



Fiscal Affairs Department

Domestic Revenue Mobilization - *The role of the IMF*

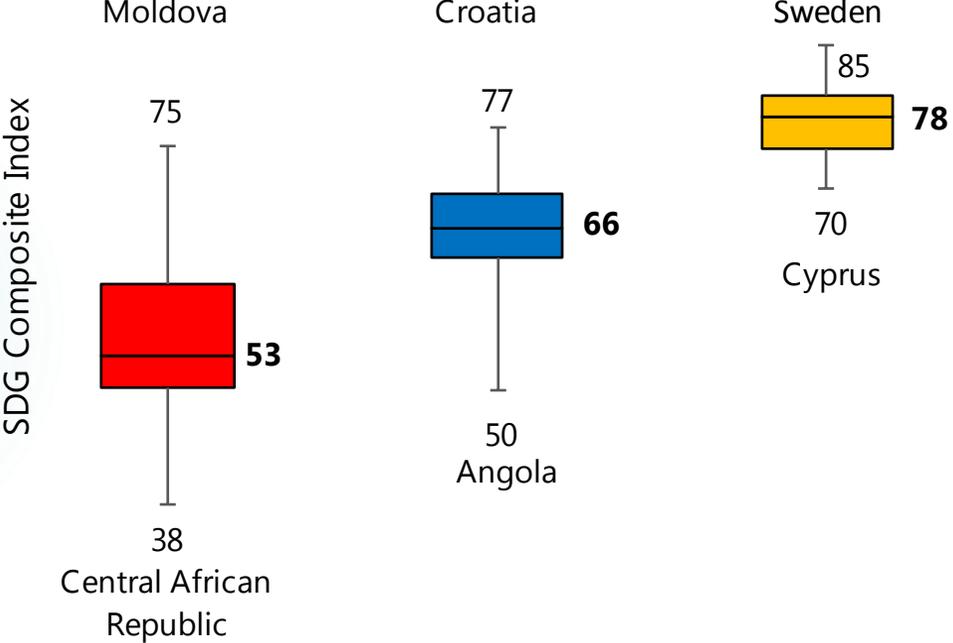


ROBERTO SCHATAN
FISCAL AFFAIRS DEPARTMENT

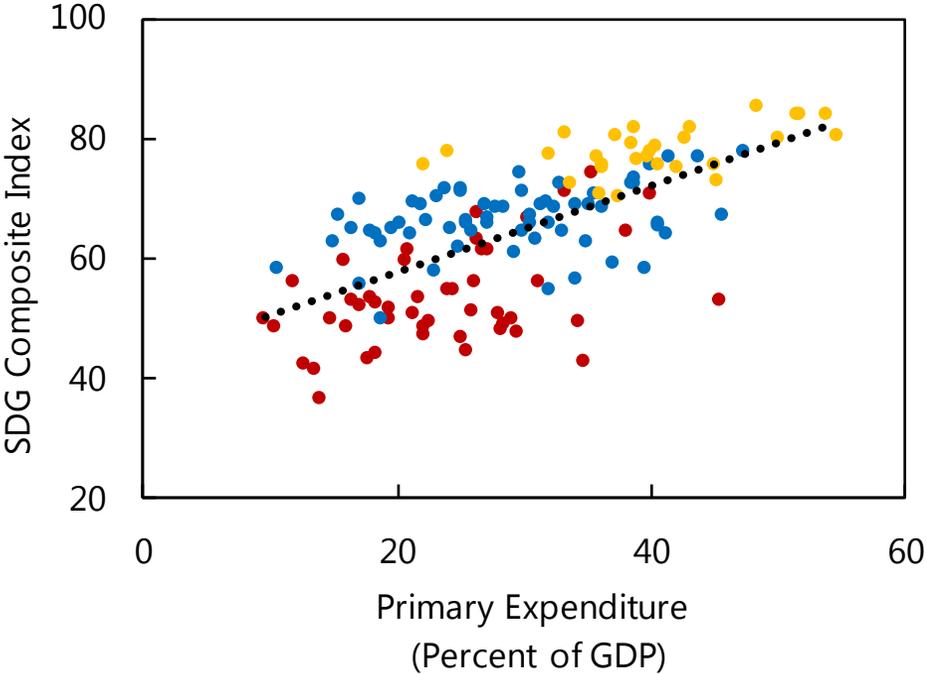
BONN, NOVEMBER 13-14, 2018

Large development gaps require increased public spending

SDG Composite Index Score, By Income Group



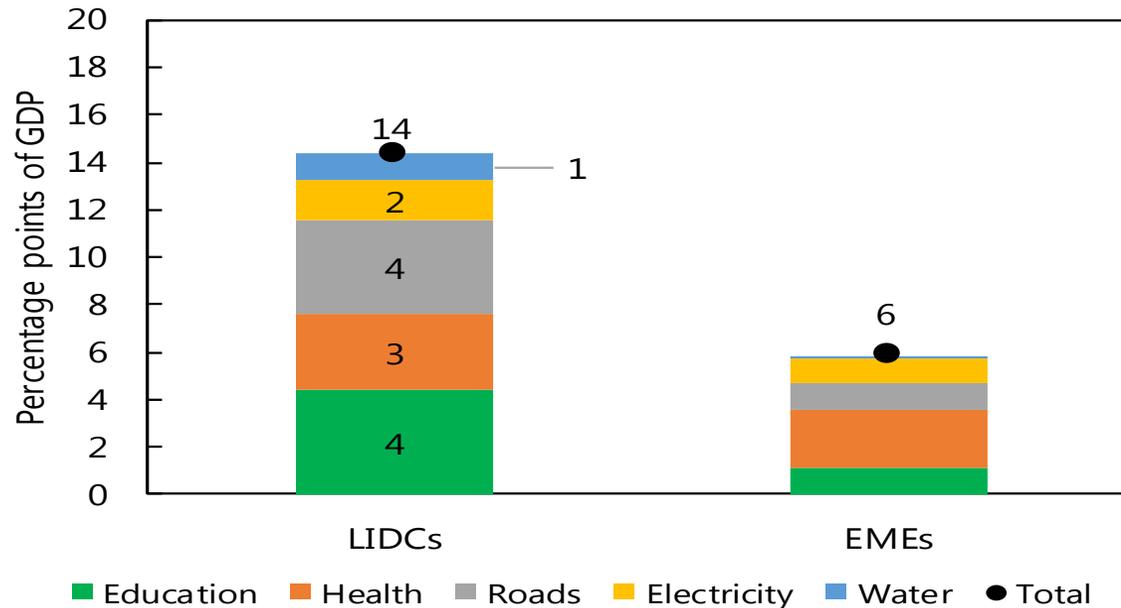
SDG Composite Index Score, By Government Expenditure



