



FISCAL AFFAIRS

Managing VAT Compliance and Administration

IMF VAT WEBINAR SERIES

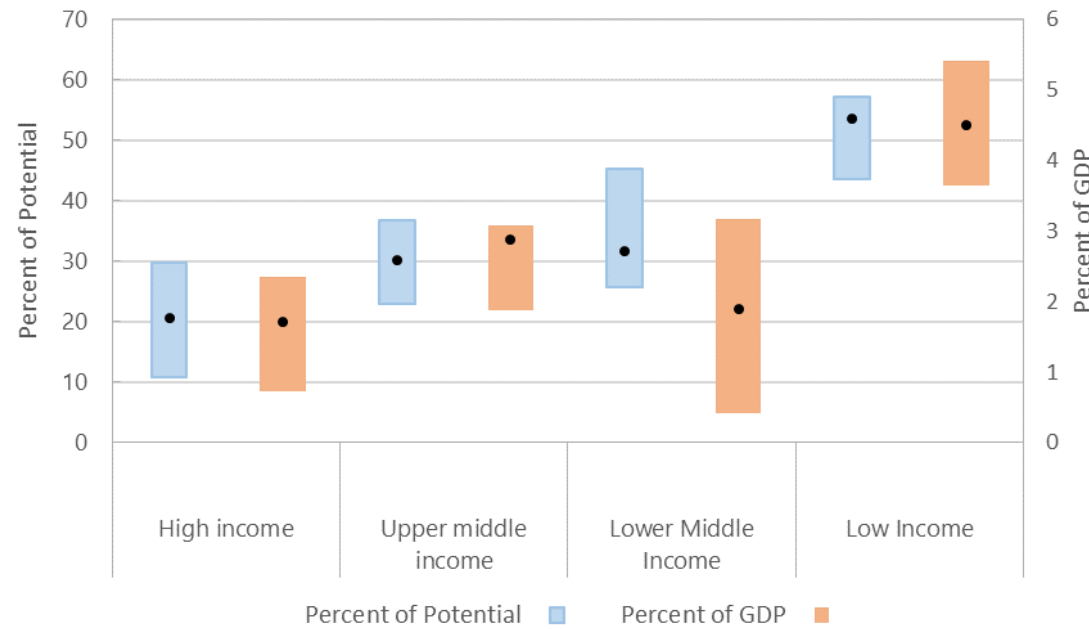
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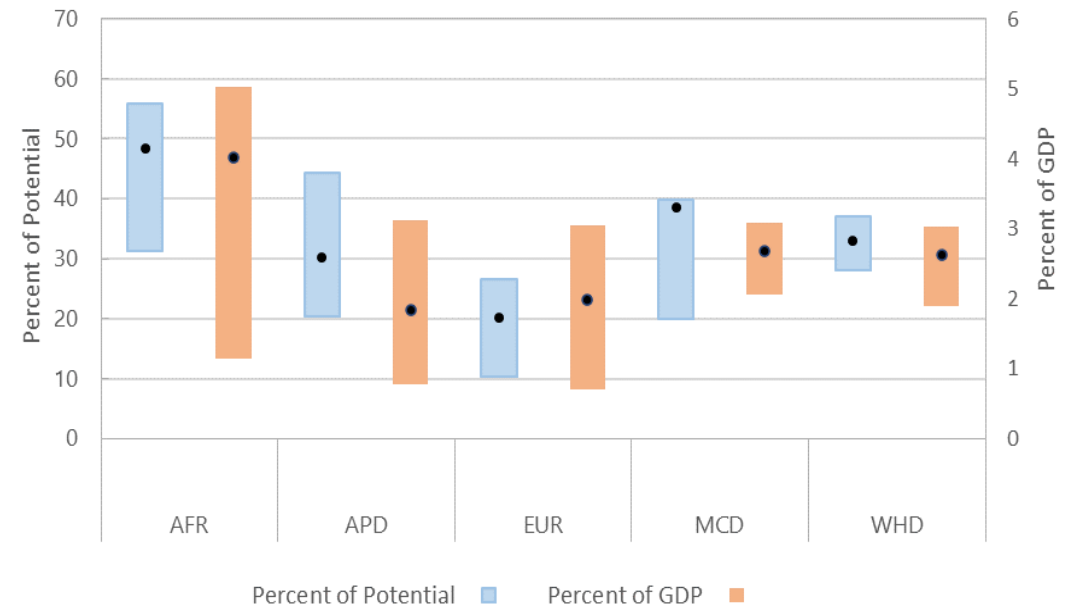
VAT compliance gaps by income level and region

