in hybrid mode (in-person and remote). The work was supported by an agreed schedule for the various activities, by commitments on the part of the IMF, DGII, DGA, and BCRD teams to generate the required data and analysis, and by systematic virtual and in person discussion sessions throughout the period up until the mission's completion.

A. ITBIS revenue performance

[2] Revenue Administration Gap Analysis Program (RA-GAP).

[3] The most relevant source of information are the supply-use tables for the years 2018 to 2020 published by the BCRD.

[4] See links for the Spanish version https://www.edx.org/course/spanish-vgapx and the English version https://www.imf.org/en/Capacity-Development/Training/ICDTC/Courses/vgapx.

[5] All the data, parameters, formulas, and results were delivered in the DGII RA-GAP MODEL modules.

5. The ITBIS operates at a standard rate of 18 percent and two reduced rates, one rate of 16 percent for certain commodities[6] and another implicit rate of 1.8 percent for certain types of transactions in the construction sector.[7] During the period under analysis, 2018–2023, these rates remained unchanged. There are no differentiated rates for certain geographical regions.

6. By design, the ITBIS establishes as exempt[8] products associated with the primary manufacturing sectors. There is a general exemption for products in their natural state (agriculture, fishing), fuels, inputs, and machinery for agriculture and certain subsidized industries, certain construction services, land transportation, the film industry, financial services and insurance, healthcare, education and government services, housing rentals, personal services such as hairdressers, funeral homes, and the like. Exports are subject to a zero rate,[9] and there is a simplified regime with relatively limited coverage and an alternative tax on gross income.

7. The net ITBIS revenue published by the DGII expressed as a percentage of GDP rose from 4.6 to 5.0 percent between 2018 and 2023 (Figure 6). The change observed reveals a drop in tax collection in 2020 and then a recovery in 2021 and subsequent years. In several countries, 2020 saw a decrease in VAT revenue in the context of COVID-19 restrictions. Among other measures, the countries adopted policies to facilitate declarations and payments as well as exemptions for products associated with healthcare. At the same time, however, the deployment of on-the-ground monitoring of taxable activities that year was reduced out of necessity.

8. Gross domestic ITBIS revenue was higher than customs ITBIS revenue throughout the period (Figure 6). Gross domestic ITBIS revenue ranged between 2.5 and 2.8 percentage points, while the customs ITBIS fluctuated between 1.8 and 2.4 percentage points during the same period. Conversely, ITBIS refunds show a lower impact on revenue. Based on the information available, there are no specific policies restricting refunds to exporters, so the low impact could be explained by the fact that a portion of the exported products are commodities (and therefore exempt from the ITBIS) and by the fact that, with

[6] The products with a reduced ITBIS rate that are described in Article 345 of the Tax Code are: yogurt and butter, coffee and its derivatives, edible animal or vegetable fats, sugars, and cocoa and chocolate.

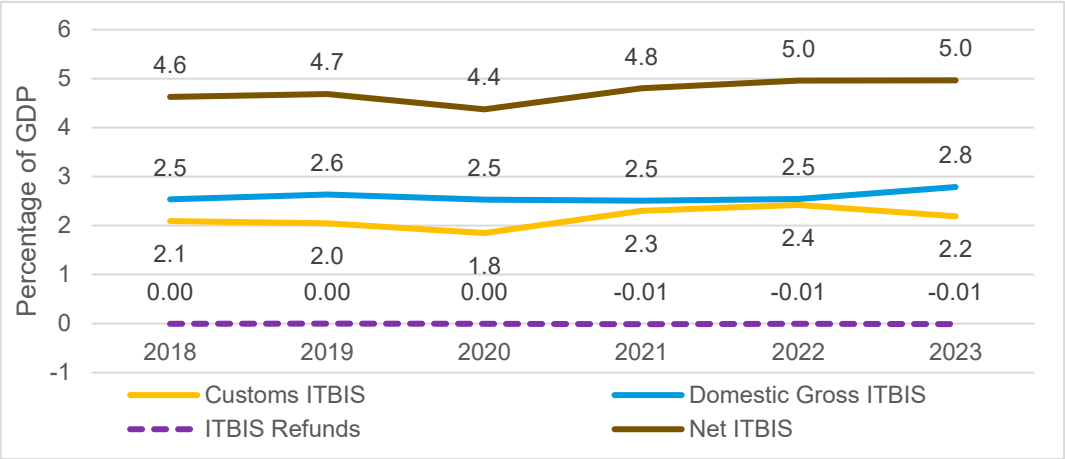
[7] In the case of housing construction services, which are not covered by a housing voucher, and when such services include materials, the tax is applied only on 10 percent of the value of such services (General Rule No. 07-07, Art. 4).

[8] In the RA-GAP methodology, an "exemption" refers to the elimination of VAT applicable to the sale of goods or provision of services by a taxpayer, without granting that taxpayer the right to a refund for VAT paid on the purchase of inputs.

[9] RA-GAP refers to an exemption that exempts sales from VAT, but also grants the right to a refund of VAT paid on the purchase of inputs as a "zero rate." Typically, refunds are applied to exporters in order to ensure a zero rate for their export operations.

regard to the other taxed products, exporters with domestic sales are choosing to absorb the ITBIS credit involved through the standard debit and credit mechanism.[10]

Figure 6. Net ITBIS revenue published by the DGII (2018–2023)



Source: This mission based on DGII.

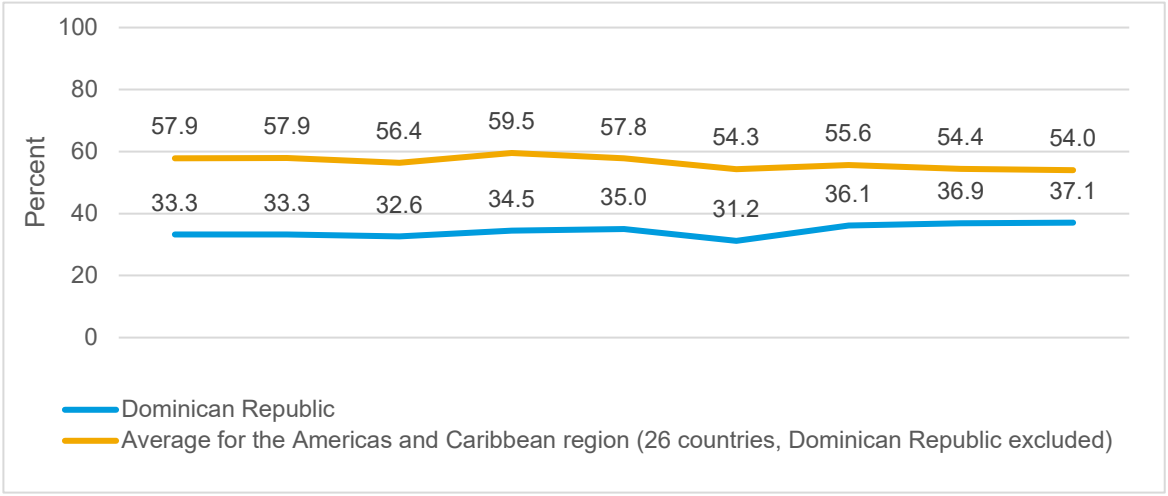
B. C-efficiency ratio

9. The c-efficiency ratio can be used to analyze the overall efficiency of VAT revenues, taking into account any changes experienced by the standard rate. C-efficiency is calculated from VAT revenue, the standard tax rate, and final consumption aggregates to indicate the overall efficiency of VAT revenues. This indicator is constructed as a ratio between the actual VAT revenue and the theoretical revenue that would be obtained if the final consumption were taxed in full at the standard rate, without any exception, and given full compliance. The annual changes in c-efficiency can be broken down into several factors: changes in the compliance gap, changes in the effects of VAT exemptions, changes in the fraction represented by non-taxable consumption in total final consumption, and the temporary effects of cash payments and refunds.

10. The Dominican Republic's ITBIS c-efficiency, although lower than the average for the region, shows a relative improvement from 2021 (Figure 7). The Dominican Republic's c-efficiency peaked at 37 percent in 2023. The lowest value of the period was observed in 2020 with 31 percent.

[10] Under ITBIS legislation, "pure" taxpayer-exporters (100 percent of whose production is exported) can recover the ITBIS paid on purchases only by submitting a direct refund request. Taxpayers with mixed operations can recover the ITBIS paid on purchases in proportion to their exports as a percentage of total sales. This can be done in two ways. First, through a direct refund request, as a "pure" exporter. Second, through the determination of the remaining credit, since if the total credit exceeds the debit for domestic sales, then a remaining credit is generated. This remaining credit may be recovered indirectly simply through future domestic sales affected by ITBIS, whose debits will allow the remaining credit to be absorbed. The main difference between the two methods lies basically in the financial cost. In the direct refund method, the financial cost will be determined by the average speed of the tax administration in making the refund. In the absorption method, the financial cost will depend on the speed at which future debits are generated in order to proceed with the total absorption of the remaining credit. While it would be extremely interesting to analyze whether this effect predominates in explaining the low level of refunds or whether other factors play a greater role, breaking it down is beyond the scope (and time available) of this mission, which for practical purposes is not concerned with the causal breakdown of the level of ITBIS refunds, since total ITBIS refunds are estimated from the potential estimate, regardless of the method used.

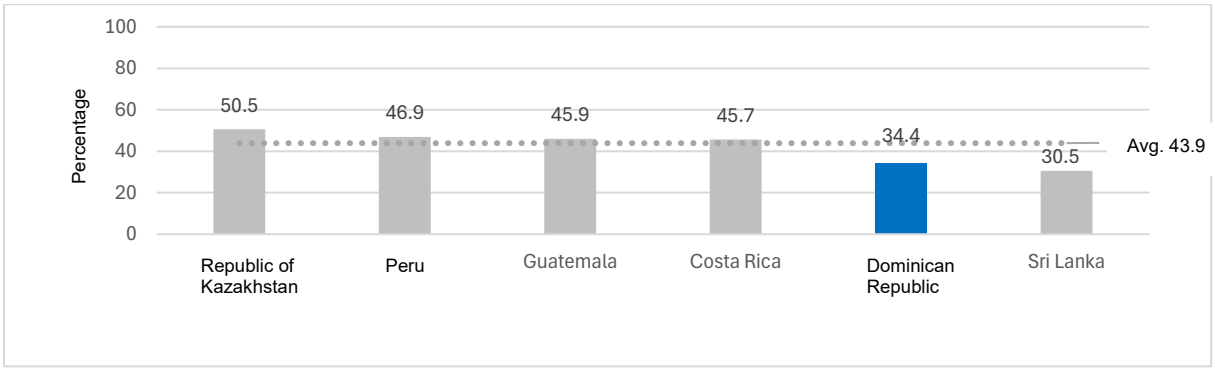
Figure 7. C-efficiency for ITBIS: Dominican Republic versus the Americas and the Caribbean (2015–2023)



Source: This mission using IMF databases. The Dominican Republic figure uses net ITBIS revenue published by DGII.

