



Domestic Revenue Mobilisation

24 - 26 June 2024

I. DRM, an introduction



Mentimeter

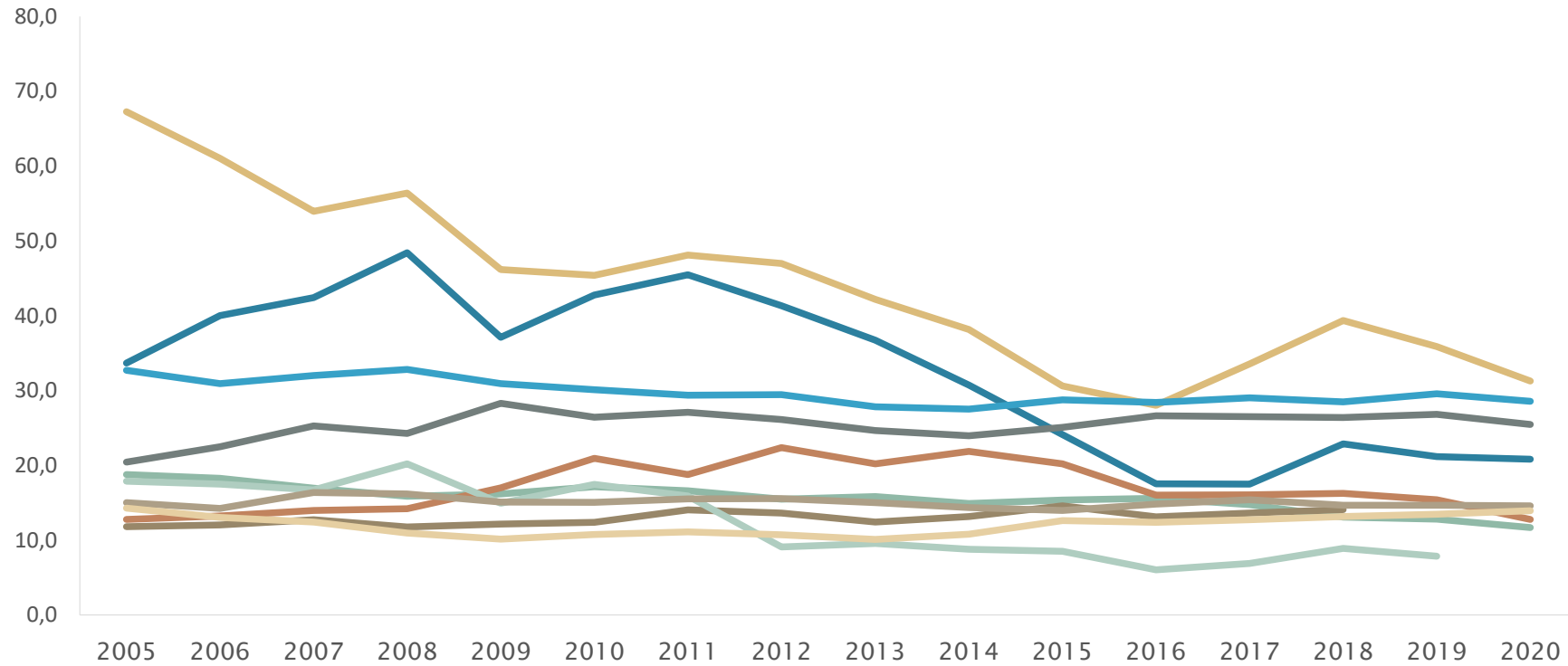
DRM introduction

Quiz time!

DRM (Introduction)

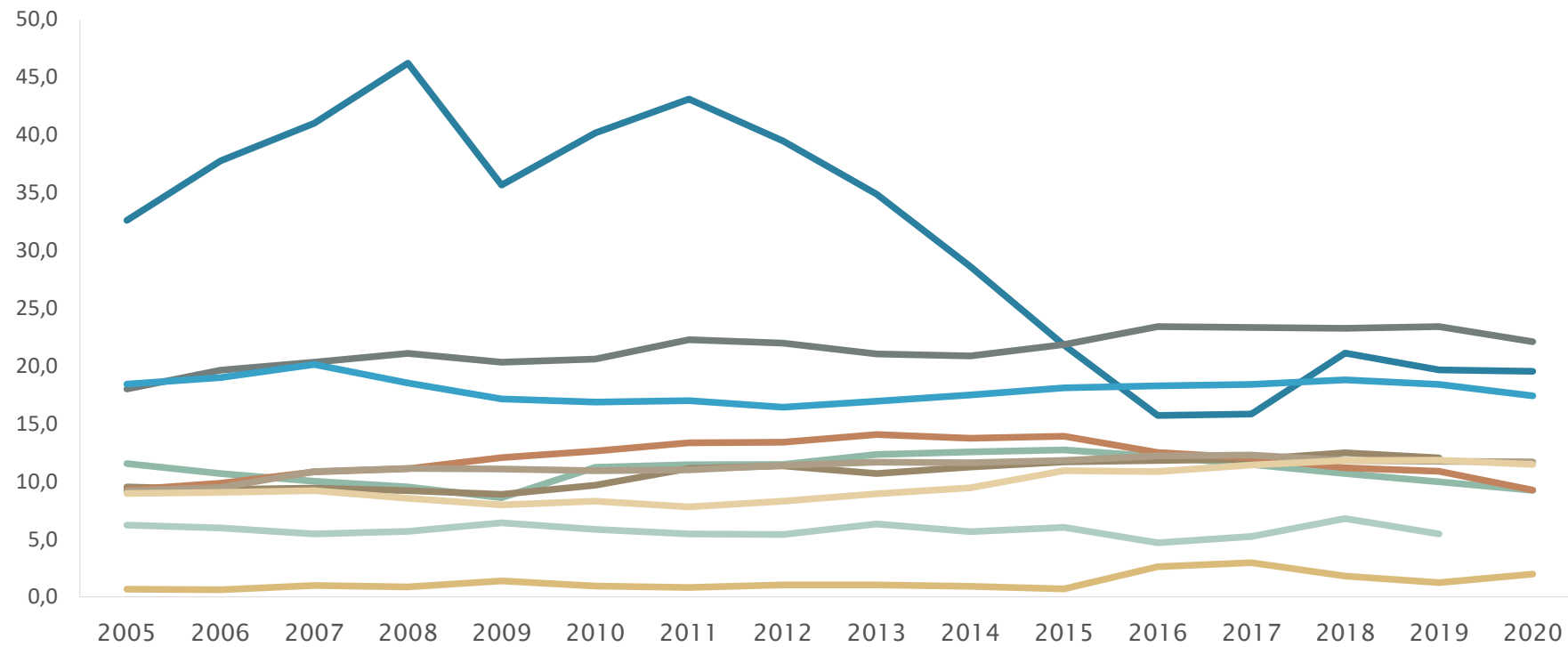
- Tax Revenue to GDP ratio
 - OECD countries: 34.04 percent in 2022 (Mexico 16.93%, France 46.08%, USA 27.66 percent, in EU area □ Ireland 20.93)
 - Least developed countries: around 10.8 percent in 2019
Africa: 15.6 percent (2021) □ Nigeria, Equ.Guinea, Congo, DRC less than 10 percent)
- ECOWAS, WAEMU: 20 percent (one of the convergence criteria).
- World Bank, UN:
 - Depend on the definition of the failed, failing, and fragile States
 - Below 10 percent, **Fragile States** (unable to deliver basic public goods and services).

Total revenue (% GDP)



- Angola
- Iraq
- North Macedonia, Republic of
- Uganda
- Ethiopia
- Kosovo, Republic of
- Sudan
- Ghana
- Lao People's Dem. Rep
- Tanzania

Tax revenue (% GDP)