Compliance gaps are higher in lower income countries...likely explaining regional differences

VAT compliance gaps by income level (median and inter-quartile range)



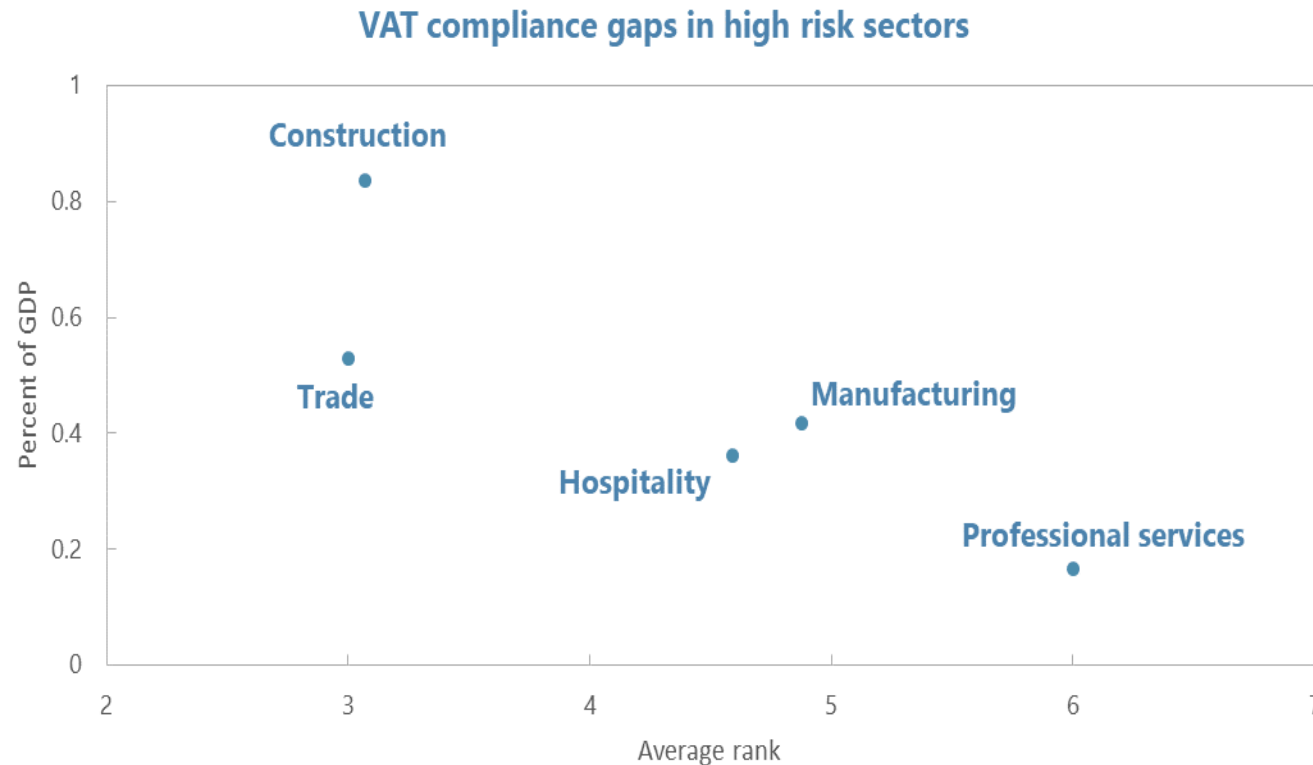
VAT compliance gaps by region (median and inter-quartile range)



Source: IMF staff calculations using results of VAT gap studies conducted in 32 countries. Regions based on IMF internal administrative regions.

