

MTRS as a way forward in Asia

Session: Introduction and Setting the Stage

PCT-ADB Joint Virtual Workshop

Day 2

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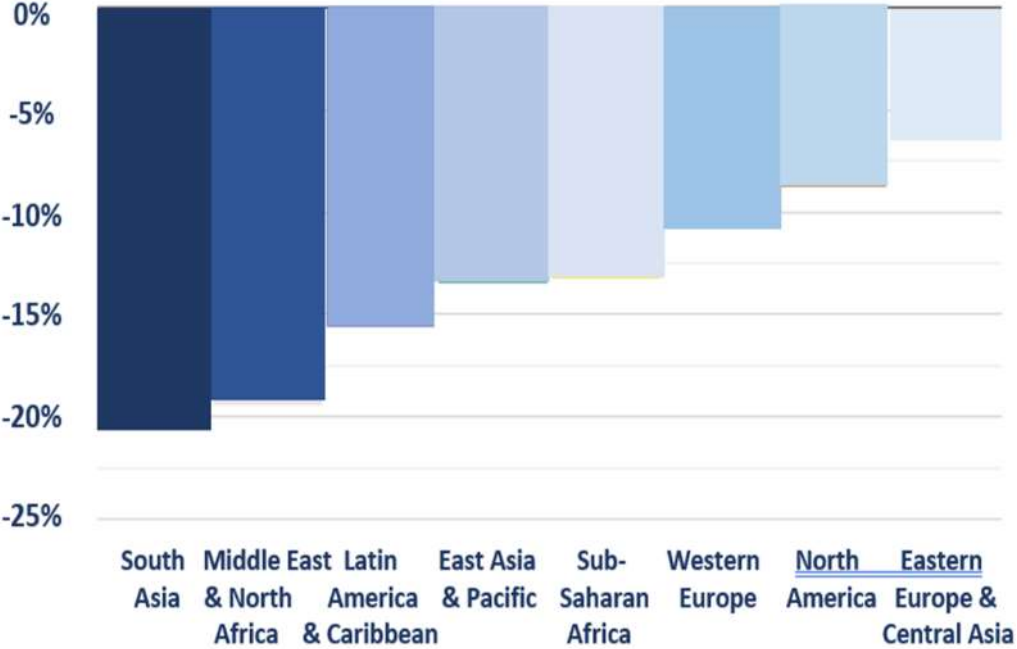
The World Bank



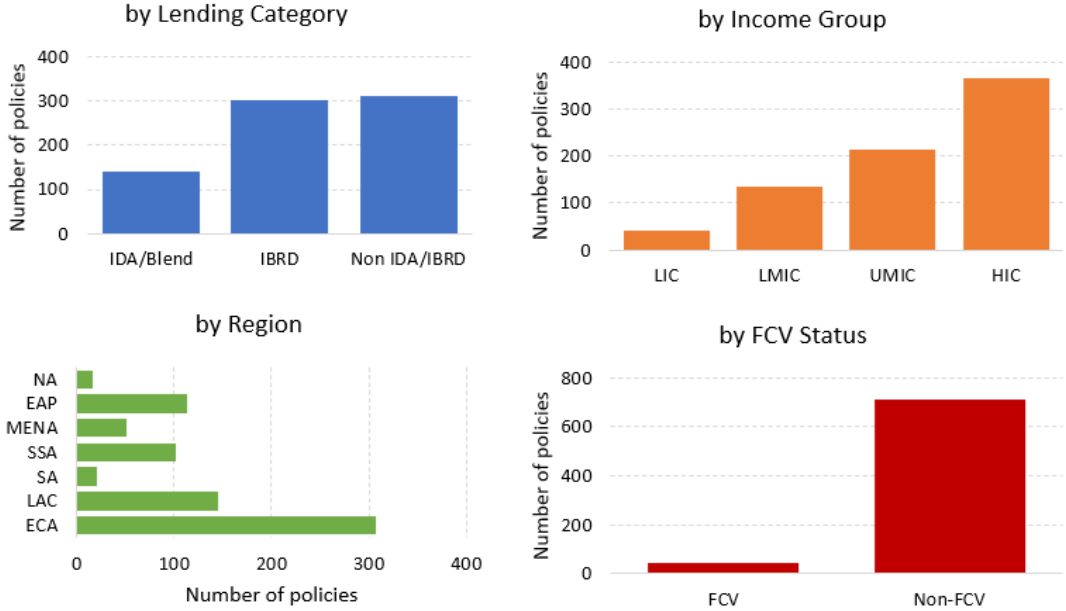
1. Some reflections on tax reform issues and recent trends in Asian countries.