11. The Dominican Republic's average c-efficiency is below the average value of a group of close comparable countries (Figure 8). The average c-efficiency of the Dominican Republic's ITBIS for 2015–2023 was 34 percent, 10 percentage points below the average of close comparable countries, which reached 44 percent.

Figure 8. C-efficiency for ITBIS: Dominican Republic versus close comparable countries[(1)] (Average for 2015–2023)



Source: This mission based on data from the IMF. Note: (1) The close global comparison group comprises countries similar to the Dominican Republic in aspects such as the contribution of agriculture, forestry, and fisheries to GDP, annual GDP growth, GDP per capita (at purchasing power parity), population size, and trade as a percentage of GDP. To identify countries with similar economic fundamentals, IMF databases are used and a similarity score is calculated based on the Mahalanobis distance between the Dominican Republic and the other countries.

12. C-efficiency is useful for comparative performance analysis; however, it has limitations as a diagnostic indicator. Changes in c-efficiency can be explained by multiple factors, such as changes in compliance, changes in tax policy, or changes in the composition of the tax base. Consequently, since the analysis of the c-efficiency ratio cannot unequivocally determine what is causing the observed variations, a tax gap analysis needs to be performed. The purpose of a comprehensive tax gap analysis is to quantify all of the factors listed above and to provide clues as to what may be causing changes in revenue performance.

II. ITBIS Gap Estimates

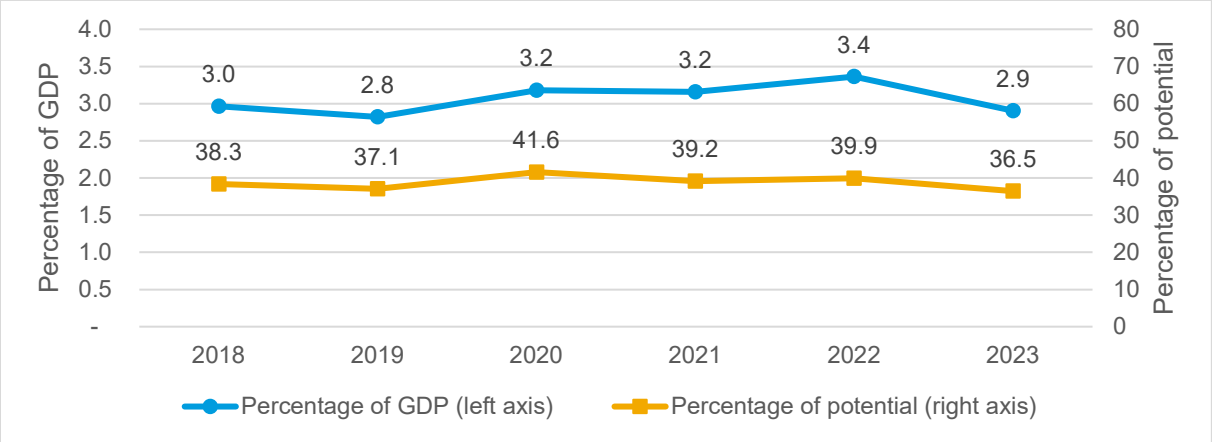
13. The ITBIS gap for a particular year is the difference between the revenue collected for a given year and the potential revenue that could have been collected by virtue of the economic activity that took place during that year. In this report, the RA-GAP approach was used to estimate the ITBIS gap for 2018–2023. Potential ITBIS revenues were estimated using data from the Central Bank of the Dominican Republic's SNA.

A. Compliance gap

14. The *compliance gap* is the difference between the potential ITBIS under the current tax policy framework and the ITBIS actually collected. In this way, the compliance gap directly measures the tax administration's performance in managing the taxes owed by taxpayers. Compliance gap estimates rely on statistical data to determine potential ITBIS, so the estimates will inherit a margin of error similar to that contained in the underlying statistics. Therefore, it is more useful to consider compliance gap estimates as assessments of compliance *trends* rather than absolute *levels*.

15. The compliance gap ranged from 36.5 to 41.6 percent of potential ITBIS during the period from 2018 to 2023 (Figure 9). The compliance gap peaked at 41.6 percent in 2020 (equivalent to 3.2 percent of GDP). It should be noted that in 2020 specifically, the greatest compliance implications arising from the COVID-19 crisis were observed in many VAT systems, and ITBIS does not seem to be an exception. Conversely, the lowest value was recorded in 2023, with 36.5 percent of the potential (equivalent to 2.9 percent of GDP).

Figure 9. ITBIS compliance gap (2015–2023)

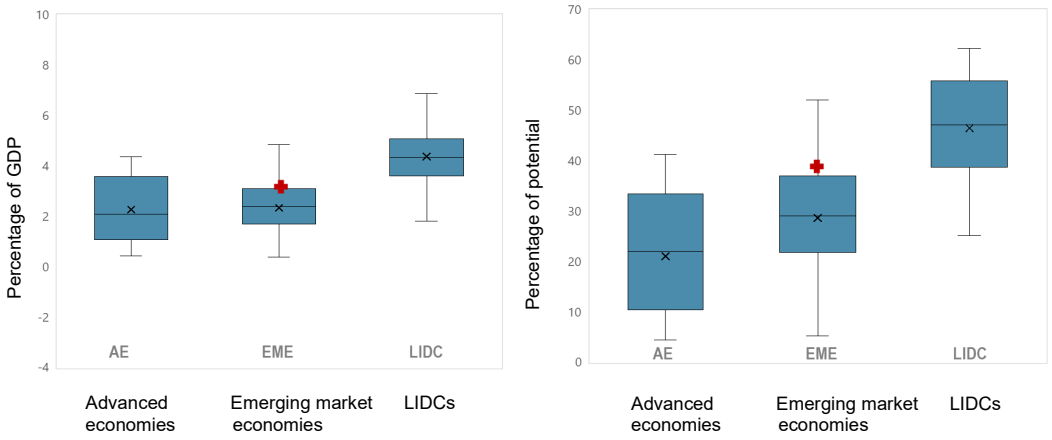


Source: This mission.

16. The Dominican Republic's ITBIS compliance gap is at the top of the estimates for emerging market economies (Figure 10). Figure 10 shows a comparison of average VAT compliance gap estimates with the range of values obtained from previous RA-GAP missions in advanced economies, emerging market economies, and low-income developing countries (LIDCs). The comparison with LIDCs reveals that the ITBIS compliance gap is below the lowest interquartile values for these countries; however, the comparison with emerging market economies indicates that the ITBIS compliance

gap is even above the highest interquartile values. It should be noted that the IMF considers the Dominican Republic to be an emerging market economy.

Figure 10. VAT compliance gap by income level[11]



Source: This mission and RA-GAP databases for 43 countries, average figures for 2015–2023. The average value of ITBIS in the Dominican Republic for 2018–2023 is indicated by +. The highest and lowest points of each box in the figure represent the interquartile range limits.

Assessment and collection gaps

17. The compliance gap can be broken down into an *assessment gap* and a *collection gap.* The collection gap is the difference between the total amount of VAT declared or assessed and the VAT actually paid. The assessment gap, on the other hand, is the difference between the amount of VAT declared or assessed and potential VAT. Those two gaps are sometimes referred to as the known portion of the compliance gap (collection gap) and the unknown portion of the compliance gap (assessment gap).[12]

18. Due to limitations in the available data, it was possible to estimate the assessment gap only for the ITBIS in the Dominican Republic[13] (Figure 11). For this reason, it has been assumed that the collection gap is excluded, meaning that the assessment gap in this case is treated as equivalent to

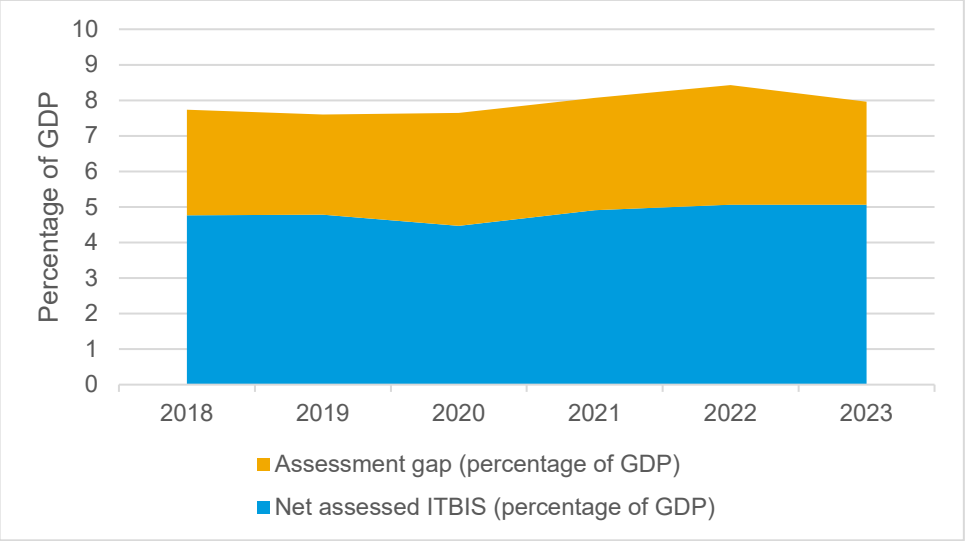
[11] The values consider 9 LIDCs (58 observations), 22 emerging market economies (145 observations), and 8 advanced economies (54 observations), for which RA-GAP estimates are available. Individual country figures are not included for confidentiality reasons. There are not many public studies of the VAT gap that are strictly comparable among countries. Given that the number of studies under the RA-GAP methodology has grown in recent years, however, it is expected that the international comparison will be expanded in the future.

[12] In general, basic compliance gap measures do not take into account uncollectible arrears. This would include arrears written off for cases of bankrupt businesses, for example. As such, the collection gap will tend to overstate the amount of potential gain to be achieved from further closing the identified portion of the gap. In other words, there might be some normal, or even optimal, nonzero state for the collection gap.

[13] To estimate the collection gap, it is necessary to reliably link individualized data on ITBIS payments, refunds, and declarations for all taxpayers, for all years. Although this information was discussed with DGII officials as part of the technical assistance, it was not possible to achieve the full statement-by-statement reconciliation process (some hypotheses indicate that there are reconciliation errors on the part of taxpayers, for example, between ITBIS originating in fields associated with credit balances), so it was recommended that the DGII devote extra analytical efforts in the future to address this issue and thus add the respective component.

the compliance gap. The assessment gap (and the compliance gap, in this case) amounts to 3.0 percent of GDP in 2018 and drops slightly to 2.9 percent in 2023.