Economic sectors with high compliance risks

A few sectors typically contribute to largest compliance gaps



IMF VAT gap studies disaggregate compliance gap by 10-15 industrial sectors.

Construction and trade sectors - largest average compliance gaps.

Trade sector - highest average ranking.

Large gaps - manufacturing, hospitality, professional services.

Construction - largest gap in 8 countries.

Manufacturing - largest gap in in 4 countries.

Source: IMF staff calculations using detailed results of IMF VAT gap studies conducted in 32 countries.

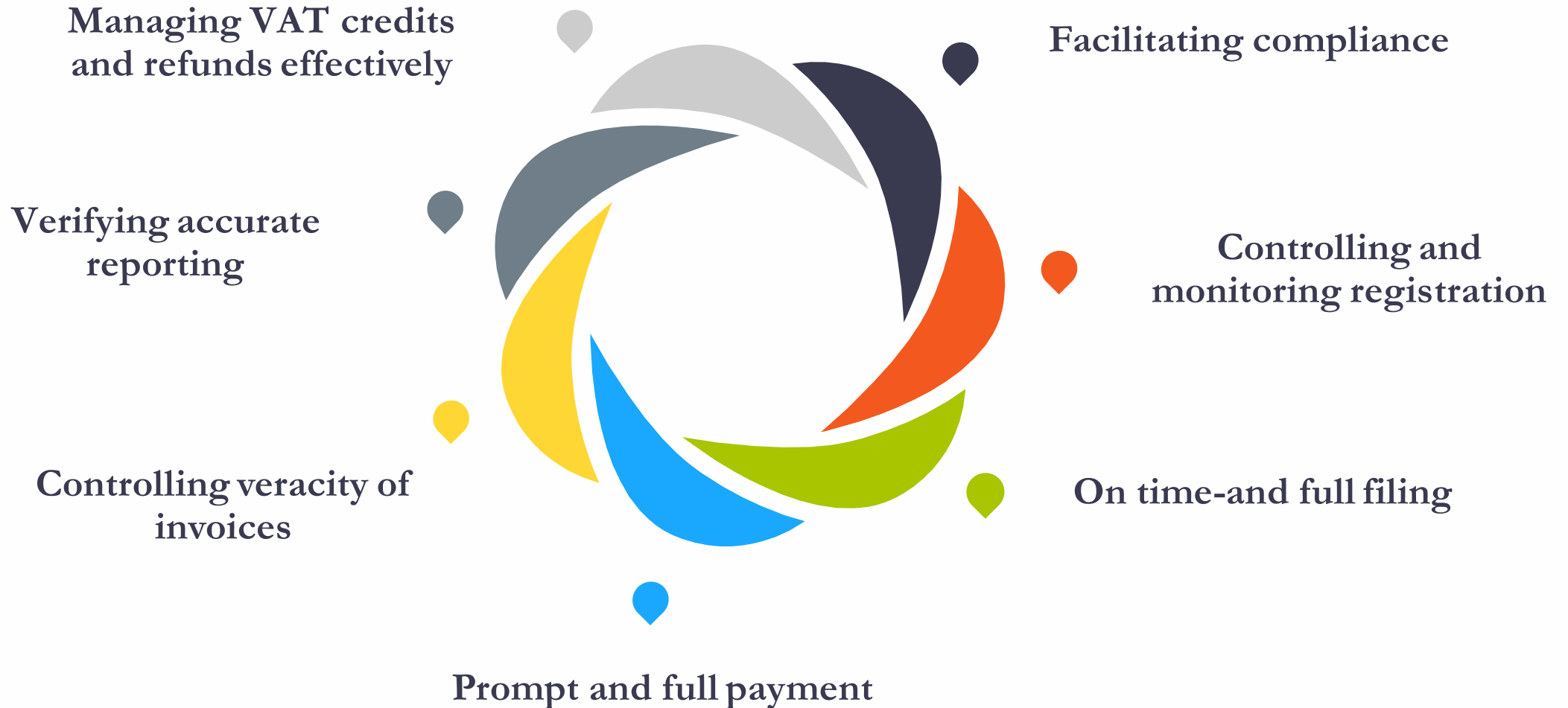
Sectoral compliance gaps ranked for individual countries in descending order (1 = largest sectoral gap)

Prerequisites for a well-functioning VAT

- ✓ Good design of VAT policy and legal framework.
- ✓ Careful setting (and adjusting) of VAT threshold.
- ✓ Self-assessment, digital, and efficient processes.
- ✓ Extensive use of third-party data and robust analytics.
- ✓ Collaboration between tax and customs administrations.
- ✓ Well-resourced tax administration with sound institutional framework.

