TOOLS FOR TAX ANALYSIS

Michael Keen

Tenth IMF-Japan High-Level Tax Conference

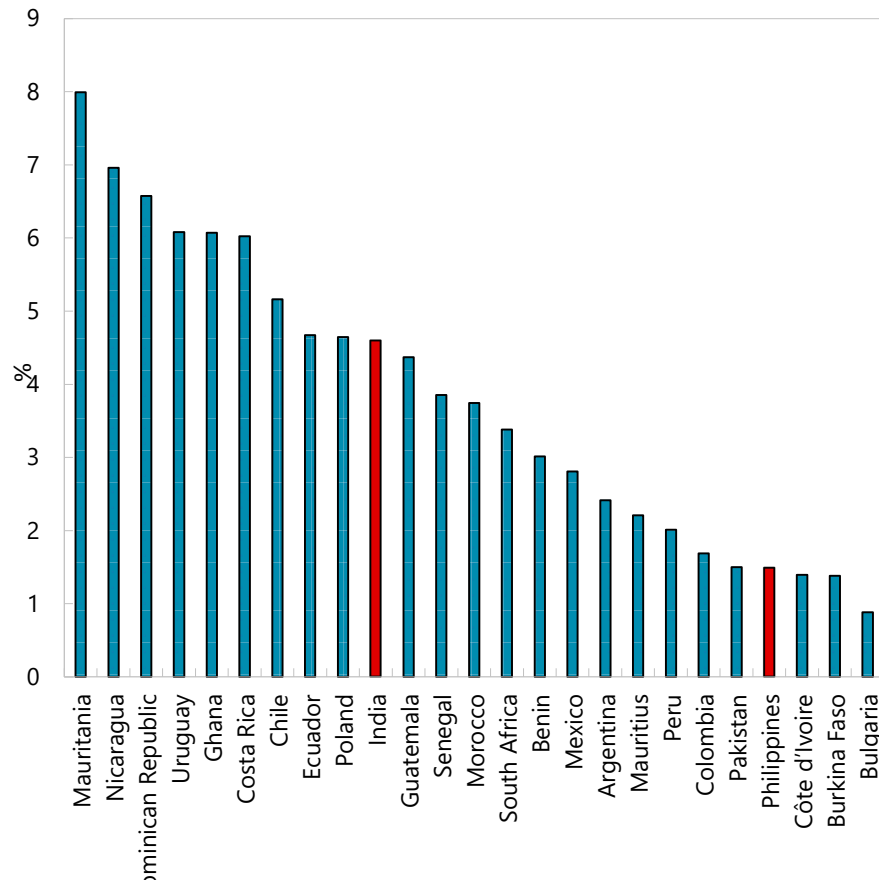### For Asian Countries in Tokyo

April 25, 2019

Overview (with plenty of acronyms):

- Tax Expenditure Assessment (TEA)

- Tax Policy Assessment Framework (TPAF)—with World Bank

- Tax Administration Diagnostic Assessment Tool (TADAT)

- Revenue Administration Gap Analysis (RA-GAP)

- International Survey on Revenue Administration (ISORA)—with CIAT, IOTA and OECD

TAX EXPENDITURE ASSESSMENT (TEA)

