Domestic Revenue Mobilisation

11 - 13 March 2025

Agenda – Day 1

Time	Content	
09:00 – 09:05	**Welcome to DRM Training**	Training Team Grégoire
09:05 – 09:20	**Training programme and introduction on the EU's approach to DRM**	Anca-Maria S. (INTPA E1)
09:20 – 10:00	**I. DRM, an introduction** ▪ Tax to GDP ratio ▪ Why do developing countries tax so little? ▪ DRM : a tool for state-building	Grégoire
10:00 - 10:05	**Q&A**	Grégoire JBDM (INTPA E1)
10:05 - 10:20	*Break*	
10:20 - 11:50	**II. Tax Policy and Tax Administration** ▪ Tax Policy (Goals and general recommendations) ▪ Tax and Customs Administrations (Goals and general recommendations) ▪ Digitalization process: The case of Kenya ▪ TADAT	Grégoire JBDM (INTPA E1)
11:50 - 12:00	**Q&A and closure**	Grégoire JBDM (INTPA E1)

*The timing is subject to adjustment as the training progresses

Agenda – Day 2

Time	Content	
09:00 – 09:15	**Recap day 1**	Grégoire
09:15 – 09:50	**II. Tax Policy and Tax Administration** ▪ Tax effort : Definition, determining factors (why do developing countries tax so little?) & worldwide long-term trends in tax reform	Grégoire
09:50 – 10:00	**Q&A**	Grégoire & JBDM (INTPA E1)
10:00 - 10:10	*Break*	
10:10 - 11:15	**III. Taxonomy of taxes** ▪ Indirect taxation (VAT, excises, Green taxation) ▪ Direct taxation (PIT and CIT) ▪ Property taxes ▪ Tax expenditure	Grégoire
11: 15 - 11:35	**Budget Support DRM Indicators**	JBDM (INTPA E1)
11:35 - 11:50	**Q&A**	Grégoire & JBDM (INTPA E1)
11:50 - 12:00	**Closure**	Grégoire JBDM (INTPA E1)

*The timing is subject to adjustment as the training progresses

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Agenda – Day 3

Time	Content	
09:00 – 09:15	**Recap day 2**	Grégoire
09:15 – 10:15	**IV. International Agenda – FATF and EU listings :** ● **EU policy towards high-risk third countries** ● **AML and countering the financing of terrorism** **Q&A**	Erkam Ok (DG FISMA D2)
10:15 – 10:30	*Break*	
10:30 – 11:00	**IV. International Agenda – FATF and EU listings :** ● **EU list of non-cooperative jurisdictions for tax purposes** **Q&A**	Anna Kotyashko (DG TAXUD)
11:00 - 11:30	**Final discussion & Closure**	Grégoire & JBDM (INTPA E1)

*The timing is subject to adjustment as the training progresses

European Commission

EU approach to DRM

11-13 March 2025

Roxanne RUA, Head of sector Fiscal Policies, PFM, DRM - INTPA E1

Anca-Maria SZIGETI, DRM - INTPA E1

Global Gateway Strategy

EU's Global Gateway Strategy - Facilitates external investment and sustainable infrastructure development.

360-Degree Approach - Distinguishes GG by integrating comprehensive strategies and EU's comparative advantages.

Key Principles & Implementation- Applies 6 guiding principles, combining various modalities and technical expertise for impactful investments.

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Global Gateway 360 approach links to DRM

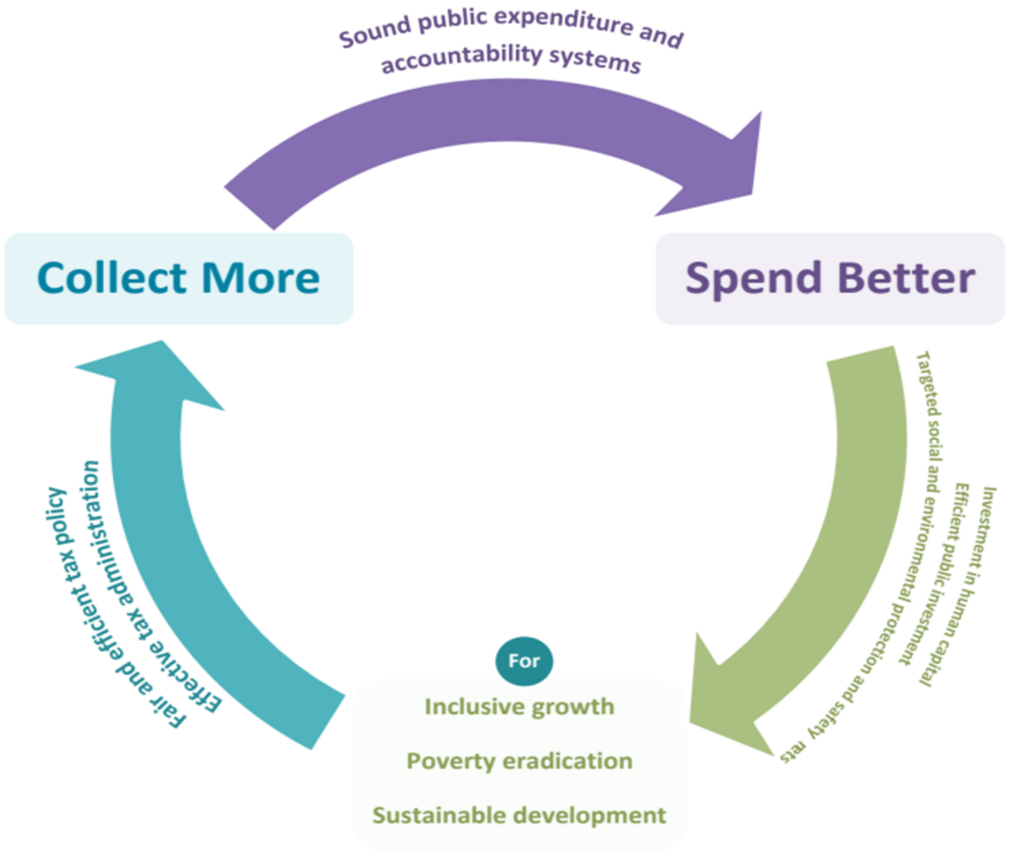
- **Enabling Environment for Sustainable Investments** - requires macro-economic stability and sound fiscal policies. This approach supports the **Collect More Spend Better** agenda, focusing on effective PFM and DRM.

- **Strengthening Institutional Frameworks:** Through tools such as policy and economic dialogue, institutional support, and technology transfers, the EU holistic approach supports countries mobilize and efficiently use domestic revenues.

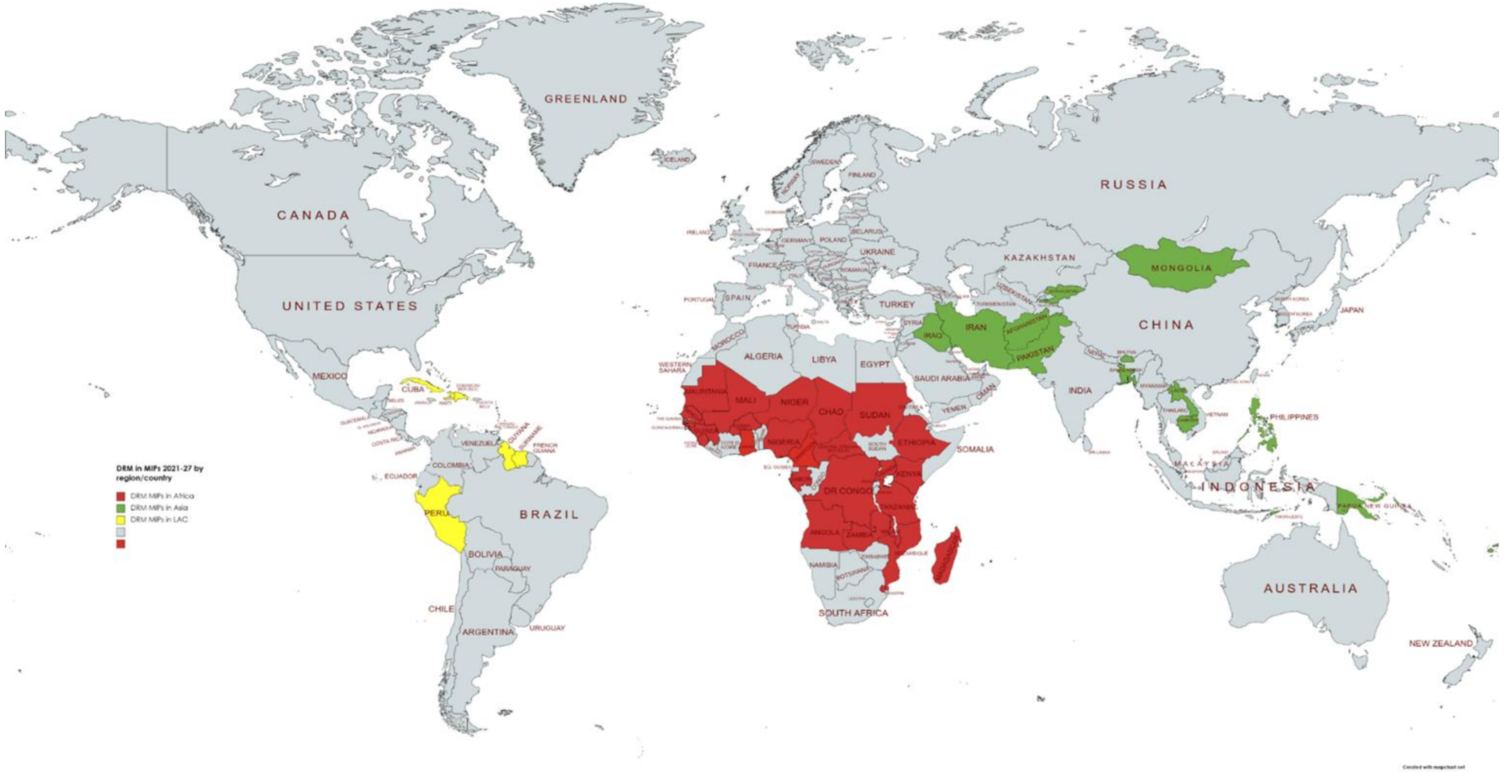
- **High Social, Environmental, and Governance Standards (ESG):** Transparency, good governance, and equal partnerships are critical for robust DRM systems.

Increasing the mobilisation of domestic public finance and improving its use :

The EU's « Collect More - Spend Better » approach



The EU’s approach to DRM: covering a wide range of partner countries



Countries for which the EU’s multiannual indicative programme (2021-2027) includes actions in the field of DRM

Advancing the EU's DRM agenda through the Team Europe approach

What?

How?

Wider policy agenda

- Resilience
- Digital
- Green
- Equity
- Gender
- Tax good governance
- Finance for Development

DRM agenda

- Collect more
- Fair and effective DRM
- Equitable tax policies
- Efficient and transparent tax administrations
- Policy coherence
- Greener DRM
- Civil society involvement
- Tax related IFF

Agenda Setting

Oper-ational

Imple-mentati on

International level

- *Addis Tax Initiative:* 4 commitments
- *OECD/Global Forum*: tax good governance, BEPS, Transparency standards.
- *IMF Thematic Funds/TADAT*: assessment tools, natural resources, DRM
- *G7/G20/Summits:* agenda setting;

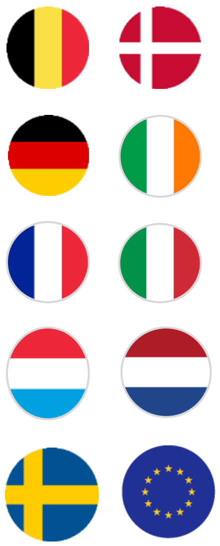
Regional level

- African Union Commission: tax-motiated IFF project
- Regional economic communities: project on tax good governance, EOI, BO.
- Regional tax administration bodies: ATAF, CIAT, NTO, etc.
- Civil society call for proposals

Country level

- Projects/technical assistance
- Budget Support/VT indicators
- Policy dialogue
- Civil society call for proposals