VAT Compliance Risk Management

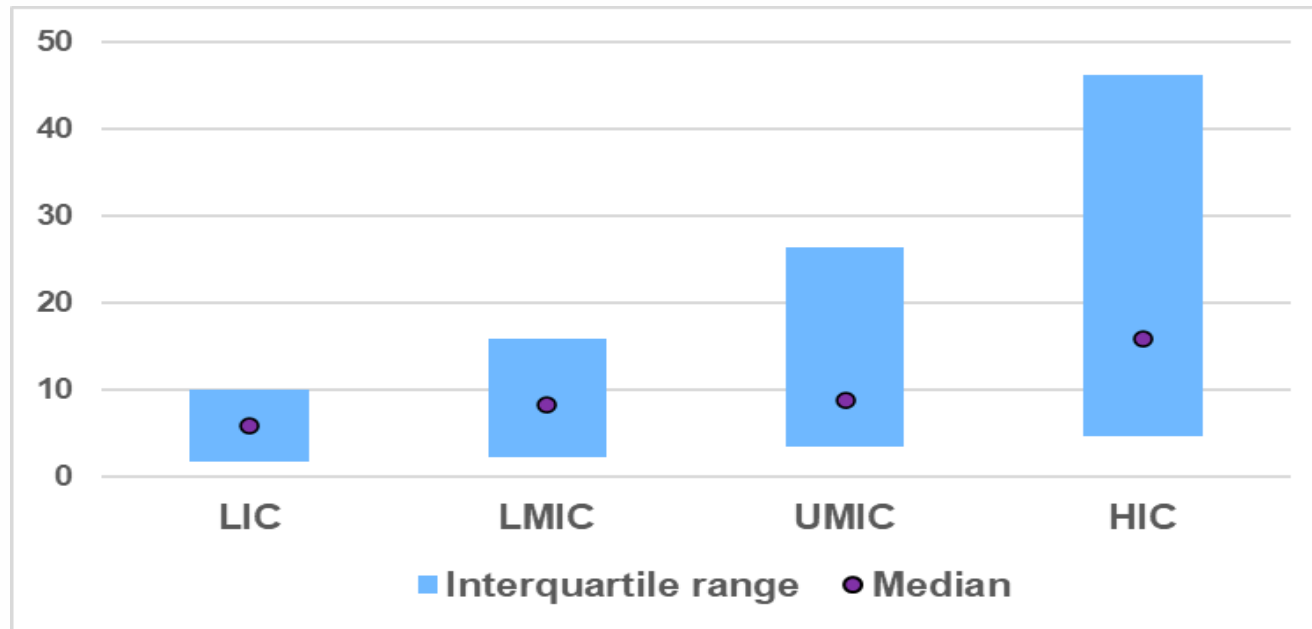
An integrated focus is key



VAT refunds

Proportion of VAT refunded increases with income – and may explain size of VAT gaps

VAT refunds as a percent of gross VAT collections
(median and inter-quartile range)



Higher Income countries pay more refunds and have lower VAT gaps (for many reasons).

Does a better functioning VAT refund mechanism encourage compliance and contribute to lower VAT gaps?

