The 5th IMF-Japan High-Level Tax Conference for Asian Countries
April 21-23, 2014

Revenue Administration—Gap Analysis Program
(RA-GAP)

David Kloeden
What is the IMF RA-GAP program?

1. An evaluation of a RA’s operations to assess their effectiveness in collecting taxes
   - Conducted by IMF staff working closely with local teams familiar with operations, tax design and policy, and statistical data.
   - A long-term goal is to build local capacity for execution of a similar domestic program.

2. This assessment aims to estimate the “tax gap”.
Overview

Why RA-GAP?

• Lack of systematic measurement of tax gaps.
• The goal of RA-GAP:
  • Estimate the tax gap (consistently)
  • Identify some of the underlying causes for the gap
• Tax gap is a crucial key performance indicator (KPI) for a revenue administration’s overall effectiveness in collecting tax revenues.
• As important to be able to identify what is contributing to the gap
What is the tax gap?

1. **Loose definition:** *the difference between potential collections and actual collections*
   - Incorporates the impact on collections of both compliance issues and the policy structure.
   - ‘Tax gap’, ‘policy gap’ and ‘compliance gap’ are often used interchangeably (poor practice!)

2. **The overall tax gap can be decomposed into the Compliance Gap and the Policy Gap**
   - Compliance gap: difference between potential collections and actual collections given the current policy framework.
   - Policy gap: difference between the potential collections given the current policy framework and some normative policy framework (i.e. single rate, broad base) given the current composition of GDP.

3. **The RA-GAP model and methodology assesses both components of the tax gap**
   - More focus on compliance gap in this presentation than policy gap
   - There are already well established ways of estimating tax expenditures
Visualizing the tax gap:

Potential Administrative Effectiveness

Current Effectiveness

100%

Potential Tax Structure

Normative Structure

Potential Collections

Compliance Gap

Actual Collections

Policy Gap
Why is the tax gap so important?

1. **Key to measuring the overall effectiveness of a revenue administration.**
   - It is a measurement of effectiveness in maximizing revenue collection.

2. **It also helps in assessing changes in effectiveness.**
   - Systematic measurement of the tax gap allows assessing trends. Thus it is also a component of results based management for an administration.

3. **Measures fiscal risk and scope for revenue mobilization**
   - Identifying compliance and policy gaps separately helps identify appropriate treatments and risk management strategies.
RA-GAP for VAT—beyond estimating VAT gap

1. Overall tax gap estimates don’t tell how to fix compliance problems

- Why? It uses detailed tax record data, which allows:
  - Breaking the gap down across taxpayer segments/sectors
  - Estimating/comparing with other types 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

- Operationalisation of tax gap brings together economics, fiscal policy and compliance intelligence in a common framework
RA-GAP for VAT—beyond estimating VAT gap

1. Overall tax gap estimates don’t tell how to fix compliance problems

2. RA-GAP narrows down which group of taxpayers are contributing to the tax gap, and identifies potential causes and sectoral gaps
RA-GAP for VAT—beyond estimating VAT gap

1. Overall tax gap estimates don’t tell how to fix compliance problems

2. RA-GAP narrows down which group of taxpayers are contributing to the tax gap, and identifies potential causes and sectoral gaps
   - Why? It uses detailed tax record data, which allows:
     - Breaking the gap down across taxpayer segments/sectors
RA-GAP for VAT—beyond estimating VAT gap

1. Overall tax gap estimates don’t tell how to fix compliance problems

2. RA-GAP narrows down which group of taxpayers are contributing to the tax gap, and identifies potential causes and sectoral gaps

   - Why? It uses detailed tax record data, which allows:
     
     • Breaking the gap down across taxpayer segments/sectors
     • Estimating/comparing with other types of operational gaps: filing and registry gaps, payment and refund gaps, reporting and audit gaps
RA-GAP for VAT—beyond estimating VAT gap

1. Overall tax gap estimates don’t tell how to fix compliance problems

2. RA-GAP narrows down which group of taxpayers are contributing to the tax gap, and identifies potential causes and sectoral gaps
   - Why? It uses detailed tax record data, which allows:
     - Breaking the gap down across taxpayer segments/sectors
     - Estimating/comparing with other types 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 for VAT—beyond estimating VAT gap

1. Overall tax gap estimates don’t tell how to fix compliance problems

2. RA-GAP narrows down which group of taxpayers are contributing to the tax gap, and identifies potential causes and sectoral gaps
   – Why? It uses detailed tax record data, which allows:
     • Breaking the gap down across taxpayer segments/sectors
     • Estimating /comparing with other types 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

3. Operationalisation of tax gap brings together economics, fiscal policy and compliance intelligence in a common framework
1. Several VAT gap analyses finished or underway
   - Finished: Portugal, Estonia, Slovakia, Philippines, Uganda
   - Ongoing: Denmark, Finland, Greece, Colombia
   - Coming (RAP plans): Peru, South Africa, Thailand, Nepal, Jordan, Cote D’Ivoire, Morocco

2. RA-GAP also assesses countries’ tax gap analysis (e.g. UK) and conducts revenue analysis (Georgia)

3. RA-GAP stay in touch with an informal network of tax gap analysts to discuss measurement issues and share best practice

4. Increasing worldwide interest, and demand for RA-GAP services is outstripping our resources