Team Europe



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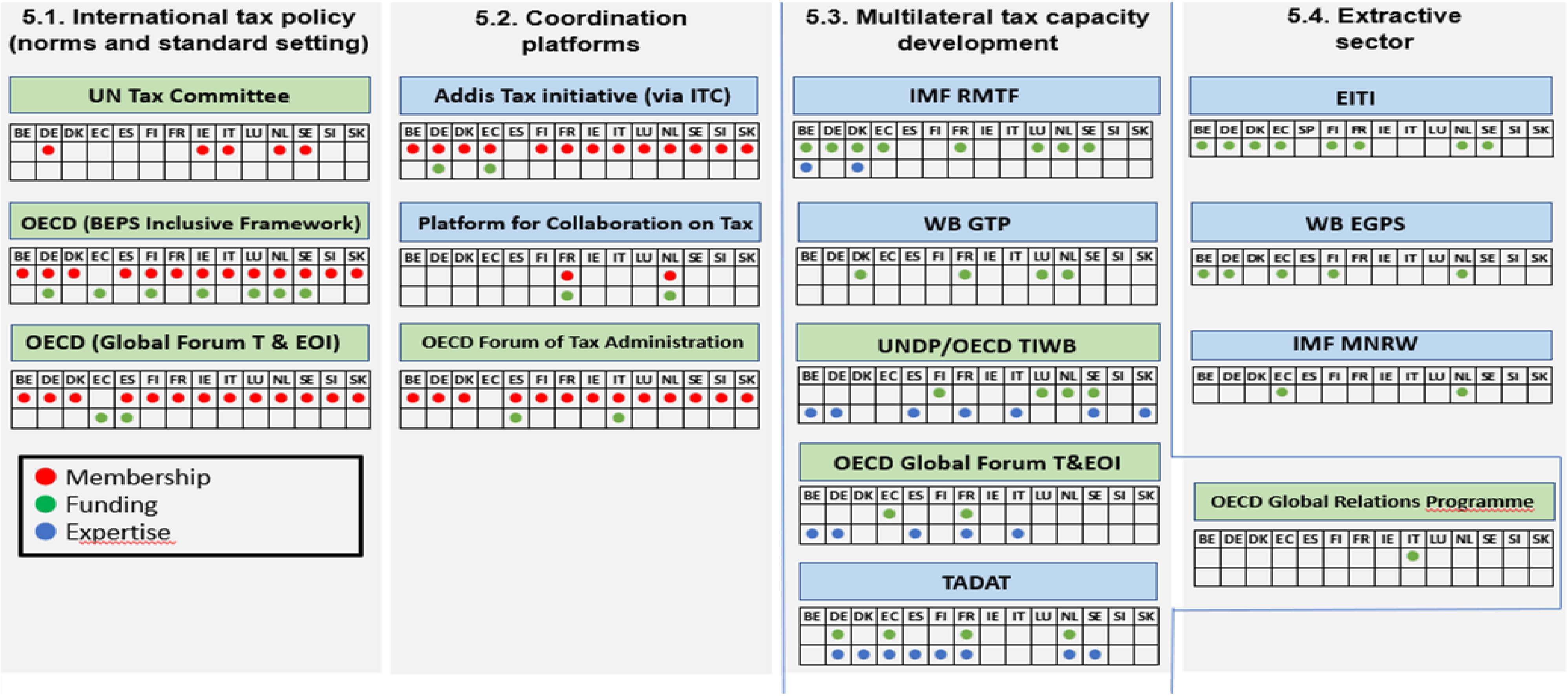
Close coordination with EU Member States in various fora



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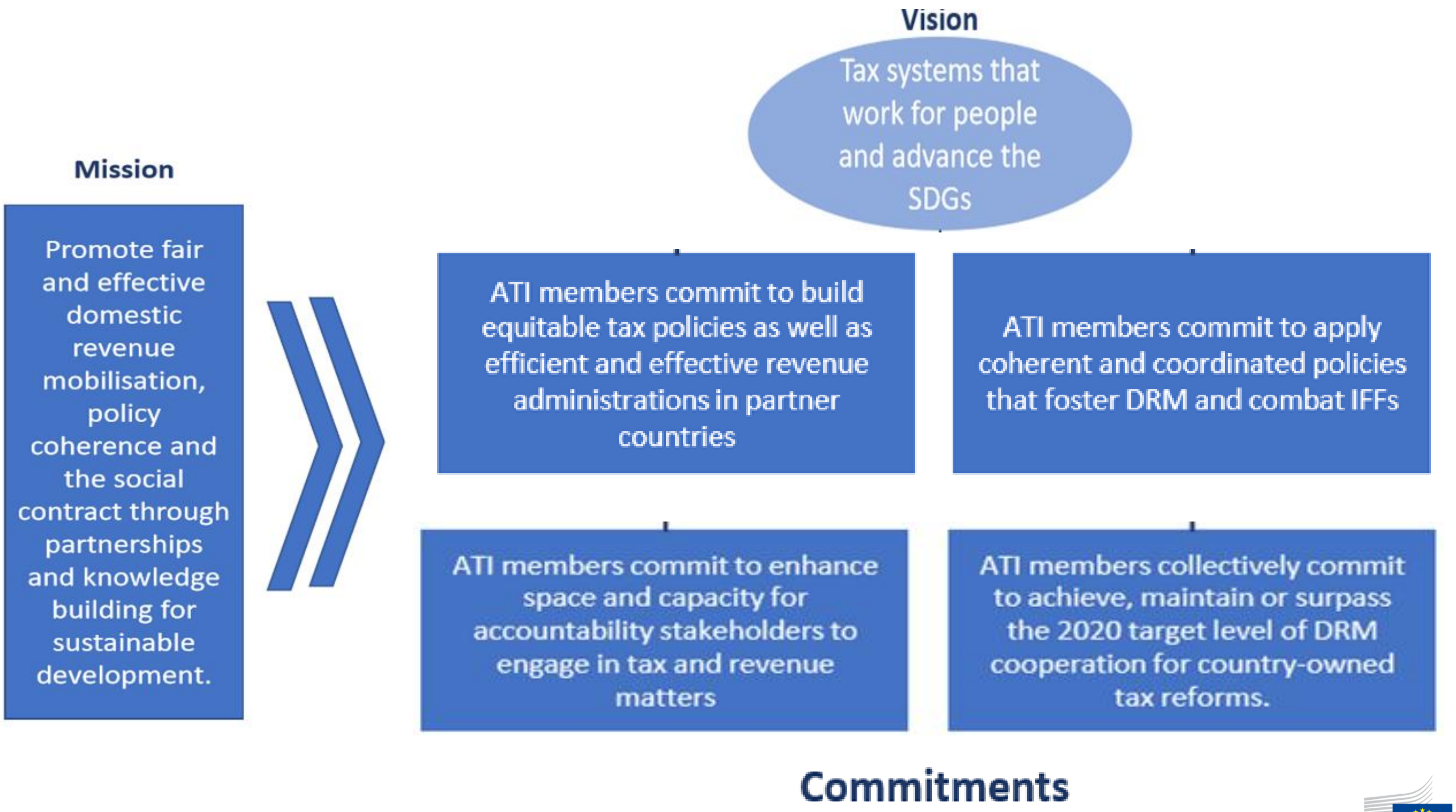
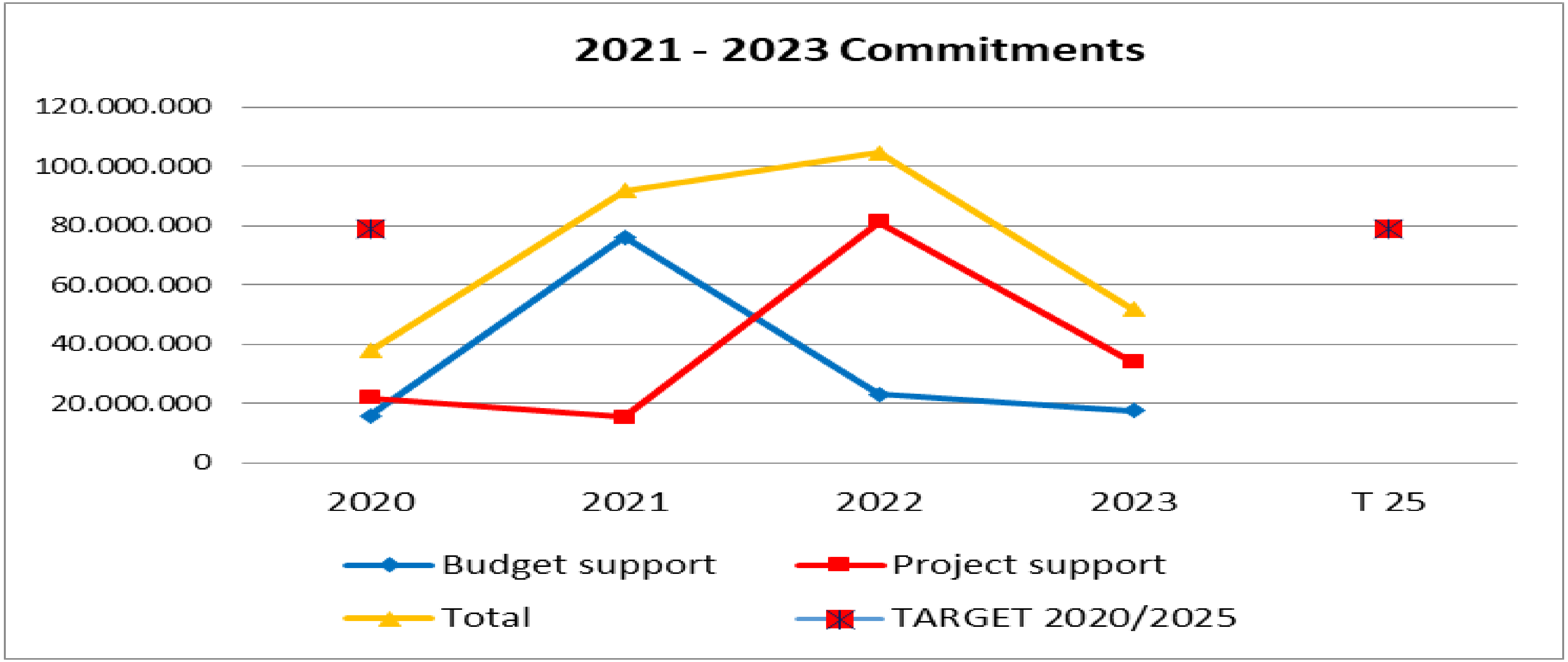
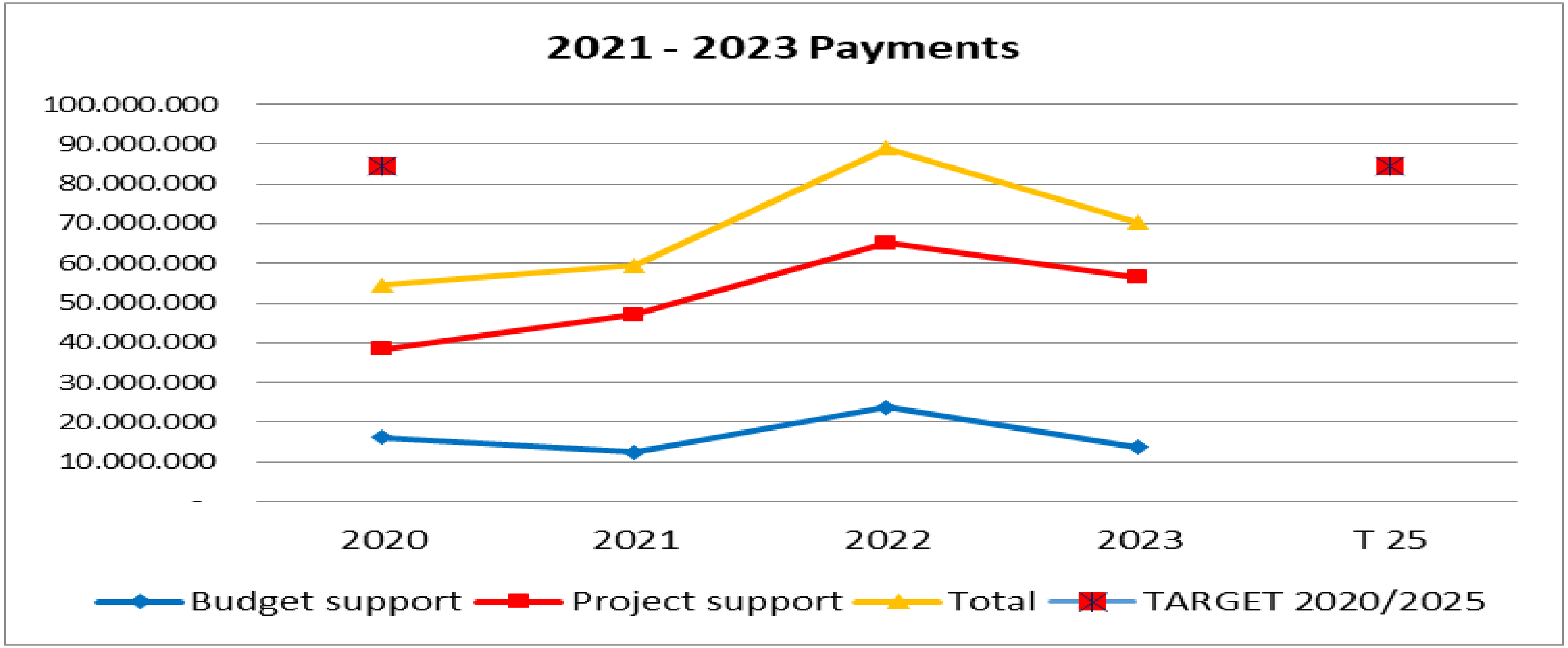
Addis Tax Initiative (ATI) – Declaration 2025