- Angola
- Iraq
- North Macedonia, Republic of
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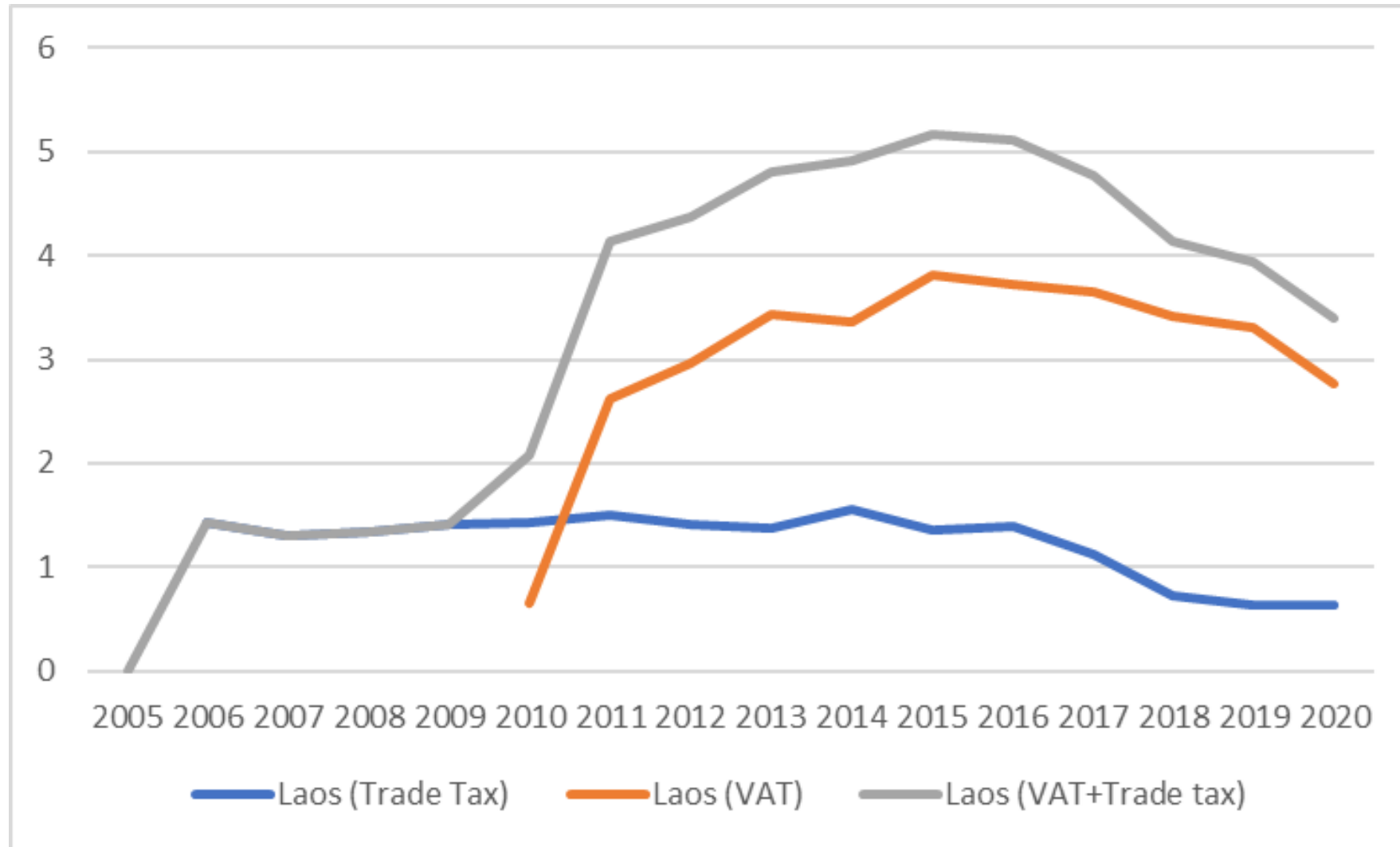
Why do developing countries tax so little?

- Informal sector and small-scale firms
 - Dual approach of development economics.
- Natural resource sector:
 - Resource rent sharing issue, resource curse/blessing
- Weak political institutions
 - Low contestability of power/accountability, corruption.
 - Aid (curse): Samaritan dilemma
- Lack of political will to reform : lobbying, information.

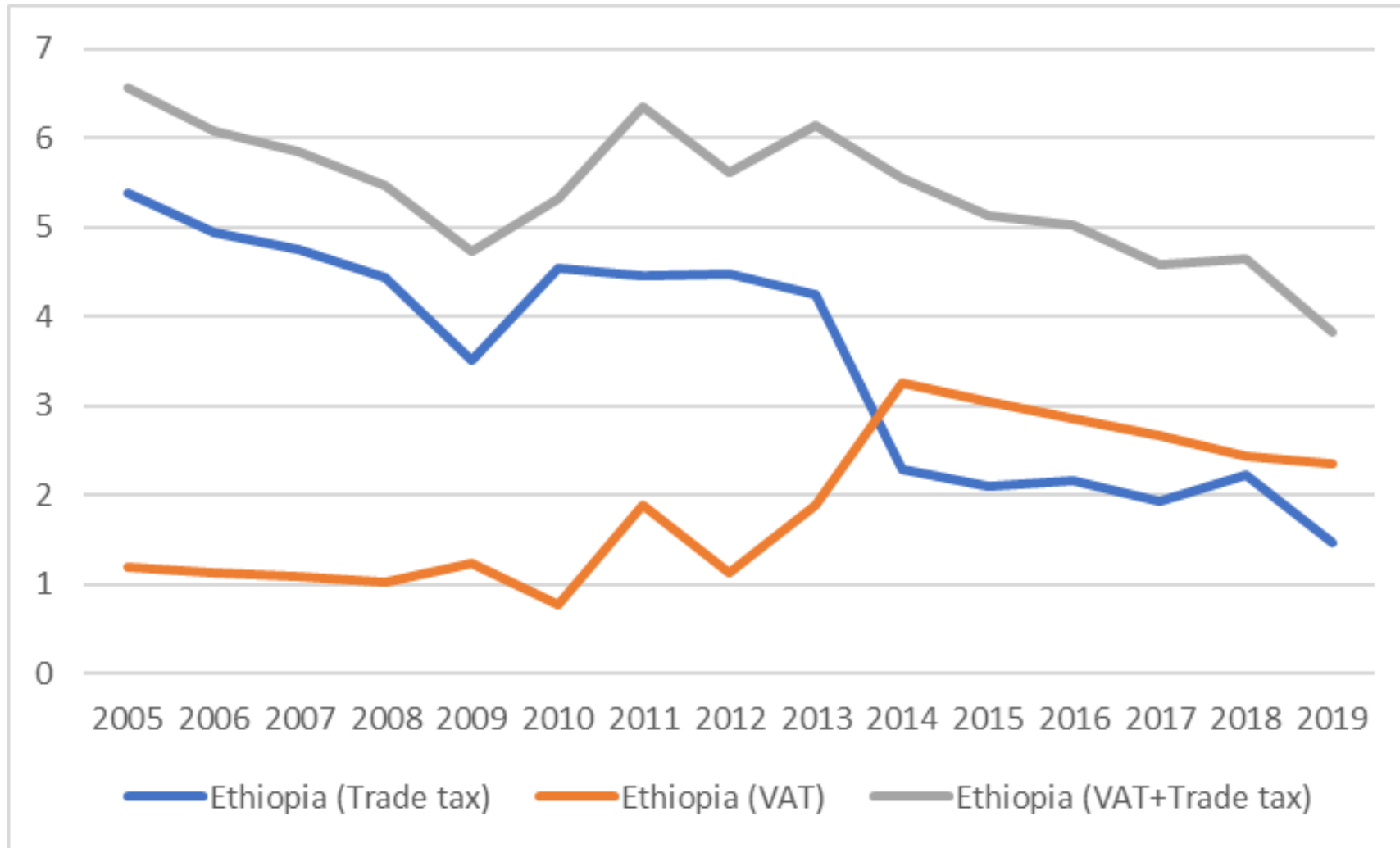
DRM (Introduction)

1. Tax is an important source for financing public expenditures.
Alternative ways: Debt, seigniorage (Zimbabwe=>hyperinflation), ODA.
Which social contract? Public expenditure (the COVID 19 case).
2. Addis Tax Initiative (August, 2015)
Tax= Privileged tool for financing SDGs
3. Why **DRM**?
Domestic because of the worldwide **tax transition**:
Decrease in tariff rates and revenue (Free trade, WTO)
⇒ Increase in the taxation of domestic activity.
But, Carbon Border Adjustment => Green tariffs for a Green transition?

Tax transition: Laos (% GDP)



Tax transition: Ethiopia (% GDP)



DRM: A tool for State building

- Taxation = « The Thunder of History », Schumpeter
 - Taxation and wars
- Monopoly of legitimate violence, Weber
 - DRC, Failed States.
- Accountability of government
 - EU approach: Collect more, Spend better
- State capacity
 - Taxation, tax administration, tax policy

Questions?

II. Tax Policy and Tax Administration



Tax policy and Tax Administration

Quiz time!

Tax policy and tax administration

- Tax system: Tax policy and Tax administration
- Tax policy:
 - Finance Law, Tax Code or Act, Sectoral Codes (Mining, Petroleum, Forest, Agricultural...).
- Tax administration:
 - Organization of the tax authority: Administrations, Revenue Agency, privatization/autonomisation...

Tax Policy (Goals)

- Increasing the tax revenue to GDP ratio;
- Improving the efficiency (neutrality) of the tax system;
- Improving the fairness of the tax system (equity, gender issue...).

Tax Policy (Instruments)

- Direct Taxes

Personal Income Tax (PIT), Corporate Income Tax (CIT)

- Indirect Taxes

Value Added Tax (VAT), Excises

- Other taxes

Property taxes, fees

- Beyond taxes

Tariffs, Quasi-taxes...

General recommendations in tax policy

- Principles:
 - Simplicity, efficiency, equity, fairness, inclusiveness
- Be careful: Potential trade-off.
 - For instance, an equitable PIT may be very complex to administer.
- Low tax rates and large tax bases.
 - Reducing or increasing some tax rates, suppressing some taxes.
 - Broadening tax bases.
 - Tax expenditures.
 - Tax flexibility (crisis).

Questions?