Figure 11. Assessment gap (2018–2023)



Year	Net assessed ITBIS (percentage of GDP)	Assessment gap (percentage of GDP)
2018	4.8	3.0
2019	4.8	2.8
2020	4.5	3.2
2021	4.9	3.2
2022	5.1	3.4
2023	5.1	2.9

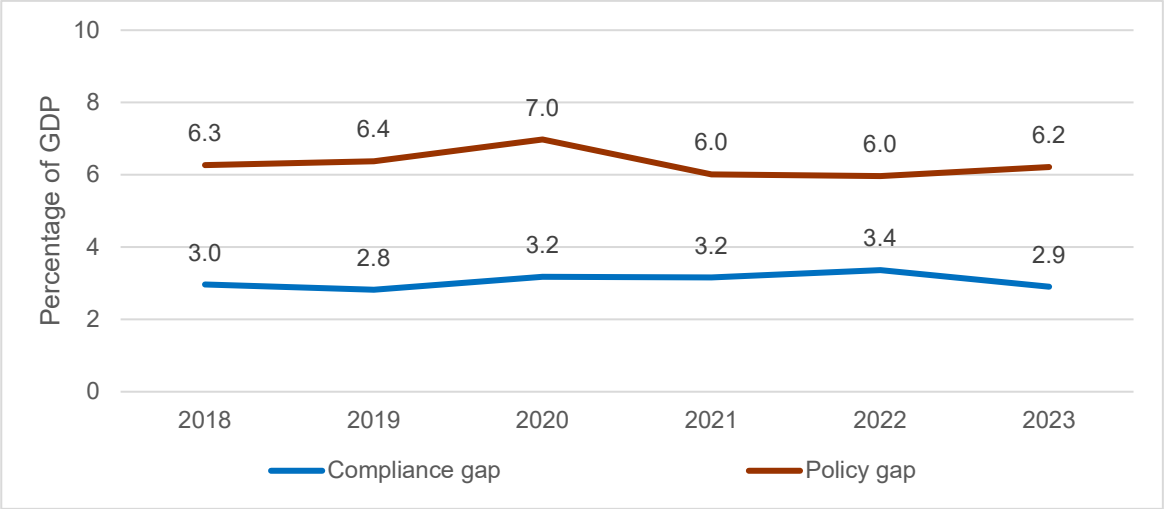
Source: This mission.

B. Policy gap

19. The *policy gap* is the difference between the potential VAT if all final consumption were taxed at the current standard rate and the potential VAT given the current policy framework. The size of the policy gap depends on two factors: changes in the policy structure and changes in the composition of the tax base. In other words, the policy gap may increase or decrease without any explicit changes in tax policy. If there is a shift in final consumption from items subject to standard-rated VAT to exempt or reduced-rate items the policy gap will increase.

20. The policy gap fluctuated between 6 and 7 percent of GDP during the period in question (Figure 12). The policy gap reached its lowest value in 2021 and 2022 at 6 percent of GDP and its highest value in 2020 at 7 percent of GDP. This last increase could be associated with a relative increase in the value-added of exempt sectors (government and healthcare activities in particular) compared to affected sectors and also with the application of some temporary exemptions from ITBIS during that period (such as masks and medical supplies), in connection with COVID-19.

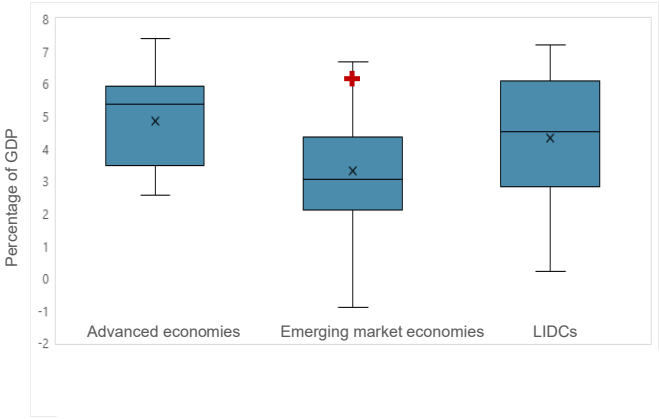
Figure 12. Policy gap and compliance gap (2018–2023)



Source: This mission.

21. The ITBIS policy gap in the Dominican Republic is relatively high compared to previous estimates for countries with a similar income level (Figure 13). Figure 13 shows a comparison with the VAT policy gap values obtained by previous RA-GAP missions for advanced economies, emerging market economies, and LIDCs. It should be noted that the IMF considers the Dominican Republic an emerging market economy. One of the main reasons that may explain the level of the ITBIS policy gap is its very design, since most of the added value of commodities (non-industrialized products) is exempt.

Figure 13. Policy gap by income level[14]



Source: This mission and RA-GAP databases for 43 countries, average figures for 2015–2023. The average value of ITBIS in the Dominican Republic for 2018–2023 is indicated by +. The highest and lowest points of each box in the figure represent the interquartile range limits.

[14] The values take into account 9 LIDCs (58 observations), 22 emerging market economies (150 observations), and 7 advanced economies (49 observations), for which RA-GAP estimates are available. Individual country figures are not included for confidentiality reasons. There are not many public studies of the VAT gap that are strictly comparable among countries. Given that the number of studies under the RA-GAP methodology has grown in recent years, however, it is expected that the international comparison will be expanded in the future.

Expenditure and non-taxable gap

22. The policy gap can be broken down into an *expenditure gap* and a *non-taxable gap*. The expenditure gap is the difference between potential VAT where most of final consumption is taxed at the standard rate, but where a standardized set of basic exemptions are maintained, and potential VAT given the current policy framework. That is, the expenditure gap is the component of the policy gap explained by policy design decisions. The non-taxable gap is the difference between potential VAT if all final consumption were taxed at the current standard rate and potential VAT where most of final consumption is taxed at the standard rate, but where a standardized set of basic exemptions are maintained.[15] Thus, the non-taxable gap is the portion of the policy gap that results from the practical constraints typically faced by VAT policy design.

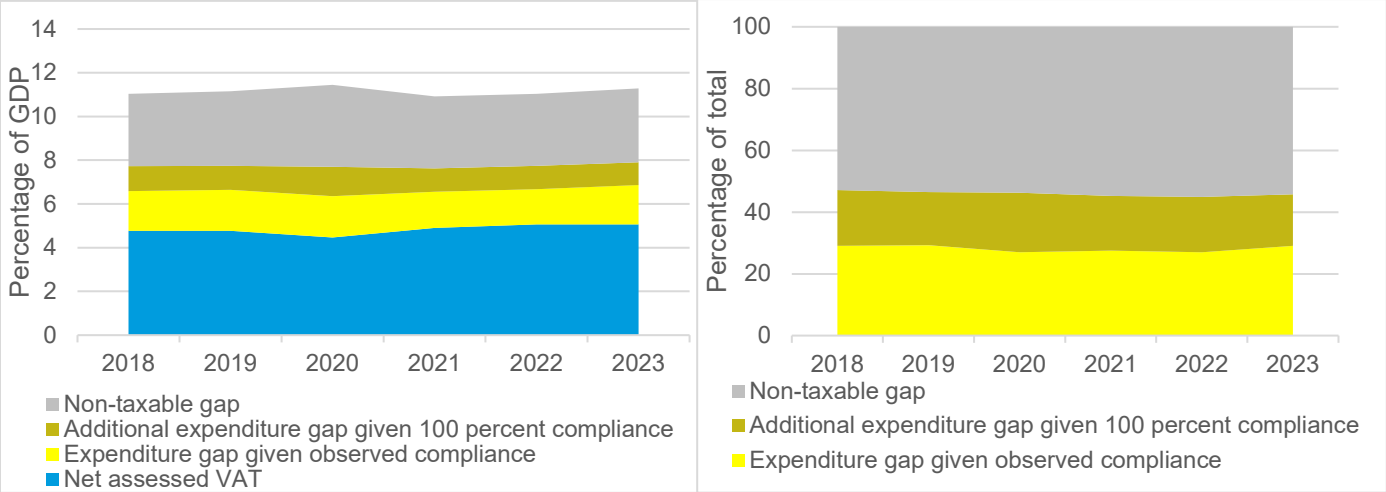
23. The expenditure gap, in turn, can be broken down into the *expenditure gap given the current level of compliance* and the additional effect that would result from assuming 100 percent compliance (Figure14). Thus, the expenditure gap given the current level of compliance would represent the portion of the policy gap that offers opportunities to mobilize new revenue, with all else being equal. The additional expenditure gap given 100 percent compliance adds the additional effect of reducing noncompliance to zero. Typically, the resulting expenditure gap can be compared to the sum of VAT expenditure provisions contained in a Tax Expenditure Report produced by the country, depending on which of the two assumptions about the level of compliance is employed in that report.[16]

24. The ITBIS expenditure gap given the current level of compliance ranged between 1.6 and 1.9 percent of GDP (Figure 14). The additional expenditure gap given 100 percent compliance would add between 1.0 and 1.3 percent of GDP. On the other hand, the non-taxable gap added between 3.3 and 3.7 percent of GDP. The absolute value of the non-taxable gap is equivalent to more than half of the policy gap.

[15] The standardized set of basic exemptions includes final consumption in the following sectors: (1) government, defense, and social security system; (2) education; and (3) healthcare.

[16] It should be noted that countries' tax expenditure reports usually consider estimates for each provision in isolation and do not include joint effects. The RA-GAP model provides an expenditure gap that includes joint effects.

Figure 14. Expenditure gap and non-taxable gap (2018–2023)



Year	Net assessed ITBIS (percentage of GDP)	Expenditure gap under observed compliance (percentage of GDP)	Additional expenditure gap given 100 percent compliance (percentage of GDP)	Non-taxable gap (percentage of GDP)	Expenditure gap under observed compliance (percentage of total)	Additional expenditure gap given 100 percent compliance (percentage of total)	Non-taxable gap (percentage of total)
2018	4.8	1.8	1.1	3.3	29.1	18.1	52.9
2019	4.8	1.9	1.1	3.4	29.3	17.3	53.5
2020	4.5	1.9	1.3	3.7	27.0	19.2	53.7
2021	4.9	1.7	1.1	3.3	27.5	17.7	54.8
2022	5.1	1.6	1.1	3.3	27.0	17.9	55.1
2023	5.1	1.8	1.0	3.4	29.1	16.7	54.2

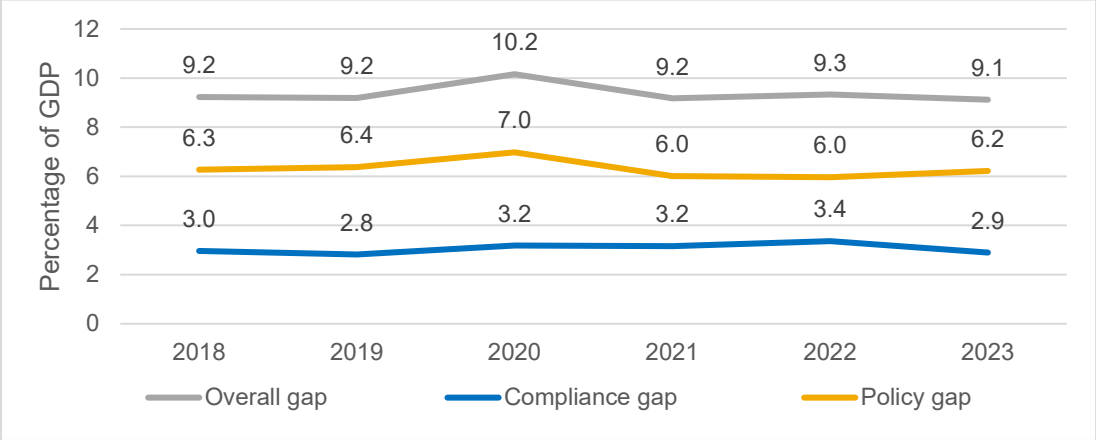
Source: This mission.