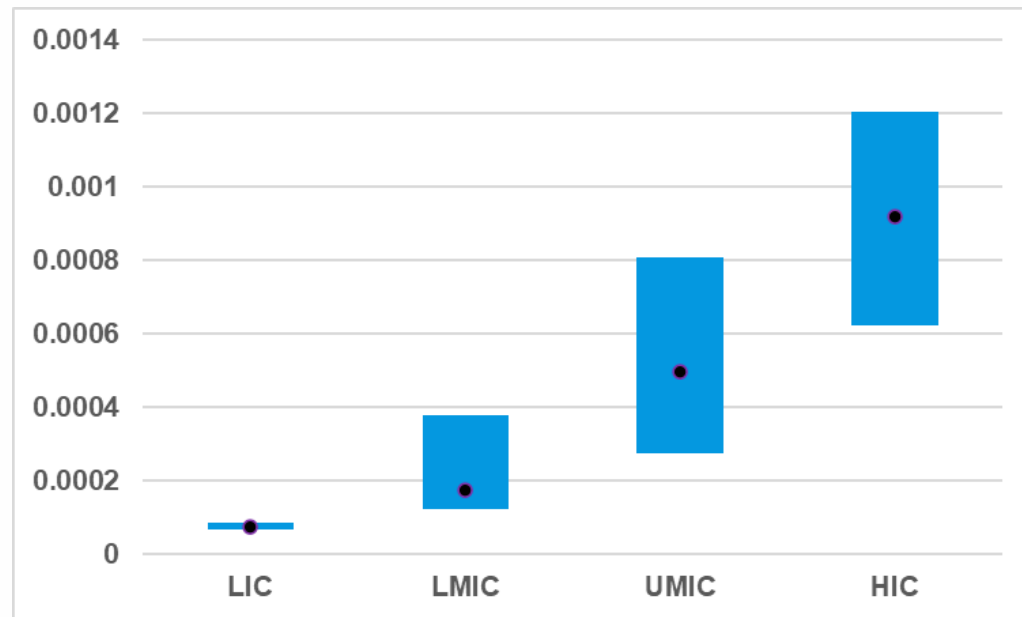
Source: IMF staff calculations using TADAT data – sample of approximately 70 countries.

Tax administrations need to be well-resourced

Lower income countries are less well resourced as measured by staff to country population...

...and are less able to devote resources to audit and verification activities

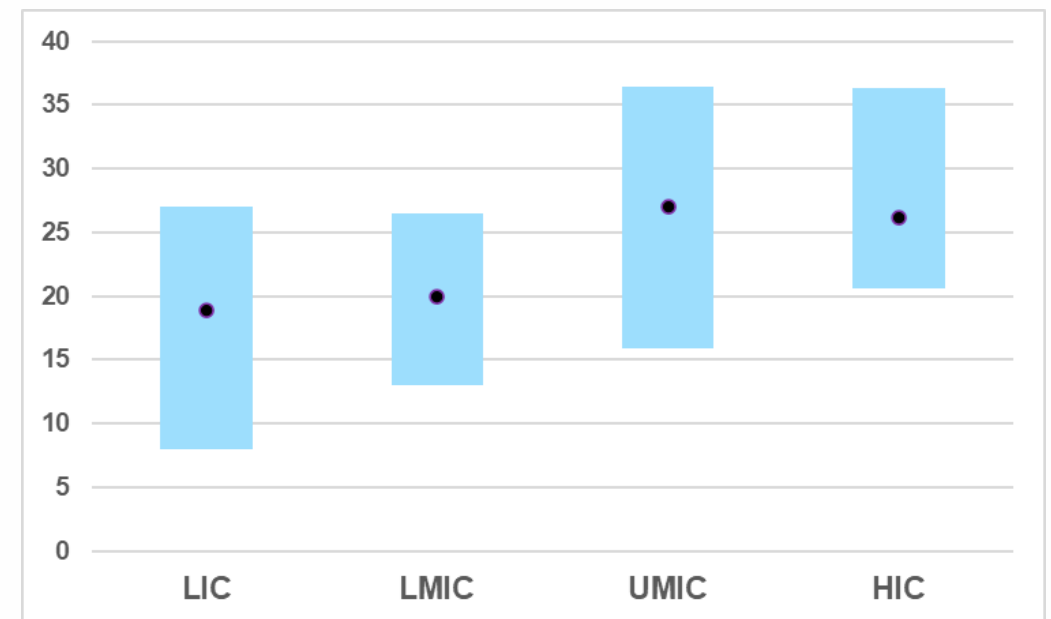
**Tax administration staff per citizen
(median and inter-quartile range)**



Tax administration staff are measured in full-time equivalents (FTEs)