Tax administration (Goals)

- Collect the right amount of tax
 - ...at the right **time**
 - ...at minimal **cost** to the government
 - ...while imposing the least **burden** on taxpayers
- Customs remain very important in LDCs to raise revenue
 - Maintain a balance between trade facilitation, revenue generation and border protection.
 - Ensure proper classification and valuation of goods
 - Clear goods promptly but manage risks well

Tax administrations (Tools)

- Taxpayer registration (TIN)
 - Online publication of TIN? (e.g. Burkina Faso).
- E-Filing, Taxpayer services
 - Reducing direct interactions between taxpayers and tax inspectors (source of corruption)
- Audit, Objections and appeals
- Functional organization of tax administration
 - Customer segmentation: Large Taxpayer Unit
 - Semi-Autonomous Revenue Authority (SARA)
 - Tax farming: a long history

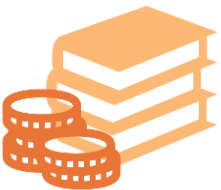
Digitalization process: The case of Kenya (IMF study)



Digital tax administration



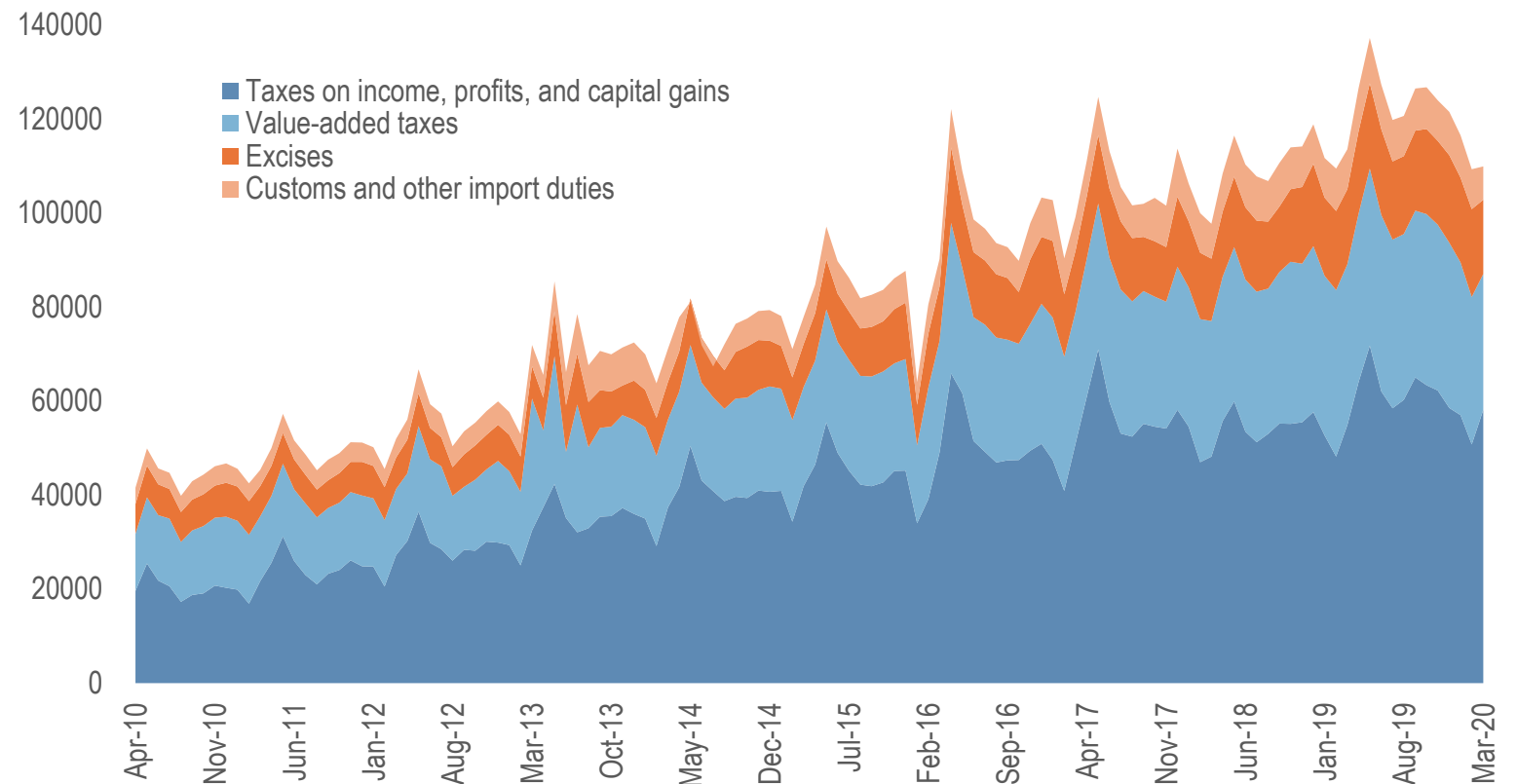
Biometric ID and digital payments



Financial inclusion and literacy

Kenya: Composition of Tax Revenue

(3-months rolling average; million Kenyan Shillings)



Source: IMF staff calculations

General recommendations in Tax/Customs administration

- Improve taxpayer databases
 - Lack of coordination between tax administration and customs.
- Improve taxpayer services
- Simplify tax payment processes
 - Lowering compliance costs
- Risk-based audit (mirror analysis)
- Reinforce internal control (corruption)
- Appeals processes (often inadequate, unfair or nonexistent)



TADAT

TAX ADMINISTRATION DIAGNOSTIC ASSESSMENT TOOL



TADAT IS A COLLABORATIVE EFFORT OF THE FOLLOWING PARTNERS:



The TADAT Framework _ April 2019 Edition

TADAT = Tax Administration Diagnostic Assessment Tool
= Assessing the health of key components of a country's tax administration system at National and Sub-national level (2019)



TADAT assessments are particularly useful in :

- **Identifying** the relative strengths and weaknesses in tax administration.
- **Facilitating** a shared view on the condition of the tax administration among all stakeholders
- **Setting the reform agenda**, including reform objectives, priorities, initiatives, and implementation sequencing.
- **Facilitating** management and coordination of internal or external support.
- **Monitoring and evaluating** reform progress by way of repeat assessments at 2 to 3-year intervals.

TADAT Framework (cont'd)

SCOPE [Core Taxes]

CIT : Corporate Income Tax

PIT : Personal Income Tax

PAYE : Pay As You Earn

VAT : Value Added Tax

Domestic Excise Taxes (2019)

Performance Outcome Areas – revision of the field guide started in Nov 2023



1. Integrity of the Registered Taxpayer Base
2. Effective Risk Management
3. Supporting Voluntary Compliance
4. On-Time Filing of Declarations
5. On-Time Payment of Taxes
6. Accurate Reporting in Declarations
7. Effective Tax Dispute Mechanism
8. Effective Revenue Management
9. Accountability and Transparency

TADAT Framework (cont'd)

→ **9** Critical Performance Outcomes Areas
POA 1, POA 2,...

→ **32** high-Level Indicators
POA 1-1 ; POA 1-2,...POA 9-28

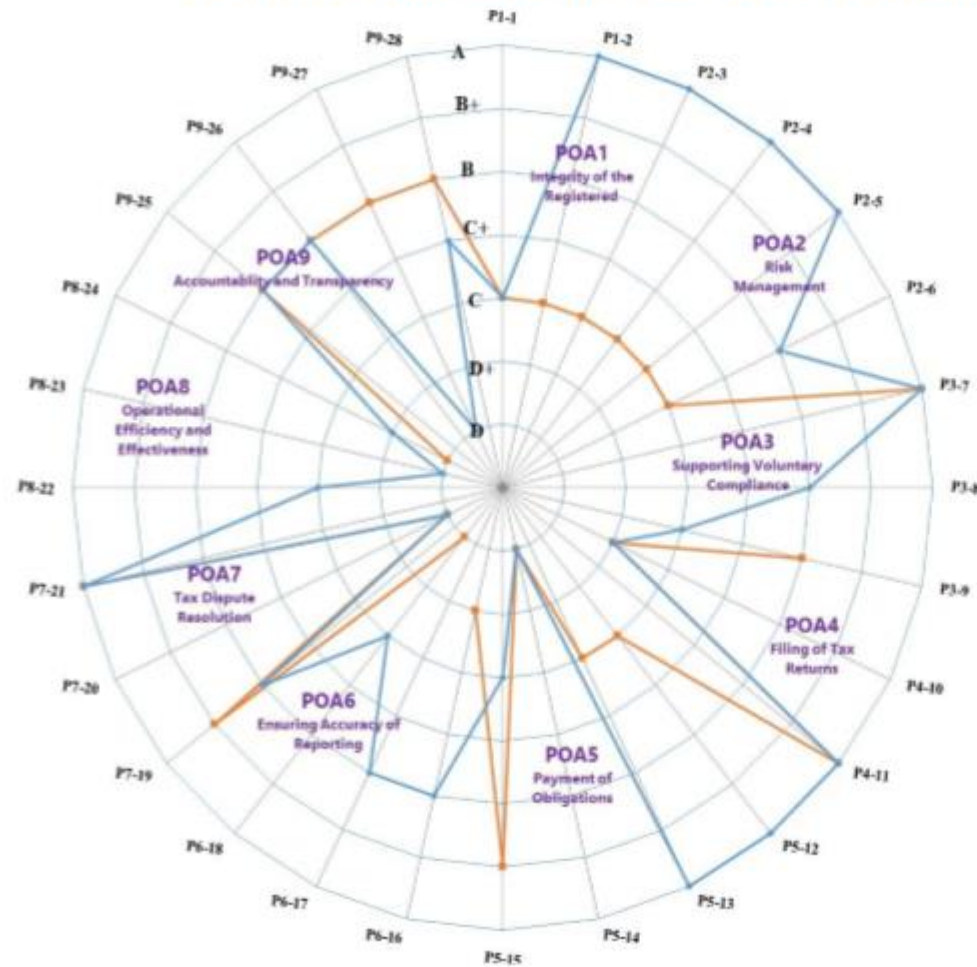
→ **55** measured and scored dimensions (A to D)