● LIDCs ● EMEs ● AEs

LIDCs Face Enormous Spending Pressures

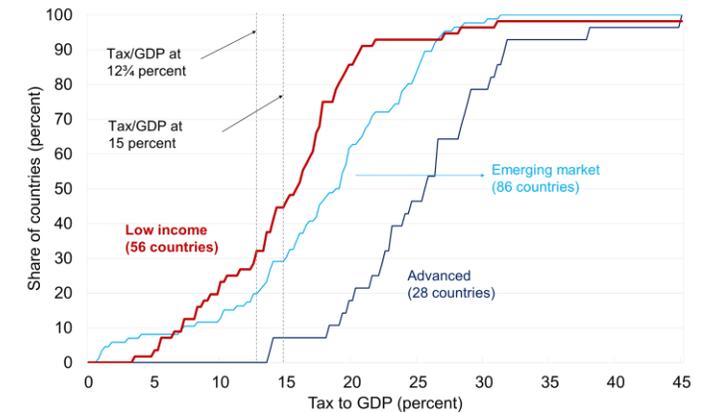
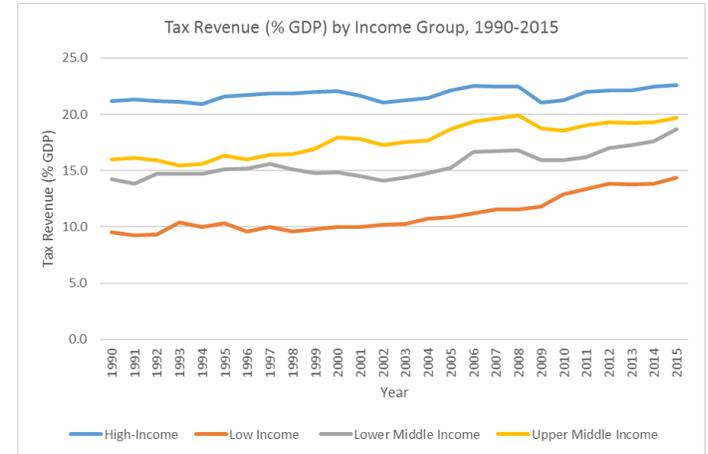
Additional Spending Needed in 2030 to Achieve High Outcomes in Selected Sectors
(Average, GDP Weighted, Percentage Points of GDP)



- V. Gaspar et al, *Fiscal policy and development: Human, social and physical investment for the SDGs*, IMF Staff Discussion Notes, 2018.