C. Overall VAT gap

25. The overall VAT gap, which is a general indicator of revenue performance, can be obtained from the compliance and policy gaps. The overall VAT gap can be measured directly as the difference between the potential VAT if all final consumption were taxed at the current standard rate and actual VAT revenue, or it can be obtained by combining the compliance and policy gaps.

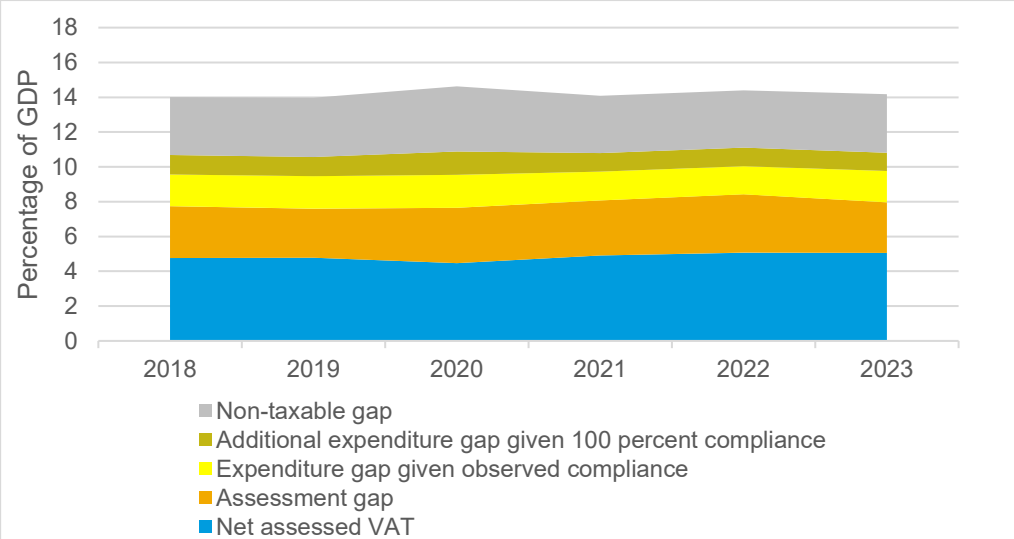
26. The overall ITBIS gap averaged 9.4 percent of GDP in 2018–2023 (Figure 15). In 2020, the gap peaked at 10.2 percent of GDP, while in 2023 it reached the lowest value of the period at 9.1 percent of GDP.

Figure 15. Overall ITBIS gap, compliance gap, and policy gap (2018–2023)



Source: This mission.

Figure 16. Actual ITBIS and tax gap components (2018–2023)



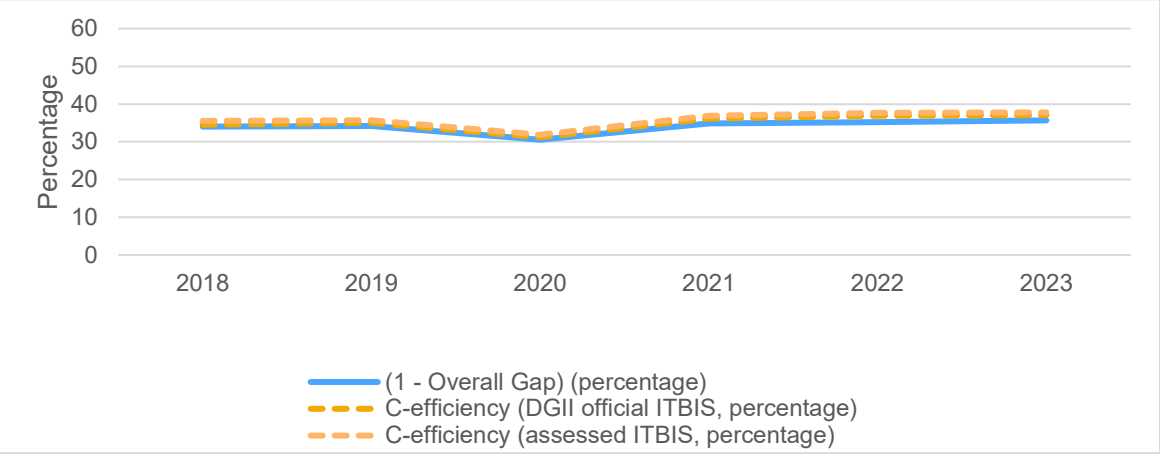
Year	Net assessed ITBIS (percentage of GDP)	Assessment gap (percentage of GDP)	Expenditure gap under observed compliance (percentage of GDP)	Additional expenditure gap given 100 percent compliance (percentage of GDP)	Non-taxable gap (percentage of GDP)
2018	4.8	3.0	1.8	1.1	3.3
2019	4.8	2.8	1.9	1.1	3.4
2020	4.5	3.2	1.9	1.3	3.7
2021	4.9	3.2	1.7	1.1	3.3
2022	5.1	3.4	1.6	1.1	3.3
2023	5.1	2.9	1.8	1.0	3.4

Source: This mission.

27. The level of and changes in the overall ITBIS gap are consistent with the observed c-efficiency (Figure 17). The observed c-efficiency should be equal to (1 – overall ITBIS gap), or

(1 – policy gap) x (1 – compliance gap).[17] Using the results of the RA-GAP analysis, one can see that (1 – overall ITBIS gap) is very close to the c-efficiency recorded during the period 2018–2023, both when measuring actual revenue with official ITBIS and with net assessed ITBIS.

Figure 17. (1 - Overall ITBIS gap) versus c-efficiency ratio



Year	1 - Overall ITBIS gap (percentage)	C-efficiency (official DGII ITBIS) (percentage)	C-efficiency (net assessed ITBIS) (percentage)
2018	34.1	34.5	35.5
2019	34.2	35.0	35.7
2020	30.6	31.2	31.9
2021	34.8	36.1	36.9
2022	35.2	36.9	37.7
2023	35.7	37.1	37.8

Source: This mission.

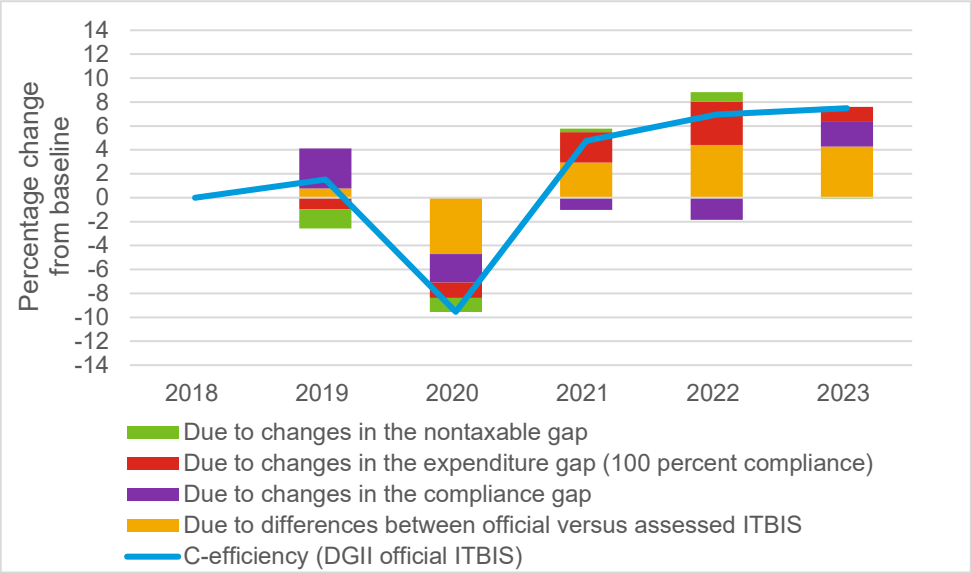
28. The component with the greatest impact on the increase in c-efficiency was the difference between official ITBIS revenue and assessed ITBIS (Figure 18). The changes in c-efficiency can be broken down into changes in components of the ITBIS gap and temporary differences between official revenue and assessed revenue. This breakdown is shown in detail in Figure 18.

29. There are some differences in the methodologies used by tax administrations in presenting official revenue figures and those required to apply the RA-GAP model. Due to various circumstances, tax authorities use actual revenue measures that sometimes do not coincide exactly with those that must be entered in the RA-GAP form, so it is necessary to make a special measurement effort (Box 2). Although it was not possible to obtain the optimal measure of accrued revenue during this

[17] See *The Anatomy of the VAT*, Michael Keen, IMF, 2013. Link: https://www.imf.org/external/pubs/ft/wp/2013/wp13111.pdf.

mission, revenue on a cash basis according to the fiscal month was used, and this turns out to be the best possible approximation of the accrued measure.[18]

Figure 18. Impact of ITBIS gap components on c-efficiency (2018–2023)



Year	C-efficiency (official DGII ITBIS)	Due to official versus assessed ITBIS differences	Due to changes in the compliance gap	Due to changes in the expenditure gap (100 percent compliance)	Due to changes in the non-taxable gap
2018	0.0	0.0	0.0	0.0	0.0
2019	1.5	0.8	3.3	-1.0	-1.6
2020	-9.5	-4.7	-2.4	-1.3	-1.2
2021	4.8	3.0	-1.0	2.5	0.3
2022	7.0	4.4	-1.9	3.6	0.8
2023	7.5	4.3	2.1	1.2	-0.1

Source: This mission.

[18] During the technical assistance mission, joint efforts were made with DGII officials to reconcile the declared ITBIS with payments and refunds and obtain the declared and accrued revenue; however, the reconciliation process could not be fully achieved on a return-by-return basis (some hypotheses indicate that there are reconciliation errors on the part of taxpayers, for example, between the customs ITBIS paid and the corresponding credits claimed in the domestic ITBIS declarations), so a recommendation was made for the DGII to address this task in the future and thus add the respective component.

Box 2. Actual VAT measurement

The RA-GAP approach to estimating the compliance gap employs an accrual measurement for actual VAT, that is, using micro-level taxpayer data to associate the tax with the relevant tax period, rather than with the payment period. This is done to better match the economic activity declared by the taxpayer (as provided on their VAT declaration) and corresponding payments to the economic activity as recorded in the statistical data. In the long run, cash values for revenue should average out with accrued values (ignoring penalties and interest). In the short run, cash performance tends to be more volatile than accruals. Differences between accrual and cash values are largely driven by cash management issues: timing of debt collections and refund payments, and excess credit carry-forward mechanisms (wherein excess VAT credit is not immediately refunded but is used as a credit towards future VAT or other tax obligations). There is a tendency for the cash measure to be pro-cyclical. Cash collections improve and excess credit carry forwards accumulate during periods of economic growth, and cash collection worsens, and excess credit is drawn down in periods of decline. Inflation can also play a role in differing accruals and cash measures. Severe inflation produces lower ratios of cash collections to economic activity compared to the accrued collections to economic activity. This is due to the lag between tax periods and payment deadlines.