Covid-19 resulted in sharp drop of revenue collection in the Asia region. In response, governments implemented sizable tax relief packages.

Tax revenue change (%) – 2020 vs 2019 (real)



Revenue measures to protect businesses



Source: Calculations from staff of the Fiscal Policy and Sustainable Growth Unit, World Bank.

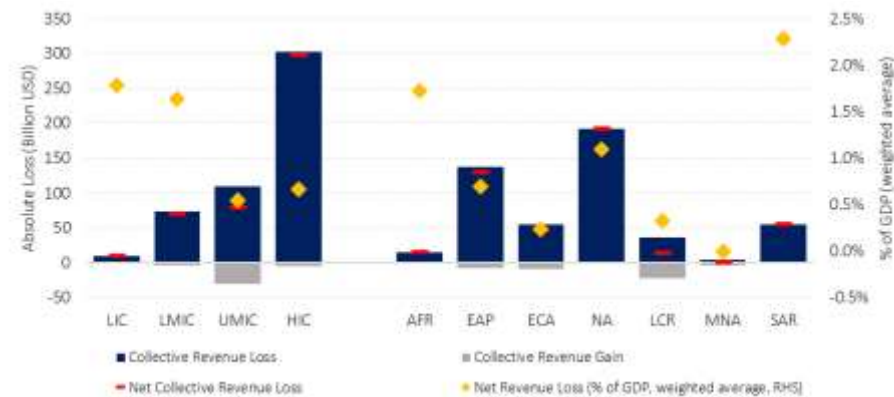
Revenue shortfalls materialize through different channels, mostly from lower turnaround levels of tax payments from liquidity constrained taxpayers, shrinking tax bases resulting from lower economic activity, and sudden declines of overall tax compliance. Tax relief packages pose mid-term challenges for revenue administrations to regain pre-Covid 19 compliance levels.

But even before Covid-19, several Asian countries faced steep tax challenges: race to the bottom, tax avoidance and vertical equity imbalances.

CIT Rate trends (2005-2018)

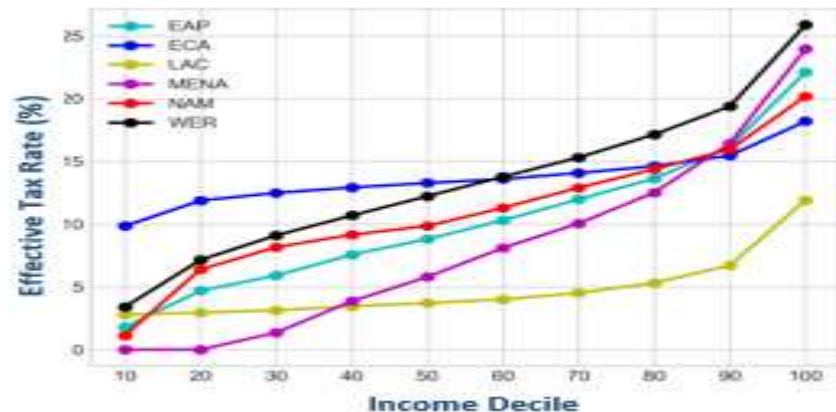


Revenue losses from corporate tax avoidance



Source: Cobham and Jansky, 2018, and WDI, 2020.