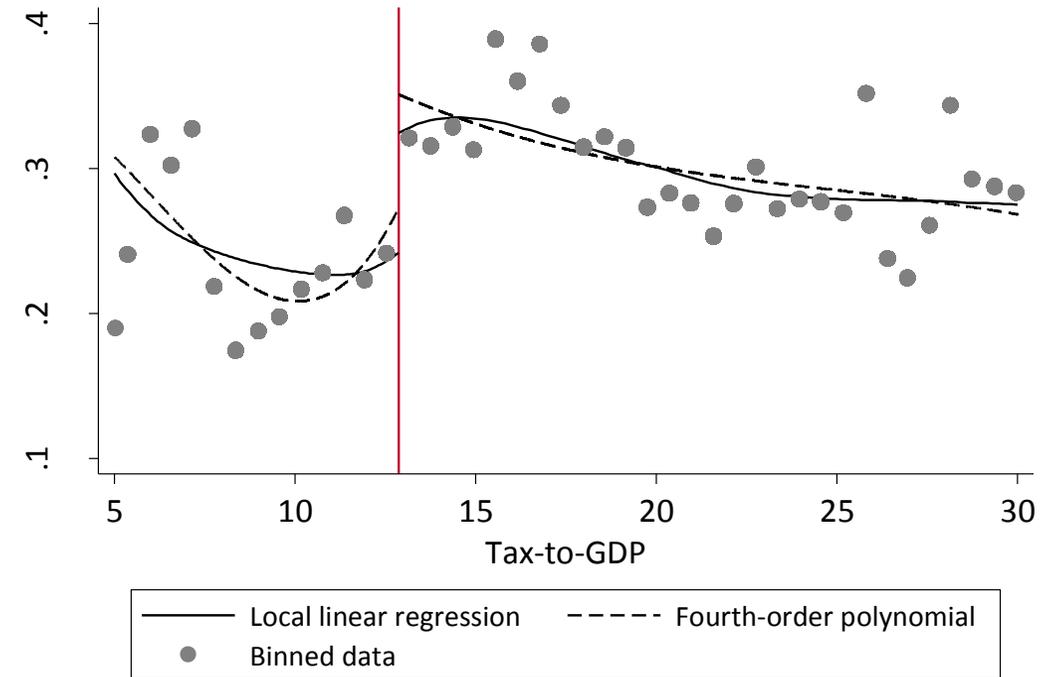
Progress made—yet, still a challenge for many

- Although tax ratios have been rising ...
- ... tax ratios in many developing countries remain low
- ... thus impeding much-needed development spending on education, health care & infrastructure, social protection ...
- ..and reaching the ambitious Sustainable Developments Goals



Fiscal capacity: Tipping point, virtuous cycle

- Once tax-to-GDP reaches 12¾ percent, real GDP per capita growth jumps up*
- Countries should aim to remain above this threshold, say with tax to GDP of 15 percent.



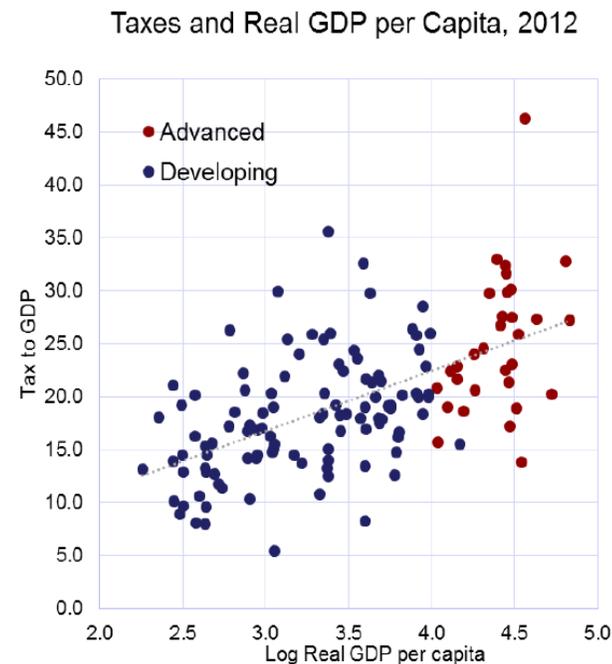
* V. Gaspar et al (2016), *Tax capacity and growth: Is there a tipping point?*, IMF Working paper 16/234.

DRM continuing challenge – level

However, almost half of AFR have tax-GDP ratios < 15%; and 4/5 have it < 20%.

- Empirically, low tax ratios appear a significant impediment to growth.
- Essential to finance growth-enhancing public investment.
- Development effect goes well beyond revenue – supporting “state building”.