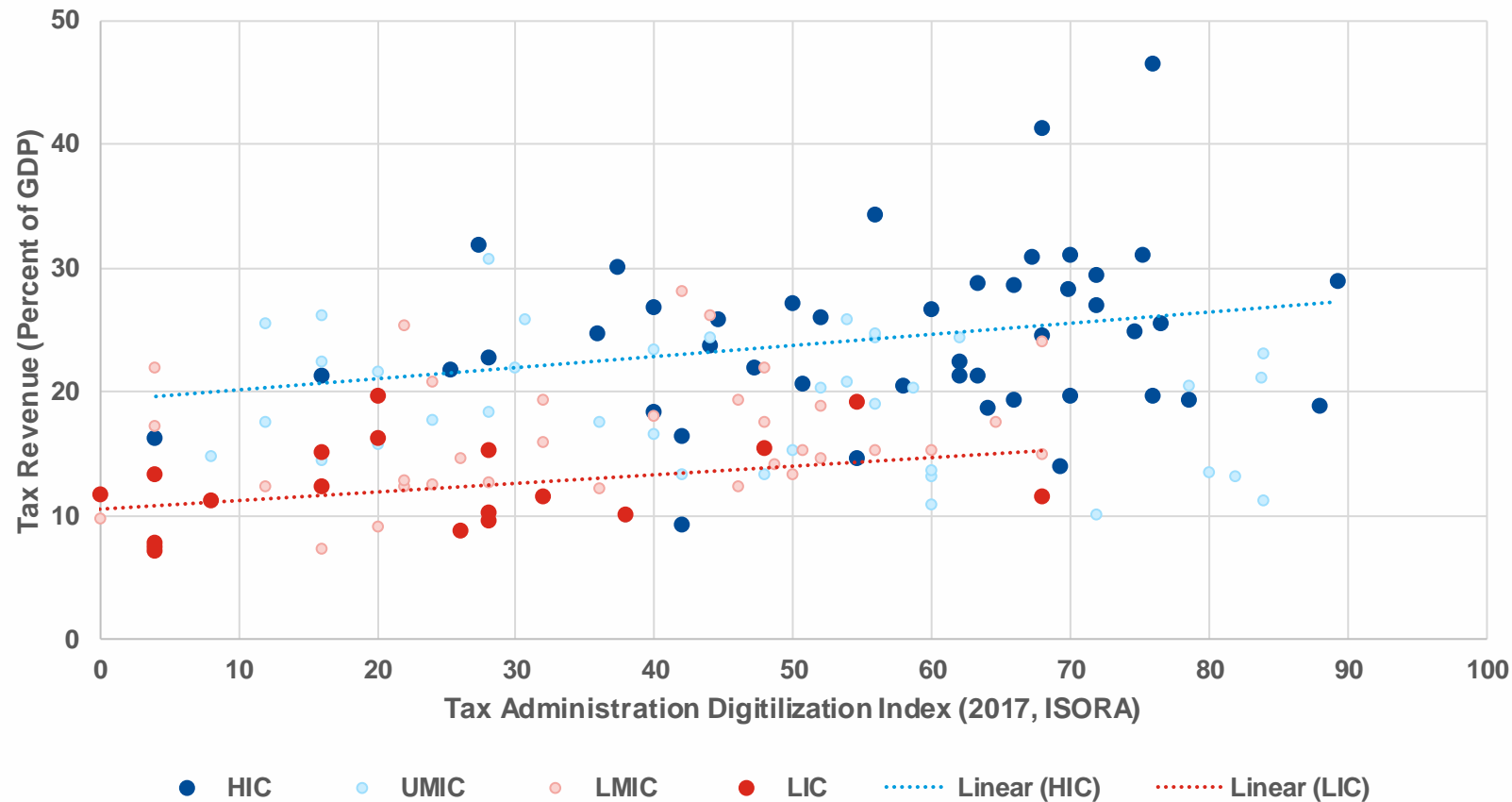
Source: IMF staff calculations using ISORA 2018.