PIT distribution by income decile

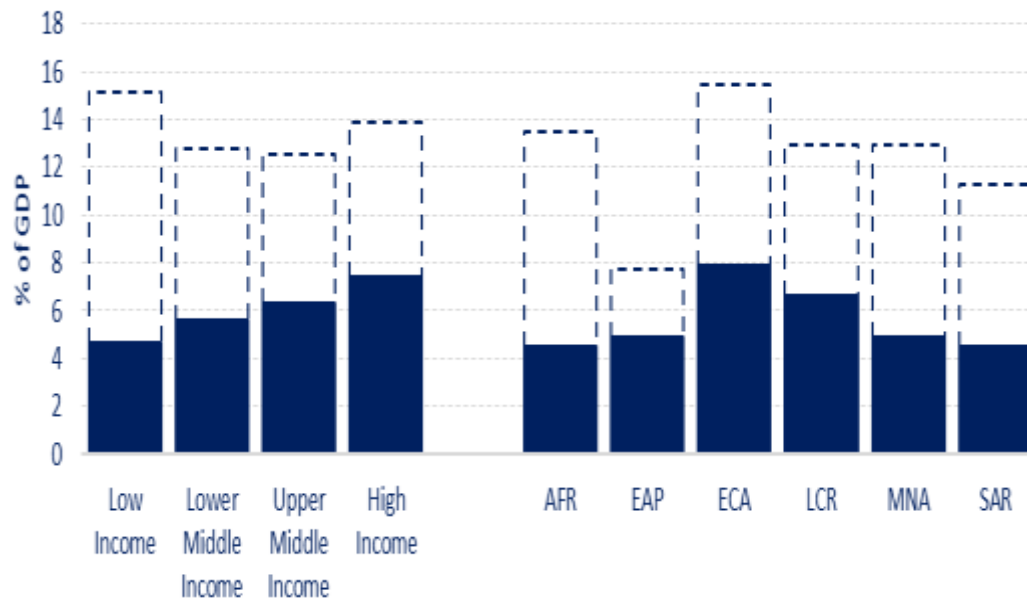


Source: Estimations by WB staff.

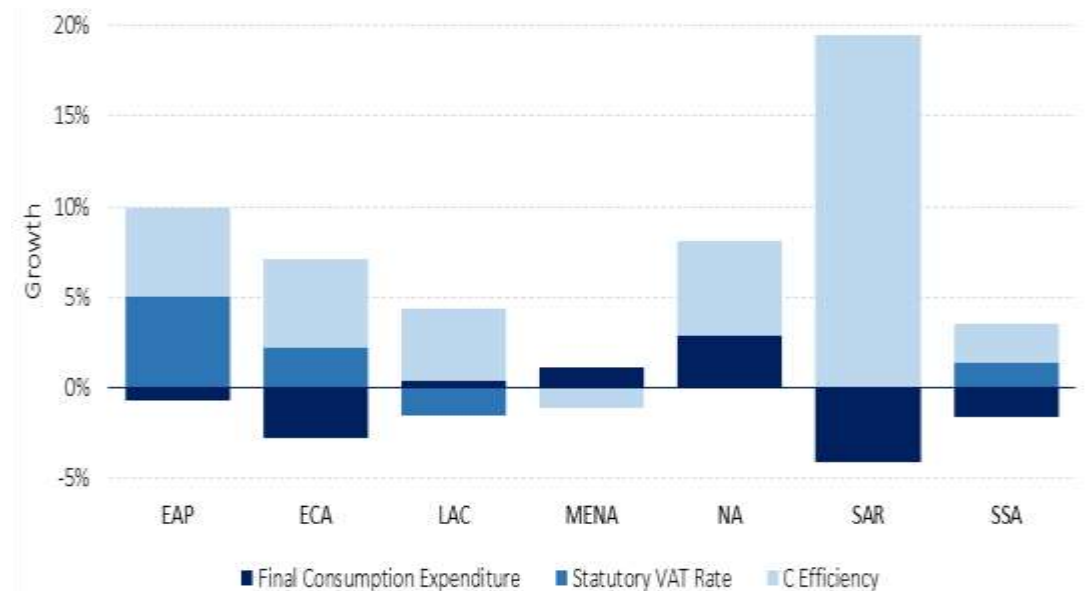
- Small and open economies in Asia are disproportionately exposed to tax base erosion from international trade.
- Reduction in CIT rates could be a neutral tax incentive, in the absence of other types.
- Special treatment to some capital sources of income limits the ability of the PIT system to enhance progressivity and fairness.