- V. Gaspar et al, *Political institutions, state building and tax capacity, crossing the tipping point*, IMF WP 16/233 (Nov. 2106)



How does the Fund engage ...

- Financial programs, surveillance and technical assistance (TA) work, building more effective and fairer tax systems
- FAD's TA in particular has expanded very rapidly in the last few years; which is delivered upon request by member countries ...
- About 250 FAD TA full missions per year, covering around 100 countries on revenue related issues ...
- Significantly increased external financing (topical trust funds)

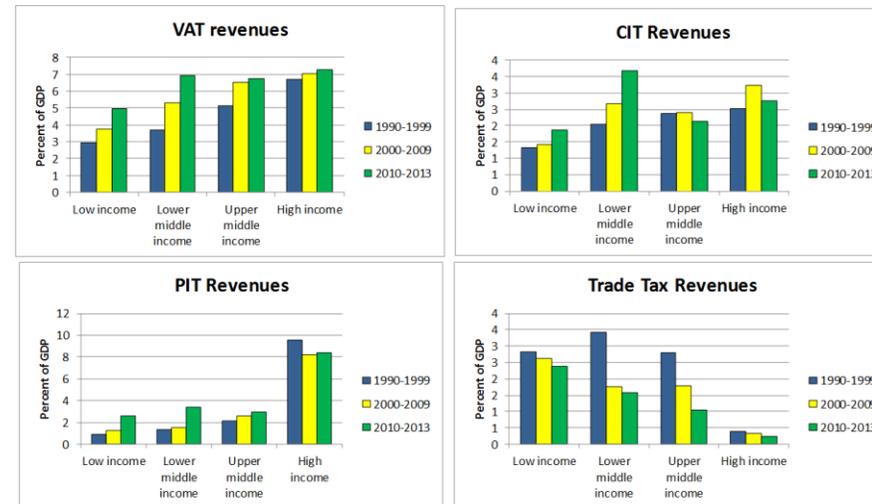
FAD unique TA delivery model

- Demand driven
- Tailored made, responding to authorities concerns
- Timely recommendations
- Conclusions arising from international comparative analysis and staff research
- Follow up work
- Capacity building

It is also about the tax mix and the design of each tax

- Increasing consumption and income taxes, replacing highly distortionary trade taxes
- But beware of misleading simplicity
 - Goes beyond 'tax mix';
 - Design of each tax critical;
 - Implementation/enforcement.

LICs often still rely on relatively distortive trade taxes—although modern taxes have been on the rise