TEs require careful management

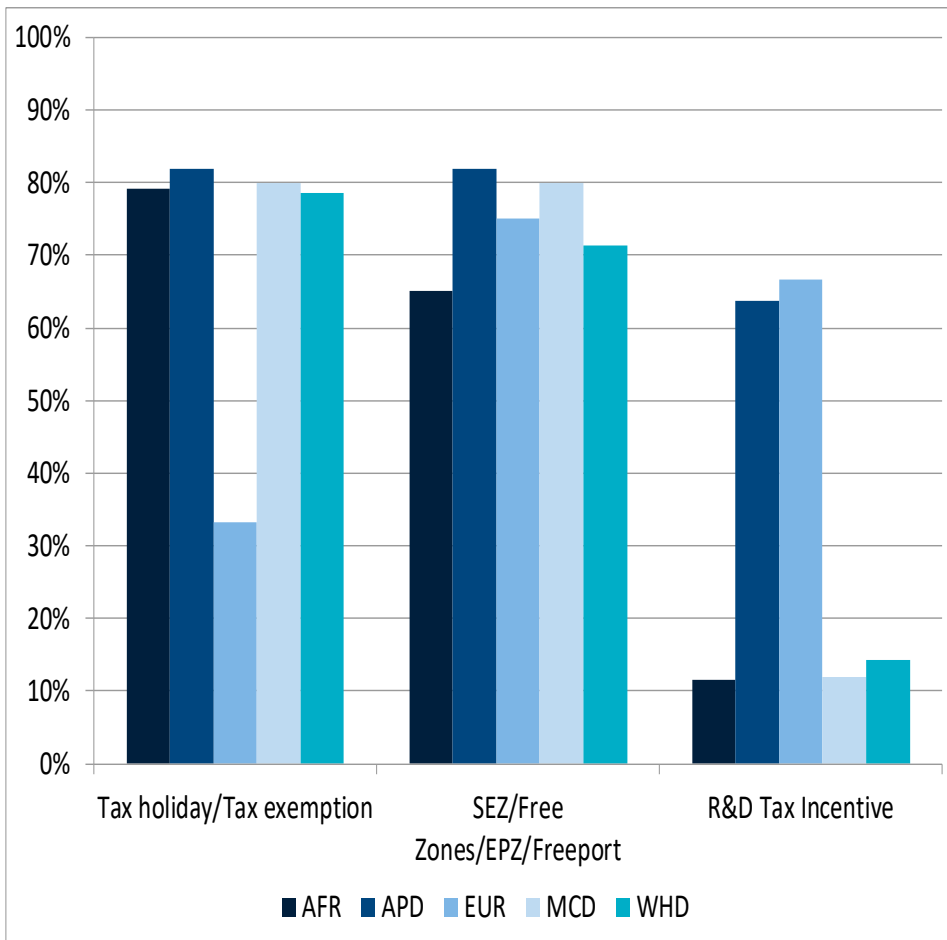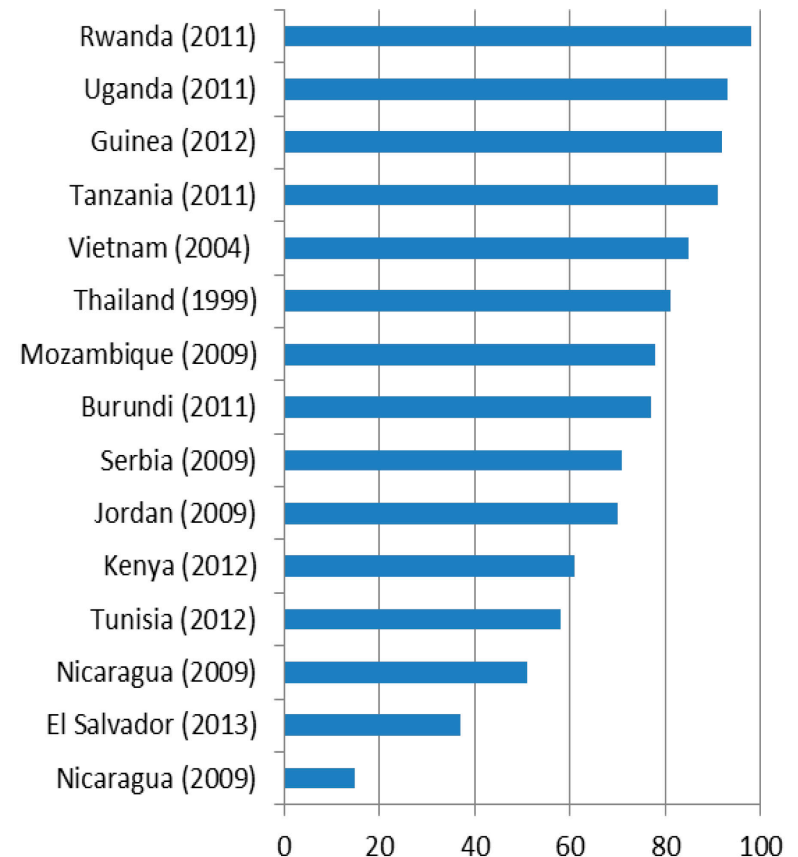**TEs, selected countries, latest year**
(Percent of GDP)

- Means by which governments support individuals/companies by reducing tax liability rather than through direct spending

- Not necessarily bad, but...

Source: IMF staff estimates based on data from Kassim and Mansour (2016) and Heady and Mansour (2018)

