



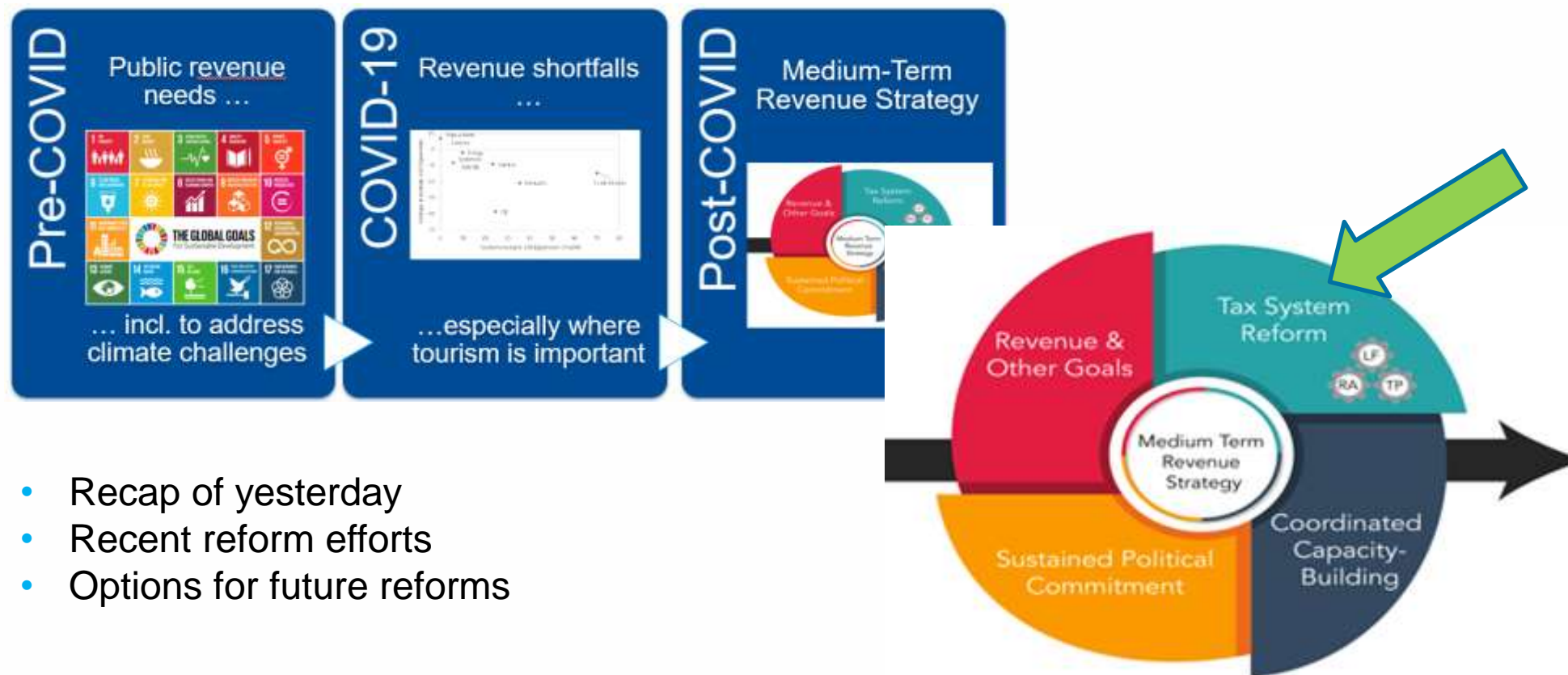
Medium-Term Revenue Strategies to Support Recovery and Development in Small Asia Pacific States

