



Good Governance, Better Results

**GOVERNANCE**  
THEMATIC GROUP

## ***Session 2***

# **Tax Policy for DRM: Challenges for the developing world**

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Presentation by:

**Sissie Fung**

ADB Consultant

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## Introduction

- Domestic resources are the largest untapped source of financing to fund national development plans
- Addis Tax Initiative (ATI): improved domestic resource mobilization is a necessity for countries to achieve their 2030 SDG's targets
- While the SDG's does not set revenue targets, tax-to-GDP ratio is selected as one of the key monitoring indicators for tracking DRM efforts
- An increase of 3% has been suggested by ADB as an initial target

# Meeting the SDG's: what Tax/GDP ratio enough?

*Much depends on...*

- the nature of the state: multilevel countries (e.g. India) vs. small single level unitary states (such as Singapore)
- the desired size of government
- the efficiency and effectiveness of the tax system

SDG's objective: not only increasing revenue, but supporting the development of more effective tax systems that fosters sustainable economic growth, fairness and 'state building'

# Why an effective tax system is important

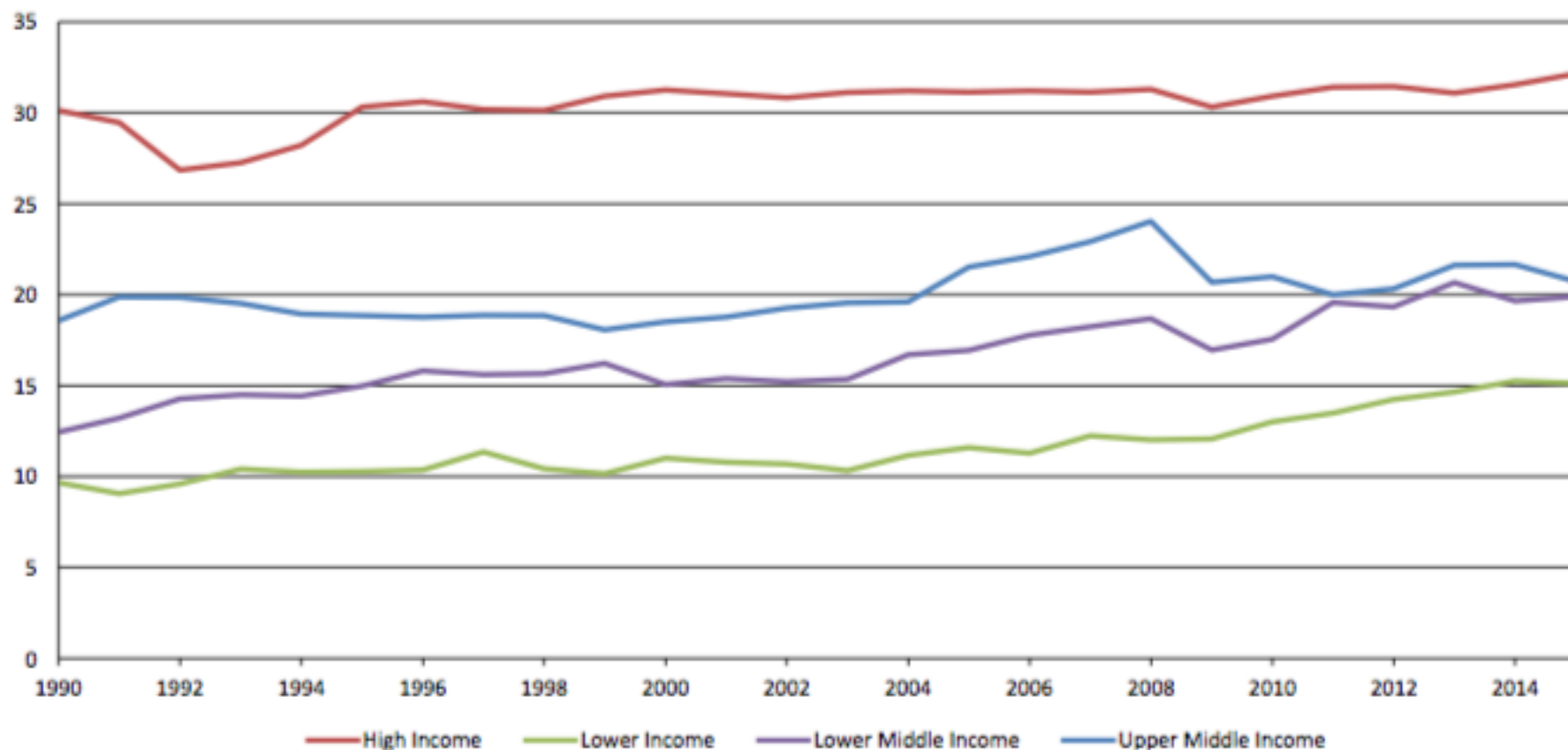


# Strengthening tax systems as a key for DRM



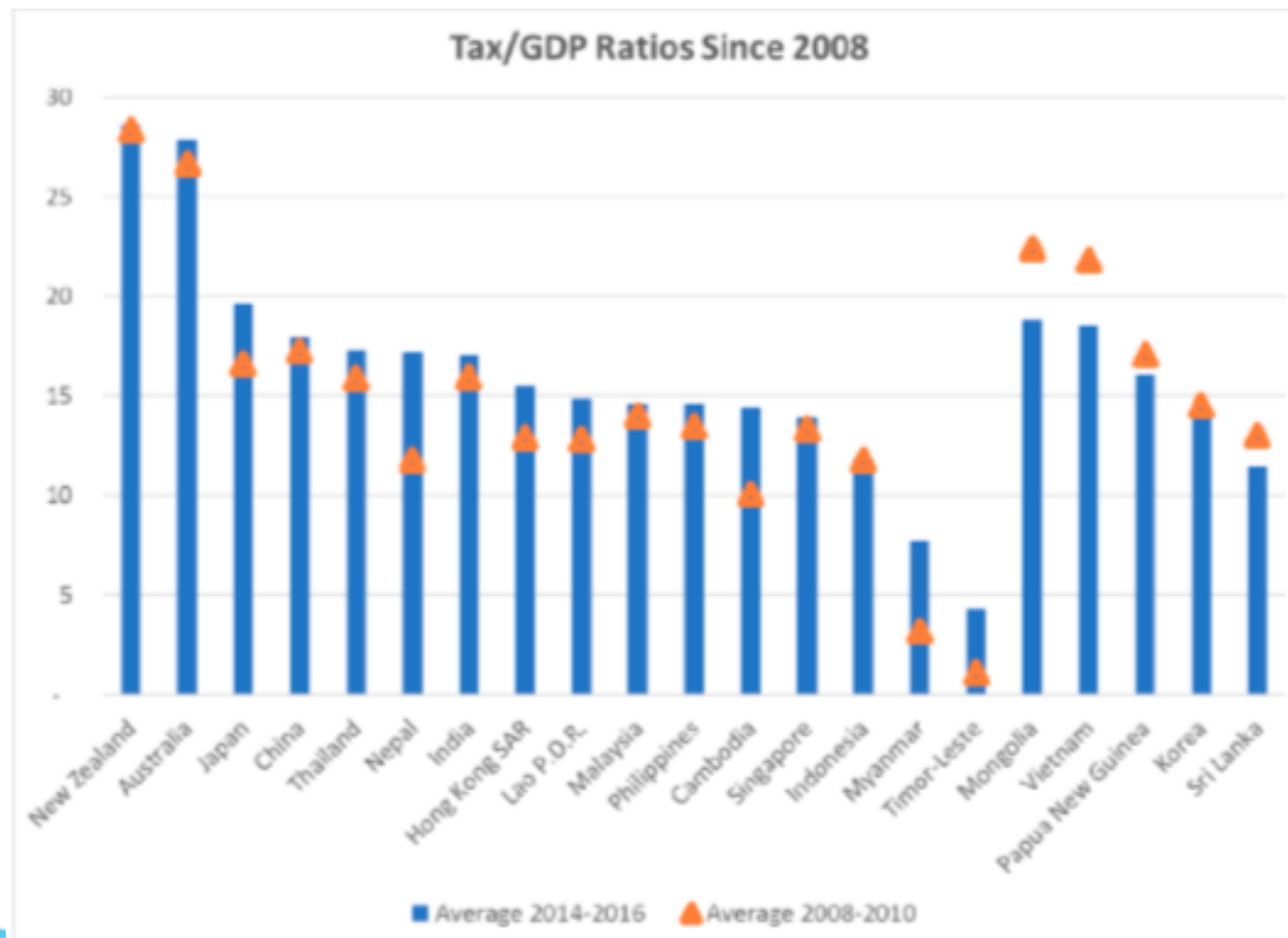
# Tax-to-GDP ratio by income grouping

**Tax Revenue as % of GDP**  
Dynamic income groups, medians, includes social security contributions



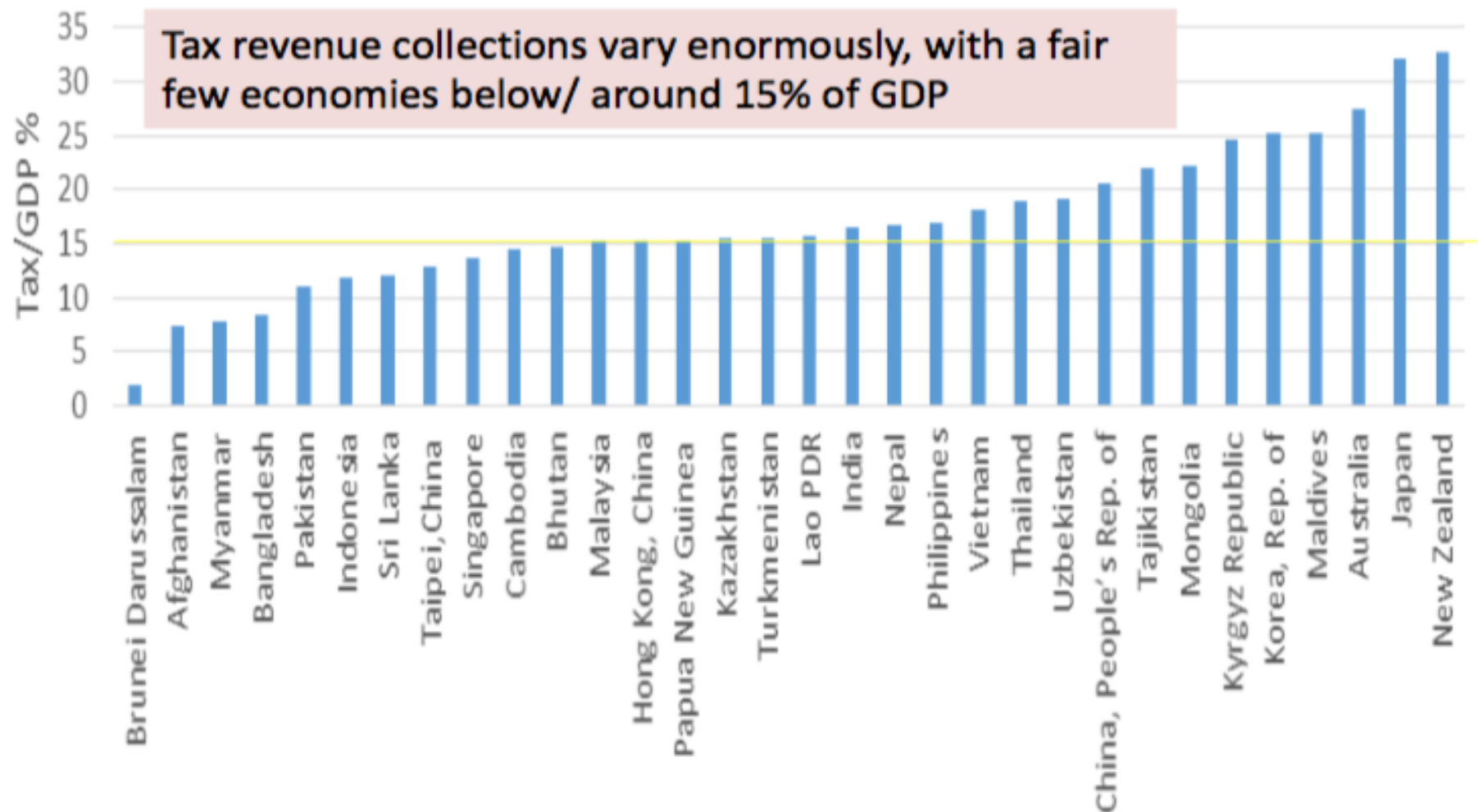
Source: IMF Revenue Longitudinal Dataset (WoRLD), June 2016, Country classification according to the World Bank country income groups