Business tax incentives

High prevalence…

…but often ineffective

Addressing incentives and TEs

PCT Toolkit

New 'How to' note

Many countries still do not report TEs

Countries with TE reports…
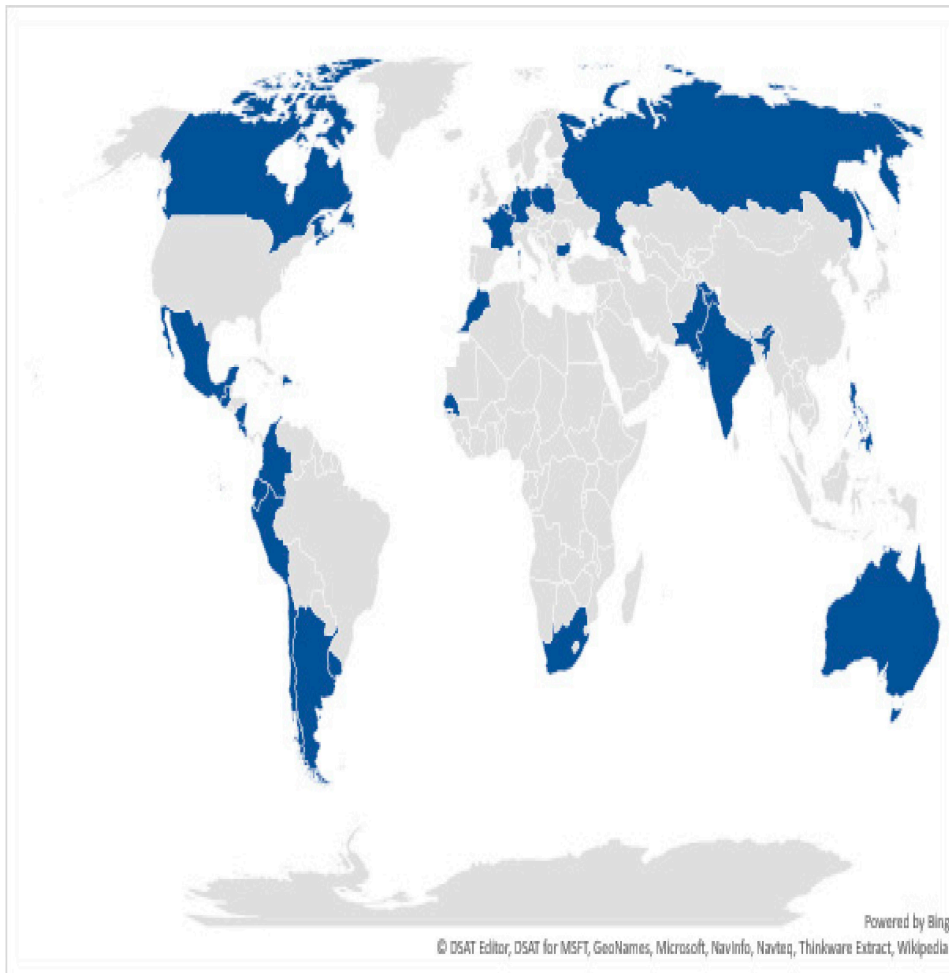
..by group/region
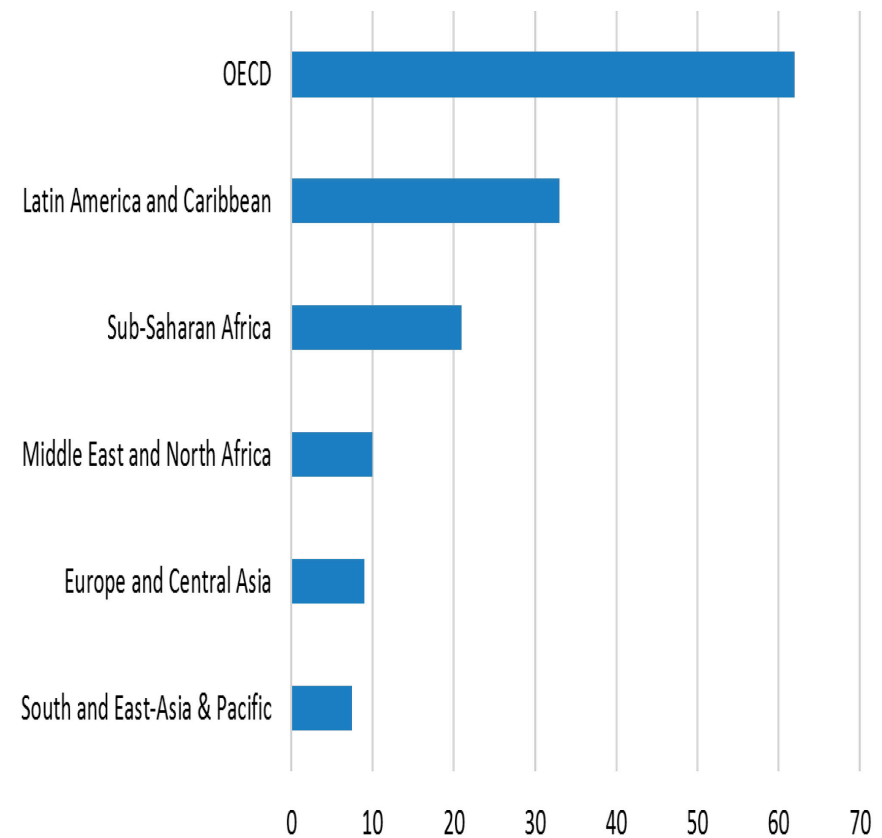
Source: World Bank 2015

Steps in preparing TE reports

Define the benchmark tax system → **Identify deviation from the benchmark** → **Estimate the cost of TEs** → **Prepare a TE report**

Identify and use policy design criteria relevant for the definition of the benchmark (e.g. neutrality, progressivity of personal income taxes, correcting externalities, etc.).

Prepare a list of all tax laws and any laws with tax provisions.

For each law, list deviation from the benchmark tax system.

For each TE or group of TEs (e.g., PIT), identify data sources, and prepare data templates.

For each TE or group of TEs, develop estimation method and template.

Divide the report into sections to be prepared by different individuals or groups.

FAD TEA Program

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TAX POLICY ASSESSMENT FRAMEWORK (TPAF)
(IMF and World Bank)

TPAF – What it is (and isn't)