Scoring Methodology : Method **M1** (weakest link) and Method **M2** (average)

POA 1-1.C, POA 1-2. D, ... POA 9-28 C+

UGANDA

Figure 1. Uganda: Distribution of Performance Scores²



Indicator	2015 Score	2019 Score
P1-1	C	C
P1-2	C	A
P2-3	C	A
P2-4	C	A
P2-5	C	A
P2-6	C	B
P3-7	A	A
P3-8	B	B
P3-9	B	C
P4-10	D+	D+
P4-11	A	A
P5-12	C	A
P5-13	C	A
P5-14	D	D
P5-15	B+	C
P6-16	D+	B
P6-17	B	B
P6-18	D	C
P7-19	B+	B
P7-20	D	D
P7-21	A	A
P8-22	B	C
P8-23	B	D
P8-24	D	D+
P9-25	B	B
P9-26	B	B
P9-27	B	D
P9-28	B	C+

TADAT Framework (cont'd)

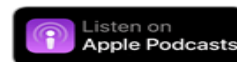
From November 2013 to December 2023

Assessment Package at www.TADAT.ORG

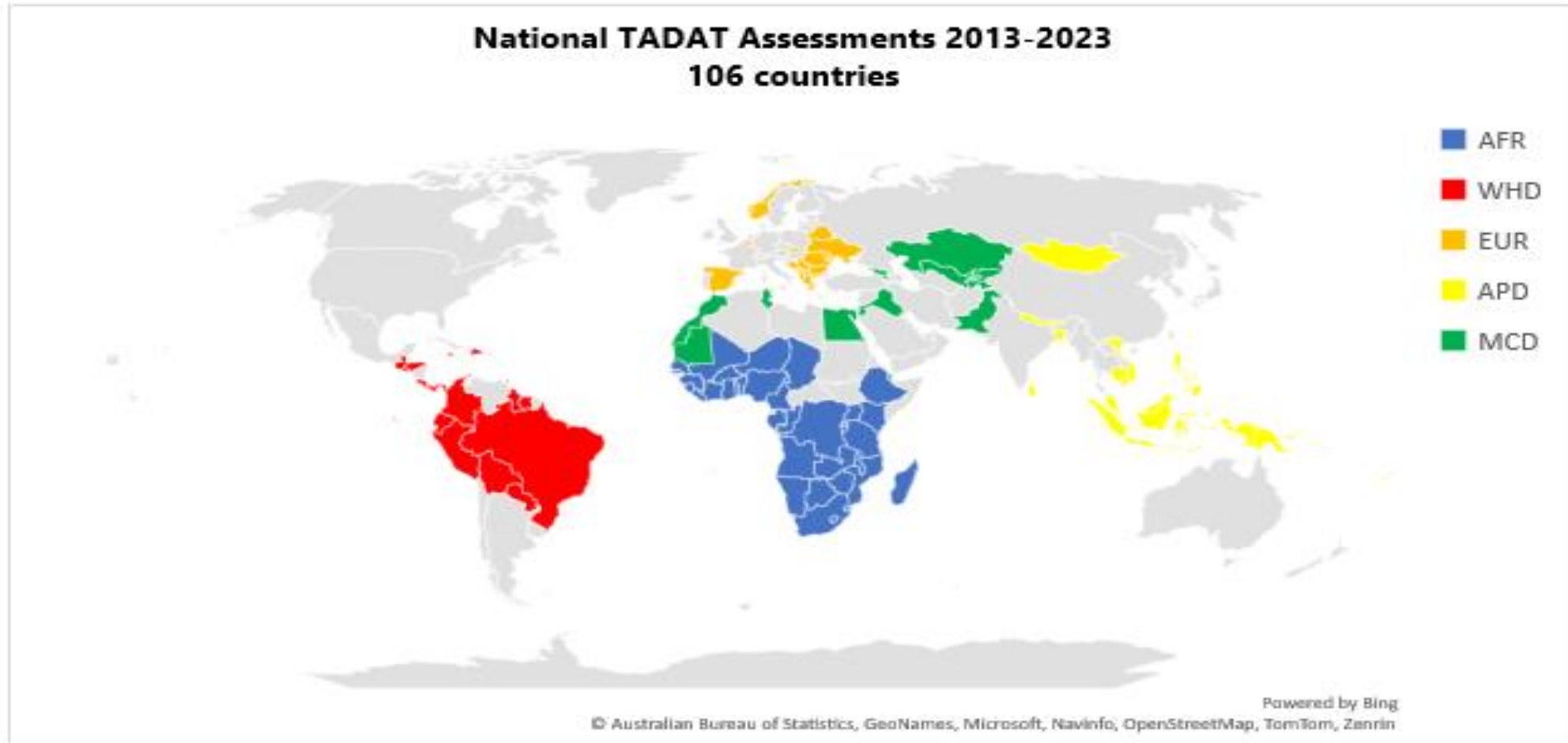
- Σ 178 Assessments (8 under review)
- o/w 45 Sub-National Assessments (Brazil, Nigeria, Uganda, Kenya)
- o/w 27 Repeat National Assessments (42 reports published only (pls contact DEVCO E1)
- 4 Assessments commissioned by the EU only (Namibia, Niger, Ukraine, Guinea Conakry)
- 3 Assessments commissioned by the EU DG Reform (Bulgaria, Romania and Greece)

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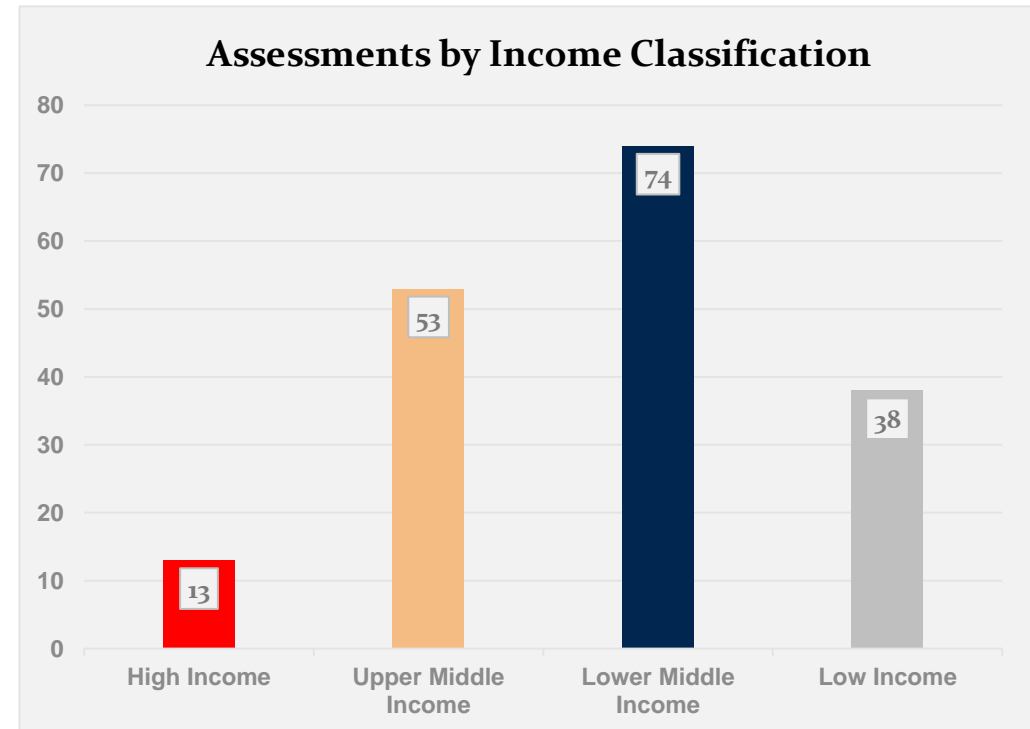
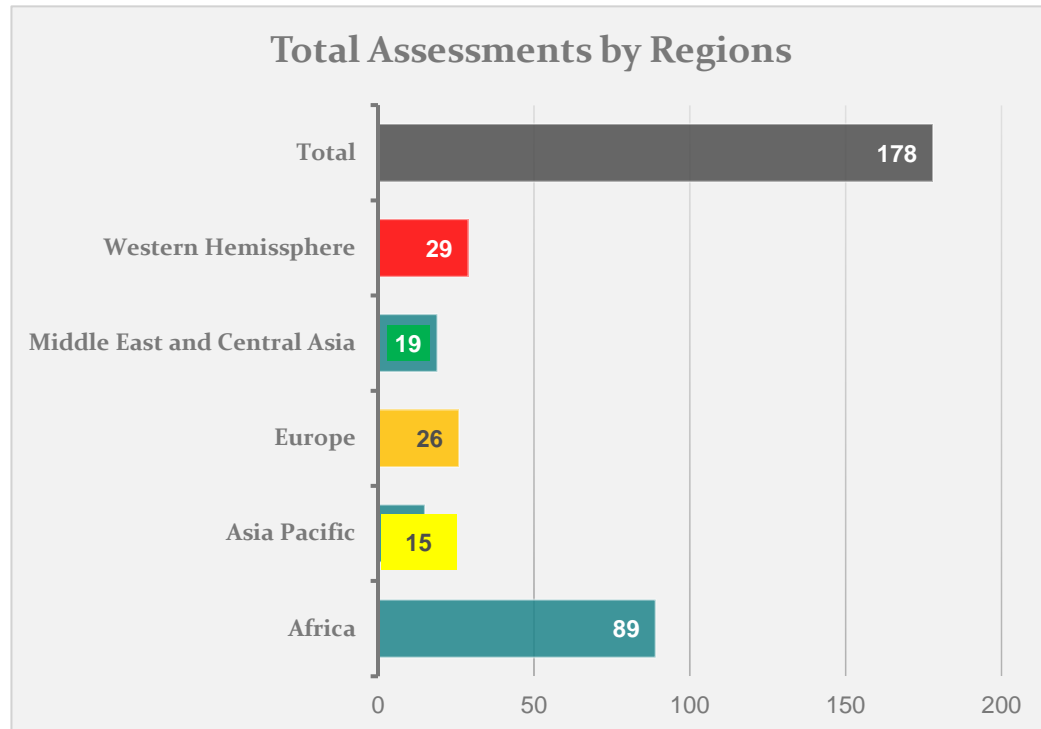
The TADAT Podcast is available on the following digital platforms:



TADAT : a diagnostic tool with a global scope



A tool applicable across regions and income levels



Assessments - Pipeline

Country/entity	Lead agency
1. Namibia	FAD-R2
2. Slovakia	FAD-R1
3. Czech Republic	FAD-R1
4. Malta	FAD-R1
5. Guatemala (Repeat)	FAD-R2
6. Grenada	FAD-R2
7. Saudi Arabia	WB
8. Cameroon (Repeat)	FAD-R2
9. Ethiopia	FAD-R2
10. Trinidad and Tobago	FAD-R2
11. Philippines (Repeat)	FAD-R1
12. Laos	FAD-R1
13. Vietnam	FAD-R1
14. Egypt	FAD-R1

TADAT Framework (cont'd)

The whole cycle (1-4) takes app **12/15 weeks** :

1. Assessment Initiation
2. Pre-Assessment
3. In-country Assessment
4. Post-Assessment

Post-TADAT Assessment Dialogue

A Team consists of **4-5 (certified) Trained TADAT Assessors**

A TADAT assessment costs approximately **€150.000**

Questions?

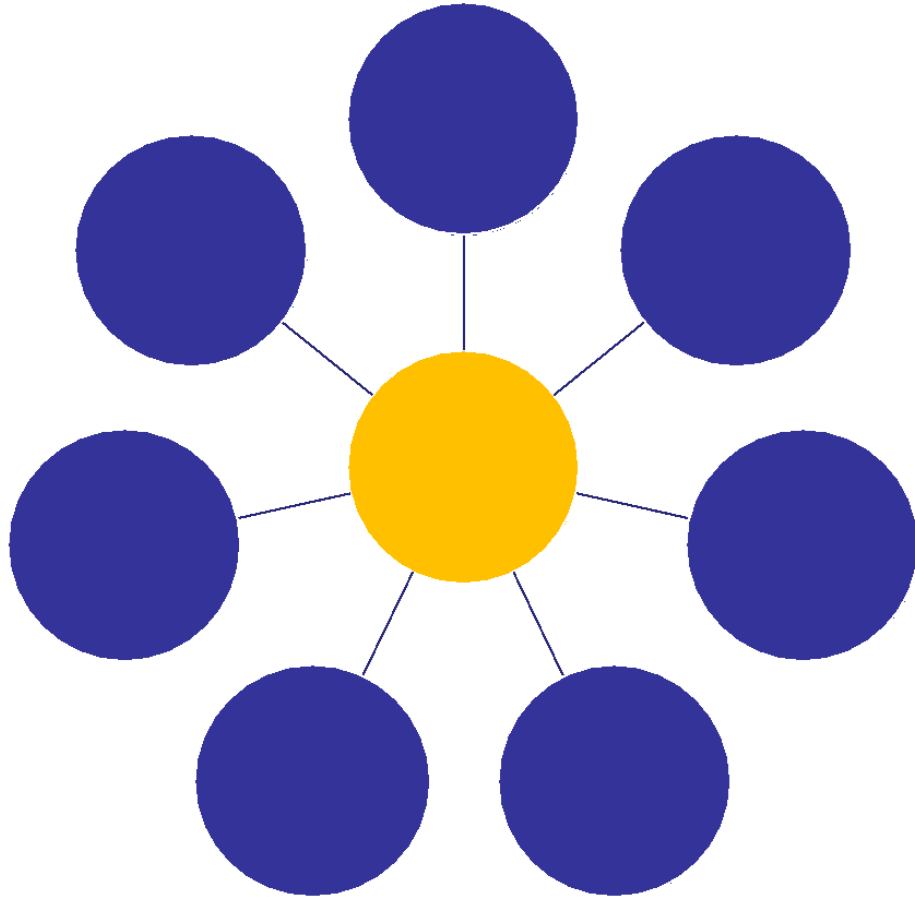


Mentimeter

Tax effort

Quiz time!

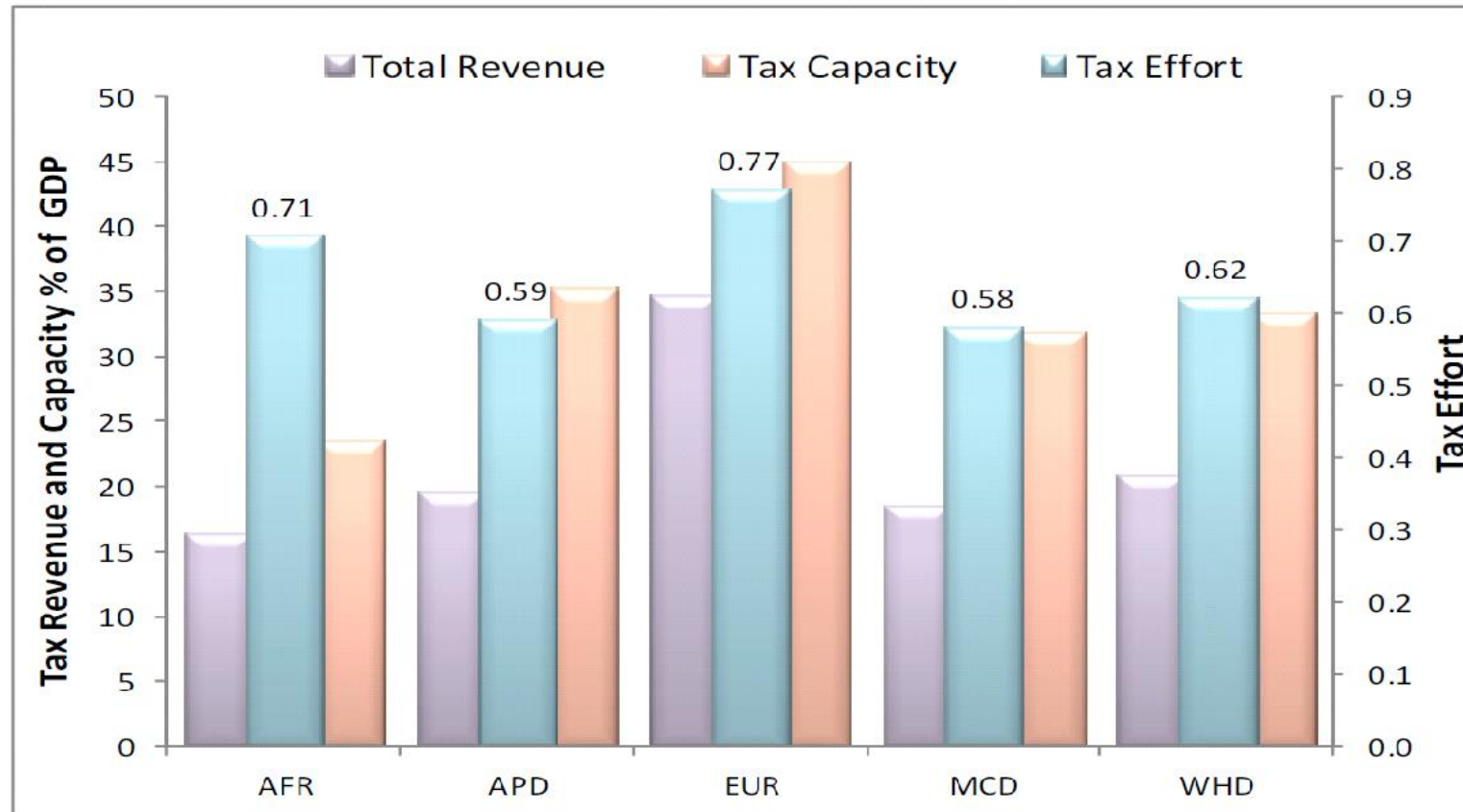
Tax effort (empirical)



- Empirical analysis (Stochastic frontier) between potential tax revenue and actual collected tax revenue.