Percent of staff allocated to audit, investigation and other verification (median and interquartile range)



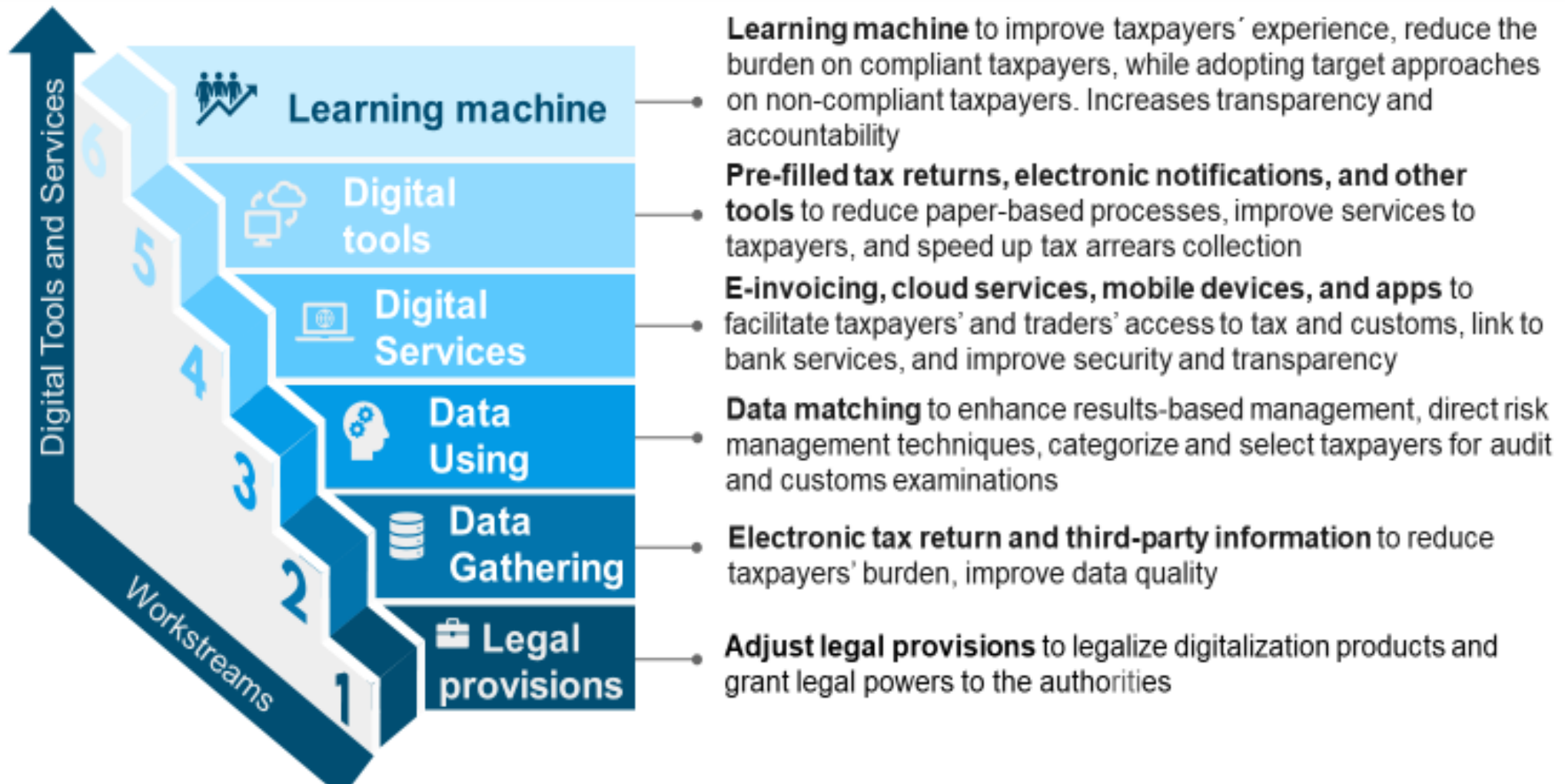
Tax administration digitalization

Tax administrations with greater degree of digitalization show higher tax/GDP ratios...but other factors also at work



Source: IMF staff calculations using WEO GGRT to GDP and ISORA 2018 data.

Digitalization affects VAT Administration via multiple channels



Thank you!