## The majority of Asia/Pacific countries have increased tax revenue since 2008 crisis



Source: IMF

# Tax-to-GDP ratio in Asia and the Pacific (2015)



Sources: OECD Revenue Statistics, ADB Key Indicators, and IMF Art. IV Reports





## Some observations

## Asia and the Pacific are lagging behind...

- Tax-to-GDP ratios vary widely across Asian countries: ranging from around 7% in Afghanistan and Myanmar to over 32% in Japan and New Zealand
- The average tax-to-GDP ratio in the selected economies in Asia and the Pacific is 16.9% in 2015

### *To compare:*

- EU-average in 2015: 39.7%
- OECD-average in 2015: 34.3%
- Latin America & the Caribbean (LAC): 22.8%

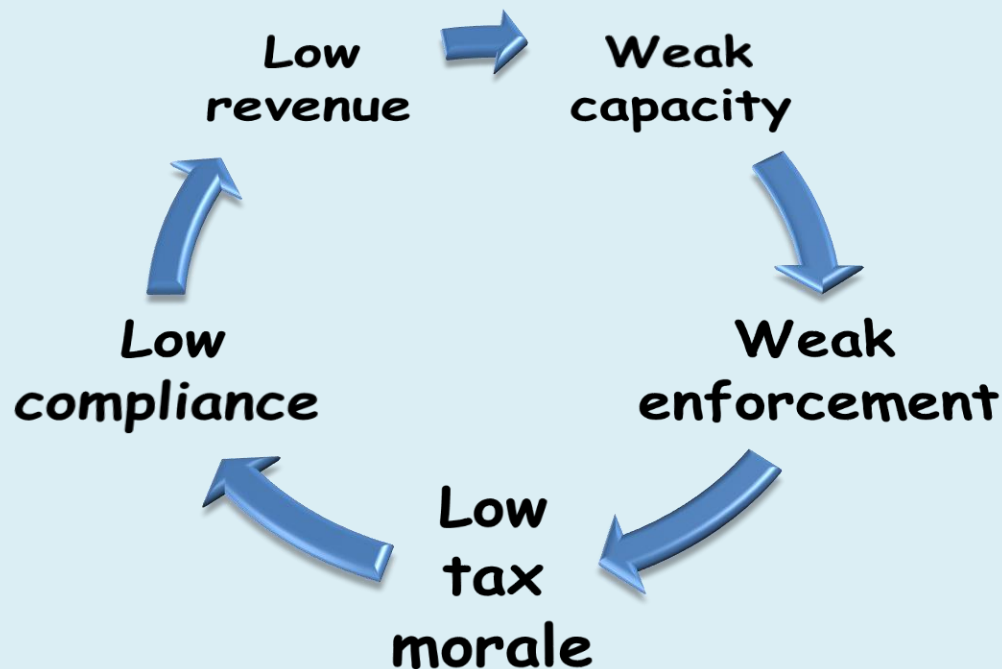
## Specific challenges that loom especially large in developing countries

Raising tax revenue poses many challenges for developing countries, such as

- weak tax administrations
- low taxpayer morale and compliance
- corruption
- small tax base
- hard-to-tax groups in subsistence agriculture
- large informal sector

Globalization and the digital economy pose new challenges in international taxation, and has imposed a significant impact on developing countries' revenue base.