Tax effort

Figure 1. Countries' Tax Effort by Region



Worldwide Long-Term Trends in Tax Reform

- Tax transition (DRM)
 - Increased pressure to reduce tariff duties (free trade)
 - Increased reliance on VAT
- Increased tax competition for foreign direct and portfolio investment
 - Switch to dual income tax system
- Reduction in top tax rates under personal income tax system
- Reduction in top tax rates under business profits tax (CIT)

Questions?

III. Taxonomy of Taxes



Taxonomy of Taxes

Quiz time!

Taxonomy of taxes

- **Indirect taxation**

- VAT
- Excises

- **Direct taxation**

- PIT
- CIT

- **Others**

- Property taxes
- Natural resources taxation

VAT

- Tax on consumption
- The main source of tax revenue in almost all the countries (exc. USA)
- VAT: An important tax innovation (France, 1947; 190 countries)
 - Delegate the effort of tax collection to the private sector (VA Chain)
- **The tax transition:** Decrease tariff rate and adopt VAT
- C-efficiency of VAT = $VAT / (t * GDP)$
- VAT is neutral (?)
- VAT liability threshold: A critical turnover
 - Below the threshold, firms are equivalent to final consumers

The regressivity of VAT

- Classic approach (developed countries)
 - Final consumer (household) pays VAT.
 - VAT is inequitable since poorer households consume relatively more than richer households.
 - Multiplication of VAT rates and VAT exemptions in order to protect the poorest household and restore some progressivity for VAT.
- *Developing countries*
 - Does the poorest household have access to the market?
 - Farmer are selfconsumers.
 - Poorer households have informal consumption (informal stores).
 - Moreover, VAT acts as a protective tariff for these farmers since their activity is below the threshold.
 - VAT exemption on food products, which are locally produced, reduced the income of farmers.
 - Unique VAT rate is simpler to administer.

Main VAT issues

- VAT exemption or zero VAT rate
 - Tax incidence: Protecting the poorest?
 - Zero rate: Exportations
- Non deductibility => VAT = Sales tax
 - Petroleum products: Risk of smuggling?
- Tax expenditure issue.
- VAT credit refund
- VAT and informality

Questions?

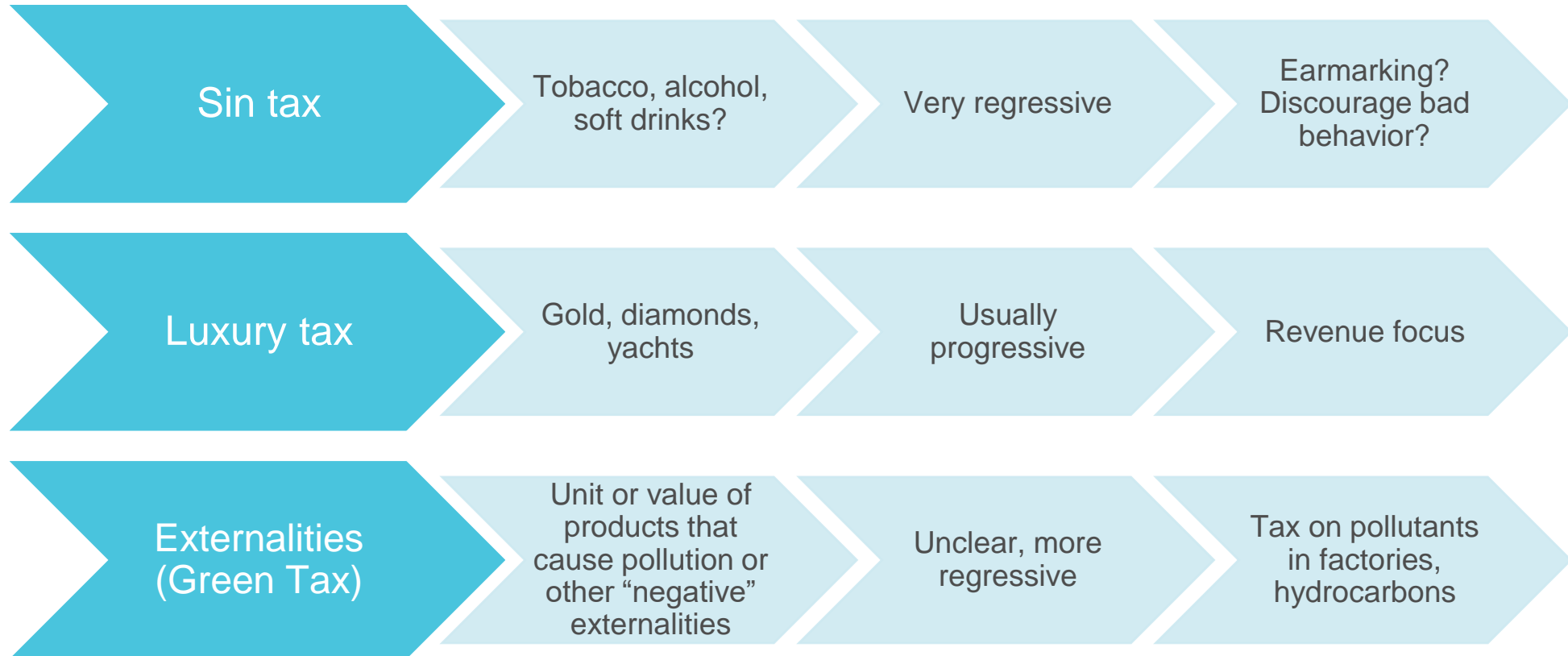


Mentimeter

VAT

Quiz time!

Excises and Green taxes



Excises

- Ad valorem, specific or both
- Excises (like VAT) remain heavily collected at border (importations).
- Elasticity of demand
 - Ramsey law (neutrality purpose): The rate is inversely proportional to the demand elasticity.
 - E.g. Petroleum products (no close substitute).

Green taxes

- Protecting the environment:
 - Targetting polluting activities (production, consumption)
- Pigou vs Coase (bargaining)
- *Tax à la Pigou*
 - Internalize negative externalities/spillovers
 - Taxing the carbon content of goods and services.
- EU Carbon Border Mechanism (implemented by 2026): Cement, steel, aluminum, fertilizers, electricity =25 percent of total CO2 emission.
 - 75-245 Euro per ton => Increases the price of concerned goods, favors EU production.
 - Impacted partners: Russia, Ukraine, Turkey, UK, South Korea, China, India, US
 - Given past exports and their modality of electricity production.

Questions?



Mentimeter

Excises

Quiz time!

PIT (Personal income Tax)

- Taxing individual or household's income
 - Wages, rent revenue, capital income (capital gain, dividends, interest), profit.
 - Gender issue.
 - Family coefficient in Africa (relevant?)
- Residence or Citizenship?
 - Bhagwati tax: Taxing brain drain (India/USA/doctor)
- Several sources of individual income: wages, rent, capital income, profit (self-entrepreneurs)
- Three main systems
 - Comprehensive income tax; Dual income tax; Flat tax
- Political debate around the Top margin tax rate: Progressivity of PIT.

Questions?



Mentimeter

PIT

Quiz time!