PCT AND ADB VIRTUAL WORKSHOP

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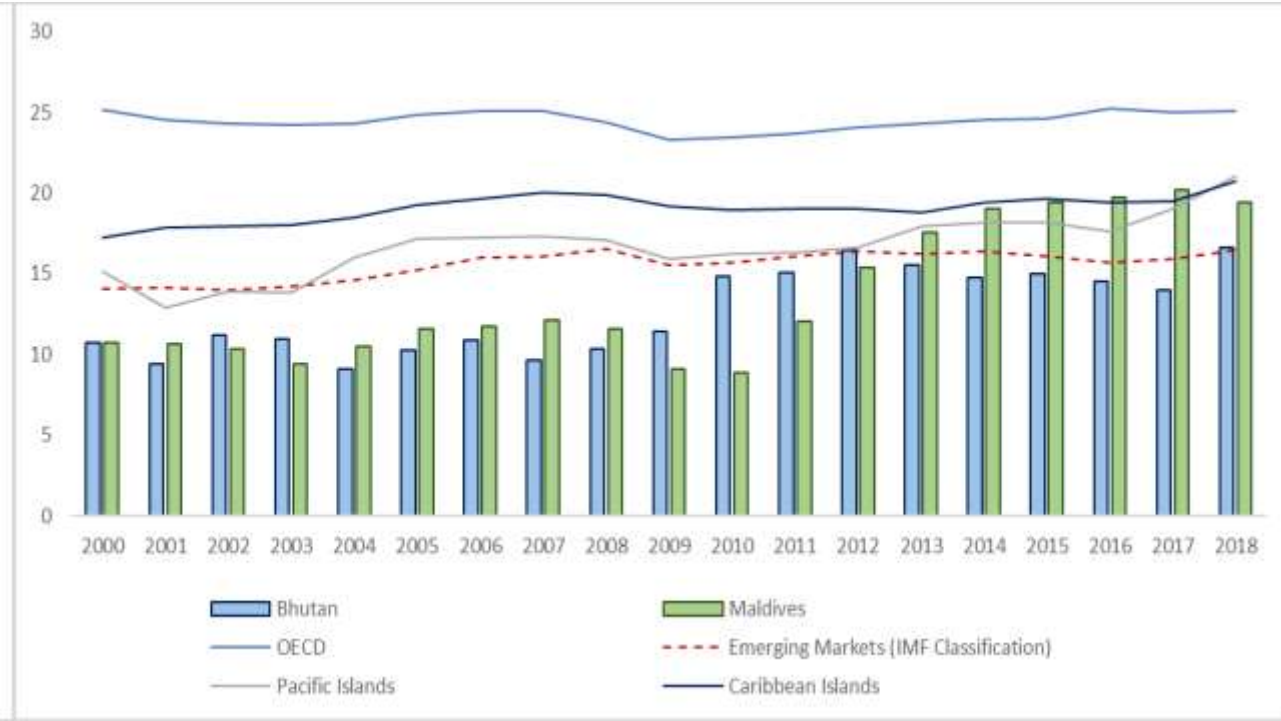
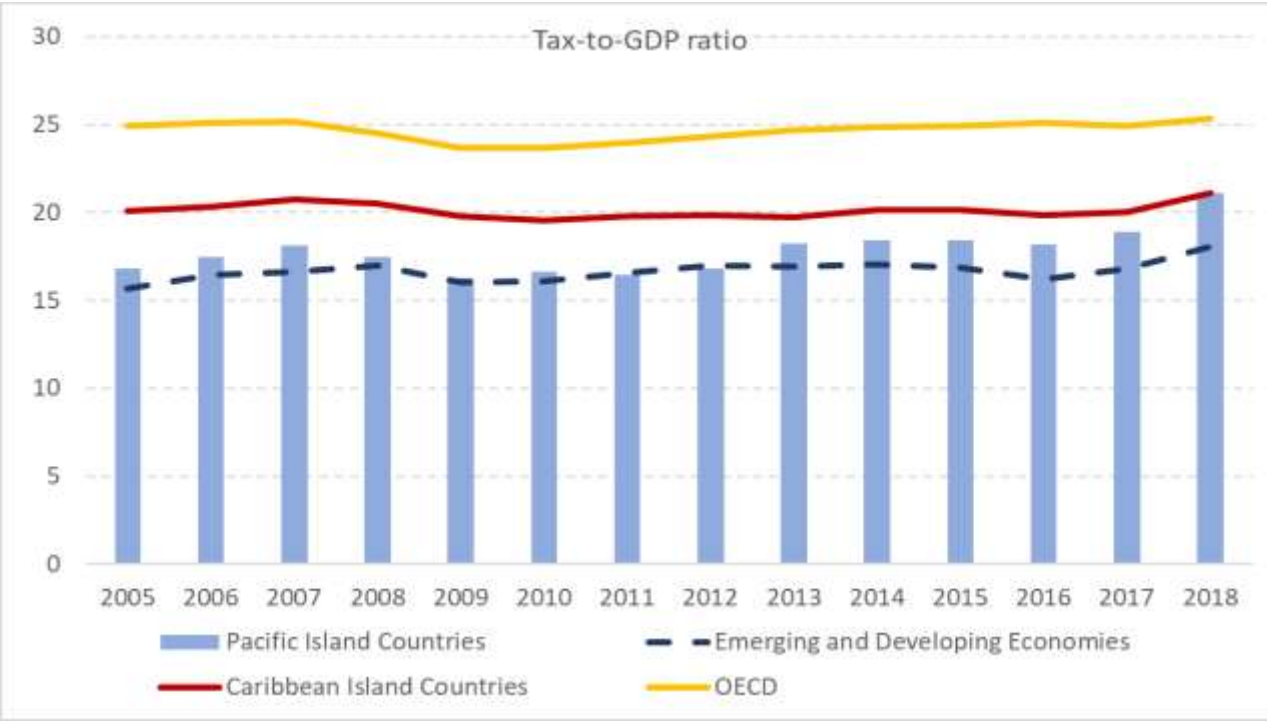
MTRS: tax system reforms for small Asia Pacific states