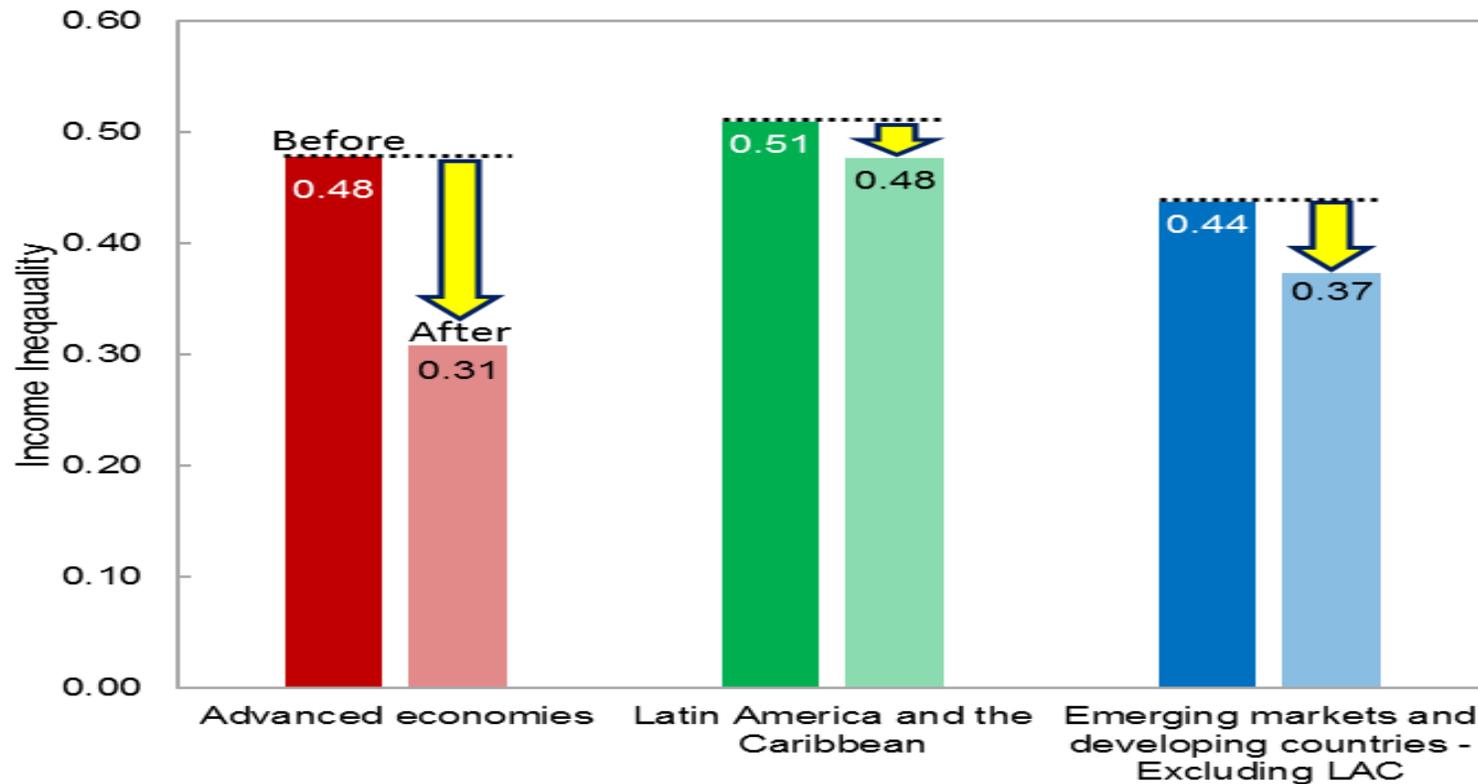


IMF WoRLD Revenue Database

<http://data.imf.org/?sk=77413F1D-1525-450A-A23A-47AEED40FE78>

Not surprisingly, fiscal policy also plays much smaller distributional role in LDCs

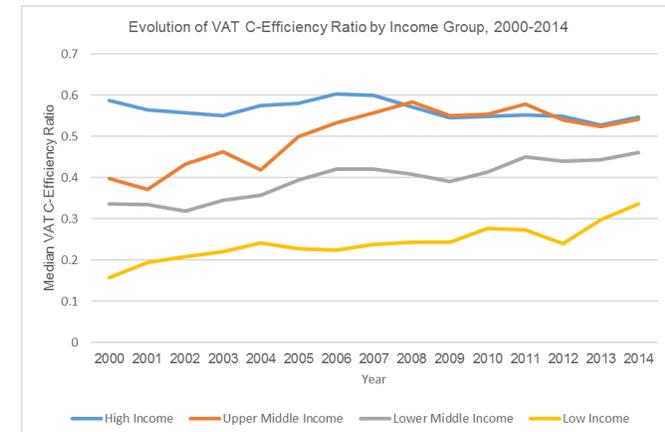
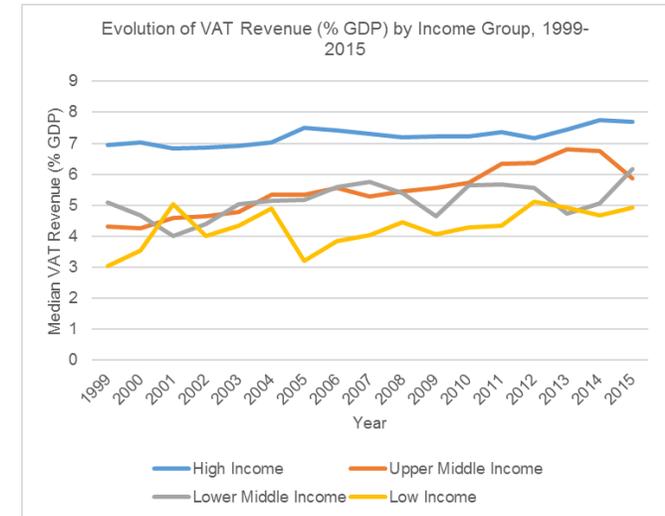
income inequality before/after fiscal redistribution



VAT enabling progressive spending

- VAT revenue has grown around the world, especially in lower and middle income countries
- This rise in VAT revenue has been largely caused by improvements in C-efficiency – reflecting smaller policy and/or compliance gaps*
- In many countries, there is scope for further increases

*M. Keen, *The Anatomy of the VAT*, IMF WP13/111 (May 2013)