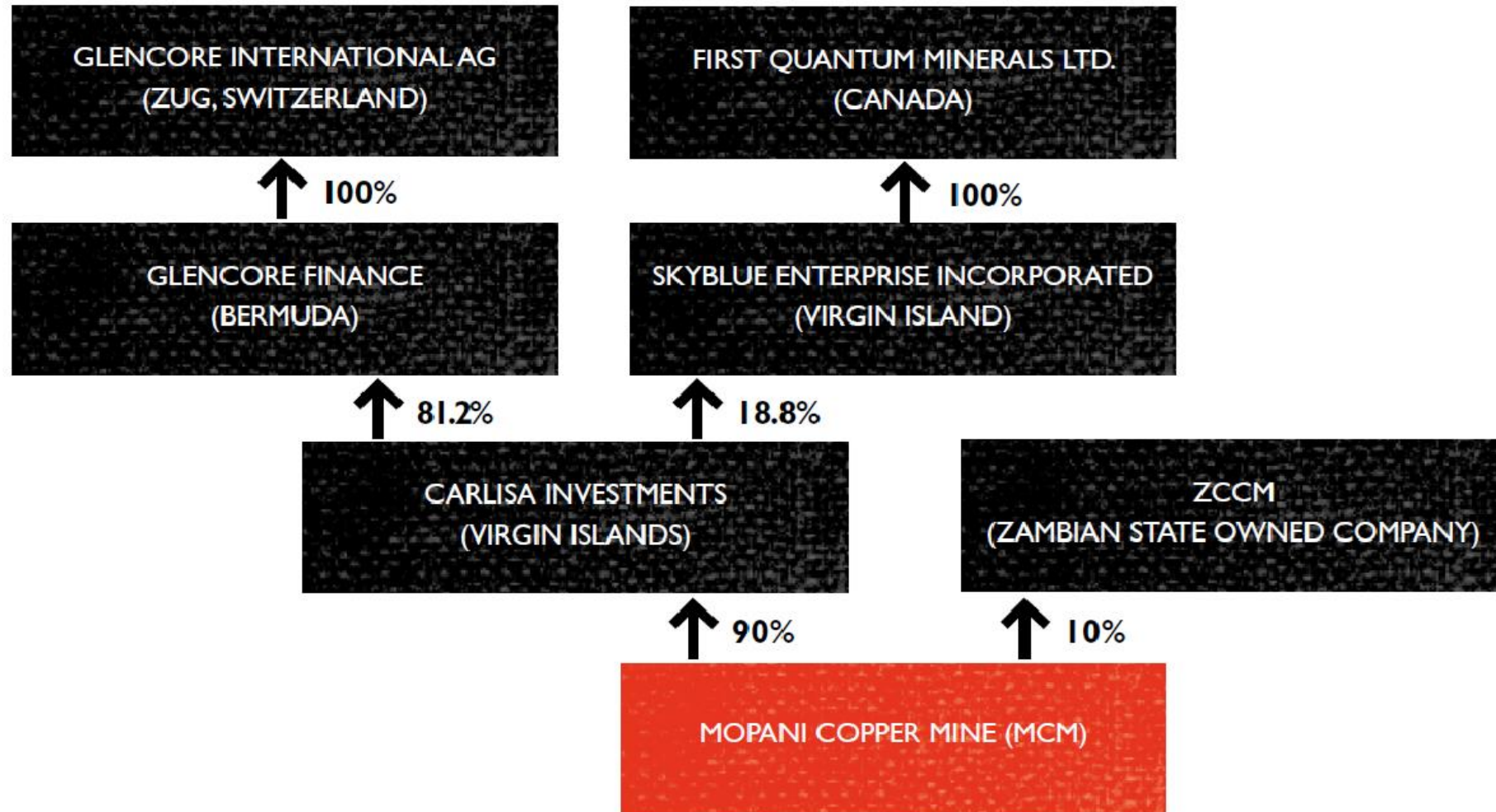
CIT (Corporate Income Tax)

- Tax on Profit
 - Definition of Profit (very complex)
 - Physical person and corporations
- More important revenue in developing countries than in developed ones.
 - Highly concentrated in developing countries (<30 firms = 70% of CIT revenue)
 - Minimum tax based on turnover

Agressive tax planning: BEPS and GLoBE (OECD)

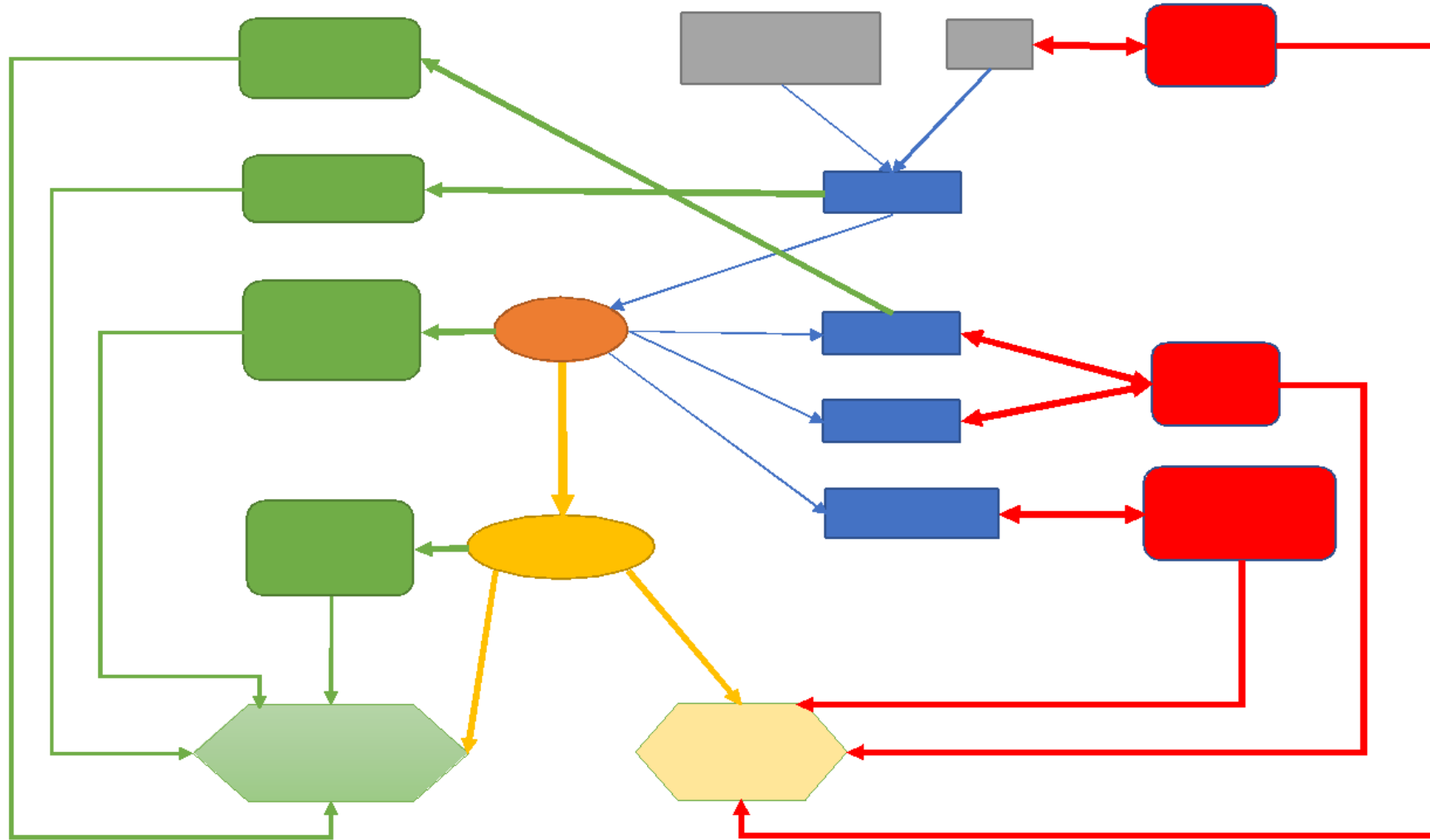
- Multinational Enterprises & Tax havens
- Avoid to pay tax in a country by manipulating the costs or reducing the turnover through transfer pricing, debt shifting...
 - Double Tax Agreement (DTA)
- Ex.: Minimizing turnover
 - Concerned sectors: Extractive industry, exporting sectors.
 - Reducing reported turnover
 - Decreasing CIT, mining royalties, government oil share
 - Hedging contract between a subsidiary located in a standard tax rate country and a subsidiary in a tax heaven.
 - Selling the produced good below its market value.
Example : Glencore in Zambia

Structure of Mopani copper mine



Source: Africa Progress Panel Report 2013, p.49

Agresive tax planning



Solutions

- Transparency, withholding tax regimes (DTAs)
- Arm's length principle,
 - Reduce price transfer
- Thin capitalization rule
 - Earning stripping ratio (30 percent of EBITDA)
- OECD/BEPS package and inclusive framework
- Minimum effective tax rate at 15 percent (GloBE, OECD, G20) implemented in 2023.
 - Extractive industries excluded.

Questions?