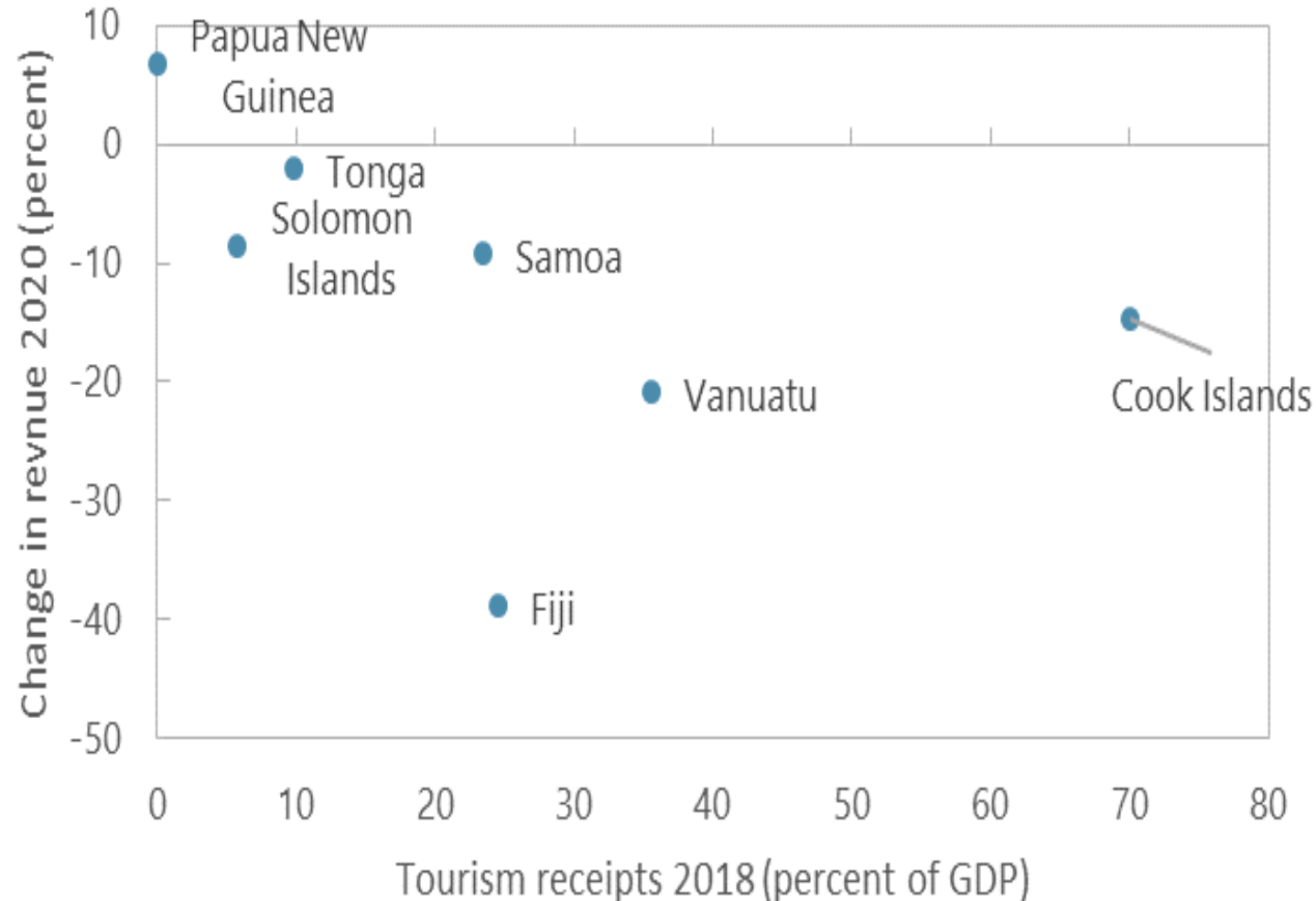
- Recap of yesterday
- Recent reform efforts
- Options for future reforms