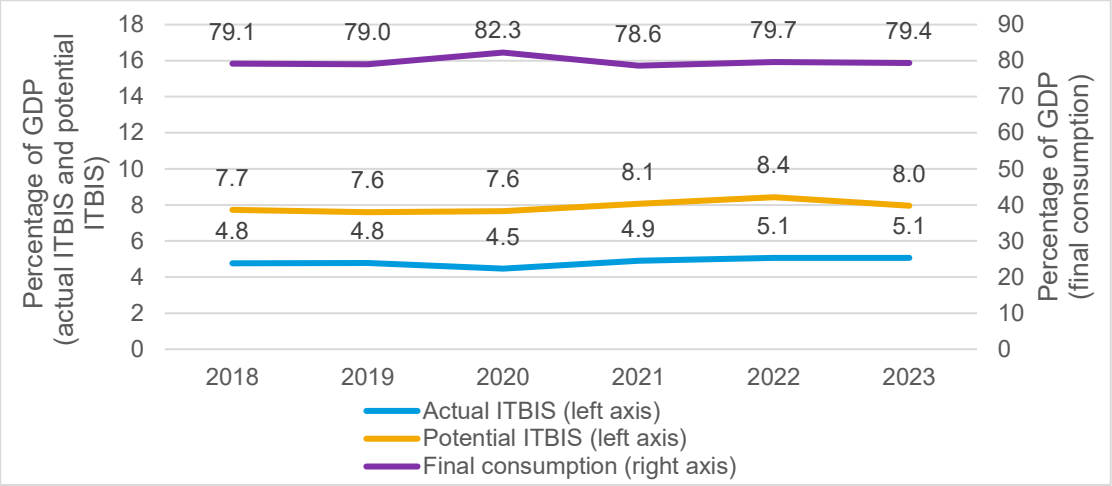
III. Further Analysis of the Compliance Gap

A. Potential and actual ITBIS

30. It is not enough to understand how compliance has been changing; it is also necessary to understand why it may have been changing. While an understanding of how the compliance gap has been changing over time is useful in evaluating the overall performance of a revenue administration, it does not necessarily assist an administration in understanding how to address any compliance issues. This section of the report includes some additional breakdowns of factors which affect the compliance gap in order to better understand what might be contributing to changes in the gap.

31. Final consumption as a percentage of GDP shows some stability in the period 2018–2023, while potential ITBIS and actual ITBIS experienced greater variability (Figure 19). Final consumption fluctuates steadily around 80 percent of GDP, while potential ITBIS fluctuates around 7.9 percent of GDP, and net assessed ITBIS, around 4.9 percent of GDP. Since 2021, potential ITBIS has begun to grow compared to previous years, which can be attributed to the variations in the ITBIS tax policy and to the relative composition of value-added between affected and exempt economic sectors. Something similar has been occurring with the actual ITBIS, although in this case it was preceded by a slight drop in 2020.

Figure 19. ITBIS revenue measures (2018–2023)



Source: This mission.

B. Potential and actual VAT by sector

32. The RA-GAP tax gap model provides a breakdown of the compliance gap by sector, which should be treated only as an indicator. The use of SNA SUTs and detailed taxpayer registration data in the RA-GAP approach allows potential VAT and actual VAT to be compared at the level of individual economic sectors. The estimation of these values for different sectors does not affect the overall

measurement; however, they should be interpreted only as a general approximation of the compliance risks attributable to each sector. The two main factors that must be taken into account are:

- Actual VAT is usually reported under each taxpayer's main activity, while potential VAT is derived from all economic activities reported for an SNA sector. A taxpayer operating in more than one sector will report all its activities under a single activity code, while in the SNA its activities will be separated and assigned to the corresponding economic sectors.
- This difference also implies that, for example, the value of sales declared for VAT purposes by retailers includes transport margins, which are separated in the SNA and allocated to the transport sector through specific adjustments.

For these reasons, the sectoral breakdown of compliance should be contrasted with existing business intelligence information in the tax administration when determining the nature and distribution of compliance risks.

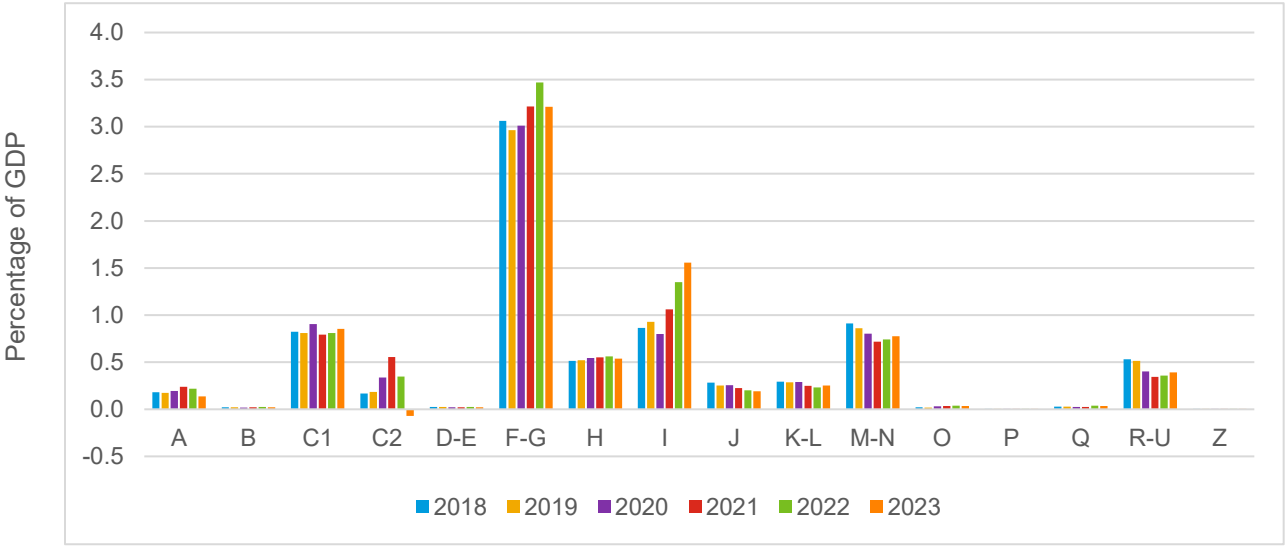
33. Country experience suggests, however, that disaggregating the compliance gap can be a useful indicator of sectoral compliance risk. In previous RA-GAP programs, the sectoral breakdown of the compliance gap has generally been consistent with intuition and prior knowledge of specialized areas of oversight and auditing.

34. The largest component of potential and actual ITBIS is in the joint construction-trade sector (Figures 20A and 20B). In the case of potential ITBIS, the professional services, hotel and restaurant, and food manufacturing sectors are also added on the basis of their relative importance. In the case of actual VAT, the manufacturing sectors (both food and other sectors) and the other services sector are added on the basis of their relative importance.[19,20]

[19] Usually, in a sectoral analysis of the compliance gap, the possibility that a high percentage of the value-added comes from diversified companies is taken into account. In the case of trade and construction, some companies in the country have investments in both sectors, especially large conglomerates that seek to diversify their operations. On the other hand, construction companies often work on commercial projects, such as the construction of shopping malls, stores, and other commercial establishments. In addition, companies in the trade sector can invest in real estate and construction projects to expand their operations and increase their assets. In the specific case of the Dominican Republic, we opted for this grouping because the revenue potential of the construction sector was lower than its actual revenue. It cannot be ruled out that the situations described above may result in less comparability with regard to ITBIS returns, since while both activities are separated in national accounts, in the case of ITBIS returns, the value-added is reported jointly. It is worth mentioning that this only implies that it is not possible to distinguish noncompliance separately in both sectors, but it does not alter in any way the total estimate of the compliance gap.

[20] In the hotel and restaurant business, the existence of Advance Pricing Agreements (APA) between the Directorate General of Internal Taxes and the Association of Hotels and Tourism of the Dominican Republic (ASONAHORES) could imply the need to recognize an adjustment in potential ITBIS, to the extent that the valuation made by national accounts for these operations differs from the valuation of transactions that determine the relevant value-added for ITBIS purposes. To determine the possible impact of this factor, access to the sectoral accounts of the specific entities that sign APAs is required. For reasons of statistical confidentiality, however, no system of national accounts allows access to individual information by economic agent, so it is not possible to test this hypothesis.

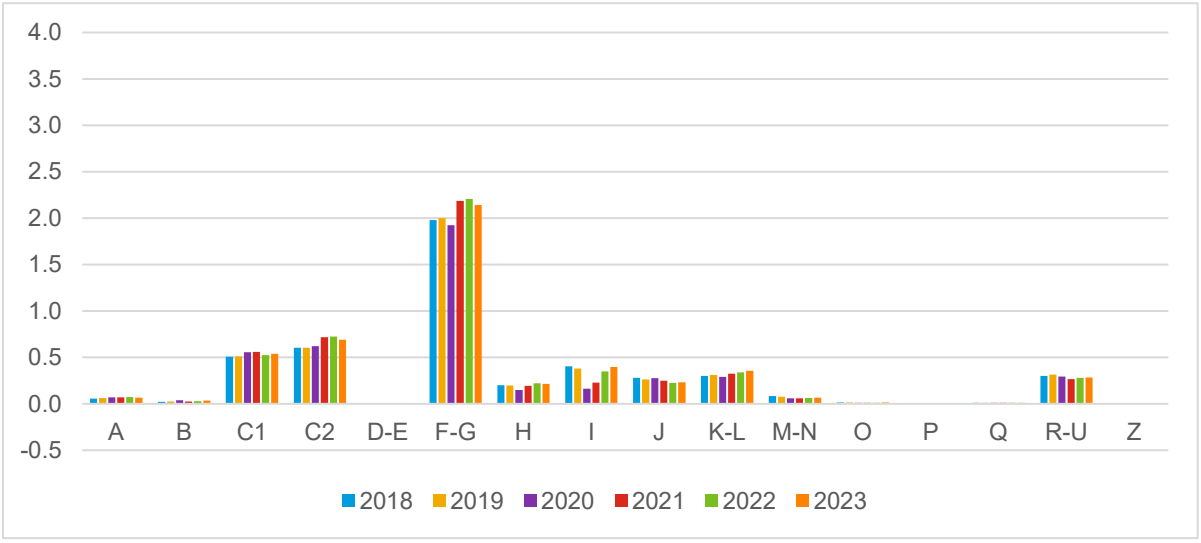
Figure 20A. Trends in *potential* ITBIS by sector (2018–2023)



	Reporting sector	2018	2019	2020	2021	2022	2023
A	Agriculture, forestry, and fisheries	0.18	0.17	0.19	0.24	0.22	0.14
B	Mining, extractive activities	0.02	0.02	0.02	0.02	0.02	0.02
C1	Manufacturing - Food	0.82	0.81	0.90	0.79	0.81	0.85
C2	Manufacturing - Other	0.17	0.19	0.34	0.55	0.35	(0.07)
D-E	Electricity, gas, and water	0.02	0.03	0.02	0.02	0.02	0.02
F-G	Construction and trade	3.06	2.96	3.01	3.21	3.47	3.21
H	Transport and storage	0.52	0.52	0.55	0.55	0.56	0.54
I	Hotels and restaurants	0.86	0.93	0.80	1.06	1.35	1.56
J	Information and communications	0.28	0.25	0.26	0.23	0.20	0.19
K-L	Financial services, insurance, and real estate	0.29	0.29	0.29	0.25	0.23	0.25
M-N	Professional services	0.91	0.86	0.80	0.72	0.74	0.77
O	Government and defense, social security	0.02	0.02	0.03	0.04	0.04	0.03
P	Education	0.00	0.00	0.00	0.01	0.01	0.01
Q	Healthcare	0.03	0.03	0.03	0.03	0.04	0.04
R-U	Other services	0.53	0.51	0.40	0.35	0.36	0.39
Z	Unclassified	0.00	0.00	0.00	0.00	0.00	0.00
Total		**7.73**	**7.60**	**7.65**	**8.07**	**8.43**	**7.96**

Source: This mission.