✓

- Framework for systematic and consistent assessment of tax design

- Solid analytical base for identifying options to guide policy

- Scalable: could be used in entirety, or individual tax, or single issue

- Toolkit that requires expert skills for sound judgement

✗

- A TADAT for tax policy

- *Standard* of what a country's tax policy should be

- *All-or-Nothing* assessment

- Tool that ranks, grades, or scores tax systems on single scale

The TPAF 'house'
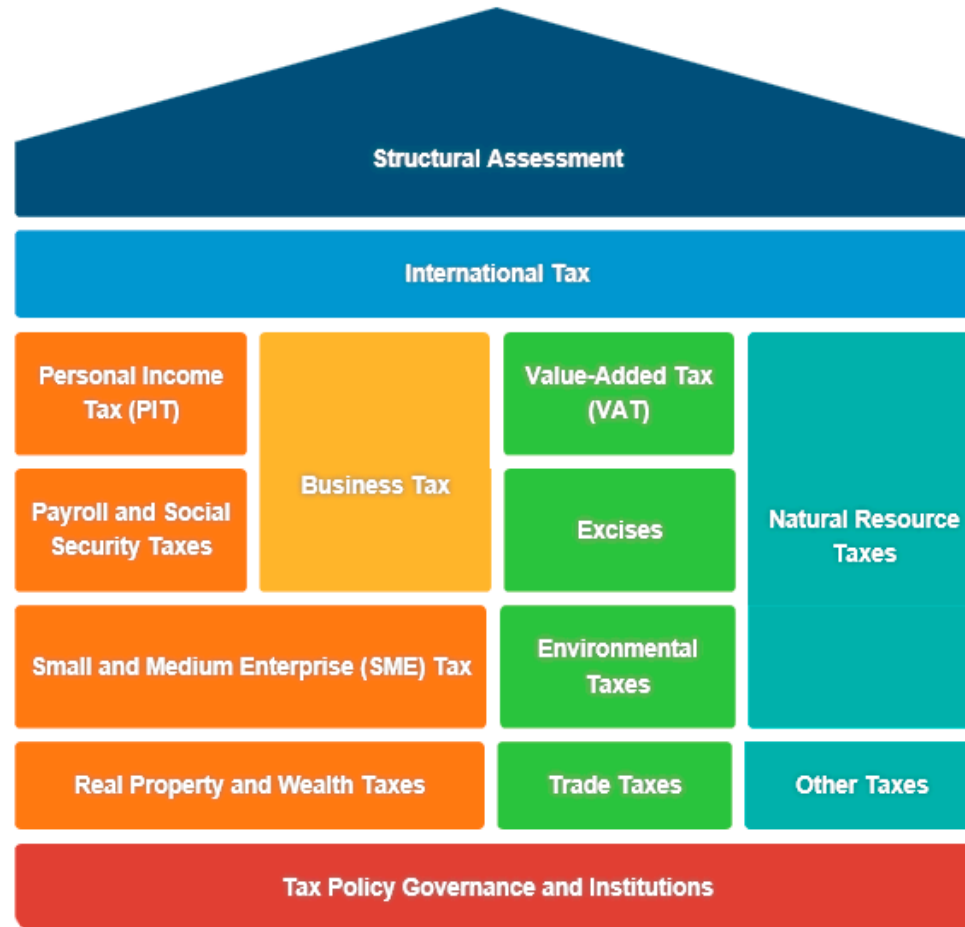
Example: THE VAT module at https://www.imf.org/en/Data/TPAF

TAX ADMINISTRATION DIAGNOSTIC ASSESSMENT TOOL (TADAT)

A reminder: TADAT is….

- A tool that provides an objective assessment of the strengths and weaknesses of a country's system of tax administration

- Based on nine Performance Outcome Areas (POAs)

- Assessments are evidence-based

- Assessment results show the extent of needed reforms and the relative priorities for attention

Framework supported by a comprehensive Field Guide

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Some activities so far

of Assessments (77) at mid-April 2019

By Income Classification

	National	Subnational
High income	6	
Upper middle income	18	5
Lower middle income	25	3
Low income	19	1
Total	68	9

By World Region

	National	Subnational
Africa	30	4
Asia-Pacific	5	
Europe	14	
Middle East and Central Asia	8	
Western Hemisphere	11	5
Total	68	9
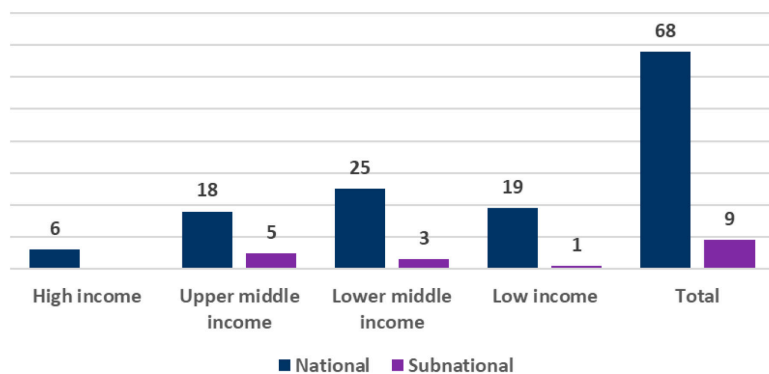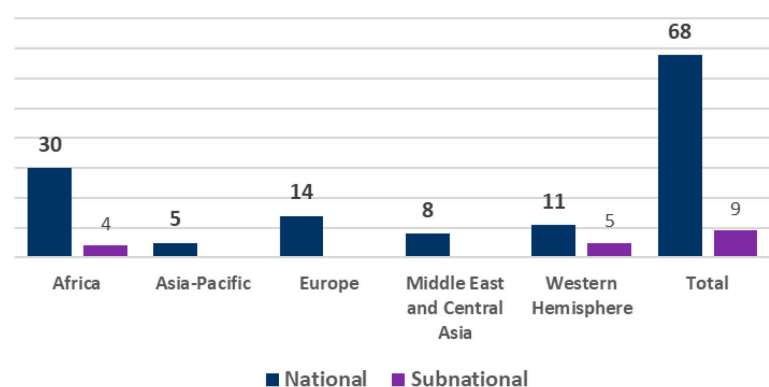
TADAT trained persons at mid-April 2019

Region	Total #	o/w assessors
Africa	929	71
Asia and Pacific	222	89
Europe	294	191
Middle East	99	14
Western Hemisphere	470	103
Total	**2,014**	**468**