Recent tax revenue trends

Tax revenue as a share of GDP in PICs and Maldives is relatively high and was increasing, Bhutan less so



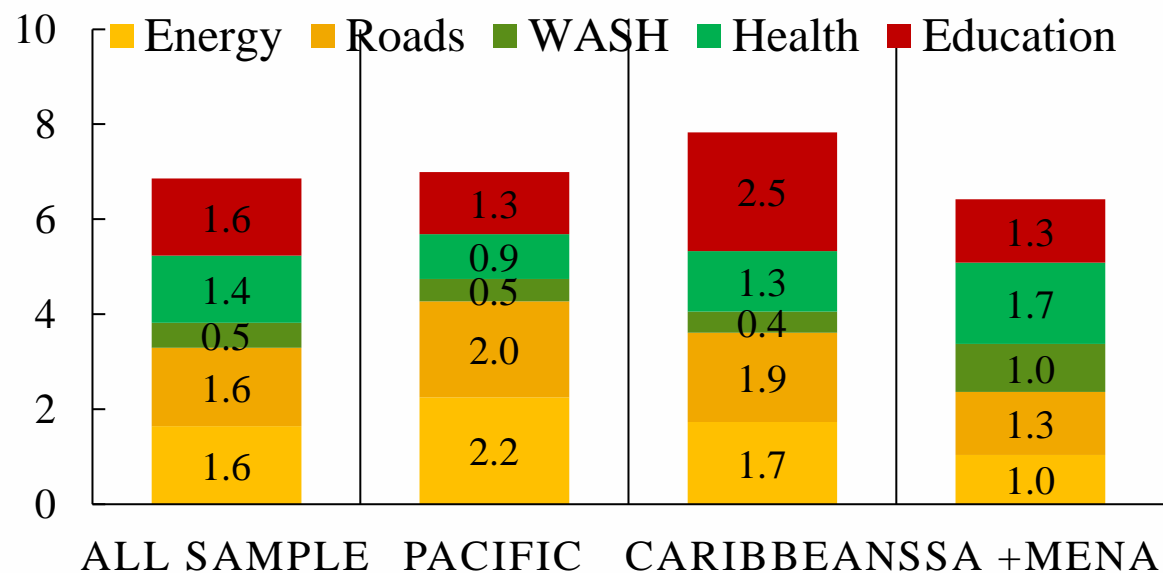
COVID-19: Significant revenue shortfalls, especially those relying more on tourism