Figure 20B. Trends in *actual* ITBIS by sector (2018–2023)



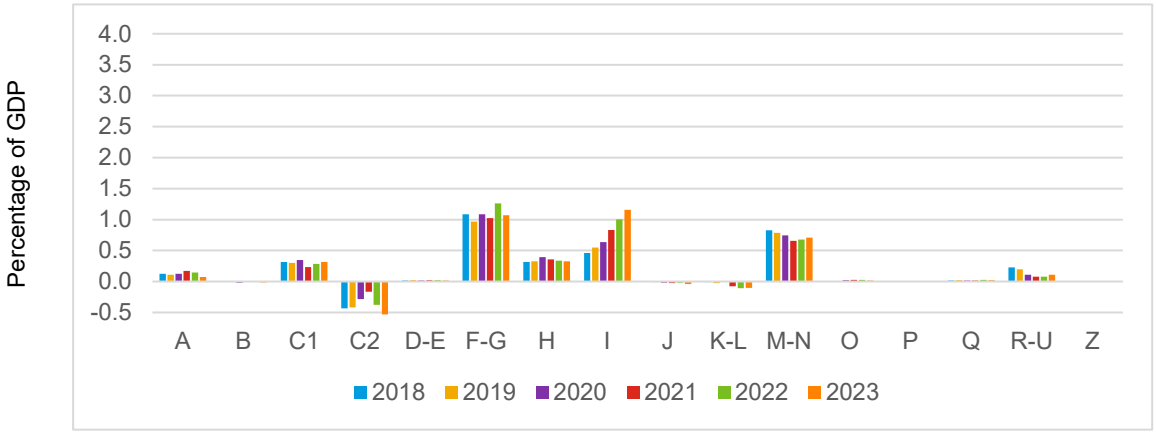
	Reporting sector	2018	2019	2020	2021	2022	2023
A	Agriculture, forestry, and fisheries	0.06	0.06	0.07	0.07	0.07	0.07
B	Mining, extractive activities	0.02	0.02	0.04	0.02	0.03	0.04
C1	Manufacturing – Food	0.51	0.51	0.56	0.56	0.52	0.54
C2	Manufacturing – Other	0.60	0.61	0.62	0.72	0.72	0.69
D-E	Electricity, gas, and water	0.01	0.01	0.00	0.00	0.00	0.00
F-G	Construction and trade	1.98	2.00	1.93	2.19	2.21	2.14
H	Transport and storage	0.20	0.20	0.15	0.19	0.22	0.21
I	Hotels and restaurants	0.40	0.38	0.16	0.23	0.35	0.40
J	Information and communications	0.28	0.26	0.28	0.25	0.23	0.23
K-L	Financial services, insurance, and real estate	0.30	0.31	0.29	0.32	0.34	0.36
M-N	Professional services	0.08	0.08	0.06	0.06	0.06	0.07
O	Government and defense, social security	0.02	0.01	0.01	0.01	0.01	0.02
P	Education	0.00	0.00	0.00	0.00	0.00	0.01
Q	Healthcare	0.01	0.01	0.01	0.01	0.01	0.01
R-U	Other services	0.30	0.32	0.29	0.27	0.28	0.28
Z	Unclassified	-	-	-	-	-	-
	Total	**4.77**	**4.78**	**4.47**	**4.91**	**5.07**	**5.06**

Source: This mission.

C. Compliance gap by sector

35. The largest compliance gaps were found in the construction-trade, hotel and restaurant, and professional services sectors (Figure 21). In the construction-trade sector, no specific trend can be seen throughout the period. In the hotel and restaurant sector, on the other hand, there is a marked upward trend in the compliance gap throughout the period, and in the case of the professional services sector, the trend observed is downward.

Figure 21. Compliance gap by sector (2018–2023)[21]



	Reporting sector	2018	2019	2020	2021	2022	2023
A	Agriculture, forestry, and fisheries	0.12	0.11	0.13	0.17	0.15	0.07
B	Mining, extractive activities	(0,00)	(0,00)	(0,02)	(0,00)	(0,00)	(0.01)
C1	Manufacturing – Food	0.32	0.30	0.35	0.23	0.29	0.32
C2	Manufacturing – Other	(0.43)	(0.42)	(0.28)	(0.16)	(0.38)	(0.76)
D-E	Electricity, gas, and water	0.02	0.02	0.02	0.02	0.02	0.02
F-G	Construction and trade	1.08	0.96	1.09	1.03	1.26	1.07
H	Transport and storage	0.31	0.32	0.40	0.36	0.34	0.32
I	Hotels and restaurants	0.46	0.55	0.64	0.83	1.00	1.16
J	Information and communications	0.01	(0.01)	(0,02)	(0,02)	(0,02)	(0,04)
K-L	Financial services, insurance, and real estate	(0.01)	(0,02)	(0,00)	(0.08)	(0.11)	(0.10)
M-N	Professional services	0.83	0.79	0.74	0.66	0.68	0.71
O	Government and defense, social security	0.00	0.01	0.02	0.03	0.03	0.02
P	Education	(0,00)	(0,00)	0.00	0.00	0.00	0.00
Q	Healthcare	0.02	0.02	0.02	0.02	0.03	0.02
R-U	Other services	0.23	0.20	0.11	0.08	0.08	0.11
Z	Unclassified	0.00	0.00	0.00	0.00	0.00	0.00
	Total	**2.97**	**2.82**	**3.18**	**3.16**	**3.36**	**2.90**

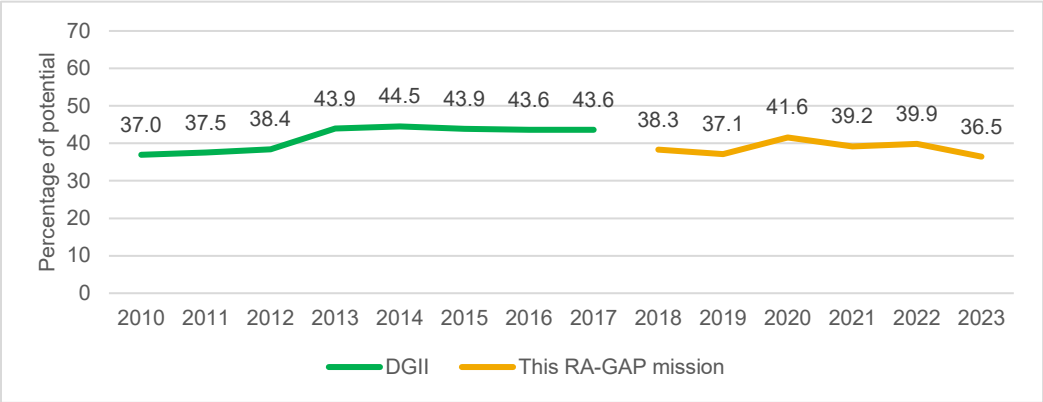
Source: This mission.

[21] It is not unusual for gap estimates at the individual sector level to yield some negative values or very small values, even at the second decimal place. Usually, negative values or values very close to zero can be due to three main reasons: inherent differences in the sector classification of some taxpayers; over-taxation of a particular sector; and problems with maintaining sector codes. In the case of ITBIS, the mission found no evidence beyond the inherent differences in sectoral classification (See Annex III).

D. Previous compliance gap estimates

36. The DGII has previous estimates of the ITBIS compliance gap made by its Economic and Tax Research Division using figures from a similar methodology based on SUTs (Figure 22). The estimation principle applied is basically the same as the one used by RA-GAP when trying to construct potential VAT for each year from the SNA supply and use information and then comparing it with the revenue actually contributed by taxpayers. The main differences between the DGII method and the RA-GAP model are: (1) the RA-GAP methodology directly calculates the potential legal obligation of each sector;[22] (2) RA-GAP uses the concept of actual ITBIS revenue on an accrual basis;[23] and (3) the current RA-GAP estimate used the new SNA figures with a base year of 2018.

Figure 22. Previous ITBIS compliance gap estimates (2010–2017) and RA-GAP (2018–2023)



Source: This mission based on DGII information.

37. The figures from previous estimates appear to be in a range that is relatively similar in size to those obtained through RA-GAP. At present, it is not possible to compare both methodologies for the same years, so it is not yet possible to test a hypothesis as to whether the differences are due to methodological changes or actual variations in compliance levels. It is not unexpected, however, that results obtained with different base years in the SNA would lead to changes in gap levels, especially if production or consumption figures show significant changes when measured with one base year versus another. The figures obtained using the RA-GAP approach are therefore also subject to updating in line with future revisions of the SNA.

[22] Previous estimates available to the DGII estimate an aggregate called Theoretical Potential ITBIS Revenue, from which ITBIS Tax Expenditure is then subtracted. The DGII uses the ITBIS Tax Expenditure figures from the Tax Expenditure Reports prepared by the Inter-Institutional Committee of the Ministry of Finance for such subtraction. The RA-GAP model, on the other hand, produces an estimate of the policy gap (including both tax expenditure and exemption for non-taxable goods and services) by incorporating into the model all the design parameters of the ITBIS (rates, simple exemptions, zero rates, rebates, special treatments, etc.).

[23] In the previous estimates available to the DGII, official ITBIS revenue figures were used, which implies that these figures are compiled annually on a cash basis with reference to the calendar month, while in the RA-GAP model the net assessed ITBIS is used, that is, compiled on a cash basis, but with reference to the fiscal month (it is an approximation of accrual as a suboptimal measure, since in the RA-GAP model the net revenue accrued is ideally used).