Furthermore, VAT policy and compliance gaps have been undermining the capacity of main source of tax revenue to mobilize resources for development.

Potential vs actual VAT collection



Increases in VAT collection by contributing factors



Among other areas of reform, there seems to be space ahead to improve VAT systems in EAP and SAR countries through streamlined rate and threshold structures, rationalization of exemptions and a more efficient refund system.

Business tax compliance burden show a favorable downtrend, due in part to better services and expansion of e-filing/payment facilities.

Average hours to comply and change in the last five years (DBI 2020)

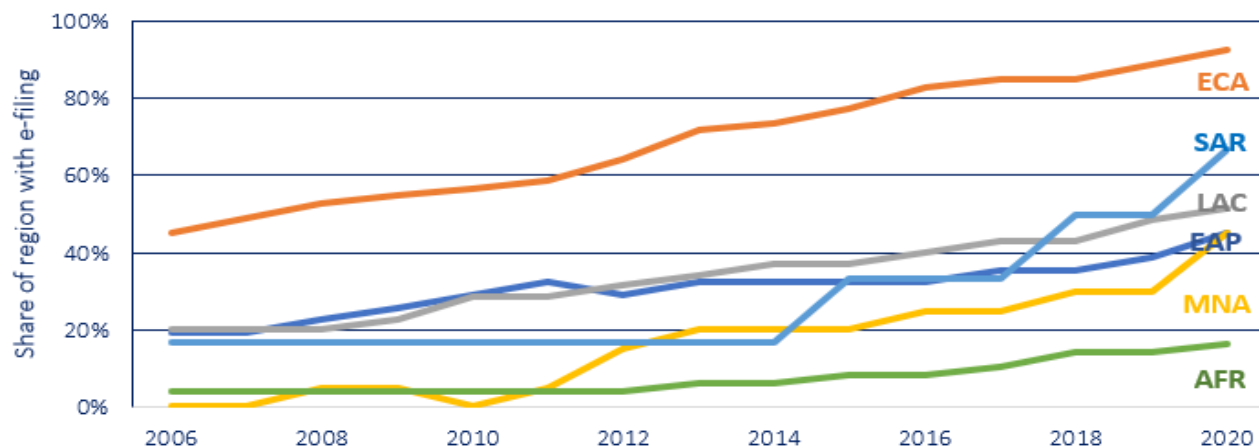
Regions	AFR	EAP	ECA	LCR	MNA	SAR
Average Hours (2020)	280	166	178	324	207	305
Change in Last 5 Years	-20	-28	-17	-36	-10	-3
Country Groupings	LIC	Resource Rich	MIC	Below 15%	FCS	Less transparent
Average Hours (2020)	270	271	273	292	305	383
Change in Last 5 Years	-8	-13	-34	-7	+3	+7

^[1] Resource rents are available until 2018. Data is hours required to pay taxes (2020). Sample is the resource rich countries in 2018.

^[2] Denotes the group of countries collecting less than 15% tax-to-GDP (2018). The “Below 15%” sample is determined using ICTD/UNU-WIDER data, then compares DBI 2020 and DBI 2016 data within this sample.

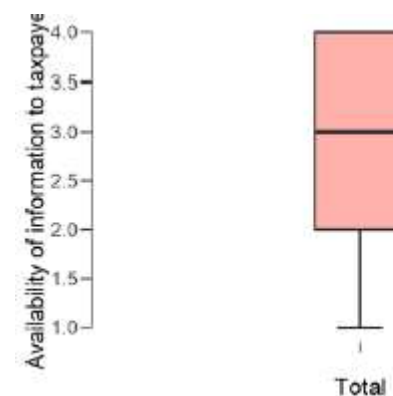
^[3] The most recent year for WGI indicator scores is 2018, so the data are the hours required to pay taxes in 2020 and the sample is the 20 lowest-scoring countries on WGI Corruption in 2018.