EU support to DRM 2021-2023 commitments



EU support to DRM 2021-2023 payments



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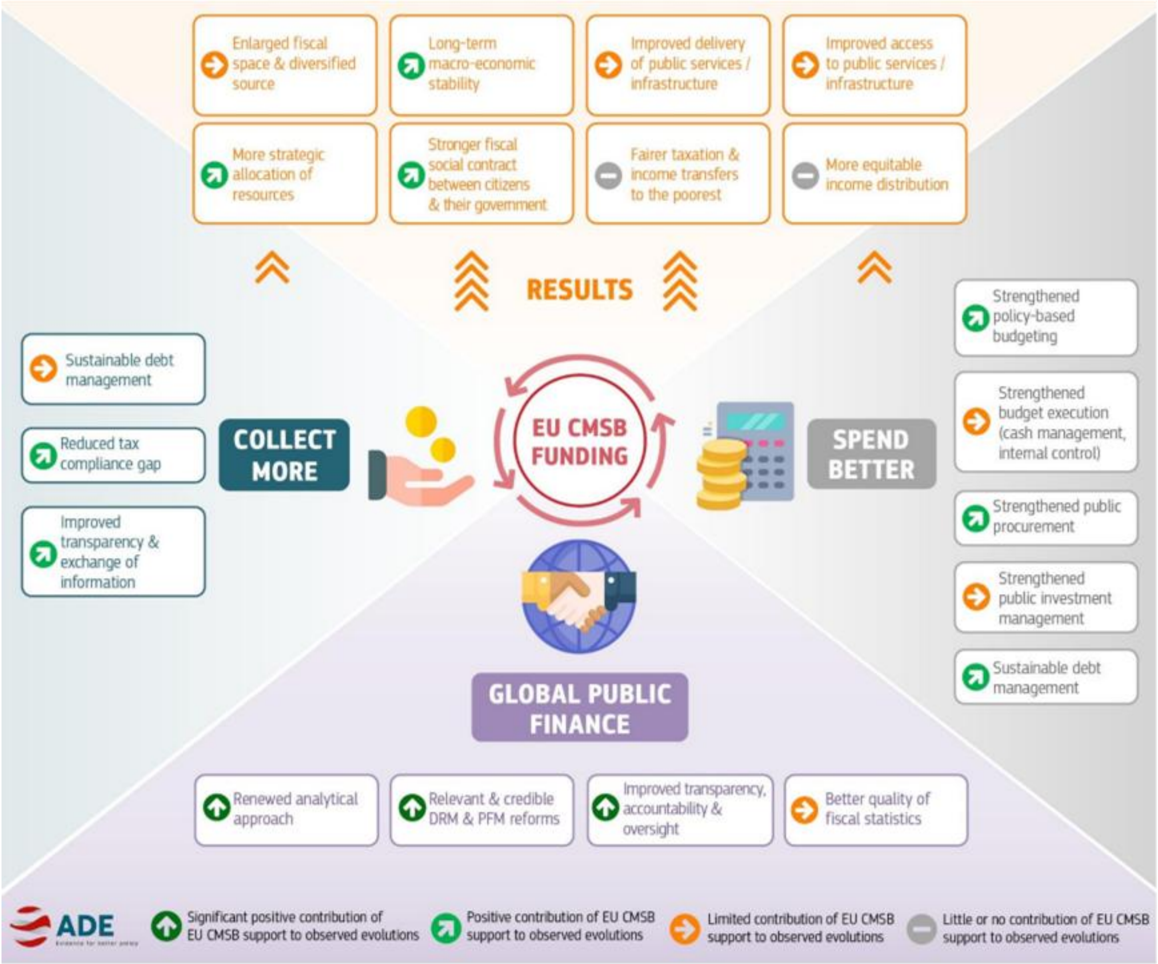
Positive impact of EU DRM support in partner countries

- Reduced tax compliance gap
- Growing tax-to-GDP ratio
- Improvement on tax cooperation / NCJ de-listing



How can the EU's support to DRM help ensure the success of the Global Gateway strategy?

Strengthening DRM is **essential for the successful rollout of the Global Gateway strategy (360° approach)**

- Tax certainty, transparency and ease of paying taxes
- Efficient tax administration
- Green taxation
- Digital/digitalisation
- Fight against illicit financial flows

What can you do to support the EU’s DRM agenda?

- Help further strengthen DRM capacities in the country that you cover through technical assistance (bilateral, regional, global) => NDICI programming review
- Talk to National Revenue Authority
- Enhance policy dialogue with the authorities on DRM issues, notably by including SMART DRM indicators in budget support operations
- Involve CSOs and build on their expertise
- Encode DRM projects under the right DAC code (15114) – multiple coding is possible.
- Link up with other donors financing DRM support activities in your country to enhance impact and increase EU visibility. Keep in mind that IMF and OECD technical assistance activities may well be co-funded by the EU.

I. DRM, an introduction

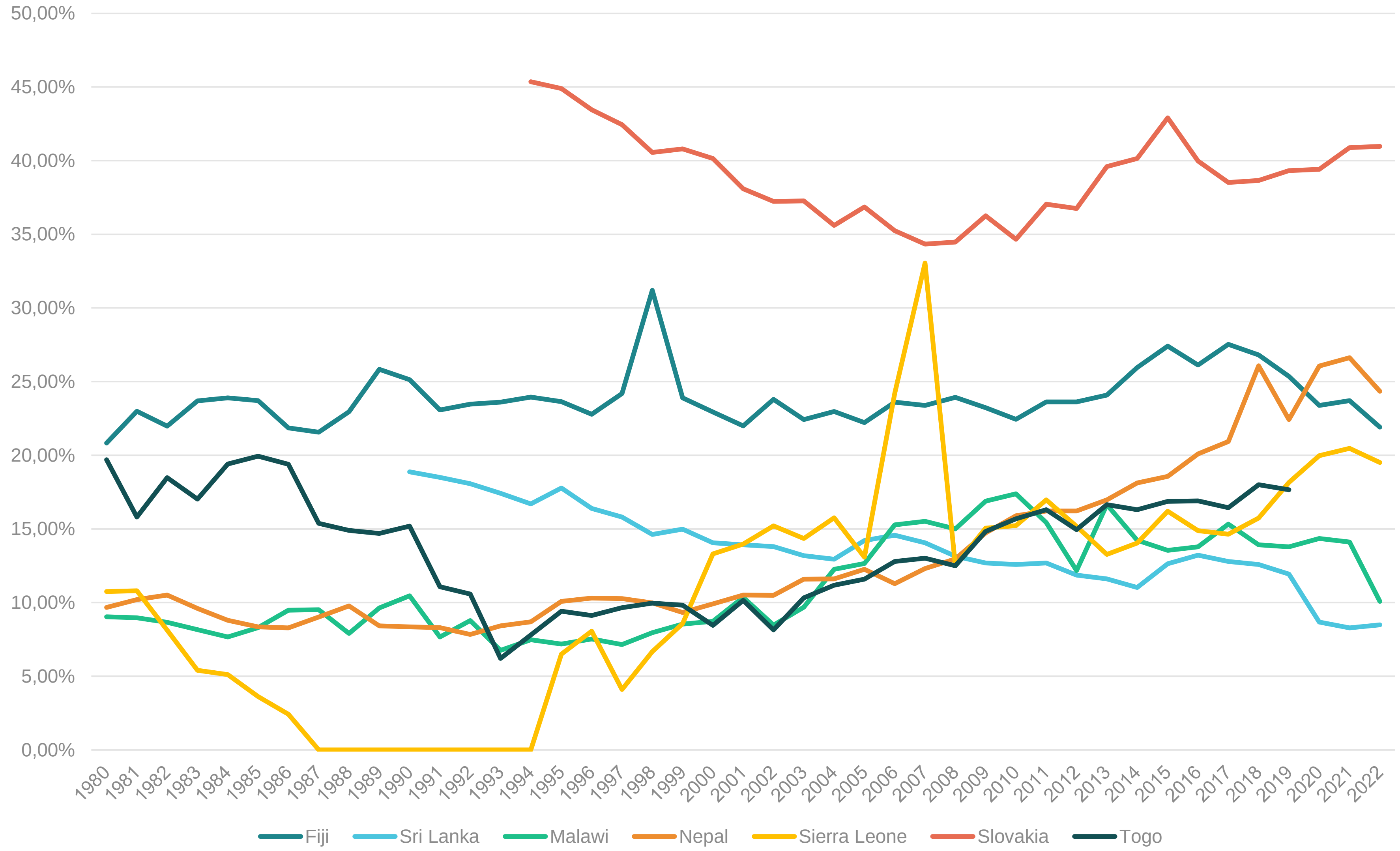
DRM introduction

Quiz time!

DRM (Introduction)

- Tax Revenue to GDP ratio
  - OECD countries: 34 percent in 2022 (Mexico 16.93%, France 46.08%, USA 27.66%)
  - 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, CEMAC: 20 percent (one of the convergence criteria).
- World Bank, UN:
  - Below 15 percent, **Fragile States** (unable to deliver basic public goods and services).
  - Depends on the definition of the failed, failing, and fragile States

Total revenue (% GDP)



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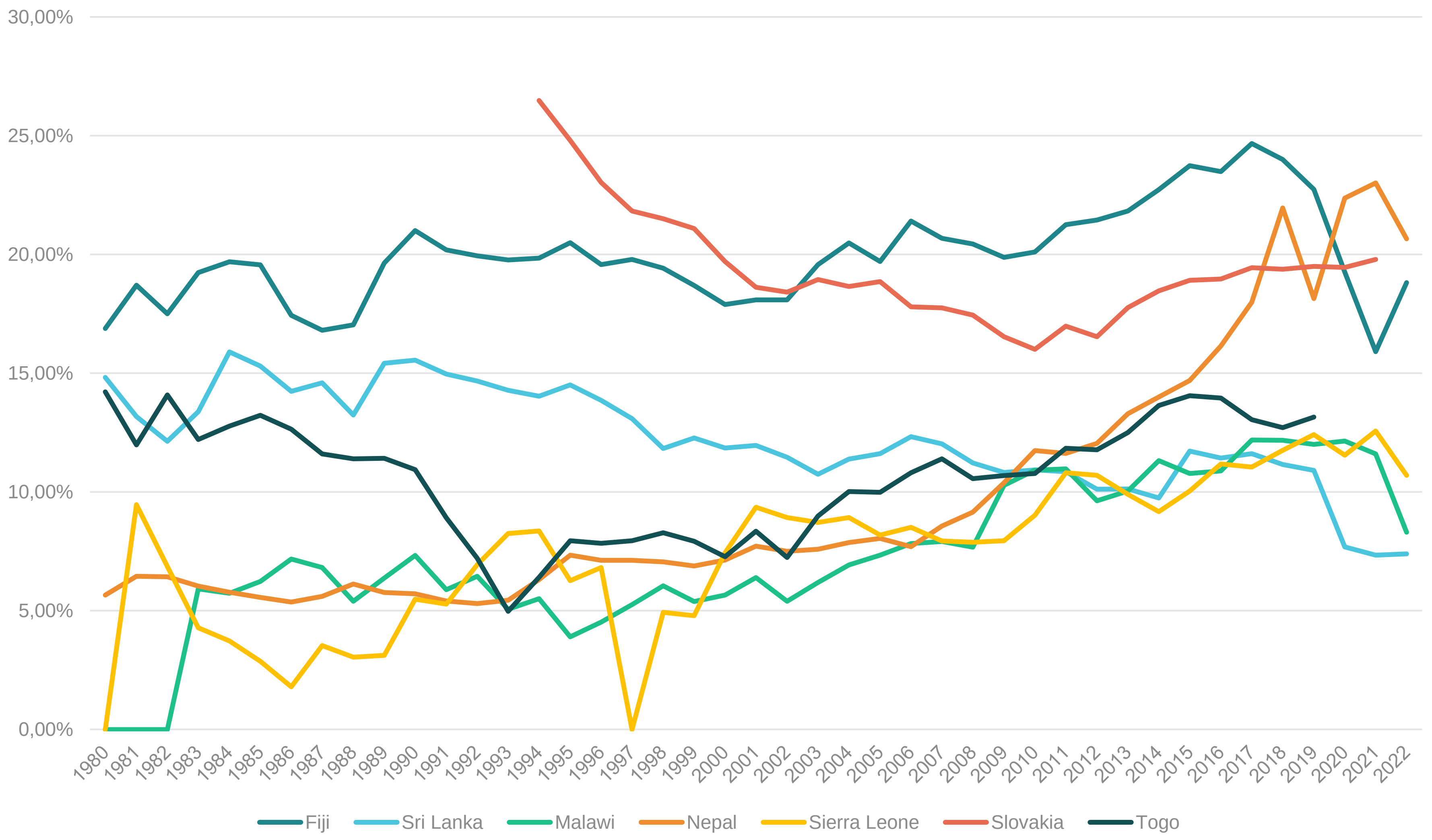
Tax revenue (% GDP)