TADAT assessment results can be used to illustrate performance deterioration—re: the Nugent Commission of Inquiry (South Africa)

Key outcomes

Frequency of a TADAT Score's Occurrence at the Dimension Level (APD)
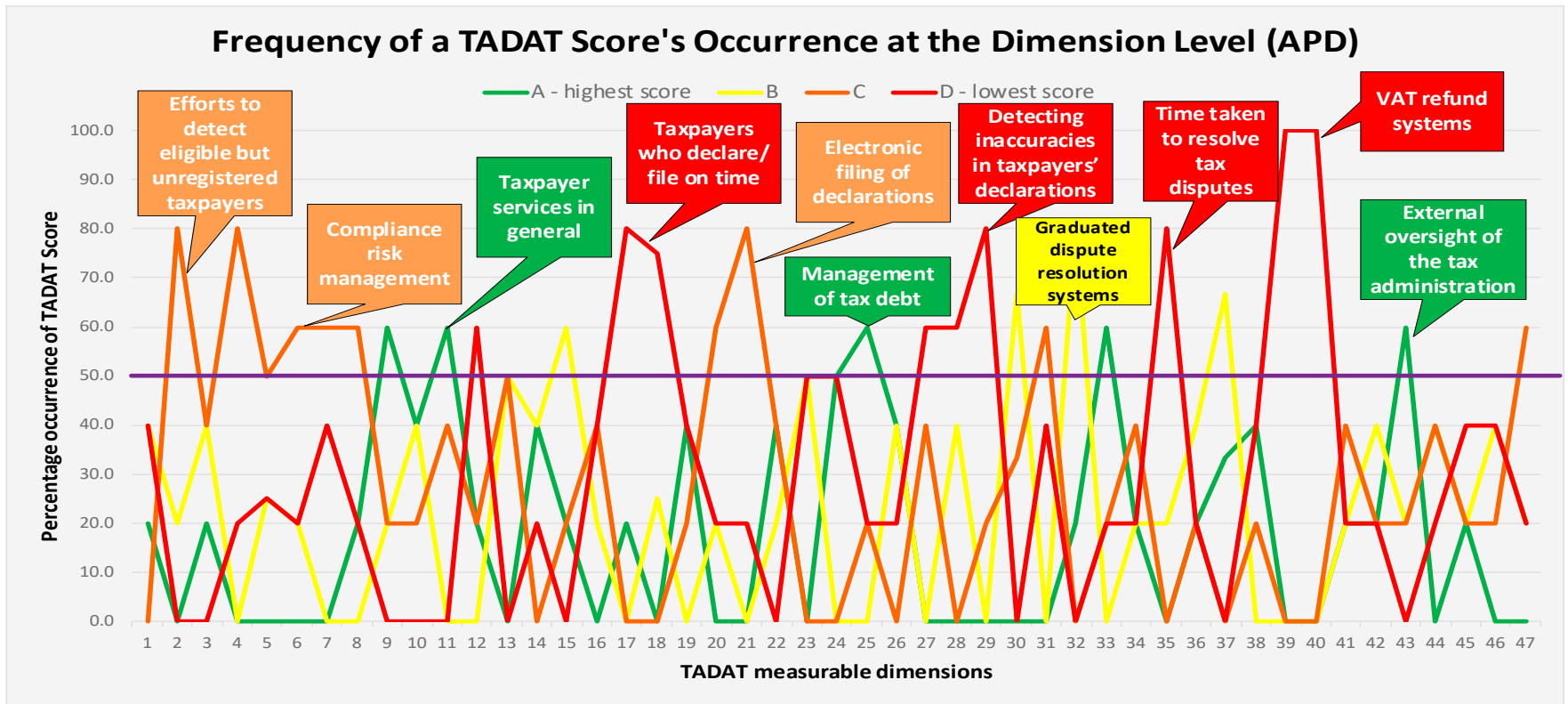
Recurring issues: Accuracy of taxpayer registration databases, on-time filing, dispute resolution, VAT refund systems and, generally, the quality of data

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REVENUE ADMINISTRATION GAP ANALYSIS (RA-GAP)

Understanding tax gaps

- Aims to estimate and understand the "tax gap": *the difference between potential collections and actual collections*

- 'Tax gap' made up of:
    —compliance gap
    —Policy gap: akin to TE

- Estimating the tax gap is key to measuring the effectiveness of a revenue administration