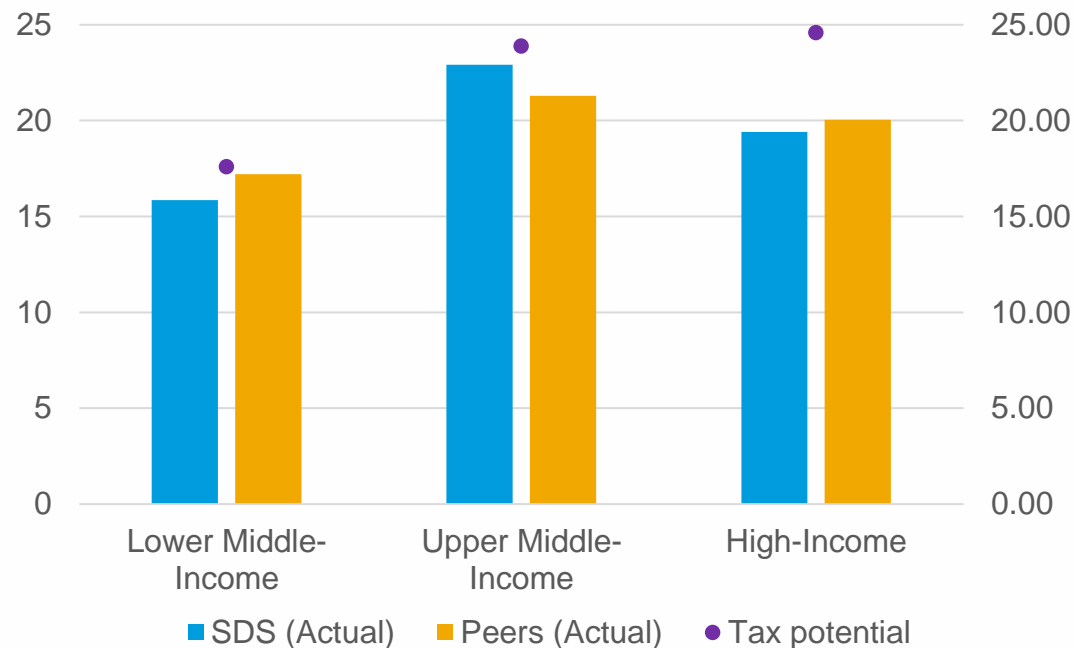
- Bhutan 2019/2020:
 - revenue increased (one-off transfer and grants).
 - tax revenue declined nearly 20 percent.
- Maldives:
 - revenue reduced 35 percent in 2020, helped by a new PIT.
- Tourism receipts reduced up to 70 percent.

Small developing states face sizeable financing needs ... but some room to increase tax effort

Additional cost to meet the SDGs in 2030 for Small Developing States with climate vulnerabilities



Some scope to increase tax effort



Source: Tiedemann et al., 2021

Recent Tax Policy and Administration Reforms

Recent Tax policy reforms (excl. Covid measures)

- **Income Tax**

- increased PIT threshold, (Cook Islands, Fiji, PNG, Solomon Islands, Samoa, Tonga).
- PIT introduced (Maldives).
- actively considered (Palau, Vanuatu).
- CIT rates have remained stable average about 26 percent, (Nauru, PNG – rate harmonization)
- little progress on removing exemptions and incentives.
- small business tax (Kiribati, PNG).

- **VAT**

- actively under consideration (Bhutan, Palau, Solomon Islands).
- rate/threshold changes (Maldives, Niue, Vanuatu).

- **Excises**

- several excise increases but only Fiji and Nauru have special telco taxes.

Tax policy reforms - observations

- Heavy reliance on indirect taxes rather than corporate income tax or personal income tax.
- Sizeable revenue foregone from exemptions.
 - Tonga and Fiji - up to 30 percent of total tax revenue, Solomon Islands – up to 5 percent.
 - exemptions do not typically stimulate investment - targeted measures are better.
 - estimating revenue foregone from exemptions is the first step in tax expenditure analysis.
 - publishing estimates in the annual budget helps improve transparency and encourage debate.
- PACER Plus has significant revenue implications, but progress is modest.
- Non-tax revenues are still significant.

Gender –women's economic participation affects revenue

- **There are sizeable gaps in labor market outcomes between men and women.**
- Increasing women's economic participation makes good economic sense as well as being morally right.
- Barriers to entering the workforce are mainly due to unfavorable laws, as well as social and cultural norms, rather than the tax system.
- Simplifying the tax system, such as introducing a small business tax, can be more beneficial for women.