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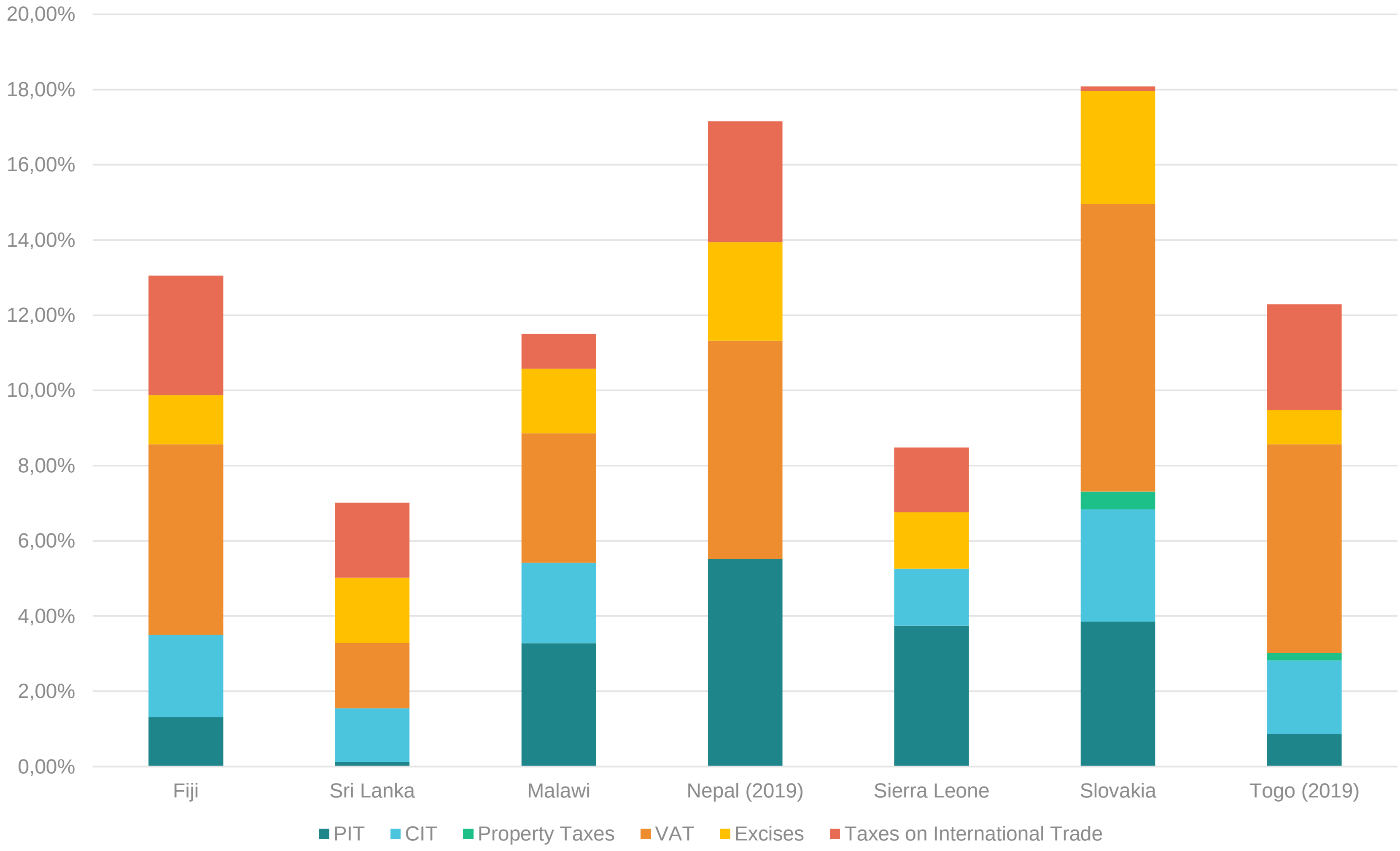
Composition of tax revenue



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 dilemna
    - Donors are locked in the strategy « Give » whatever the recipiendiary effort.
- Lack of political will to reform : lobbying, information.

DRM (Introduction)

1. Tax is an important source for financing public expenditures.

   Alternative ways: Debt, seignoriage (Zimbabwe=>hyperinflation), ODA.

   Which social contract?

      US, UK vs Continental EU model: Health, Education => Public or private spending? Pensions system…

2. Addis Tax Initiative (August, 2015)

      Tax= Priviliged tool for financing SDGs

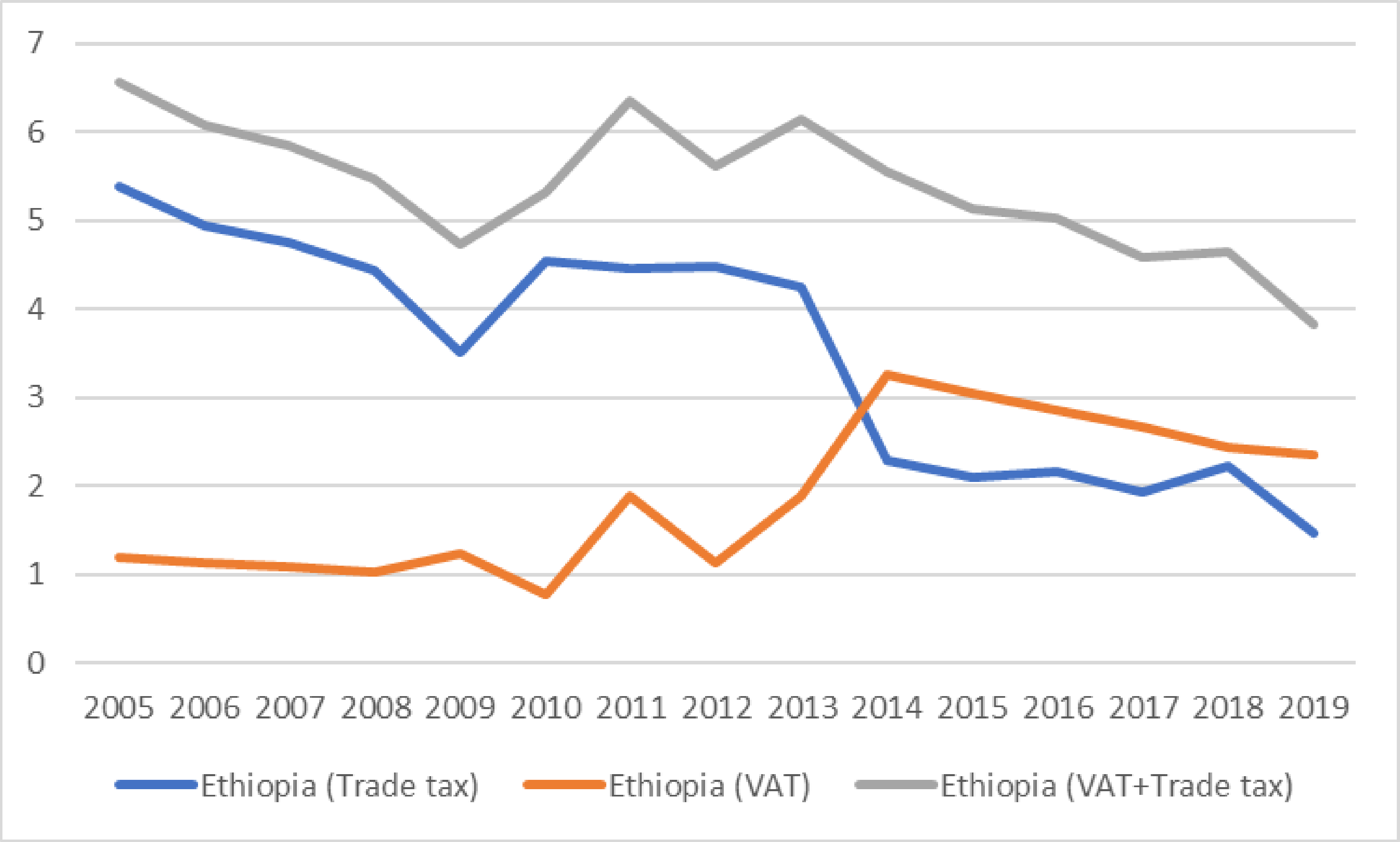
3. Why **D**RM?

      Domestic because of the worldwide **tax transition:**

      Decrease in tariff rates and revenue (Free trade, WTO)

      ⇒Increase in the taxation of domestic activity.

Tax transition: Ethiopia (% GDP)



Tariffs (Customs duties)

- Free trade
  - Tariffs distort market efficieny by raising prices, reducing trade volumes, and protecting inefficient domestic firms.
  - Trade liberalization maximize global welfare and comparative advantage (Ricardo).
- Protectionism
  - Tariffs protect domestic industries, preserve jobs, and foster self-sufficiency (agriculture?).
  - Strategic trade policies, bargaining.

Tariffs

- Tariffs => Risk of inflation, rent-seeking behavior, redistributive issue of globalization process (winner and looser) => politics.
- EU example: Economic integration => Political integration
- The U.S.-China trade war (2018-2019):
    - Imposition of tariffs on over $360 billion in goods.
    - Job Losses: 300,000 jobs in US due to higher production costs and retaliatory measures.
    - Temporary Gains: Some industries (e.g., steel) benefited in the short term, but overall employment suffered.

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DRM: A tool for State building

- Taxation = « The Thunder of History », Schumpeter
  - Taxation and wars (Income tax in Europe, US)
- Monopoly of legitimate violence, Weber
- Accountability of government
  - EU approach: Collect more, Spend better
  - Does taxation lead to representation? Empirical evidence.
- 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…

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Tax Policy (Goals)

- Increasing the tax revenue to GDP ratio.
- Improving the efficiency (neutrality) of the tax system.
  - Raising more revenue at a lower cost (administrative cost, compliance cost, less distortion in resource.
- Improving the fairness of the tax system
  - Equity, gender issue, reducing inequality.

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

- Tax expenditures
  - Reduced rates, exemptions…

- Beyond taxes

  Tariffs, Quasi-taxes…

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General recommendations in tax policy

- Principles:
  - Simplicity, efficiency, equity, fairness, inclusiveness
- 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.
  - Streamlining tax expenditures.
  - Tax flexibility (crisis).

Questions?

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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 (VAT, excise, tariffs)
    - 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).
  - Blockchain technology (EU VAT number).
- E-Filling, 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

Beyond tax administration: Corporations

- Legal tax liability and legal remittance responsability
- Firms collect/remit 85 percent of total tax revenue.
  - 83 percent in US; 87 percent in UK; 90 percent on avergae in OECD
  - VAT, excise, due by consumer paid by seller.
  - Whitholding mechanisms (payroll, employer; capital income, banks)
  - CIT, tariffs due and paid by firms.
- The firms' accounting service: The more powerful tool to collect taxes at low cost for tax administration (but with higher compliance costs).
  - E-tax reform can reduce this compliance costs.
  - An issue: Corporation tax exemptions may limit the scope of legal remittance responsability.

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Digitalization process: The case of Kenya (IMF study)

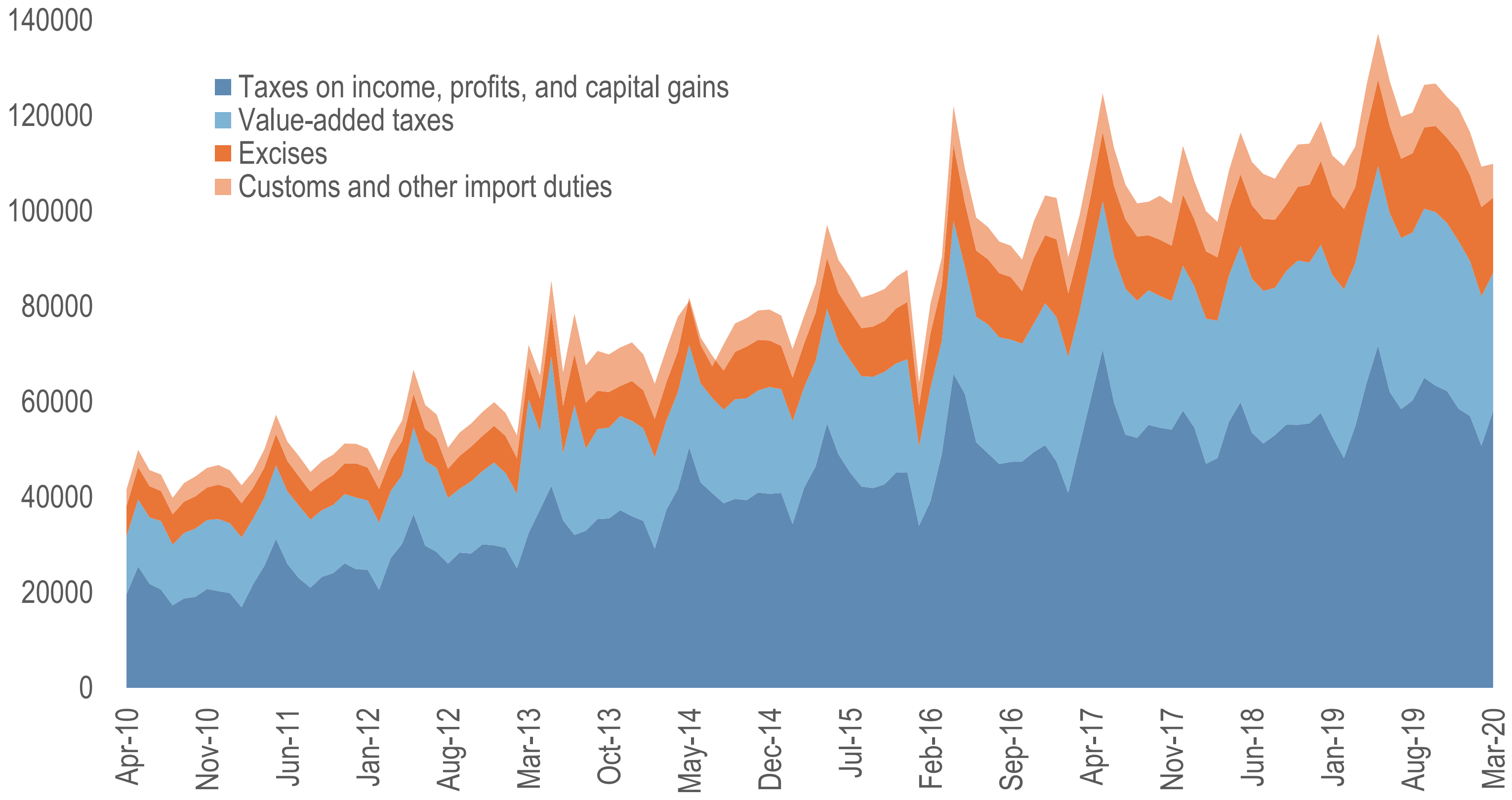
Digital tax administration

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

Some tax innovations in relevant countries

Country	VAT Introduction	Withholding Tax System Introduction	Revenue Agency Creation
Fiji	1 July 1992	1995	1999 (Fiji Revenue & Customs Service)
Malawi	1 Jan 2002	1997	1998 (Malawi Revenue Authority)
Nepal	16 Nov 1997	2002	1999 (Inland Revenue Department Nepal)
Sierra Leone	1 Jan 2010	2001	2002 (National Revenue Authority)
Slovakia	1 Jan 1993	1993	1993 (Financial Administration Office Slovakia)
Sri Lanka	1 July 2002	2002	2000 (Inland Revenue Department Sri Lanka)
Togo	1 Jan 1995	1996	2000 (Office Togolais des Recettes)

