TRENDS, CHALLENGES AND OPPORTUNITIES—ADMINISTRATIVE FOCUS

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As pointed out... Reform of revenue and customs administrations is at the heart of strengthening revenue mobilization—essential for enhanced and fairer revenue mobilization and for wider governance improvement; tough success is hard to evaluate.

Weak revenue administration remains a fundamental barrier to effective and fair taxation, and to building wider trust between government and citizens.

This session focuses on broad trends and on administrative issues...  

...previous session on policy
Overview

• Accomplishments and Trends
• Challenges Ahead
• Concluding Remarks
ACCOMPLISHMENTS AND TRENDS
A dynamic reform agenda

Developing countries have implemented wide ranging administration reforms—more earnestly since the early 1990s—but with mixed success:

— Some have made impressive advances
— Others very little
— Sometimes progress has been followed by stagnation or decline

No single formula for assuring improvements, but experience points to some key elements
Changes in several dimensions.

- **Legal**: Tax administration-procedure code, new taxes (e.g., VAT)
- **Processes**: Self-assessment / simple presumptive tax regimes for small and micro taxpayers
- **Organization**: Shifting to function-based / Separation of HQ & field operations / Integration of Income Tax & VAT administrations / Tax & Customs organizations /
- **Segmentation**: Tailoring tax administration to large, medium and small & micro taxpayers, priority on LTO to secure revenues
- **Compliance**: Using risk-based approaches to direct audit and compliance management activities
Key revenue administration reforms
FAD TA has been supporting

Accompanying Customs Administration Reform Journey

Changes in several dimensions.

- **Legal**: Enactment of simplified customs codes and regulations
- **Processes**: Promote trade facilitation by improving services to and dialogue with traders / Rationalize and automate customs procedures
- **Organization**: Improve the organization and management of the customs department / Integration of Tax & Customs organizations
- **Segmentation**: Use trader segmentation approaches to provide tailored service to compliant traders (AEO)
- **Compliance**: Increase emphasis on risk management (intelligence), selective verification and post-clearance audit
Key revenue administration reforms FAD TA has been supporting

Cross-cutting advice on Tax and Customs Administration Reform

• **Reform management:**
  - *Modernization project governance framework*—steering committee, full-time project office
  - *Single integrated reform management plan*—all initiatives and projects together, inter-relationships, priorities, sequence, and implementation timeframes

• **Business Process Rengineering:** Conducting business process reviews to rationalize and simplify processes and procedures

• **Managing ICT (Information and Communication Technology):** ICT strategy needed to support future business needs

• **Managing Information:** Capturing third-party information, exchanging information (e.g., tax and customs administrations)
**Organizational reforms**

Improvements, but still a way to go:

- Moving away from tax-type organizations & shifting to function-based structures
- Enhancing headquarters functions *vis-à-vis* operations
- Integration of domestic direct and indirect taxes
- Integration/merger...tax and customs administration
A growing trend over the last 10-15 years:

• Many examples in Latin America and Anglophone Africa

• Interest is being shown in Francophone Africa too ...

• Positive impact on managerial and staff capacity building, and some operational practices

• High expectations of RAs sometimes not fully realized
  – big effort to establish RAs often delayed reforming core tax administration functions, only now getting underway

• RA as a reform vehicle **to improve core tax/customs administration functions**
Taxpayer segmentation

Improves allocation of resources and use of risk management approaches—revenue yields and compliance issues differ for large, medium, small and micro taxpayers:

• Focus on large taxpayers compliance is widely accepted
• Implementation of LTOs in most countries
• Managing HWI compliance reinforces LTO approach
• Focus on large taxpayers should not detract from managing other taxpayer segments ...  
  – High-quality services/enforcement also to non-large taxpayers
  – Medium-size taxpayers also being prioritized, including MTOs
  – Innovative small taxpayer management approaches (e.g. block management) are being used by some countries
Business processes and IT systems

Improved and simplified business processes built on effective IT systems are critical:

✓ Reduce compliance costs
✓ Facilitate self-assessment

• IT systems in developing countries are often inadequate with disappointing examples and few moderately successful ones...
  – Linkages with a broader reform strategy often neglected
  – Restructuring of basic processes ignored and inefficient processes are automated instead
  – Sometimes ambitions are excessive

• In some cases, high costs of automation could be mitigated through regional cooperation
Simplification of tax laws and adoption of tax procedure codes (TPCs) can ease administration and compliance:

- TPCs have strengthened administrative powers of investigation and arrears collection while protecting taxpayers rights

- TPCs have not been effective where:
  - Accompanying measures are absent
  - Hesitation to apply the rule of law and to impose the strictest of penalties
CHALLENGES AHEAD
Consolidate key developments

- Function-based organization and appropriate HQ—design, size, and skilled staff for audit, taxpayer services, IT functions
- Self-assessment and appropriate compliance strategies (audit, fiscal intelligence, data management and analysis, etc.)
- Segmentation and robust administration of different segments—LTO specialization (e.g. resource), SME to tackle informality
- Process improvements—compliance costs are still high in Developing Countries
- Catalyze modernization of other government institutions (state-building)
Ensuring appropriate resources to revenue administration—a longstanding battle

- Developing country revenue administrations often under-resourced—adequate resource assurance an imperative
- Existing resources need to be carefully used to obtain the highest return
- Mid-level managerial and technical skills need continuous/sustained improvement
- Skills necessary to identify tax gaps, compliance trends and improvements need to be systemically built

Inadequate resources are impacting taxpayer service delivery and adequacy, and appropriateness of compliance interventions
Inter-agency coordination

- Still weak between domestic tax and customs administrations and opportunities are underexploited:
  - Economic transactions straddle both domains
  - Customs is, for example, critical in managing VAT from international trade transactions on behalf of domestic tax—compliance risks need to be identified and managed
  - Trend analysis by customs and tax managers can lead to development of harmonized compliance models and response strategies
- It needs to go beyond just revenue agencies, several government supervisory bodies, financial sector, etc., etc....
Compliance management

Improvement is required to strengthen the legitimacy of the tax system beyond the fundamentals:

• Clear strategies required to address the most non-compliant businesses and individuals

• Key compliance management strategies, comprising:
  - Understanding the nature of the taxpayer/trader population
  - Identifying key compliance risks and how they arise
  - Clarity on accountability, and adequate resourcing of compliance actions
  - Specifying performance indicators and potential corrective actions

• No short-cuts to addressing non-compliance, hard routine administration work is required—fundamental
Progress can and should be made in addressing this vice:

- Critical to understand the causes and ethical dilemmas
- Strong institutional measures to address ethical dilemma and misbehavior—code of ethics, internal audit, staff investigations, and prosecution
- Simplification and transparency of procedures play a key role in minimizing rent-seeking opportunities—limit contact between taxpayers and tax officials
- Firm managerial leadership is crucial
- Political decision at the highest level is essential
Sustained political will

Key condition to complement technical capacity:

• Political commitment must come from the highest levels of the country’s leadership and should be consistent, unwavering, and sustainable

• Substantial progress where this will has been forthcoming,...but minimal where it has not

• A holistic approach is essential—gains from administrative improvements can easily be offset by base-narrowing exemptions
CONCLUDING REMARKS
An opportunity for a new impulse—crisis and post-crisis environment

• Rebuild the tax base through improving taxpayer compliance
  ✓ Address residual risks from the crisis, e.g., tax arrears; shadow economy; cross-border avoidance/evasion (critical in resource administration)
  ✓ Respond to emerging risks, e.g., misuse of tax losses

• Address exposed administrative weaknesses
  ✓ Strengthen revenue analysis and risk assessment capabilities
  ✓ Enhance/introduce effective compliance management strategies
  ✓ Strengthen legal powers of revenue agencies
  ✓ Avoid counterproductive responses, e.g., tax amnesties / repatriation of capital with “generous” incentives / expanding tax expenditures → erode revenue mobilization capacity