Share of e-filing as percentage of total tax filing



Source: Calculations from staff of the Fiscal Policy and Sustainable Growth Unit, World Bank.

Availability of information to taxpayers



Source: TADAT Secretariat 20220

So how can the MTRS approach help to support tax reform in Asian countries to overcome pre/post Covid-19 DRM challenges?

- **Streamlining revenue targets**, linked with development goals and emerging public expenditure needs on social protection (*balance between Covid-19 recovery and mid-term goals*).
- **Whole government approach** to tackle long standing bottlenecks embedded on tax systems.
- **Empowerment of tax reform leadership** and effective management with long term focus.
- Design of a **cohesive reform plan** phased out for 4-6 years with realistic and measurable outputs.
- **Consensus building** with internal and external stakeholders lead by an effective communication strategy.



2. Early experiences on MTRS design, policy dialogue and multi-lateral cooperation in Asia: the cases of Vietnam, Indonesia and Bangladesh.

Vietnam – Leveraging MTRS with long standing support efforts

Background

A major overhaul of the tax system has been undertaken over the past two decades. The main driver is the need to modernize the tax policy and administration framework in face of resizing of tax bases due to country's rapid integration to the global economy. The Tax Reform Strategy 2010-20 and mid-term financing plan 2016-20 adopted by the National Assembly underpinned a mix of revenue mobilization policies supported by the World Bank and other partner institutions.

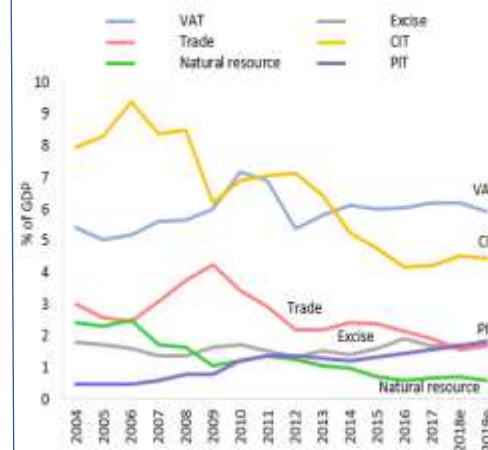
TA support to Tax Reform 2016-20

- Design of a comprehensive tax reform package (revision of 5 major tax legislation)
- TADAT diagnostic of tax administration strengths and weakness.
- Roadmap for the modernization of tax administration's IT platform as key enabler of streamlined core business processes.
- Shareholder consultation with the National Assembly to present long term reform options.
- Design of a communication strategy with the private sector.

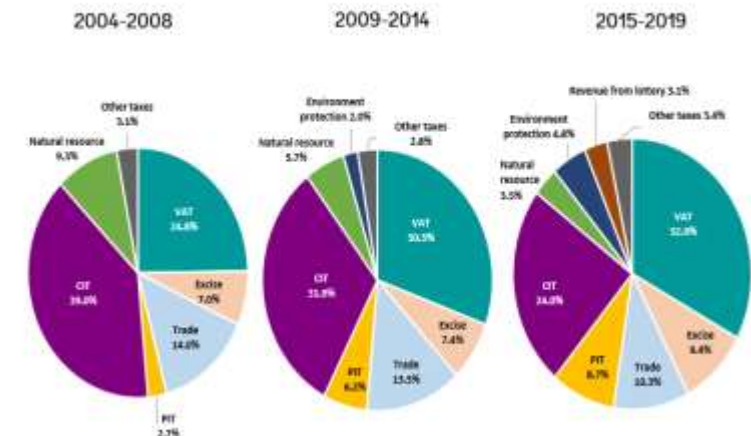
Tax Reform 2021-30: Pathway to a MTRS

- The National Development Strategy 2021-2030 set out a high-level roadmap for tax reform. A comprehensive tax reform strategy for 2021-25 with specific revenue target is under design.
- MOF approved in 2019 an action plan and platform for collaboration between the WB and the IMF to support the design of the reform strategy 2021-25 coordinated by the TPD and GDT.
- Drill-down diagnostic on tax administration informed a road map to reform for 2021-25.