General recommandations in Tax/Customs administration

- Improve taxpayer databases (Tax Identifier Number)
  - Lack of coordination between tax administration and customs.
- Improve taxpayer services
- Simplify tax payment processes
  - Lowering compliance costs
- Risk-based audit (e.g. mirror analysis)
- Reinforce internal control (corruption)
- Appeals processes (often inadequate, unfair or nonexistent)
- Favor the formalization/incorporation of the economy

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)
- The Field Guide being currently revised (EU TAG: DG REFORM/TAXUD/INTPA)

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 Filling 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

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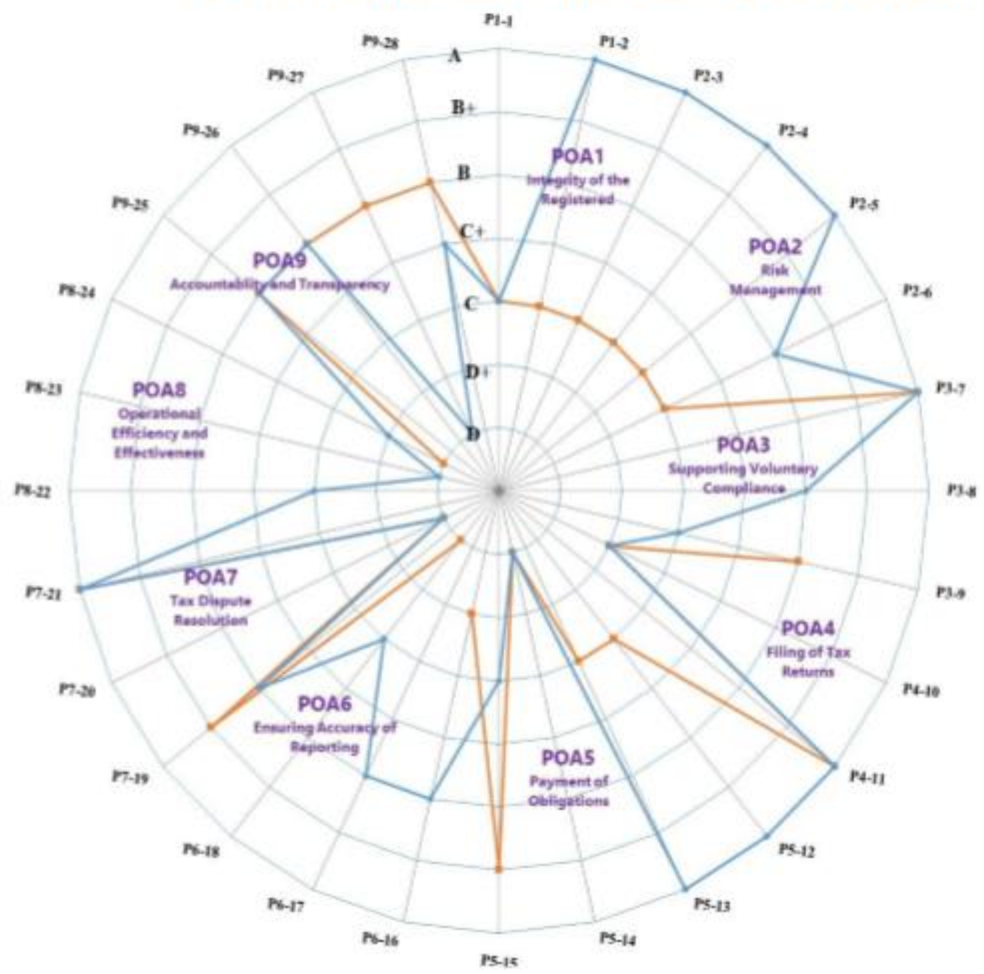
TADAT Framework (cont'd)

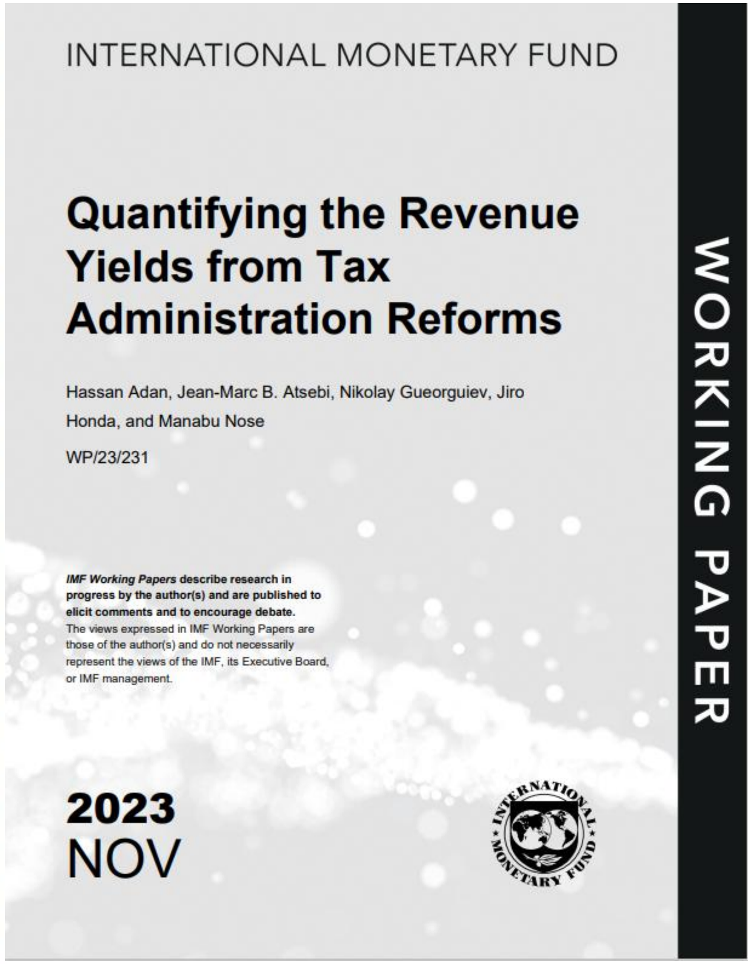
- **9** Critical Performance Outcomes Areas
  POA 1, POA 2,…
- **32** high-Level Indicators
  POA 1-1 ; POA 1-2,…POA 9-28
- **55** measured and scored dimensions (A to D)
  Scoring Methodology : Method **M1** (weakest link) and Method **M2** (average)
  POA 1-1.C, POA 1-2. D, … POA 9-28 C+

UGANDA

Figure 1. Uganda: Distribution of Performance Scores[2]



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
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
P6-18	D	C
P7-19	B+	B
P7-20	D	D
P7-21	A	A
P8-22		C
P8-23		D
P8-24	D	D+
P9-25	B	B
P9-26	B	B
P9-27	B	D
P9-28	B	C+


INTERNATIONAL MONETARY FUND

Quantifying the Revenue Yields from Tax Administration Reforms

Hassan Adan, Jean-Marc B. Atsebi, Nikolay Gueorguiev, Jiro Honda, and Manabu Nose

WP/23/231

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2023
NOV

WORKING PAPER

TADAT Framework (cont’d)

From November 2013 to December 2024

Assessment Package at www.TADAT.ORG

Σ 194 Assessments
o/w 150 National Assessments
o/w 49 Sub-National Assessments (Brazil, Nigeria, Uganda, Kenya)
o/w 37 Repeat National Assessments (
+/- 25 % reports published only (pls contact DEVCO E1)
3 Assessments commissioned by the DG INTPA
6 Assessments commissioned by the EU DG Reform

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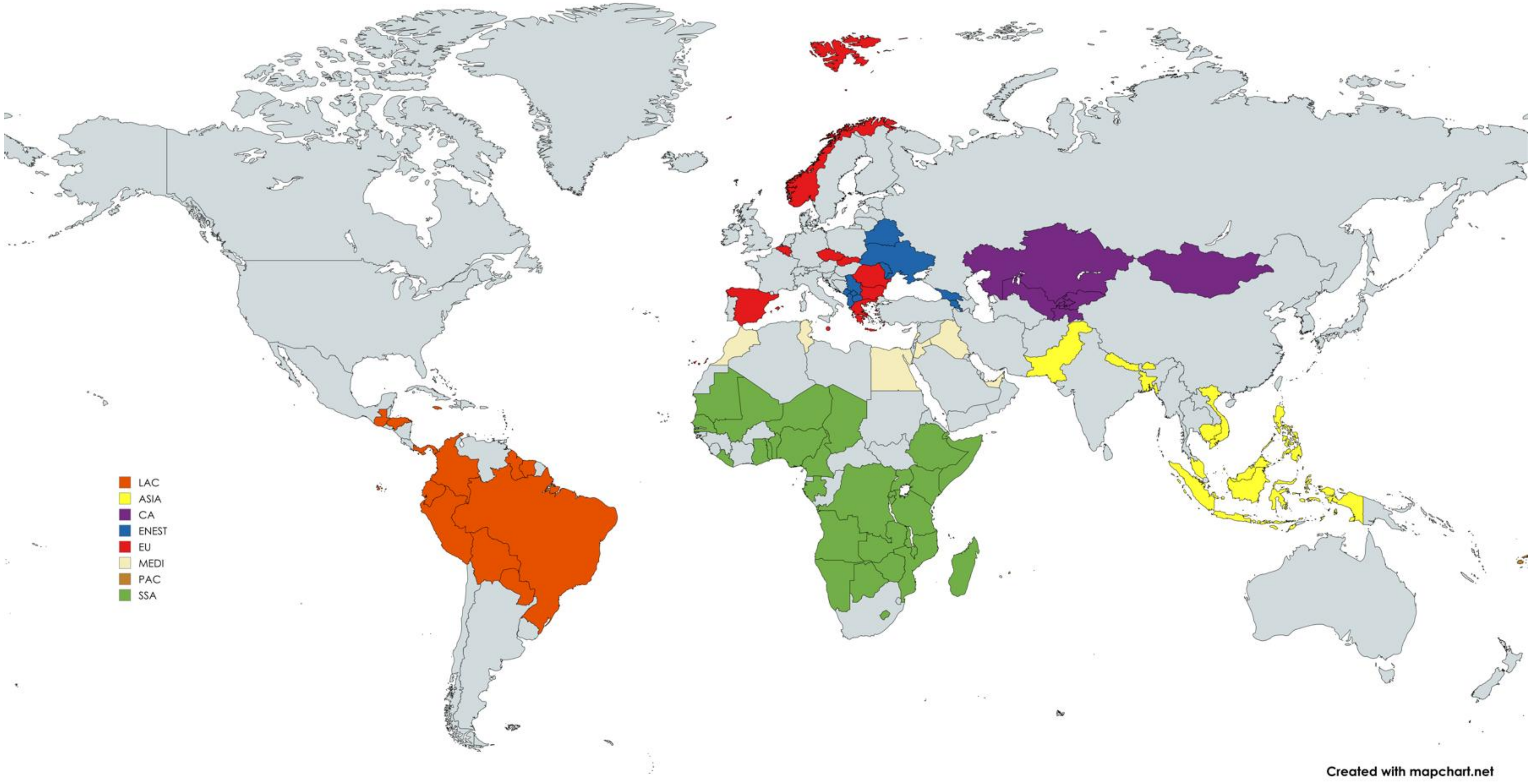
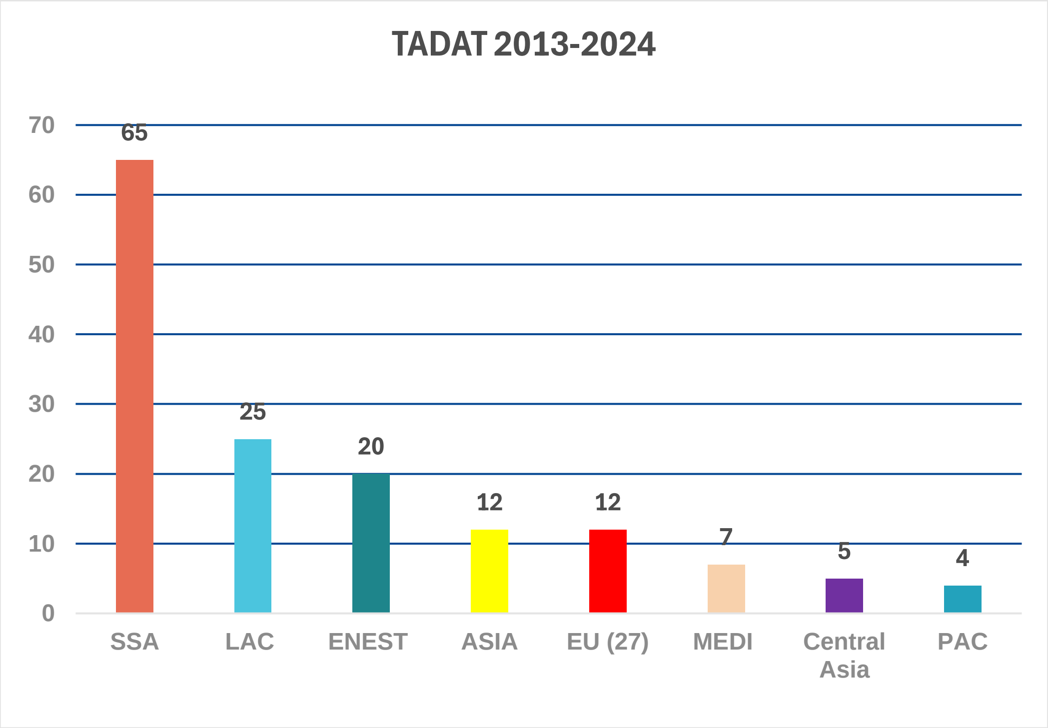
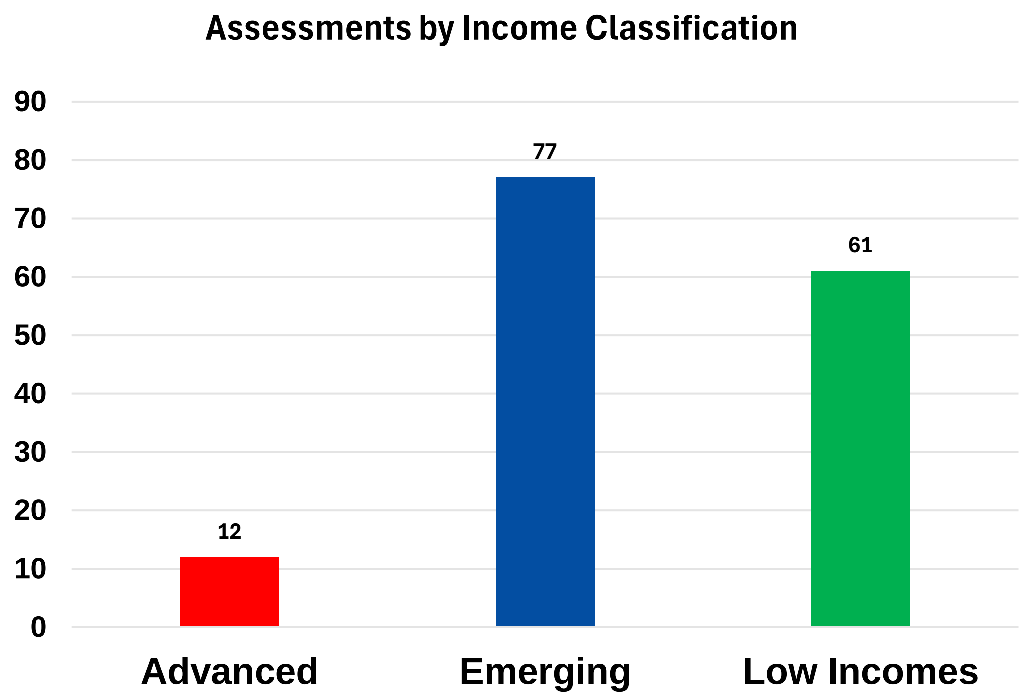
TADAT : a diagnostic tool with a global scope