## Developing countries are caught in a vicious circle....



# Challenges bring Opportunities

## Identifying policy options to strengthen the tax system

- Removing wasteful exemptions and tax incentives
- Addressing tax evasion and avoidance
- Broadening the tax base
- Building a taxpaying culture
- Simplifying the tax system
- Improving tax administration
- Introducing new taxes

## Sub-national tax agenda

- Local government tax reforms
- Strengthening intergovernmental fiscal relations



## Examples of Tax Reform initiatives underway

- **Afghanistan** - planning for a VAT regime in 2019
- **Bangladesh** - VAT reforms in 2017
- **India** - New GST in 2017
- **Kazakhstan** - lower VAT threshold, raising excises, natural resources
- **Kyrgyz** - natural resources, excise reforms, luxury property tax
- **Lao PDR** - strengthening large tax administration, indirect taxes
- **Mongolia** - excises on petrol & tobacco, raising PIT rates, review of tax structure, simplified regime for SMEs, tax expenditures review
- **Sri Lanka** - VAT reforms, new Inland Revenue Act to modernize administrative provisions
- **Vietnam** - environmental taxes, unifying VAT, property taxation

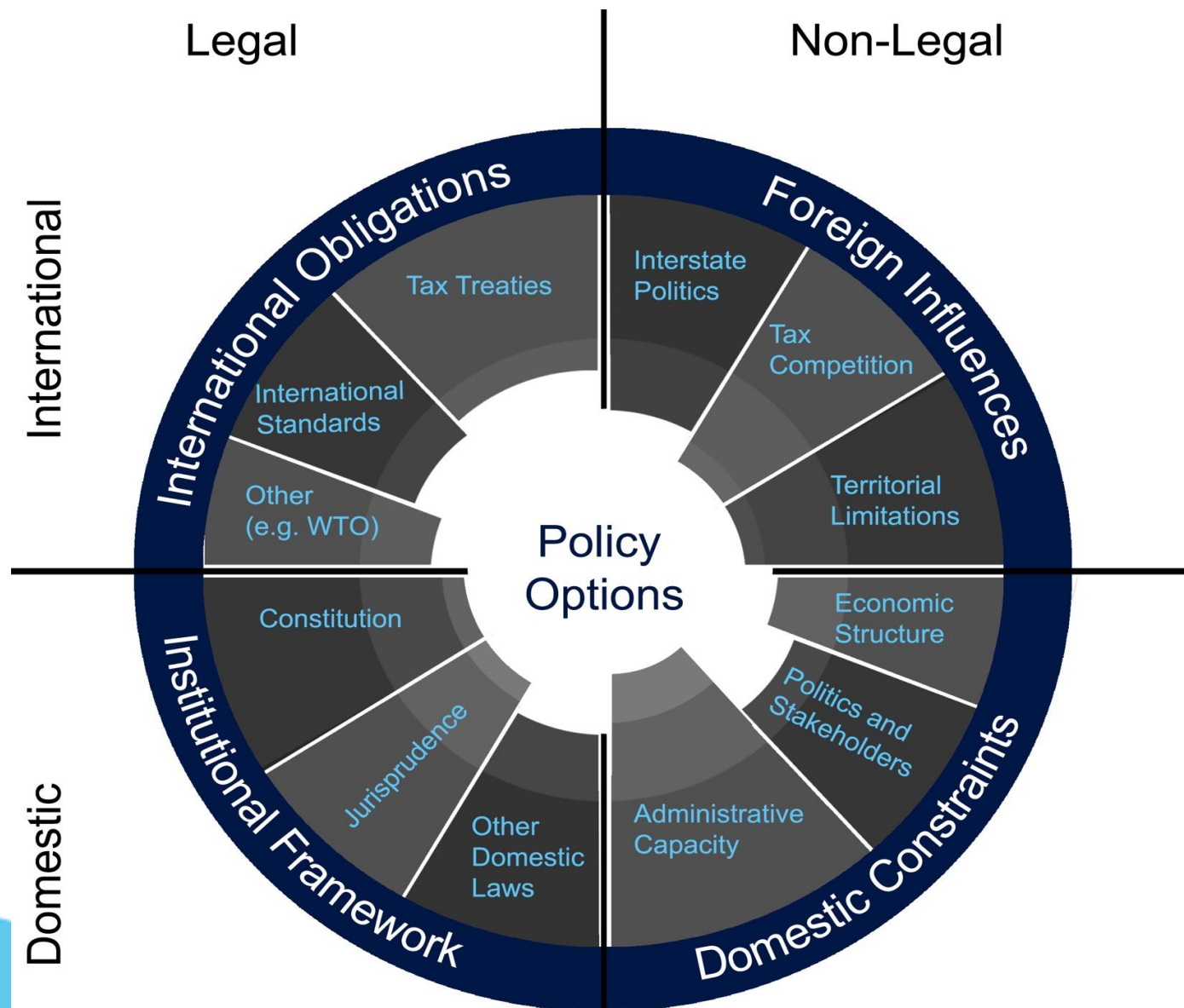
*Source: IMF Art. IV reports in 2017*

## Examples of Administrative Reform initiatives underway

- **Kazakhstan (2015-18)**: Includes comprehensive review of its structure at all levels, rationalization of office network, review of HRM policies, new workforce planning strategy, redesign of business processes, IT infrastructure redevelopment
- **Cambodia (2014-18)**: Major reform program including modernizing core business functions, new call center, increased resources for taxpayer services, new e-filing and e-payment services, new risk assessment methods, revamped HRM policies and practices
- **Mongolia (2017-18)**: Common tax administration legislative framework; new compliance improvement strategies for large, medium and small taxpayers and performance monitoring