Tax to GDP by type of tax (% GDP)



Composition of tax revenues overtime



Indonesia – MTRS as a tool to improve ongoing reform efforts

Background

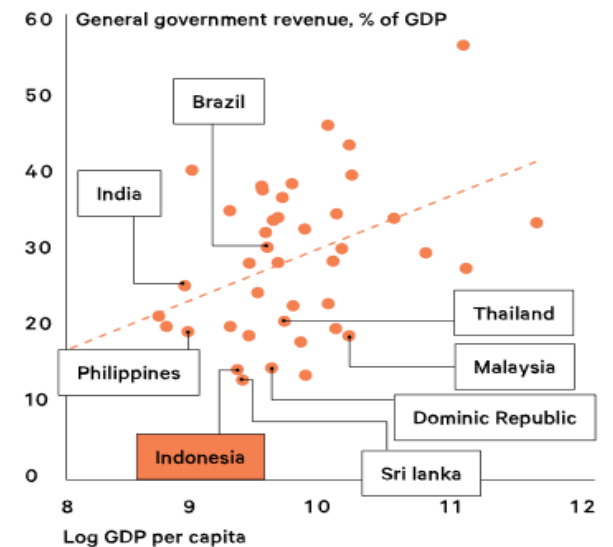
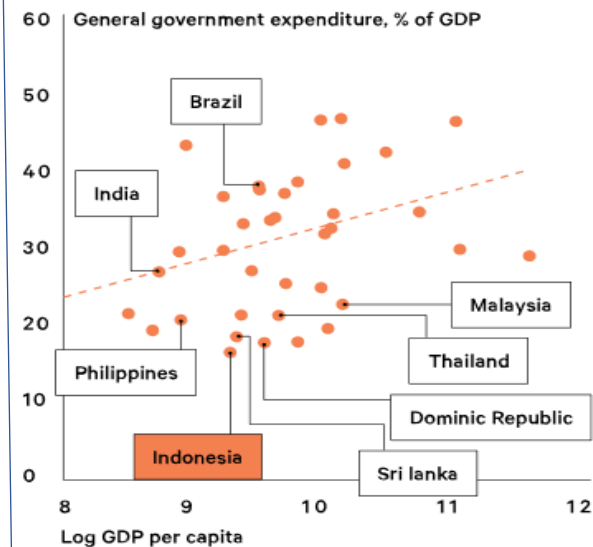
- Efforts to enhance DRM have traditionally led the implementation of reform roadmaps with gradual, deliberate steps.
- Work on identifying key reform areas across tax administration and policy began in late 2014.
- The Reform Team (*Tim Reformasi*) was established in 2016 with a governance structure to lead a comprehensive reform agenda for 2016-20.

Tax Reform 2016-20

- Levering long-term WB support and in coordination with other donor partners, *Tim Reformasi* undertook a far-reaching reform program to modernize DGT underpinned by a new core tax IT system and revamped HRM and CRM frameworks.
- Gradual reforms to the tax policy framework were introduced to broaden the base and streamline treatment of SMEs.
- Measures to mitigate the risk of BEPS, including the renegotiation of double tax treaties were also implemented.

MTRS and linkages with TA support program

- The IMF lead in 2017 the design of a MTRS which was recommended to increase the likelihood of success of ongoing reform efforts, including detailed guidance for its 4 components.
- MTRS recommendations enhanced the consistency and coherence of own country's reform program.
- Ongoing TA support by the WB leveraged key MTRS recommendations, among others, in the following areas:
 - Compliance improvement program (VAT, PIT).
 - DGT reorganization.
 - Analytic work on tax policy options.