A tool applicable across regions and income levels





PLANNED ASSESSMENTS (PIPELINE) FY 2025-2026			
Country			
1	Armenia	13	Laos
2	Aruba	14	Morocco
3	Azerbaijan	15	Mozambique
4	Barbados	16	Montenegro
5	Bolivia	17	Namibia
6	Burkina Faso (Repeat)	18	Saudi Arabia
7	Cameroon (Repeat)	19	Sierra Leone
8	Dominican Republic	20	Tajikistan
9	Equatorial Guinea	21	Togo
10	Eswatini	22	Vietnam (Repeat)
11	Grenada	23	West Bank
12	Guinea Bissau		

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TADAT Framework (cont’d)

The whole cycle (1-4) takes app min 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

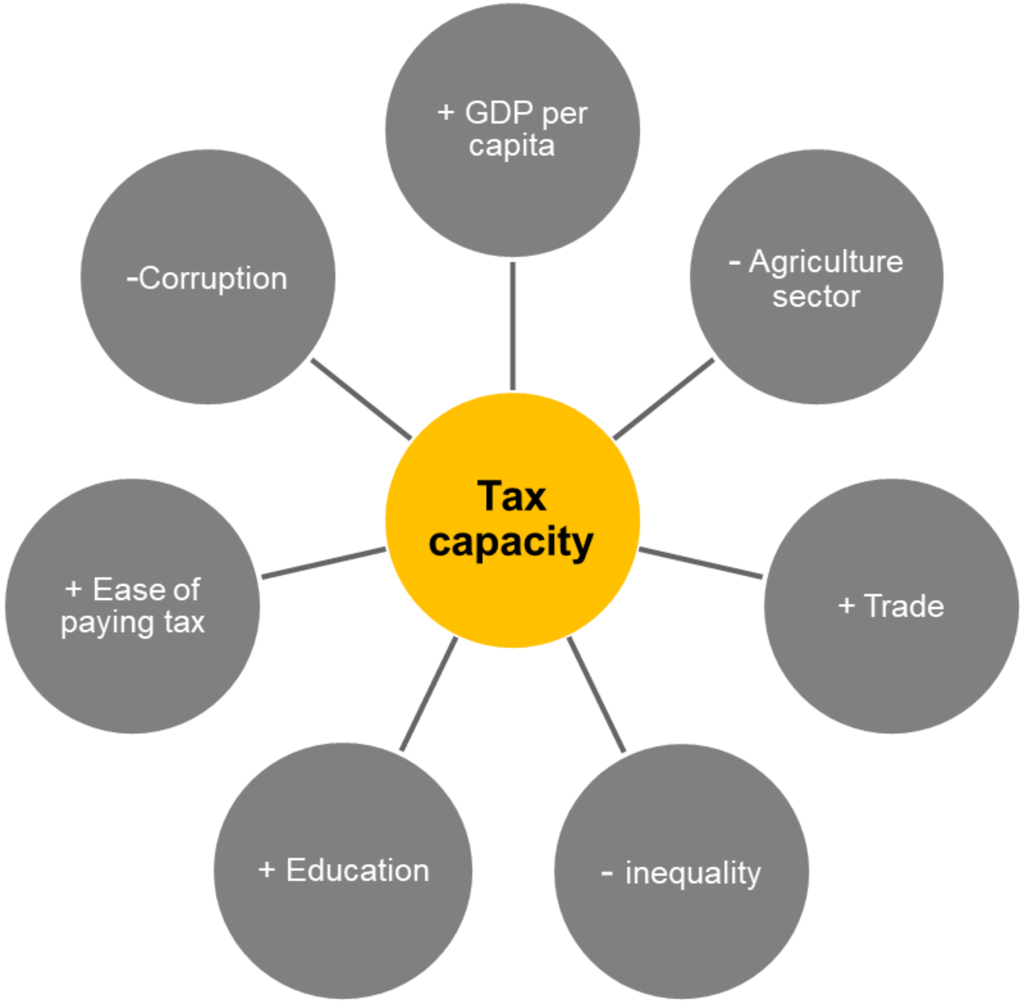
A TADAT assessment costs approximately €150.000 - € 200.000

Questions?

Tax effort

Quiz time!

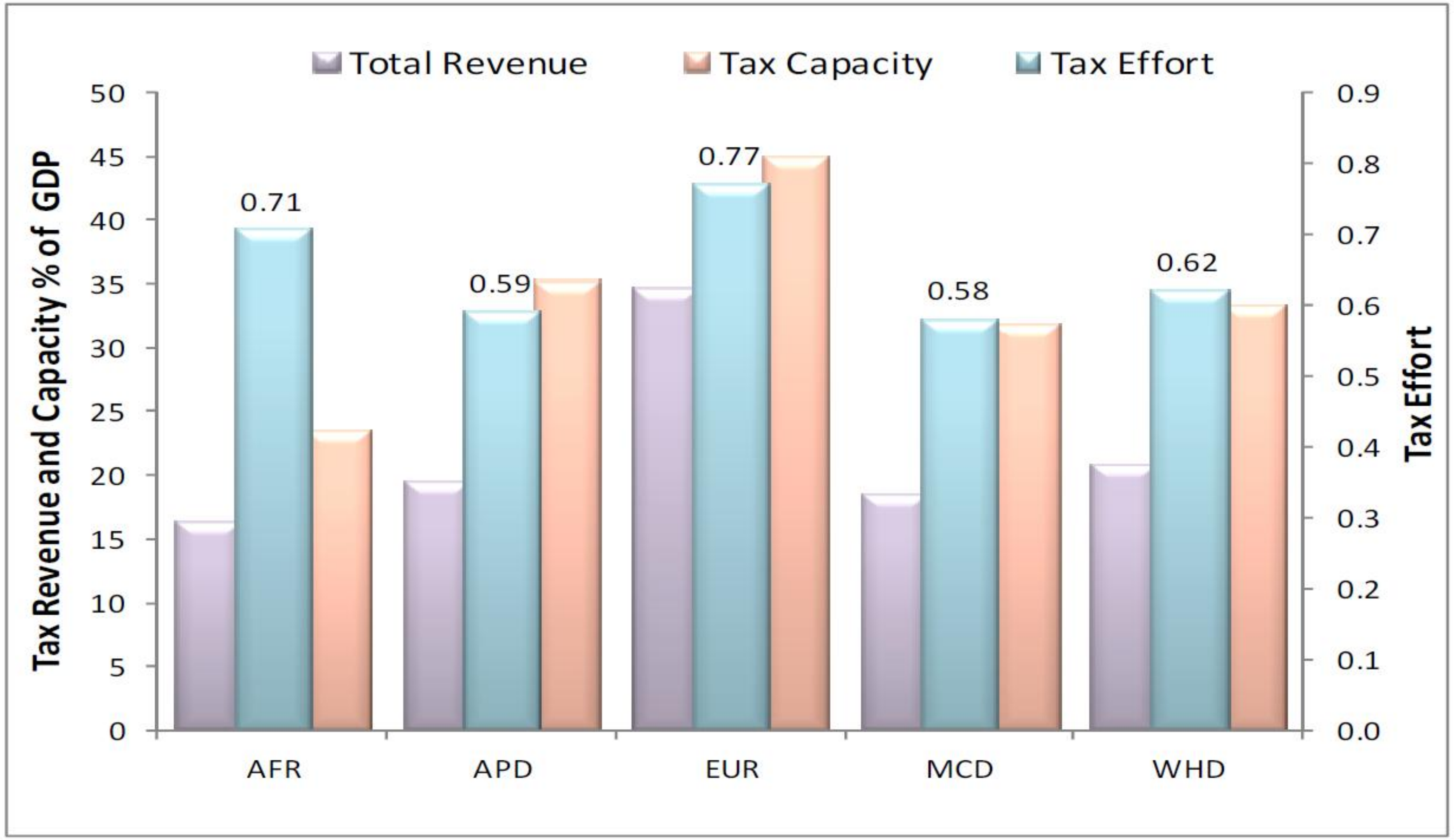
Tax effort (empirical)



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

Tax effort

Figure 1. Countries' Tax Effort by Region



Tax effort for relevant countries

Country	year	Tax-to-GDP ratio	Tax effort	Tax-to-GDP ratio	Non resource tax effort	Non resource CIT effort	PIT effort
		IMF World database		UN GRD Database			
Fiji	2007-2022	21,200	0,497	19,940	0,498	0,412	0,353
Malawi	2002-2022	11,039		7,834			
Nepal	2000-2022	12,455	0,438	9,809	0,372	0,313	0,307
Sierra Leone	1995-2022	8,469	0,396	7,881	0,349	0,379	0,351
Slovakia	1995-2022	19,002	0,477	19,379	0,470	0,368	0,375
Sri Lanka	1996-2022	11,147	0,416	12,270	0,415	0,350	0,289
Togo	1990-2022	9,994	0,423	9,824	0,404	0,388	0,344

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

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VAT parameters in relevant countries

Country	VAT Revenue to GDP Ratio (%)	Standard VAT Rate (%)	VAT Liability Threshold (Local Currency)	VAT Liability Threshold (Euro)	Ratio VAT Threshold/GDP per capita	GDP per capita (Local Currency)
Fiji	7,5	15	300 000	126 000	20,69	14 500
Malawi	5,8	16,5	10 000 000	8 400	5,26	1 900 000
Nepal	8,2	13	5 000 000	35 000	33,33	150 000
Slovakia	10,1	20	49 000	49 000	2,45	20 000
Sierra Leone	4,9	15	35 000 000	1 610	2,59	13 500 000
Sri Lanka	7,0	8	12 000 000	31 200	15,00	800 000
Togo	6,3	18	50 000 000	75 000	29,41	1 700 000

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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.