<http://data.imf.org/?sk=77413F1D-1525-450A-A23A-47AEED40FE78>

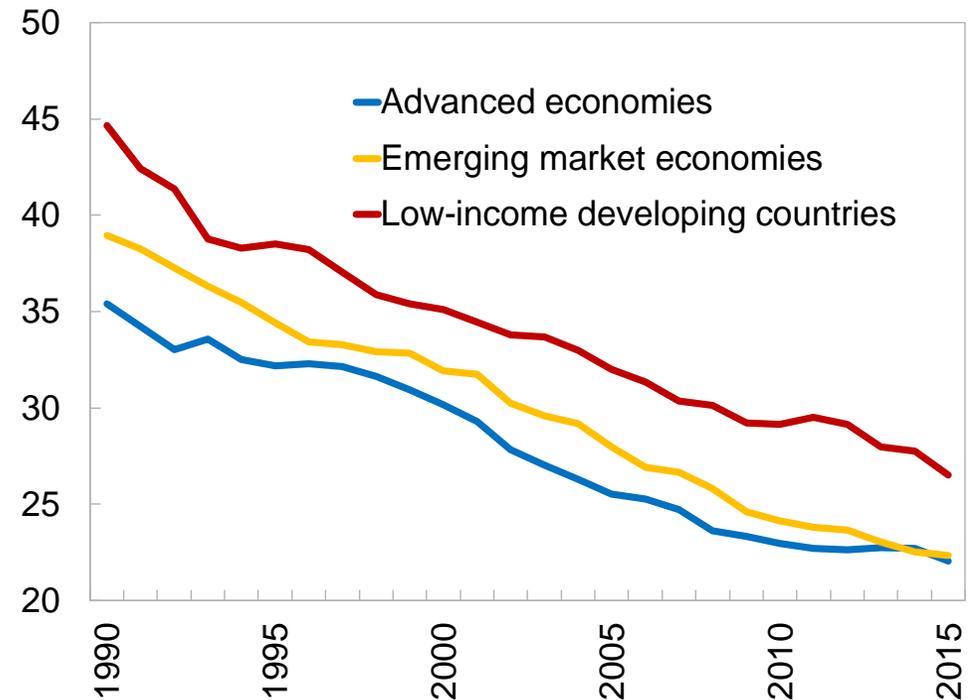
CIT less progressive than statutory rates indicate

Tax competition has affected CIT rates

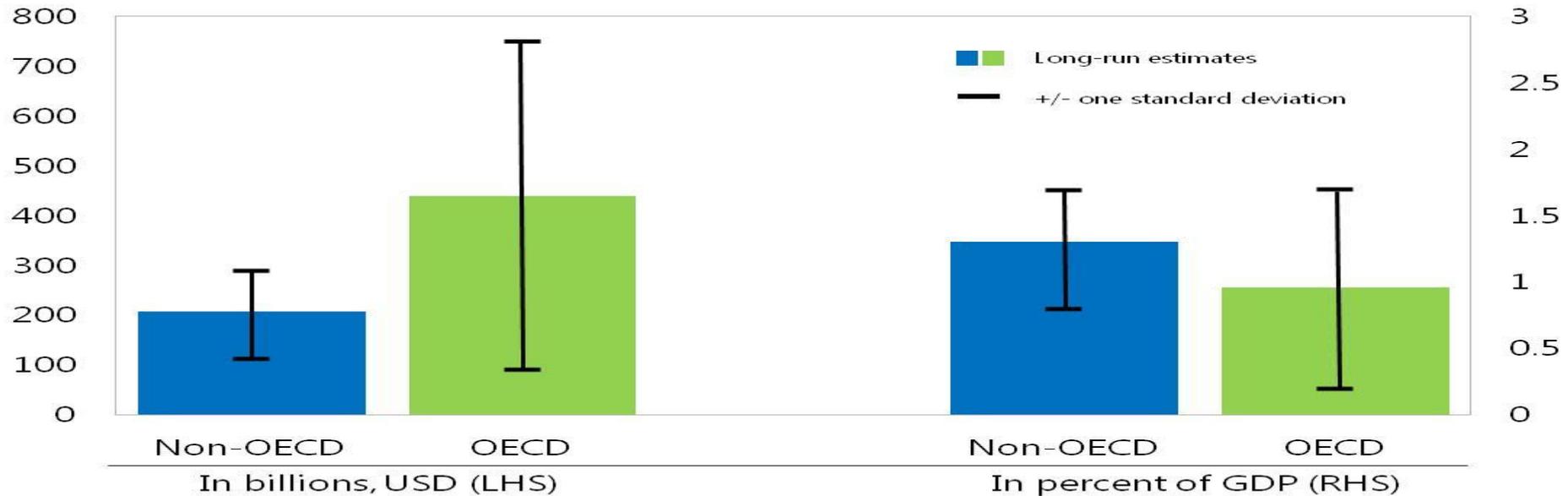
▣ Deductions/tax planning

▣ CIT on downward trend creates arbitrage opportunities

Average CIT Rate



IMF estimates point to large revenue losses from tax avoidance by MNEs in developing countries



Short-run estimates →

	USD, billions	Percent of GDP
Non-OECD	28	0.2
OECD	95	0.2

Source: E. Crivelli, R. De Mooij and M. Keen, 2016, Base erosion and profit shifting in developing countries, Finanzarchiv 72(3).