- **Japan (2015)**: Introduction of taxpayer identification numbering system for all individuals and corporations.

*Source: Revenue body reports and IMF Art. IV reports in 2017*

# Factors limiting the range of tax policy options





## Conclusion

- Policy options available vary from country to country
- No 'One-Size-Fits-All' approach to tax for development; approach should depend on country circumstances, taking into account the specifics of the country's economic and institutional framework
- Focus: strengthening tax system not only to raise revenues, but also to promote sustainable economic growth, fairness and state-building
- Sustainable tax reform can only be obtained with equally sustained political commitment and broad public support

## Some final remarks

- The potential for DRM expansion may be particularly high in Asia and the Pacific
- Further efforts are needed to increase tax revenues in developing countries in the region to support DRM



To respond to the region's need, ADB established a multi-partner DRM Trust Fund to support the 2030 Agenda for Sustainable Development

**Before moving to the breakout session...**

**Any questions?**



## Breakout session

**The aim of the breakout session is for countries to explore the challenges and policy options to enhance DRM**

Describe how your country can enhance DRM, in particular:

- What areas of taxation are underused?
- What are the policy options?
- What are the constraints affecting those policy options?

Time: 1 hour

# Breakout session

## Country Groups

Group 1: Cambodia, Fiji, Thailand, Timor Leste, Mr. Boboev

Group 2: Indonesia, Lao, Solomon Island, Vietnam, Mr. Luanglatbandith, Ms. Simanjuntak

Group 3: Malaysia, PNG, Myanmar, Tonga, Ms. Shrestha, Mr. Lee

Group 4: Mongolia, Philippines, Samoa, Mr. Chongvilaivan, Ms. Yamaoka

# Breakout session

## Report Back

Presentations by each country delegate

## Round table discussion