Sample RA-GAP output—Country X

Policy Gap and Compliance Gap
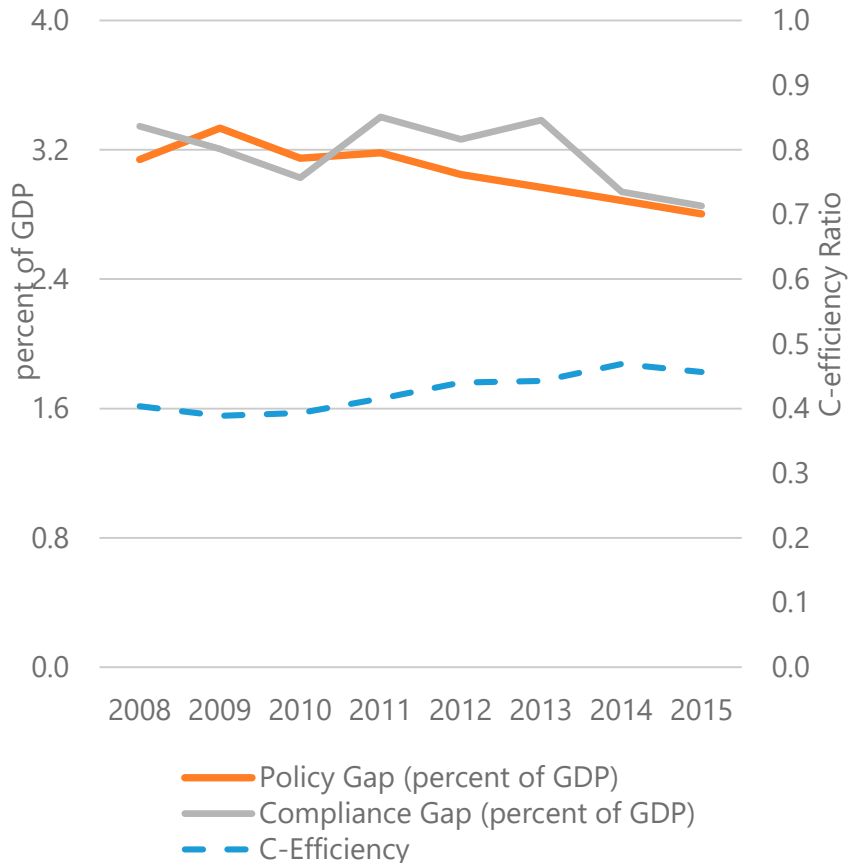
Compliance Gap by Sector

Legend: 2008, 2009, 2010, 2011

Policy Gap (percent of GDP)
Compliance Gap (percent of GDP)
C-Efficiency
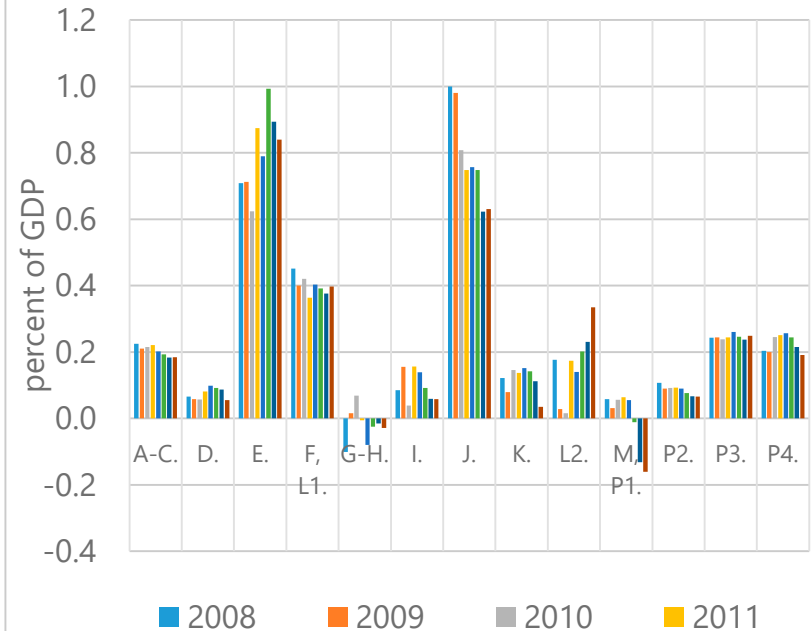
Sector Code	Sector Description	Sector Code	Sector Description
A-C	Agriculture, Fishing, Forestry	K	Finance and Insurance Services
D	Mining & Quarrying	L2	Business & Professional Services
E	Manufacturing	M, P1	Public Administration, Education
F, L1	Construction & Real Estate	P2	Health Care
G-H	Electricity, Gas, Water, Transportation	P3	Hotels & Restaurants
I	Communication	P4	Other Services
J	Retail & Wholesale Trade		

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INTERNATIONAL SURVEY ON REVENUE ADMINISTRATION (ISORA)