International tax competition

- IMF has pointed to this problem from early on ... as severe challenge to DRM
- OECD led the BEPS project (2013-2015)
- Many of the loopholes closed, some harmful practices eliminated, greater transparency ..

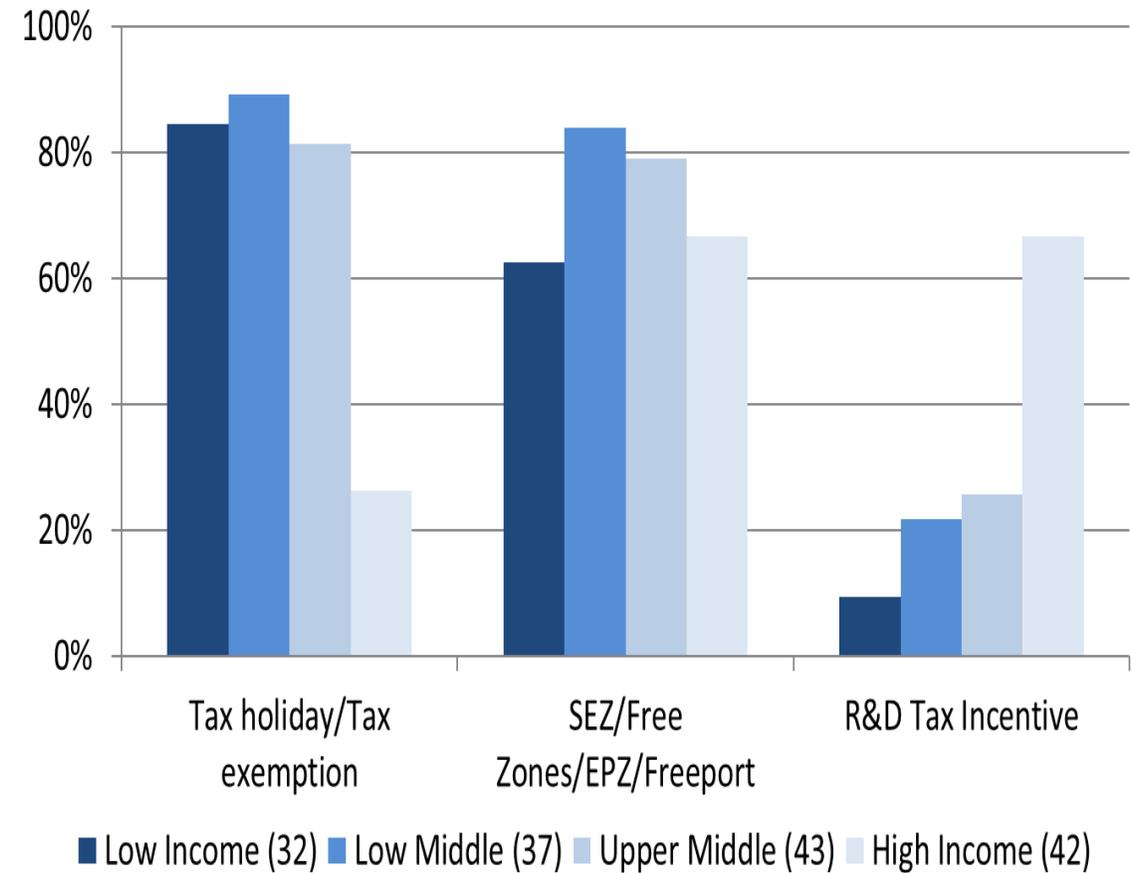
- G20 call for IFI to do more on DRM and SDG
- Platform for Collaboration on Tax (toolkits)