Note: General government consists of central, state (province) and local (district) government; The sample of chosen countries are 38 emerging markets and middle-income economies, based on groupings by IMF Fiscal Monitor (October 2018); Horizontal axis: GDP per capita in constant 2010 US\$, then converted into logarithmic (log) form. Source: IMF Fiscal Monitor (October 2018).

Bangladesh – Adaptive and flexible MTRS formulation process

Background

- A MTRS process is lead by the National Board of Revenue (NBR), with donor partner's support led and coordinated by the World Bank Group , in collaboration with the IMF.
- The MTRS preparation process commenced with the Bangladesh DRM reforms mapping (2010–2020) for which the NBR adopted a multistep and holistic approach.
- The goal is to increase the tax-to-GDP ratio to 15 from 9 percent by 2026.

Tax Reform 2020-25: MTRS and Covid-19

While the COVID-19 has posed challenges to meeting MTRS planned delivery timelines, the NBR adopted agile approach to learn and adapt. Such approach enables NBR to:

- Continued dialogue with key taxpayer sectors to fine tune COVID-19 relief measures based on impact by economic sectors and capacity to contribute; and,
- Flexible sequence of MTRS formulation based on continuing monitoring of economic recovery and emerging priorities.

DRM reforms mapping process:

Step 1: Literature review.

Step 2: Interviews with the relevant NBR and other government officials.

Step 3: Consultations with development partners.

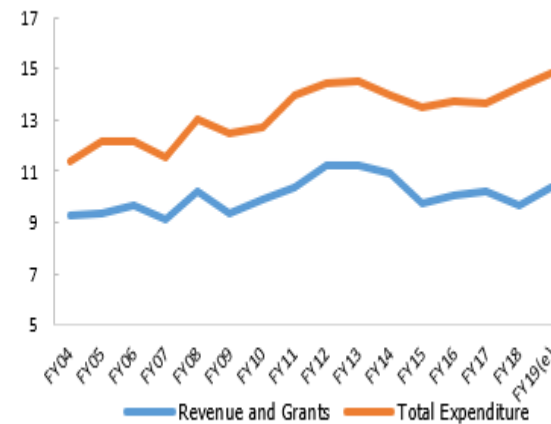
Step 4: Review by the WBG Global Practices and the International Finance Corporation (IFC).

Step 5: Review by other development partners who have (or potentially) supported DRM reforms, including the IMF, the EU, United Kingdom Department for International Development (DFID), Canada, ADB, USAID, and JICA.

Step 6: Validation by the NBR.

Figure 1: Revenue and expenditure

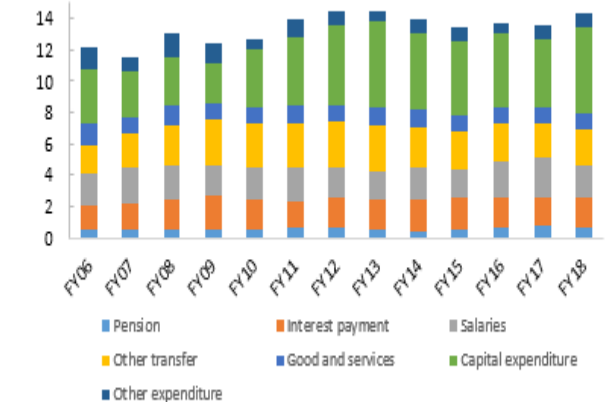
(Percent GDP)



Source: Ministry of Finance

Figure 2: Budget rigidity

(Percent of GDP)



Source: Ministry of Finance

3. Final remarks

Towards successful tax reform efforts in Asia under MTRS



What is the most efficient use of the tax system? Cost-effectiveness of tax incentives takes again a center stage in the policy-making process.



Need to invest on tax analysis and revenue forecasting capacity at MOFs/RAs.



Whole of government approach to tax reform: the case of procurement of f large ICT tax systems for revenue administrations.



Prominent role of project management on long term reform efforts.



High return of investments on HR and change management.



3 Cs: consultation, communication, collaboration.



Thank you