Revenue administration reforms (pre-COVID)

- **Management and Governance**

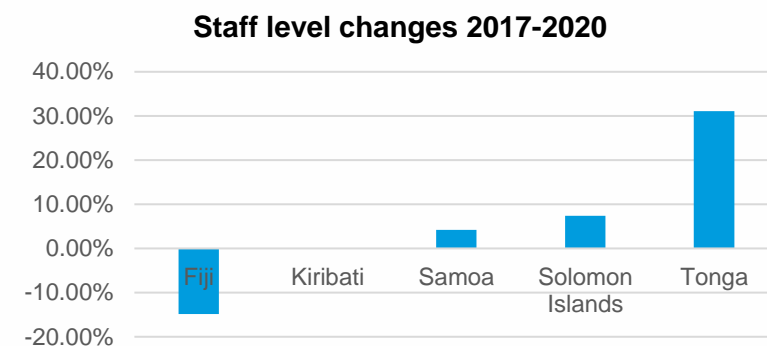
- Organizational changes:
 - functional structures, separating headquarters functions (backroom) and delivery activities (front room), new design and monitoring functions established.
 - Integrating tax and customs headquarters roles
 - Compliance risk management

- **Core functions**

- Registration – knowing who to tax and when – registration database accuracy still a problem
- Filing and Payment – e-filing in PICs remains low, Maldives has strong culture of e-engagement
- Managing large taxpayers/ managing high value taxpayers

Revenue administration reforms pre-COVID

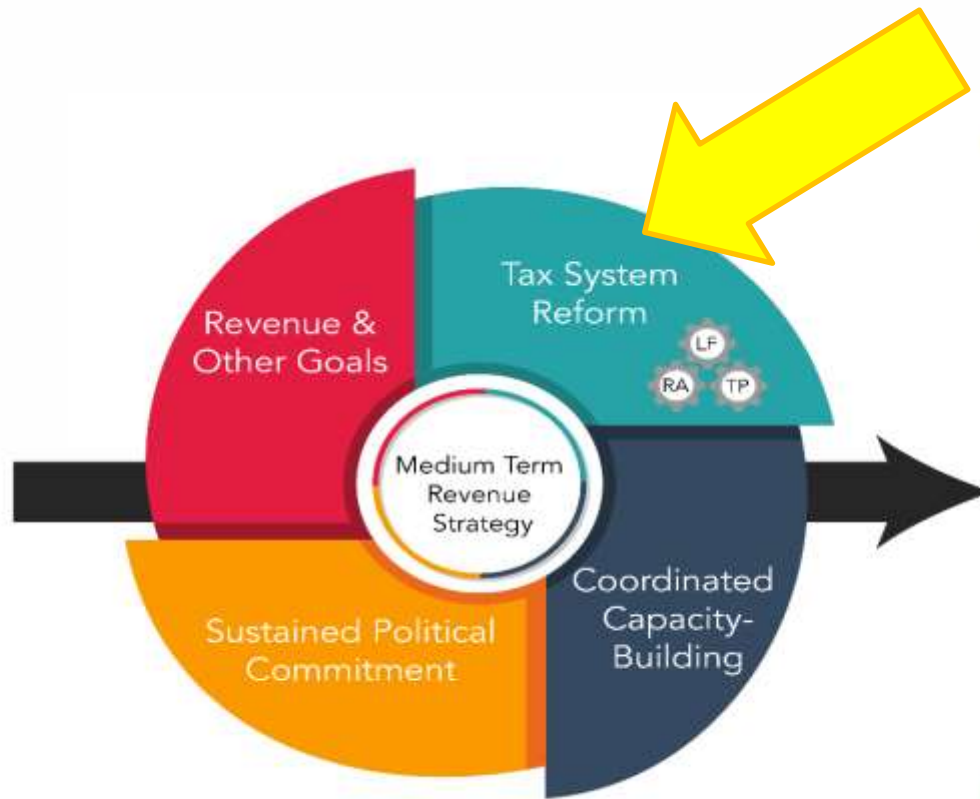
- **IT / Digitalization – the future is digital**
 - 31 percent of PICs are still manual.
 - 45 percent of PICs use the same platform but all using old technology.
 - Maldives has invested significantly in IT.
- **Critical issues**
 - Workforce planning and size.
 - Costs of collection:
 - now might be the time to invest in revenue agencies.