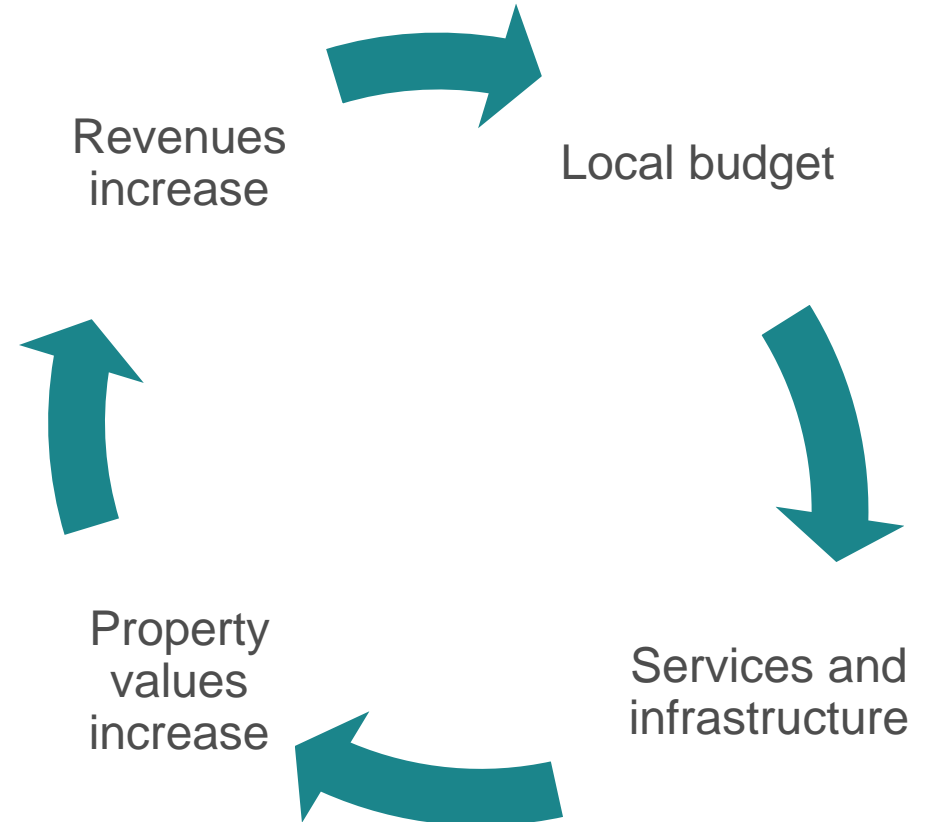
Mentimeter

CIT

Quiz time!

Property Taxes

- The missing tax in developing countries (3-5% of GDP in OECD)
- Tax on land and fixed assets (first step towards a Wealth tax)
- Efficient and redistributive tax
- Political issues (very sensitive):
 - Property rights,
 - Value assessment (2 mechanisms: rural, urban),
 - Blockchain (Sweden, Ghana, Rwanda)



Questions?

Tax expenditures

- What is this stone?



Tax expenditures

- Tax expenditure is transfer of public funds resulting from a reduction of tax obligations in relation to a standard, rather than direct spending (OECD, 2010).
 - Tax reliefs, tax subsidies or tax aids
 - Exemptions, reduced rates...
- Two conditions for tax expenditures:
 - (1) a reduction in government tax revenue, and
 - (2) a deviation from the tax norm, called the benchmark tax system.

Tax expenditure assessment

- An important tool to streamline tax systems.
 - Proliferation of tax expenditures (=the results of lobby groups or policy).
 - Tax expenditures seem less harmful than direct tax due to the lack of their estimation.
- Improving fiscal transparency:
 - The publication of tax expenditures estimations as an Appendix to the Finance Law.
- Reinforcing the power of the MoF on the tax system.
- A new database: <https://gted.net/>
 - 97 covered countries.

Tax expenditures promoting investment: Tax incentives

- Another kind of tax competition (less transparent)
- Discretionary or rule
 - Investment code, Special Economic Zone, Free Area Law, Individual tax agreements, etc
- Who ask for tax exemptions/derogations?
 - Lobby groups (firms)
 - Sectorial ministers (mining, oil, tourism, agriculture, etc)
 - Mining code, Tourism code, Agricultural code...
- ***Recommandation: Moving from tax exemption to tax credit***

Tax expenditure in favor of consumption

- Reduced or zero VAT rates
 - **Incidence theory:** Assuming that the reduction in tax rate will be reflected in prices.
 - VAT exemption versus cash transfer:
 - Targetting versus simplicity/political considerations.
- ***Recommandation: Moving from subsidizing goods to subsidizing households***
- PIT:
 - Mortgage interest deductibility: 59 Billions of USD in 2016 (US: Nation of owners)
 - Family quotient, credit for child dependent (France after WW2),
 - Deductions for medical expenses, for education expenses, etc.
- Beyond the estimation of tax expenditures, are they equitable?

Beyond tax expenditures: Tax gaps

- Tax policy gap
 - Difference between tax due under “optimal” tax policy and that under current tax policy.
 - Focus on tax policies to close loopholes, broaden base, and tax expenditures.
- Tax compliance gap
 - Difference between tax due under current tax policy and that actually collected.
 - Focus on efficiency and effectiveness of tax administration, reinforcing voluntary compliance, good tax governance, and fighting evasion and illicit financial flows

Questions?

The efficiency of tax incentives?

The equity of indirect tax exemptions?

Issue 1 : The fragmentation of taxing power

- How tax policy is defined in the country?
 - Who does determine the tax law?
 - *MoF versus other Ministries (e.g. Ministry of Mining)*
- Implementation of tax policy
 - Who does collect tax?
 - Quasi-tax/Parafiscalité
- Ex.: Dem. Rep. Congo, DGRAD
 - Agencies...

Issue 2: Inequalities

- Progressivity of PIT
- Regressivity of indirect taxation
- Wealth taxation (property tax)
- Tax fairness => Fiscal fairness
 - Commitment to Equity
 - « Analyzing the tax side without the spending side can be misleading. »
 - Lustig: <https://commitmenttoequity.org/>

Ghana Example

Taxes	Expenditures
Direct Taxes	Direct Transfers
PAYE	LEAP (simulated)
Presumptive taxes (informal)	School feeding program
Presumptive taxes (formal)	Pensions*
Indirect Taxes	Indirect Transfers
VAT	Electricity subsidies
Import duties	Fertilizer subsidies
Cocoa duties	Kerosene cross-subsidy
Excises	
Petroleum products	In-Kind Benefits
Beverages	Public schooling (various levels)
Tobacco products	Public health services, inpatient
Communications services	Public health services, outpatient

Issue 3: Natural resources tax regime and tax reform (EU Policy Note E1)

- Resource curse (oil, mining)
- Main recommendations for Natural resource tax regimes
 1. Transparency (EITI)
 2. Simplicity (e.g. Ring fencing principle)
 3. Stability (Asymmetric stability clauses)
 4. Progressivity

Ad valorem Royalty, CIT...

Potential SMART indicators

- EITI 2.1 to 2.6 Publication and disclosure:
 - Legal framework and fiscal regime, Contract and license allocations, License register, contracts, Beneficial ownership, SOEs participations
- Disclose feasibility studies connected to each exploitation license
- Adopt and apply a ring-fencing rule
- Adopt the 6th method for production/exportation
- Assess AETRs of the extractive industry
- Promoting tax expenditures assessment and publishing results participate to budget transparency.
- Improve the VAT mechanism (Local content)
- Improve the progressivity of the extractive industry tax regime by:
 - Adopting mining royalty/CIT rates increasing in commodity prices

To go further: Tax incidence

- How the tax burden is shared between producer and consumer?
 - Whoever is paying the tax (consumer or producer).
 - Does a tax on beer (excise) increase the price of beer or reduce the profit of brewery?
- Depends on
 - Elasticity of price demand (consumer), substitutability of the taxed good, service or factor.
 - Market structure (monopoly, oligopoly, perfect competition).
- Pass through analysis
- Beyond, Marginal Excess Burden of taxation,
 - Habberger triangle, CGEE, DSGE

Lets talk about Budget Support DRM Indicators

Some hints ...

Building a DRM indicator for Budget Support

- SMART indicator:
 - Specific, Measurable, Achievable, Relevant, Timely
- Final goals:
 - Increasing the tax revenue to GDP ratio (quantity)
 - Improving the quality of the tax system
 - Tax system: Tax policy and revenue (tax and customs) administration,
 - Transparency, fairness, inequality, gender
 - Environment (Green taxation)
- Which instruments? Policy or administration?
 - Trade-off between large or specific indicator (political commitment)

Some examples of DRM indicators

General (policy and adm.)

Improving domestic revenue mobilization

Increasing total current revenue collection of at least 0,5 percentage point of GDP

Respect of Extractive Industries Transparency Initiative standards

Tax cadaster

Tax administration

Increasing the number of taxpayers

50% increase or more in the issuance of fiscal receipts in 2015 compared to 2014

20% increase of average additional taxation, identified for large taxpayers and other taxpayers compared to 2014

Increase revenue collections : Improve tax IS systems : SIGTAS version 3. Core modules are implemented and functional. The list of core modules includes: registration, accounting, appeals and audit.

Reducing VAT credit reimbursement to one month for some firms and to three months for the others

90 percent of importations are effectively registered in ASYCUNDA

Tax policy

Creating a tax policy unit

Tax expenditures assessment and publication

Streamlining tax expenditures

Questions?

- Do you have any experience in building a DRM indicator?
- Beyond DRM indicator for budget support purpose, are you engaged in tax policy dialogue with the authorities?
- Which DRM issues do you have?

IV. International Agenda – FATF and EU listings

DG FISMA, DG TAXUD and FPI

Thank you



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