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Main VAT issues (1)

- VAT exemption or zero VAT rate
  - Tax incidence: Protecting the poorest?
  - Zero rate: Exportations
- Non deductibility => VAT = Sales tax
  - Petroleum products: Risk of smuggling?

Main VAT issues (2)

- Tax expenditure issue.
  - Does VAT exemption target the right (poorest) households?
- VAT credit refunds
  - Source of VAT fraud in EU (carousel)
  - Developing countries unable to refund VAT credit especially in resource rich countries => VAT exemption
- VAT and informality
  - VAT tax intermediary consumption of non VAT liable firms (small enterprises)
  - VAT is powerfull tool to tax informal sector
  - VAT exemptions favor informal firms.

Questions?

VAT

Quiz time!

Excises and Green taxes

Sin tax	Tobacco, alcohol, soft drinks?	Very regressive	Earmarking? Discourage bad behavior?
Luxury tax	Gold, diamonds, yachts	Usually progressive	Revenue focus
Externalities (Green Tax)	Unit or value of products that cause pollution or other “negative” externalities	Unclear, more regressive	Tax on pollutants in factories, hydrocarbons

Excises

- Ad valorem, specific (ad quantum) or both
- Excises (like VAT) remain heavily collected at the 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), highly taxed.

Green taxes

- Protecting the environment:
  - Targetting polluting activities (production, consumption)
  - Doubel dividendes: rasing revenue and modifying behavior (contradiction)
- Pigou vs Coase (tax vs pollution right market, bargaining)
- Tax *à la Pigou*
  - Internalize negative externalities/spillovers
  - Taxing the carbon content of goods and services.
- EU Carbon Border Mecanism (implemented by 2026): Cement, steel, aluminum, fertilizers, electricity =25 percent of total CO_2 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.

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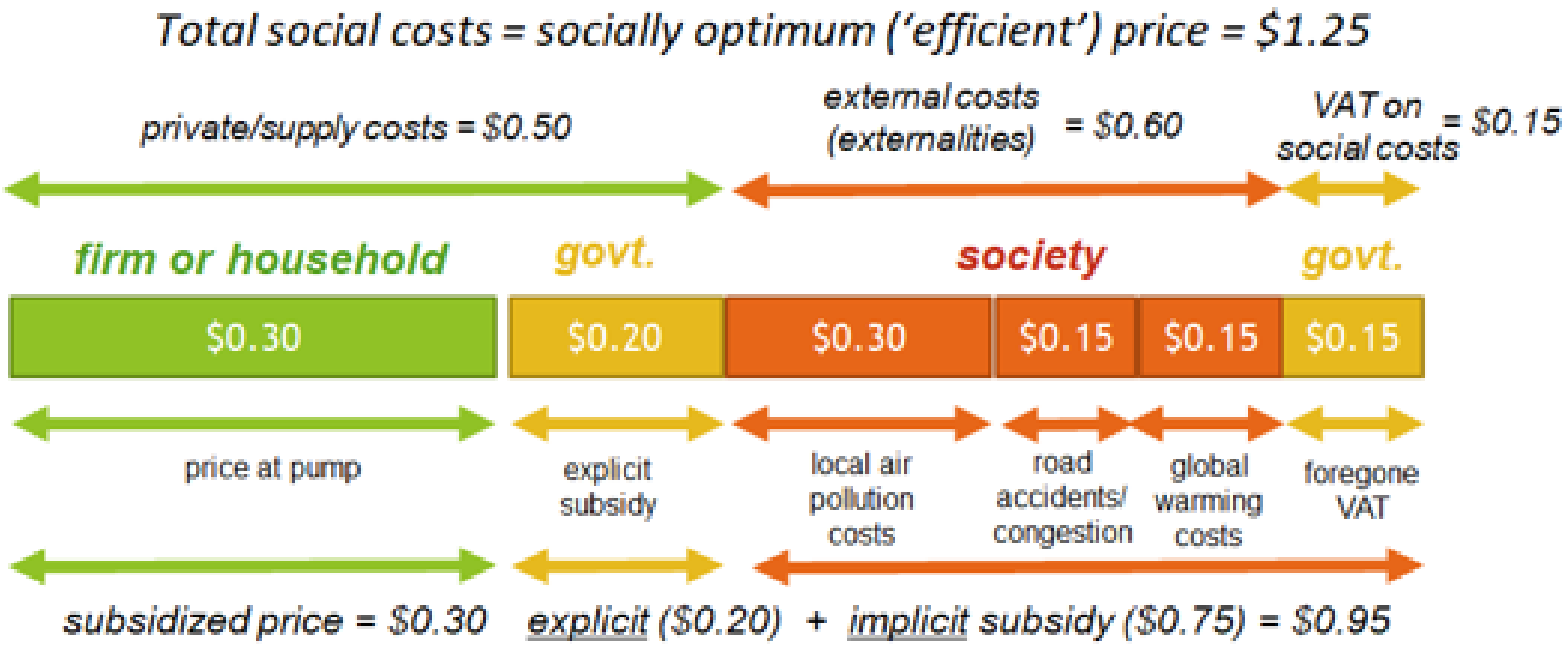
Green tax and fuel subsidies

- IMF approach of fuels subsidies



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Questions?

Excises

Quiz time!

Direct taxation

Country	Standard PIT Rate (%)	Taxable Unit	PIT Revenue to GDP Ratio (%)	Standard CIT Rate (%)	CIT Revenue to GDP Ratio (%)
Fiji	20	Individual	3,2	20	2,5
Malawi	30	Individual	2,1	30	1,8
Nepal	25	Both	2,8	25	3,1
Slovakia	19	Both	4,5	21	3,9
Sierra Leo	30	Individual	1,7	25	2
Sri Lanka	24	Individual	3	24	2,6
Togo	35	Individual	2,4	28	2,3

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 (global) income tax; Dual income tax; Flat tax
- Political debate around the Top margin tax rate: Progressivity of PIT

Questions?

PIT

Quiz time!

CIT (Corporate Income Tax)

- Tax on profit
  - Definition of Profit (very complex)
  - Physical person (self-employee) and corporations
- More important revenue in developing countries than in developped ones.
  - Highly concentrated in developing countries (<30 firms = 70% of CIT revenue)
  - Minimum tax based on turnover (0.5 to 2 percent of 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

Solutions

- Transparency, whitholding tax regimes (but limited by DTAs)
  - Country by country report (EU)
- Arm’s length principle,
  - Reduce transfer price: Compare transfer price to market price.
- 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.
- Digital Sales Tax: Google, Amazon… Tax on turnover (2-3 percent).
  - US vs France, Germany, Italy

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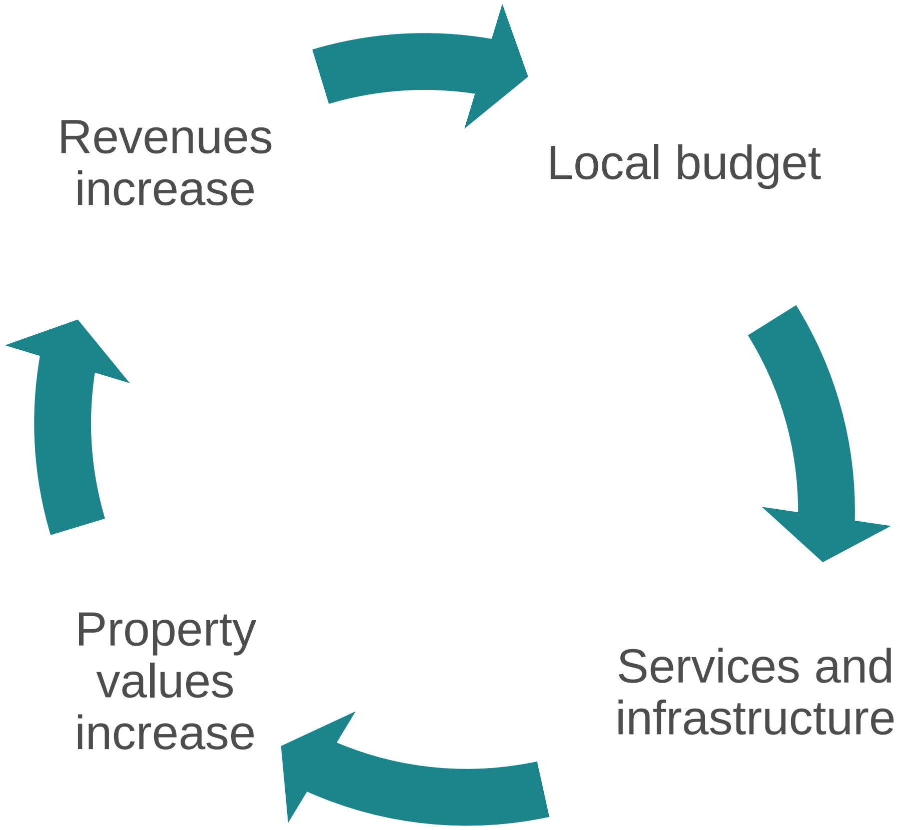
Questions?

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 a transfer of public funds resulting from a reduction of tax obligations in relation to a standard, rather than direct public 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.

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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***

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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, their equity…

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://commitmentoequity.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

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

- Resource curse (oil, mining)
- Main recommandations 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

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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, oligoploy, perfect competition).
- Pass through analysis
- Beyond, Marginal Excess Burden of taxation,
  - Haberger triangle, CGEE, DSGE

Lets talk about Budget Support DRM Indicators

Some hints …

Building a DRM indicator for Budget Support

- SMART indicators:
  - 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 Intitative 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 lost of core modules includes: registration, accounting, appeals and audit.
Reducing VAT credit reimbursment 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

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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 and DG TAXUD

European Commission

EU policy towards high risk third countries

DRM Training – AML/CFT

13 March 2025

Erkam Ok
DG FISMA. D2
Financial Crime

Role of DG FISMA - Anti-Money Laundering and Counter Terrorist Financing

- Objective: Prevention of money laundering and terrorist financing in the financial system
- Legislation on AML/CFT for financial and non-financial sectors
- Enforcement of EU rules

Financial Action Task Force (FATF)

- Global standard-setter for measures to combat money laundering and terrorist financing
- Intergovernmental body with 39 members and the participation of over 180 countries through a global network of FATF-style regional bodies (« FSRBs ») (e.g. MONEYVAL, EAG, MENAFATF)
- European Commission = Founding member of FATF
- February 2023: FATF Plenary suspended the membership of Russia

Financial Action Task Force (FATF)

- FATF reviews countries' compliance with AML/CFT standards ("mutual evaluations") on technical compliance (40 recommendations) and on effectiveness (11 immediate outcomes)

- FATF adopts 3 times a year lists (at each FATF Plenary) of countries having strategic deficiencies (International Cooperation review Group « ICRG » process) based on mutual evaluations:

  - FATF Public Statement ("FATF black list") – call for measures

  - Jurisdictions under increased monitoring ("FATF grey list") for countries having strategic deficiencies that agreed to implement an action plan.

- Commission actively participates in the ICRG and its 4 geographical Joint Groups

EU legal framework

- Anti-Money Laundering Directive (Article 9)
    - *Objective*: protect integrity of EU financial system
    - *Legal requirement*: identification of third countries having strategic deficiencies in their AML/CFT regimes – based on Delegated Act
- Consequences of a listing by the EU
    - Mandatory Enhanced Due Diligence (EDD)
    - Consequences under the **Financial Regulation (Article 155)**

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EU legal framework

- **Article 155 Financial Regulation:**

2. When implementing Union funds, persons and entities shall:

(a) comply with applicable Union law and agreed international and Union standards and, therefore, not support actions that contribute to money laundering, terrorism financing, tax avoidance, tax fraud or tax evasion;

(b) when implementing financial instruments and budgetary guarantees in accordance with Title X, not enter into **new** or **renewed operations** with entities incorporated or established in jurisdictions listed under the relevant **Union policy on non-cooperative jurisdictions** or that are **identified as high-risk third countries pursuant to Article 9(2) of Directive (EU) 2015/849**, or that do not effectively comply with Union or internationally agreed tax standards on transparency and exchange of information.

Entities may **derogate from point (b) of the first subparagraph only if the action is physically implemented in one of those jurisdictions**, and does not present any indication that the relevant operation falls under any of the categories listed in point (a) of the first subparagraph.