- Essence of the international tax system in place

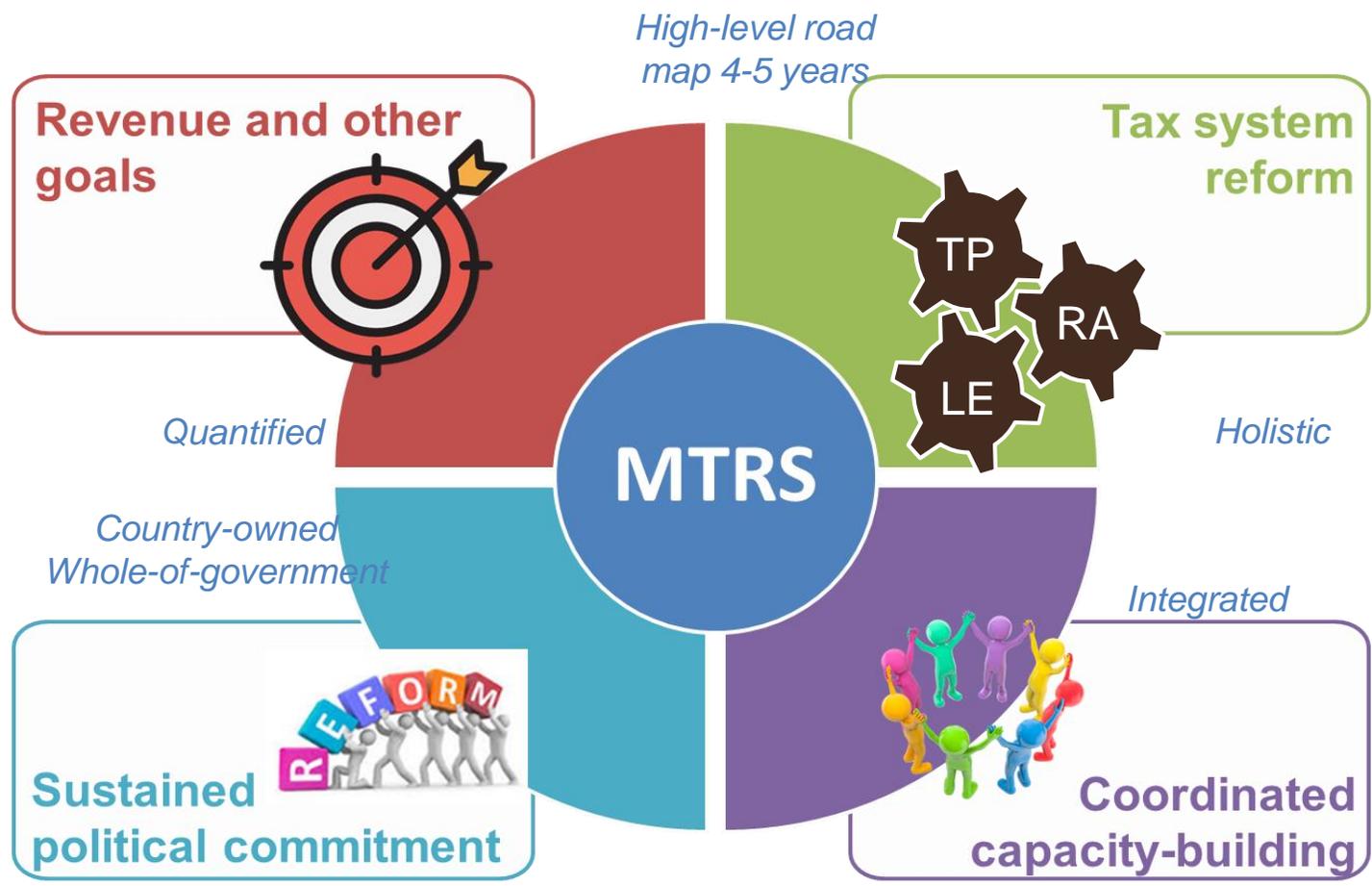
High prevalence of tax incentives in Africa

- Pressed by mutually damaging regional tax competition
- Often ill designed
 - Free zones, exemptions, tax holidays;
 - Even business surveys suggest 70-80% redundancy;
 - Revenue cost can go up to 2% of GDP.
- ... and poorly governed
 - Lack of transparency;
 - Discretion outside tax law.

IMF. *Options for low income countries effective and efficient use of tax incentives for investment.*
Oct.. 2015



MTRS: four interdependent components



R. de Mooij, S. Nazara, & J. Toro, Implementing a MTRS, in Breuer et al (ed.), *Realizing Indonesia's Economic Potential*, IMF (2018)



Further readings ...

Some key *Board Papers* (institutional view)

- FAD, *Revenue mobilization in developing countries*, IMF (March 2011)
- FAD, *Issues in international taxation and the role of the IMF*, IMF (June 2013)
- FAD, *Spillovers in international corporate taxation*, IMF (May 2014)
- FAD, *Current challenges in revenue mobilization – Improving tax compliance*, IMF (Jan 2015)
- FAD, *Building fiscal capacity in fragile states*, IMF (June 2017)

Large body of analytical work; latest on international tax:

- S. Beer & J. Loepnick, *The cost and benefits of tax treaties with investments hubs: Findings from Sub-Saharan Africa*, IMF WP 18/227 (Oct 2018)