Learning about revenue administrations

INTERNATIONAL MONETARY FUND

Fiscal Affairs Department

ISORA 2016
Understanding Revenue
Administration

William Crandall, Elizabeth Gavin,
and Andrew Masters

No. 19/05
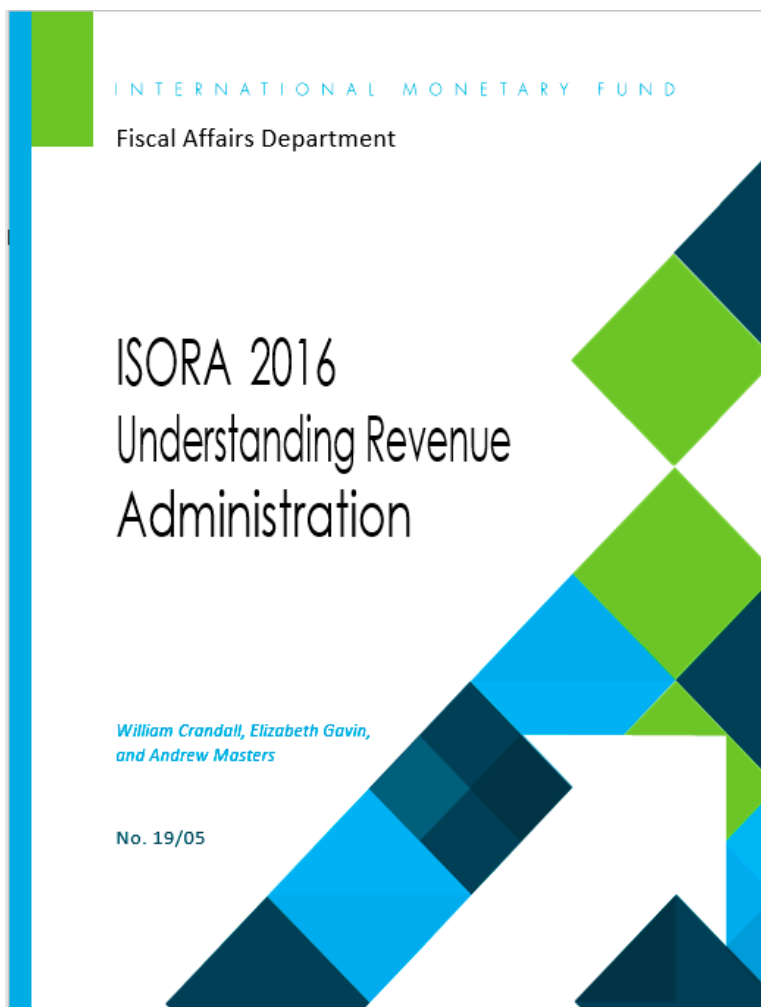
- Common questions

- Annual data on performance, administrative practices, and profile

- Voluntary, self-reporting

- Extending to customs

ISORA results

- Data from 135 jurisdictions across all regions, with wide distribution in size and income, supports analysis by income, size, regional or other groupings

Examples from ISORA 2016 *Understanding Revenue Administration*

FITTING IT TOGETHER

Capacity Building (Development) Tools/Frameworks

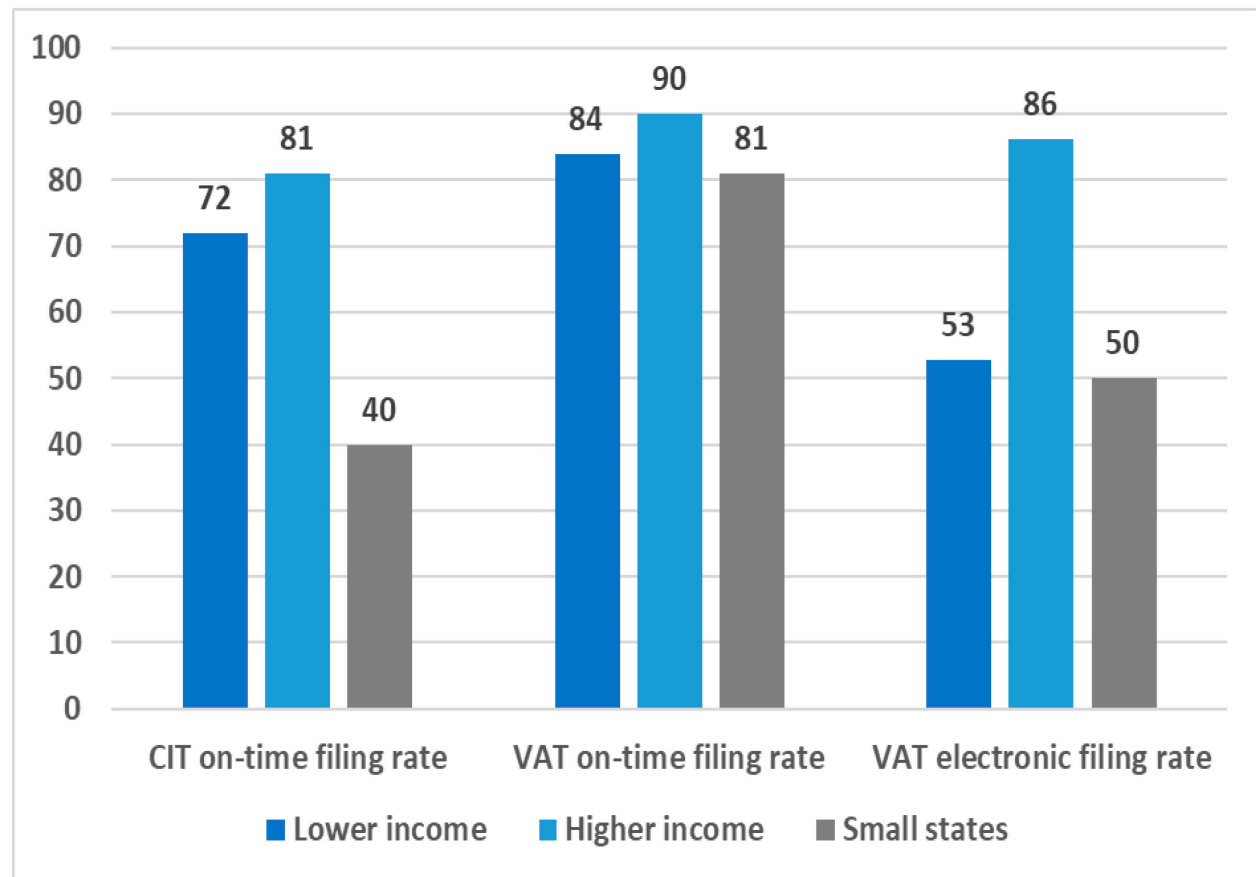| TSR Phases	Diagram – Mapping of Tools and Frameworks to Support Tax System Reform (TSR)							Tools / Frameworks
Diagnostic of Current Situation	**TADAT**—to assess tax administration performance from outcome perspective –9 performance outcome areas.	**RA-GAP**—to estimate policy and compliance gaps in VAT, CIT, Excises, PIT (under development).	**EC's FBs**—to assess tax and customs administrations against EU best practice.	**TPAF**—to analyze existing tax policies in accordance with good practices.	**FARI**—to model, evaluate, compare and design fiscal regimes for extractive industries.	**TER**—to estimate revenue forgone due to tax exemptions and special treatments	**CD missions to TS Diagnostic**—an approach uses by the IMF (and other IOs) to assess strengths and weaknesses of policy and revenue agencies against international trends/good practice.	Diagnostic Tools/ Frameworks [1]
	ISORA—to collect tax administration data on operations and other characteristics.	**USAID's CTD**—to collect a broad array of quantitate and qualitative indicators of tax systems.	**ATAF's ATO**—a paper-based tax administration survey ATAF conducts with its member countries.	**ATI indicators**—under consideration or alternatively using a subset of ISORA indicators.	**WB's DB**—to collect perception indexes in some specific tax policy and administration topics.	**ISOCA**—to collect customs administration data on operations and other characteristics (to be launched).		Data gathering tools [2]
Reform Strategy Design	**CD missions to Comprehensive TSR design**—an approach uses by the IMF (and other IOs) to advise countries on the design of comprehensive tax system reform—policy, administration, and legal framework. [3]		**CD missions to Targeted TSR design**—an approach uses by the IMF (and other IOs) to advise countries on the design of targeted tax system reform—policy, administration, and/or legal framework—not necessarily in a comprehensive manner.					Design Approach
Reform Implementation	**Maturity Models**—to provide tax administrations with a pathway for improving maturity in specific tax administration processes/areas.	**Diamond**—to conduct drill-down assessments on specific operations and support areas to complement outcome-based tools (e.g. TADAT) to guide implementation CD.	**TIWB**—to strengthen skills of tax administration auditors to enhance audit function.	**Papers, Toolkits & Technical Notes**—to systematize and disseminate international trends/good practice in specific policy and administration topics.	**Training by multiple Development Partners (DPs)**—to strengthen skills of tax administration officials at managerial and operational levels. [4]	**FTA-CBN**—to coordinate CB programs provided by FTA agencies in specific areas of tax administration, under a common approach and coordinating framework.	**CD program to TSR implementation**—an approach uses by the IMF (and other IOs and DPs) to support implementation of reform strategies—comprehensive or topic-specific.	Drilldown tools for implementation [5]
Monitoring & Evaluation	**Various of the above diagnostic and data gathering tools**—e.g. TADAT, ISORA.	**Targeted assessment of TSR programs by IOs and DPs**—e.g. IMF's RMTF mid-term evaluation, targeted externally-financed CD projects (DFID, SECO, EC, etc.).	**Analytical work**—to assess impact/results of tax policy and administration changes and draw lessons to support previous TRS phases.	**Ongoing during CD programs to TSR implementation:** by multiple DPs—e.g. through Result-Based Management system.				Evaluation/Monitoring Tools/ Frameworks