IV. Integrating Estimates with Operations

38. The estimation of the tax gap is not the only indicator to measure tax administration performance. Other performance indicators include the impact on revenue of various preventive or corrective activities that are applied, improvement of the levels of voluntary compliance with basic tax obligations (correct registration, declaration, and payment on time, and accurate reporting of economic operations), the level of satisfaction with the services and assistance provided by the tax administration, or the perception of the population about the integrity and fair treatment of the same. This section explores the first two categories of indicators.

39. Two indicators were analyzed in relation to the revenue impact of the tax administration's actions.

- First, an attempt was made to identify the ITBIS revenue associated with the actions of the tax administration in aggregate form. To this end, revenue resulting from legal changes and extraordinary payments was deducted from ITBIS revenue. In general, this revenue reflects the effect of the change in the reduced ITBIS rate to 16 percent,[24] the tax amnesties granted,[25] and extraordinary inspection and collection actions (e.g., transactional agreements, compulsory collections, audits). Figure 23 shows that these effects were not as high between 2016 and 2023 (0.2 percent of GDP), leading to the conclusion that it is the tax administration's performance that explains the gain of 0.36 percent of GDP seen in the adjusted ITBIS revenue. However, additional work would have to be done by the DGII and the Vice Ministry of Tax Policy of the Ministry of Finance to exclude the structural revenue stemming from structural changes in the economy and the cycle-adjusted revenue associated with the output gap. Only after excluding these components could the residual value provide an indication of the tax administration's revenue contribution. This was not done by the mission.
- Second, the value of the adjustments resulting from both internal and external audits was analyzed (Figure 24). Although they were not necessarily paid, this indicator allows us to identify the contribution of the tax administration to closing the compliance gap. During the period analyzed, the net amount of additional ITBIS paid as determined by the audits averaged 0.021 percent of GDP per year (equivalent to 0.45 percent of ITBIS revenue). The gap detected in the audit contrasts with the size of the ITBIS compliance gap, which is in the order of 3 percent of GDP during the period analyzed. It should be noted that for the years 2022 and 2023, there is a noticeable reduction in adjustments, which may indicate that the aforementioned tax amnesties relaxed auditing in anticipation of taxpayer compliance. It could also reflect the need to improve the accuracy of the selection of audit cases (Annex II presents some indicators that could be incorporated into the DGII algorithms) and/or the lack of resources available for internal and external auditing.

[24] Law No. 253-12 on Strengthening the State's Collection Capacity for Fiscal Sustainability and Sustainable Development.

[25] Law No. 46-20 on Transparency and Revaluation of Assets and Law No. 51-23, which establishes special transitional treatment for the auditing, management, and recovery of tax debt.

Figure 23. ITBIS adjusted for legal changes and extraordinary payments

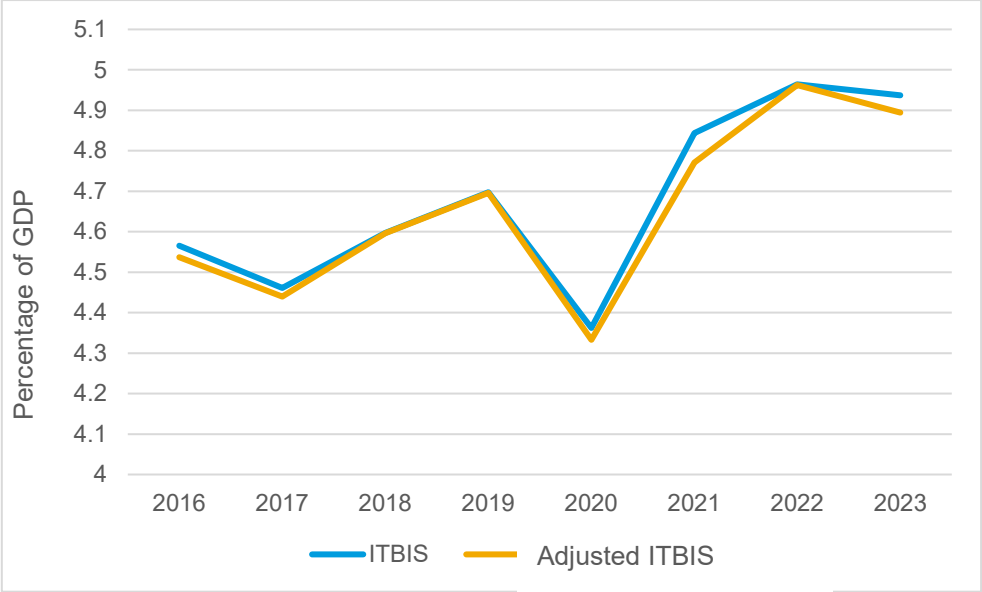
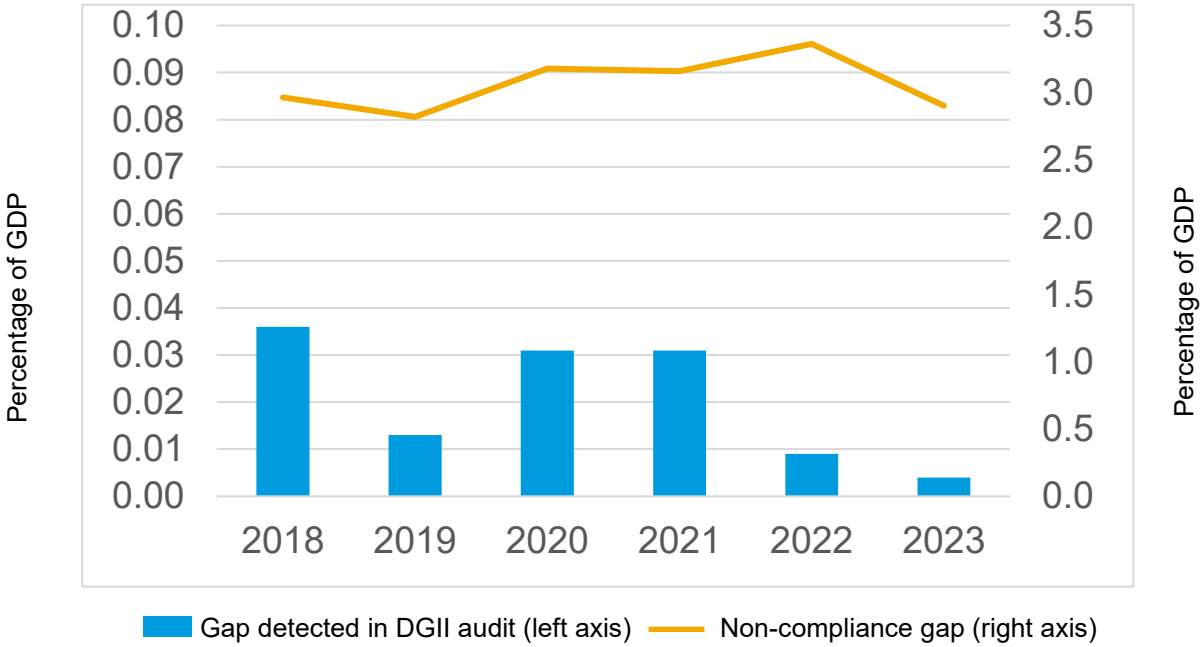


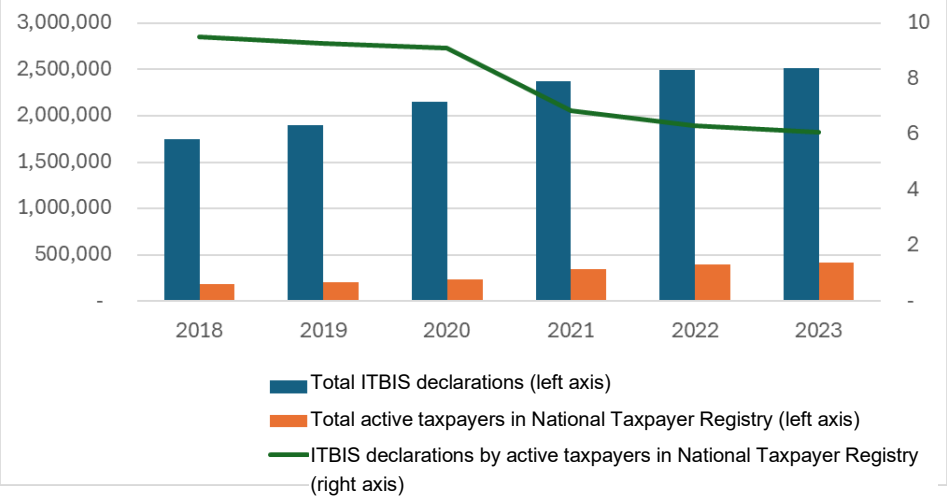
Figure 24. Additional ITBIS adjusted for audits



40. In relation to improved levels of voluntary compliance with tax obligations, two indicators were analyzed.

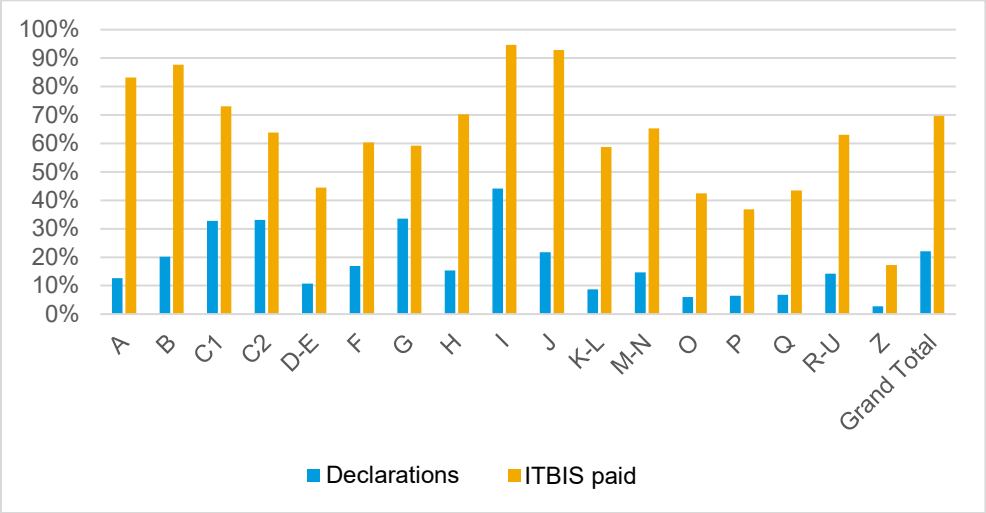
- First, the timely filing of ITBIS declarations was analyzed. Figure 25 shows that, although the number of ITBIS taxpayers more than doubled during the period analyzed, the number of returns received only grew by half. In 2018, each registered taxpayer filed nine declarations in a year, while in 2023 this number was only six, reflecting an increase in the declaration gap, or a lack of integrity of the taxpayer registry as it seems to contain VAT taxpayers who are not complying with their tax obligations or who are no longer in operation.
- Second, assured revenue was estimated as an indicator of accurate reporting of economic operations. The aim here is to determine the percentage of paid ITBIS declared by taxpayers that shows no inconsistencies after all possible checks have been applied (mainly the result of cross-checking information with third parties). The assured revenue mainly reflects the impact of preventive actions (services, deterrence), but also the indirect effect of corrective actions. If the percentages rise over time, this is an indicator of improved voluntary compliance. The percentage of reviewed returns is representative only for the year 2019, which, in the mission's opinion, reflects delays in the ITBIS declaration review process. Considering only the year 2019, Figure 26 shows that inconsistencies can be found in 70 percent of the paid ITBIS.[26] Looking by sector, one can see that several of the sectors reported by the RA-GAP program as those with the largest compliance gap also show inconsistencies in paid ITBIS.