EU lists of high risk third countries

High risk third countries and the International context content of anti-money laundering and countering the financing of terrorism (europa.eu)

- 1st list adopted on 14 July 2016 (Regulation 2016/1675)
- First methodology adopted in June 2018
- Rejection of the first EU autonomous list in 2019
- Divergent views of the EP and Council
- Refined methodology adopted in May 2020 (SWD(2020)99)
    - More synergies with the FATF
    - Increased engagement with third countries

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Alignment with FATF lists

- Listing by the FATF:
  - Any country listed by the FATF is listed by the EU
  - Exceptions for EEA countries and candidate countries
- De-listing by the FATF:
  - The Commission will assess whether the FATF Action Plans for a delisting are sufficiently comprehensive.
  - Only where need be, specific EU requirements ("Benchmarks") would "top up" the existing FATF Action Plan (exceptional situations)
- Engagement with third countries at all stages – in close cooperation with EEAS (+ other services)

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Autonomous assessment

Staged approach:

- Step 1: scoping exercise – criteria:
  1. Countries identified by the COM, EEAS or Europol as having a systemic impact on the integrity of the EU financial system
  2. International offshore financial centers
  3. Economic relevance considering magnitude of the financial centers and the economic ties with the EU
- Step 2: prioritisation
  1. Identified by Europol/EEAS as being exposed to ML/TF
  2. Synergies with the tax list
  3. Countries identified as high risk in 2019

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Autonomous assessment

Staged approach:

- Step 3: Assessment, 8 building blocks assessed

1. **criminalisation of ML/TF**
2. **Customer Due Diligence (CDD), reporting Suspicious Transactions Reports (STR) and record keeping in the financial sector (FIs),**
3. **CDD, reporting STR and record keeping in non-financial sector (DNFBPs)**
4. **Beneficial ownership,**
5. **sanctions,**
6. **powers of authorities,**
7. **international cooperation,**
8. **targeted financial sanctions**

Autonomous assessment

Step 4: Engagement process with third countries before the conclusion of a listing:

- Consult the countries on preliminary findings of the Commission
- Drafting country-specific EU Benchmarks to address concerns
- Seek third country commitment to implement EU Benchmarks
- Deadline of 12 months given to third countries to address concerns

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Autonomous assessment

Step 5: Reaching a conclusion for listing a third country

- If the country does not implement the EU Benchmarks
- If the country is not cooperative
- If there is an overriding level of risk that needs to be mitigated while there is no ability for the country to implement EU Benchmarks

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Countries listed by the EU

- Current list (as of March 2025): Afghanistan, Barbados*, Burkina Faso, Cameroon, Democratic People's Republic of Korea (DPRK), Cameroon, Democratic Republic of Congo (DRC), Gibraltar*, Haiti, Iran, Jamaica, Mali, Mozambique, Myanmar, Nigeria, Panama*, the Philippines, Senegal, South Africa, South Sudan, Syria, Tanzania, Trinidad and Tobago, Uganda*, UAE*, Vanuatu, Vietnam, and Yemen.
- Countries last delisted by the EU (12 December 2023): Cayman Islands and Jordan.

* Countries/jurisdictions that were supposed to be de-listed by the last DA that was adopted by the EC in March 2024 (while Kenya and Namibia were supposed to be added to the list). However, the DA was rejected by the EP.

Next countries for FATF post observation period reports (i.e. possibility of listing by FATF plenary)

- Bolivia and British Virgin Islands (June 2025)
- Kuwait and Papua New Guinea (February 2026)
- Iraq and Bosnia & Herzegovina (June 2026)

Technical assistance

- Provided by the Global Facility managed by FPI
- Demand driven process
- Third country to contact the EU delegation

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EU list of non-cooperative jurisdictions for tax purposes

Presentation

EU listing process

Background

- **Adoption**:

2016: the Council mandated the Code of Conduct Group (COCG) for Business Taxation to carry out the preparatory work to establish the list and agreed the listing criteria

First EU list adopted on 5 December 2017

- **Objective**: tackle unfair tax competition and promote and strengthen tax good governance at international level

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The EU list of non-cooperative jurisdictions in tax matters

- A list of jurisdictions published as **Annex I to conclusions adopted by the Ecofin Council** (EU Finance Ministers) that do not cooperate with the EU in terms of fair taxation and global tax transparency.
- The list is adopted twice every year (February and October)
- The aim is not to name and shame countries, but **to encourage positive change in their tax legislation and practices through cooperation**.
- The EU list is one of the instruments through which the EU seeks to promote and strengthen tax good governance mechanisms, fair taxation and global tax transparency in order to **tackle tax fraud, evasion and avoidance**. It seeks to address in particular **external challenges to EU countries' tax bases**.

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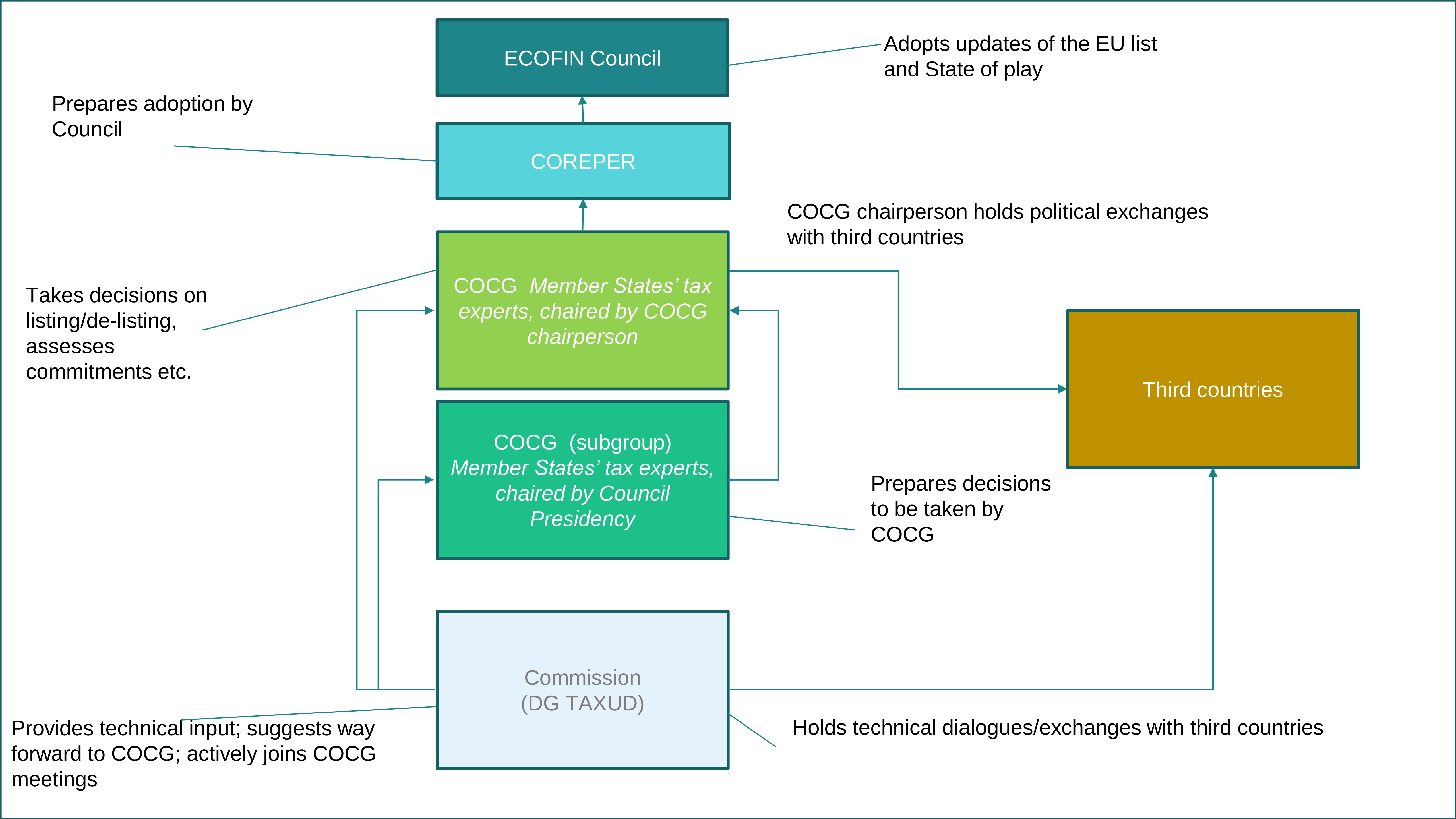
Annex II: a list of cooperative jurisdictions

- A list of jurisdictions that do not yet comply with all international tax standards but have committed to implementing reforms are included in a **state of play document** (Annex II).
- Also adopted twice every year (February and October)
- Annex II means that there is ongoing dialogue between the EU and the jurisdictions committed.
- No consequences are attached to Annex II countries.


ECOFIN Council
Adopts updates of the EU list and State of play
Prepares adoption by Council
COREPER
COCG chairperson holds political exchanges with third countries
Takes decisions on listing/de-listing, assesses commitments etc.
COCG *Member States' tax experts, chaired by COCG chairperson*
Third countries
COCG (subgroup) *Member States' tax experts, chaired by Council Presidency*
Prepares decisions to be taken by COCG
Commission (DG TAXUD)
Provides technical input; suggests way forward to COCG; actively joins COCG meetings
Holds technical dialogues/exchanges with third countries

A brief overview of the EU listing process

Situation on 18 February 2025

ANNEX I — 11 JURISDICTIONS	18 FEBRUARY 2025	ANNEX II — 08 JURISDICTIONS
AMERICAN SAMOA		ANTIGUA AND BARBUDA
ANGUILLA		BELIZE
FIJI		THE BRITISH VIRGIN ISLANDS
GUAM		BRUNEI DARUSSALAM
PALAU		ESWATINI
PANAMA		SEYCHELLES
RUSSIAN FEDERATION		TÜRKIYE
SAMOA		VIETNAM
TRINIDAD AND TOBAGO		
US VIRGIN ISLANDS		
VANUATU		

EU listing criteria

Criterion 1: Tax transparency

1.1

- The jurisdiction should implement the international standard for automatic exchange of financial account information in tax matters (AEOI), as evidenced by:
  1) a positive overall legal determination by the Global Forum ("In Place" or "In Place but Needs Improvement), as well as on Core Requirements 1 and 2 of the ToRs for the peer review on AEOI, and,
  2) activated exchange agreements to automatically exchange information on financial accounts with all EU Member States.

1.2

- The jurisdiction should implement the international standard on Exchange of Information on Request (EOIR)
- At least "Largely Compliant" overall rating by the Global Forum on EOIR as a result of the GF peer review for EOIR of the jurisdiction during Round 2 (2016-2026)

1.3

Being a party to the Convention on Mutual Administrative Assistance in Tax Matters (MAC)

1.4

Future criterion 1.4:
Incorporate beneficial ownership as a fourth transparency criterion
EU Member States are currently discussing on the requirements of this criterion

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Criterion 2: Fair taxation

2.1

- The jurisdiction does not operate harmful tax regimes, defined on the basis of the criteria of the Code of Conduct for Business taxation
- If the jurisdiction operates a FSIE (foreign source income exemption), it has sufficient anti-abuse and substance requirements provisions in place and it respects international norm
- Jurisdictions – IF members with regimes assessed by the FHTP: non-harmful

2.2

- The jurisdiction should not facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction.
- Jurisdictions with zero or almost zero corporate taxation should have in place economic substance provisions to ensure that entities taxed at such rate are performing their income generating activities in the jurisdiction

Criterion 3: Implementation of anti BEPS-measures

3.1

- Requirement to join the BEPS Inclusive Framework (IF) or commit to implement on its own the agreed OECD anti-BEPS minimum standards

3.2

- Actual implementation of BEPS minimum standards
- Currently assessment of the criterion is limited to Country-by-country reporting standard
- No general recommendations by the IF and exchange relationships with all EU MS

Consequences of the listing

Member States's tax defensive measures

- **Administrative measures**:

Reinforced monitoring of transactions
Increased risk audits for taxpayers who benefit from listed regimes
Increased risk audits for taxpayers who use tax schemes involving listed regimes

- **Legislative measures:**

Non-deductibility of costs incurred in a listed jurisdiction
Controlled foreign company rules
Withholding tax measures
Limitation of the participation exemption

EU funds and other EU legislation

- **EU Funds**:

Should not support projects contributing to tax avoidance
Should not be used in jurisdictions listed by the EU for tax purposes

- **Other EU legislation :**

DAC 6 : a tax scheme routed through an EU listed country is automatically reportable to tax authorities
Public CbCR : MNEs above the CbCR threshold should disclose publicly income tax information in each third country listed in the EU list (Annex I) or mentioned for two consecutive years in Annex II.

International tax cooperation: relevant developments

Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy

Pillar 1

- **(re-)allocation of taxing rights** to secure and sustain the international corporate income tax system
- fair contribution of tax to market jurisdictions where MNEs generate income
- removal of existing digital services taxes

Pillar 2

- ensuring multinational enterprises (MNEs) will be subject to a **minimum tax rate of 15%**
- removing a substantial part of the advantages of shifting profits to jurisdictions with no or very low taxation

comprehensive, global consensus-based ***solutions to the tax challenges arising from the digitalisation and globalisation of the economy***

Pillar 1 is not yet fully agreed, with some political issues requiring finalization. For the EU, **Pillar 1 remains the preferred solution** to address the tax challenges arising from the digitalisation of the economy.

The EU is among the **first jurisdictions globally** to implement Pillar 2. The rules of the EU Pillar 2 Directive already entered into force in all Member States.

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UN Framework Convention on International Tax Cooperation

UNFCITC

Goal:

- Establish a legally-binding Framework Convention on international tax cooperation at the UN.
- The Framework Convention will be negotiated jointly with two early protocols on (1) taxation of cross-border services; and (2) tax dispute prevention and resolution.

Context:

- Push from developing countries for more influence in the international standard-setting on tax matters.

EU participation:

- EU Member States are engaging constructively to find consensual solutions that would maximise synergies among different international fora.

State of play:

- The intergovernmental negotiating committee started its work in February, with the organisational session held on 3-6/2.
- First substantive discussions are planned for 4-15 August in New York, and 10-21 November in Nairobi.
- Negotiations should be concluded by the end of 2027.

Thank you

European Commission