Medium Term Revenue Strategies (MTRS)—An approach to comprehensive tax system reform—policy, administration, legal framework—recommended by the PCT (IMF, OECD, UN, WB) aiming to increase revenue-to-GDP ratio, improve system design, and enhance its performance and effectiveness. The MTRS approach anchors the TSR to (a) financing additional expenditure needs for growth and development, (b) sustained political commitment to reform formulation and implementation, and (c) coordinated CD support to reform by development partners.

1. TADAT—Tax Administration Diagnostic Assessment Tool (multiple partners); RA-GAP—IMF's Revenue Administration Gap Analysis Program; EC's FBs— European Commission's Fiscal Blueprints; TPAF—IMF/WB Tax Policy Diagnostic Framework; TER—IMF's Tax Expenditure Reporting. PEFA framework considers three indicators in tax administration and the WCO is developing a diagnostic framework for customs administration.
2. ISORA—International Survey on Revenue Administration/RA-FIT Platform (CIAT/IMF/IOTA/OECD); CTD—USAID's Collecting Taxes Database; ATAF's ATO—African Tax Outlook; ISORA—International Survey on Customs Administration/RA-FIT Platform (IMF/WCO)
3. An IMF's key priority is assisting its member countries in building efficient and effective tax system to promote sound public finances, which is a crucial condition to robust, inclusive and sustainable economic growth and development. In doing so, the IMF assisting countries on designing TSR, the IMF uses the several diagnostic/data gathering tools, depending on the country's circumstances, to better tailored the advice to countries' capabilities to on TSR reform design and implementation..
4. The IMF is discussing with several partners (CIAT, IOTA, OECD-FTA, Canada Revenue Agency, ATAF) the development of an international on-line training curricula for tax administration; it will build on existing training programs by RTOs and tax administrations.
5. Maturity Models—OECD Forum on Tax Administration (FTA) Secretariat and FTA Agencies; Diamond—WB's Development of Implementation and Monitoring Directives; TIWB—OECD/UN Tax Inspectors Without Borders; CBN—Capacity Building Network.