Country	Cost of Collection Ratio	
	2016	2020
Fiji	1.16	2.5
Kiribati	1.07	0.8
Samoa	3.2	(est.) 2.8
Solomon Islands	0.6	0.4
Tonga	6.9	6.3
Median	1.2	2.5
Mean	2.3	2.6
Source: Authorities		
Maldives	0.57 (2017)	0.82

Future Tax Policy and Administration Reforms

Post COVID-19: Tax system reforms through a MTRS

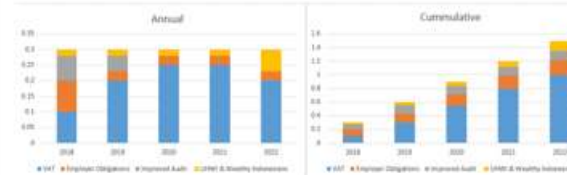


Comprehensive

- Covering tax policy, revenue administration and legal framework.



Example: Tax administration measures in Indonesia's MTRS 2018



Source: Ruud de Mooij, [Suahasil Nazara](#) and Juan Toro, A MTRS for Indonesia, 2018

Concrete

- Specific measures with timeline.
- Concrete plan for improving tax compliance, building institutional capacity.



Measures to Consider – Tax Policy (1)



Revenues and COVID-19 Responses

- Review and unwind COVID-19 tax policy relief measures once COVID-19 passes.
- Recover revenues lost during COVID-19.

Tax Policy Function

- Develop tax policy function – consider regional training.

Income Taxes

- Reassess CIT rates and review PIT tax-free threshold, consider small increase in top PIT rate.
- Introduce small business tax e.g. presumptive tax.

Indirect Taxes

- Introduce VAT.
- Resist pressure to reduce VAT rates.
- Review VAT thresholds, refund process, favorable tax treatments.
- Excise tax rates – fuel, Telco taxes.

Measures to Consider - Tax Policy (2)

Exemptions and Tax Incentives

- Review and rationalize, especially for VAT and CIT.
- Resist pressure to expand.
- Calculate and publish revenue forgone.

International Tax Issues

- Approach cautiously. Be aware of developments and implications (e.g. global minimum tax), while prioritizing improving domestic revenues.
- EU and OECD requirements (offshore financial sector) - understand legal, compliance and revenue implications.

Non-Tax Revenues

- Review sources of significant non-tax revenues (e.g., fishing fees, mining royalties) to ensure reasonable share of the resources.
- Reviewing fees and charges on regular basis – should reflect the cost of those services.

Measures to Consider - Tax Administration (1)

- **Revenue Restoration**
 - Short term post-crisis revenue collection plan – focus on higher value transactions and businesses most affected by crisis (winners and losers).
- **Tax Administration Budget**
 - Resist funding cuts, consider expansion instead.
- **Information technology**
 - Capitalize on new technology but consider gender impacts and access to technology.
 - Consider regional approach to information technology system upgrade plans.
- **Data collection, management, storage, analysis and integrity**
 - Strengthen data management skills and processes. Ensure data security.
- **Organization of Tax Administration**
 - Prioritize “design and monitoring” functions for planning, new operational responses and monitoring.

Measures to Consider - Tax Administration (2)

- **Compliance Improvement Strategies**

- Identify, quantify and prioritize revenue risks.
- Design and implement risk responses – legislation, service or enforcement.
- Consider regional responses, manage SMEs and encourage women taxpayers.

- **Taxpayer Register**

- Validate the taxpayer register – know who to tax, when, for which taxes and how to contact them.
- Accuracy is essential for e-interactions and minimizing costs.

- **Filing and Payment**

- Mandate electronic filing and payment for large taxpayers.

- **Accurate reporting**

- Continue implementing reporting verification processes for medium/small taxpayer segments.
- Increase resources for validating large taxpayer reporting.

IMF: Covid special series notes on revenue generation

- Several guidance notes: <https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes>
 - Tax policy for inclusive growth after the pandemic
 - Challenges in forecasting tax revenue
 - Revenue administration: reinvigorating operations to safeguard collection and compliance
 - Post-crisis revenue generation for tax administrations
 - Business continuity for revenue administrations
 - Gender Equality and Covid-19



Thank You!