Figure 25. Filing of ITBIS declarations (2018–2023)



[26] For subsequent years, which include those of the COVID pandemic, the percentages are lower and may indicate an improvement. The universe of revised declarations is less representative, however.

Figure 26. Assured paid ITBIS 2019



41. The ultimate purpose of tax gap estimates is to serve as an input for targeting tax operations. In this regard, it is recommended that the results of the gap estimate obtained by the RA-GAP program be integrated into the overall risk rating currently produced by the DGII. This rating seeks to provide a comprehensive understanding of the taxpayer, taking into account their compliance history and revenue potential. It combines risk indicators and attributes with metrics of probability of occurrence and consequences of risks to present a relative risk level for each taxpayer. The compliance gap estimate made by the RA-GAP program can help refine the overall risk rating. This integration should be carried out by the economic sector and tax function, once the collection gap has been determined. Likewise, additional estimates by taxpayer size, taxpayer type, geographical location, and other factors would allow the DGII's overall risk rating process to be further refined.[27]

[27] See IMF Technical Note and Manual "Using Top-Down Compliance Gap Techniques to Supplement the Compliance Risk Management Framework."

V. Recommendations

42. The following actions are proposed based on the ITBIS gap estimate obtained using the RA-GAP methodology:

- Maintain the good practice of estimating ITBIS noncompliance annually and, based on the capacity created to apply the RA-GAP model, estimate the ITBIS gap for 2024.
- Extending the old DGII series for the same years as the current RA-GAP estimate may be useful for comparing the results of two similar (but not identical) methodologies.
- Retropolate (extrapolate to previous years, with national accounts estimated under the new base year) the current RA-GAP series, if the BCRD produces macro aggregates prior to 2018, with 2018 as the base year.
- Individually link each ITBIS payment and refund entry with its corresponding entry in an ITBIS declaration for all taxpayers.
- Provide for further comparison of current sectoral ITBIS gap results with the DGII's oversight and audit experience in these sectors, bearing in mind that three of them would have the greatest potential to mobilize resources by reducing noncompliance:
    - Trade-construction (Avg. 1.1 point of GDP), stable time trend
    - Hotels and restaurants (Avg. 1.1 point of GDP), time trend with some degree of concern
    - Professional services (Avg. 0.7 point of GDP), stable time trend
- Form a working group of the DGII and the Vice-Ministry of Tax Policy of the Ministry of Finance to improve estimates of the contribution of the tax administration's actions to ITBIS revenue as outlined in paragraph 39.
- Integrate the ITBIS compliance gap estimation process with the operation and review the consistency of the DGII's overall risk rating.

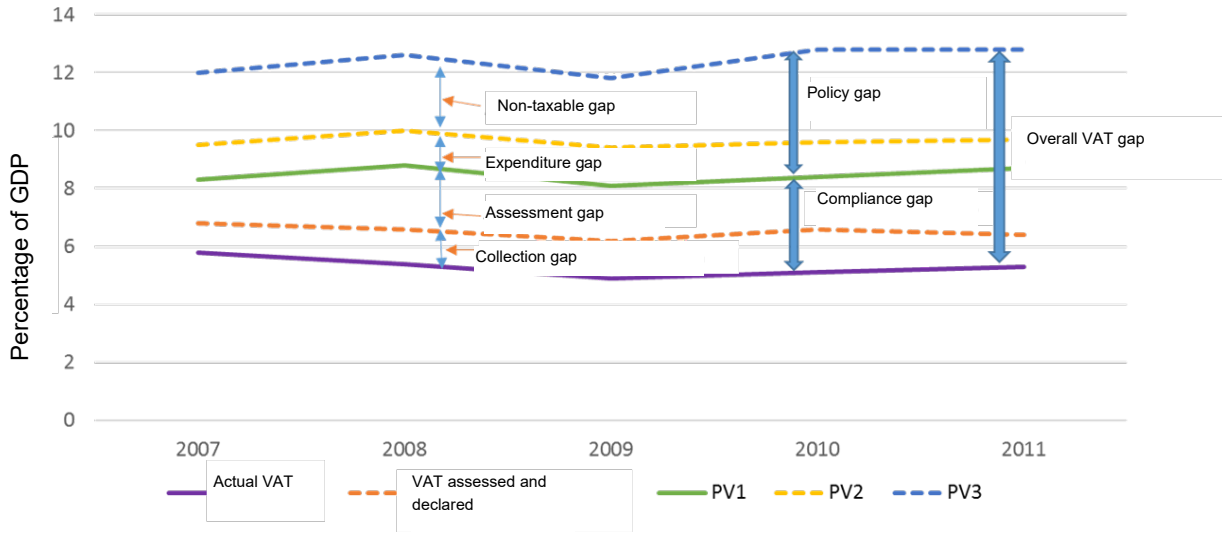
Annex I. Definitions Used for the Tax Gap

VAT Gap Components

The total VAT gap is the sum of the compliance and policy gaps, which measure revenue losses due to taxpayer noncompliance and policy reliefs, respectively. The RA-GAP approach uses the same analytical model to estimate both components, which can be broken down as shown below. The VAT gap components are illustrated in the figure that appears below.

Overall VAT gap	The difference between potential VAT if all final consumption were taxed at the current standard rate and actual VAT revenue. The overall VAT gap is the sum of the *compliance* gap and the *policy* gap.
Compliance gap	The difference between potential VAT given the current policy framework and actual VAT revenue. The compliance gap is the sum of the *assessment* gap and the *collection* gap.
Assessment gap	The difference between potential collections, given the current policy framework, and the VAT declared or assessed.
Collection gap	The difference between VAT declared or assessed and actual VAT revenue collected.
Policy gap	The difference between potential VAT if all final consumption were taxed at the current standard rate and potential VAT given the current policy framework. The policy gap is the sum of the expenditure gap and the non-taxable gap.
Expenditure gap	The difference between potential VAT where most of final consumption is taxed at the standard rate, but where a set of minimal standard exemptions are maintained, and the potential VAT given the current policy framework.
Non-taxable gap	The difference between potential VAT if all final consumption were taxed at the current standard rate and potential VAT where most of final consumption is taxed at the standard rate, but where a set of minimal standard exemptions are maintained. Also known as the efficiency gap.
C-efficiency	The ratio of actual VAT to potential VAT if all final consumption were taxed at the current standard rate. C-efficiency can be expressed as: $$C - efficiency = (1 - compliance\ gap\ ) \times (1 - policy\ gap)$$

Components of the VAT gap – Illustrative chart



Where:
PV1: Potential VAT under the current tax policy framework and assuming zero compliance gap
PV2: Potential VAT assuming no expenditure gap
PV3: Potential VAT assuming no policy gap

Annex II. Risk Indicators

Risk	Indicator
Underreporting of sales, improper use of tax credit, evasion in internal operations	Actual ITBIS rate (ITBIS paid/sales taxed)
Underreporting of income or over-deduction of expenses to reduce the tax burden	Actual income tax rate (income tax paid/gross income)
Fictitious cost overruns, accounting manipulation, misalignment with industry margins	Gross profit margin (profit/gross income)
Anomalous behavior within the sector, risk of aggressive planning	Relative score of the actual ITBIS rate by economic activity
Systematic failure to comply with the obligation to declare	Number of periods with missing declarations
Passive behavior with respect to obligations, risk of evasion or negligence	Frequency of late filing
Possible use of false or unrecorded invoicing	Significant differences between purchase and sale declarations
Possible fictitious credit, atypical behavior	High level of accumulated credit balances unused or not refunded
Underreporting due to date manipulation or fictitious income to obtain benefits	High variability of declared income between years (>50%)
Concealment of operations, shell company, risk of false invoicing	Registration with employees, but without declared income
Risk of using false invoicing	Reporting of large purchases from non-resident or fictitious taxpayers
Risk of non-reporting of domestic ITBIS derived from imports	High imports without local ITBIS declarations
Noncompliance in terms of payment, evasion through inaction, or recurring lack of liquidity	Existence of overdue and growing tax debt
Structural risk of a shell company, front men, or use of opaque structures	Frequent change of legal representative or tax address
Underreporting of import values, risk of smuggling, under-invoicing	Taxpayer detected in suspicious transactions by customs
Concealment of operations, non-reporting of third parties, impact on the cross-checking of tax information	Failure to comply with reporting obligations (e.g., shipment of purchases/sales)

Annex III. Negative or Near-Zero Sector Values

It is not unusual for gap estimates at the individual sector level to yield some negative values or very small values, even at the second decimal place. Usually, negative values or values very close to zero can be explained by three main reasons.

First, there may be differences in sector classification of some taxpayers in the tax administration records versus the associated productive units in the national accounts records. For example, if a taxpayer has activities in two sectors (agriculture and food manufacturing), for tax records their total value-added will appear in a single VAT return, representing the sector that is considered the principal sector. In national accounts, on the other hand, its value-added will be divided into two productive units: one that will go to the agriculture sector and the other to the food manufacturing sector, causing a comparative difference and, potentially, a negative gap value in one sector, offset by a higher positive value in the other sector. This indicates that the values are netted, so the total estimated value of the tax gap for the entire economy remains unchanged.

Second, on rare occasions, it may happen that a gap with a value that is negative or close to zero indicates over-taxation of a sector (this sometimes occurs when taxpayers in a sector accumulate significant credits in their favor, but the administration does not authorize or rejects those refunds).

Finally, negative values above a certain level (typically above 1 percent of GDP) may reflect a severe problem in maintaining updated sector codes in VAT administration.

In the case of ITBIS, a test was conducted with 10 large commercial companies, comparing the sector as declared to the DGII with that of the category widely known to the public, and almost all cases were the same. Therefore, cause (3) would be ruled out. Regarding whether there are ITBIS credits in favor of taxpayers accumulating in the manufacturing sector without being refunded to taxpayers (where the negative value is higher and increases in magnitude over time), the opinion of experts on the DGII legislation is that there would be no limitations on the refunds of exporters' ITBIS, either legal or administrative. Given this analysis, cause (2) would also be ruled out. Therefore, only cause (1) remains as an explanatory variable, which is inherent in the estimation method.

For practical purposes, what can be concluded is that the levels of noncompliance observed in sectors with a negative value or a value close to zero do not present a significant risk of noncompliance in terms of volume. This does not mean that individually there are taxpayers in those sectors that evade the ITBIS; it only implies that in the sectoral aggregate relative to other sectors, this sectoral gap does not appear to be of a significant volume.