

# **IBRD/IDA Board Briefing on DOMESTIC RESOURCE MOBILIZATION (DRM) Supporting Green, Resilient and Inclusive Development (GRID)**

# KEY MESSAGES

- The pandemic is exacerbating pre-existing DRM challenges. Revenues have dropped by 12% (real terms) in 2020. For many countries tax-to-GDP ratios are expected to fall below 15% in 2021, and there is high uncertainty about future trends.
- With high fiscal deficits and already high pre-COVID levels of debt, enhancing DRM is a key priority in political and economic agendas. During the recovery phase, countries need to get the right timing to move towards fiscal consolidation without hurting growth. However, there is scope for raising revenues in the short run, targeting especially undertaxed bases and increasing the progressivity of the tax system.
- This calls for a Bank's DRM approach focused not only on more revenues (resilient part of GRID) but also better – meaning, equity focused – revenues (the inclusive part of GRID). Further, tax systems should contribute to better environment outcomes (green part of GRID). To this effect, tax administration reforms (including acceleration of digitalization) will be essential.
- The Bank also needs to continue to play a leading role in representing the developing countries' views on international tax issues at the global level.
- This increased focus on DRM will require scaling up Bank's human and financial resources on DRM.

# Update Outline

**Part I.** Executive summary

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**Part II.** DRM approach and COVID-19 impact

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**Part III.** Momentum for tax reform

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**Part IV.** Public Goods and Partnerships

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**Part V.** Forward Looking

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# Executive summary – Bank's DRM approach

## 1. COVID 19 HAS EXACERBATED PRE-EXISTING DRM CHALLENGES

- Revenues have dropped by 12% (real terms) as a result of the COVID economic crisis. For many countries tax-to-GDP ratios are expected to fall below 15% in 2021, and there is high uncertainty about future trends.
- With high fiscal deficits and already high pre-COVID levels of debt, enhancing DRM is a high priority in political and economic agendas. During the recovery phase, countries face the challenge to find a right balance between more revenues while also supporting economic growth.

## 3. PROMOTE DIGITALIZATION OF REVENUE ADMINISTRATIONS

- Scaling-up support on tax and customs administration reforms is key to ensuring an effective implementation of tax policy decisions. Countries face an urgent need for accelerating the move to a digital revenue administration.
- Maintaining business continuity and strengthening compliance strategies are also critical elements of success.

## 2. WB DRM approach SHOULD FOCUS ON MORE AND BETTER REVENUES

It should help to :

- mobilize resources above pre-COVID levels by broadening the base and promoting broader objectives (climate change and reducing harmful consumption (e.g., sin/health related taxes) and supporting the fight against illicit financial flows (IFFs)
- address inequality through more progressive taxation of income and wealth
- address weaknesses in the international tax system (including tax avoidance)

## 4. CONTINUE TO FOSTER INTERNATIONAL COOPERATION AND ADVOCACY FOR GLOBAL TAX REFORM

- The Bank is boosting cooperation with international partners (IMF, OECD, UN) to address the DRM challenges that countries face.
- Bank's advocacy needs to ensure that developing countries' needs, priorities and capacity are addressed at the global level (including G7 and G20).

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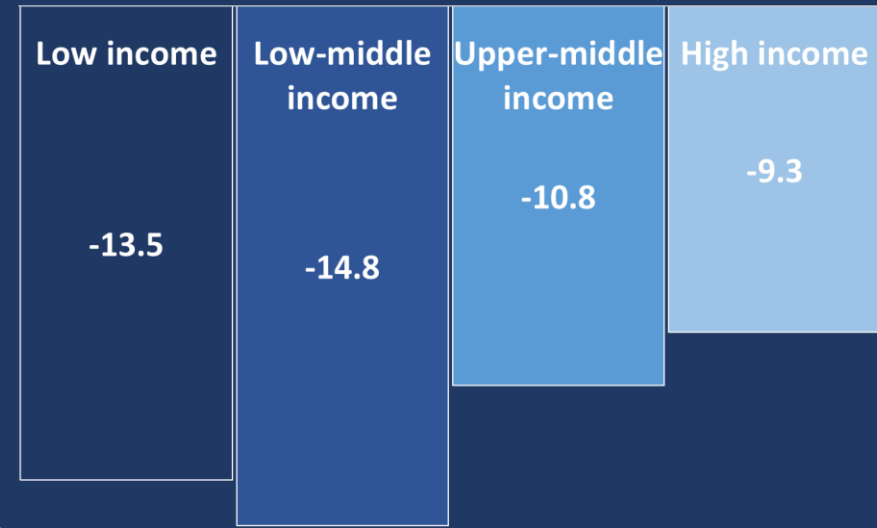
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**Part V.** Forward Looking

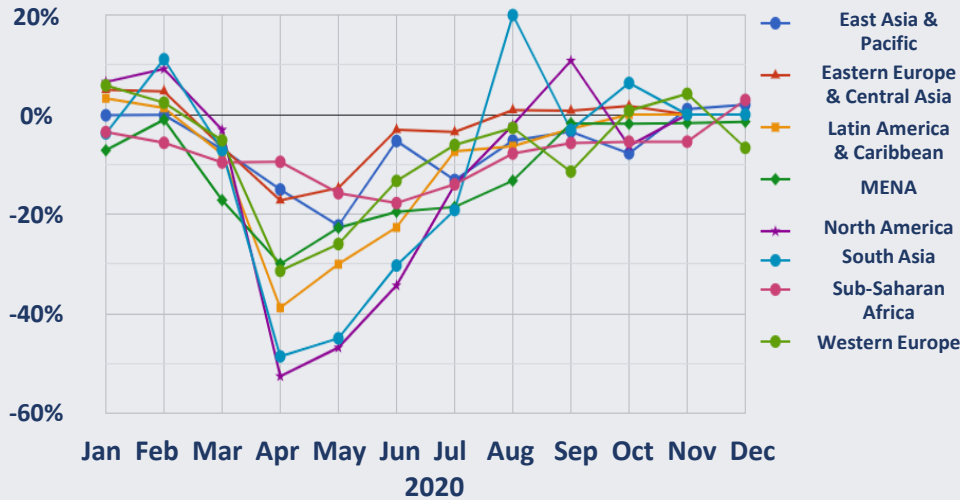
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# Big shock to revenue due to COVID-19...

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



Tax revenue year-on-year growth (%)



1. COVID-19 has resulted in a sharp drop in tax Revenue in real terms as compared to 2019 ranging from 3% for ECA to 16% for SAR.

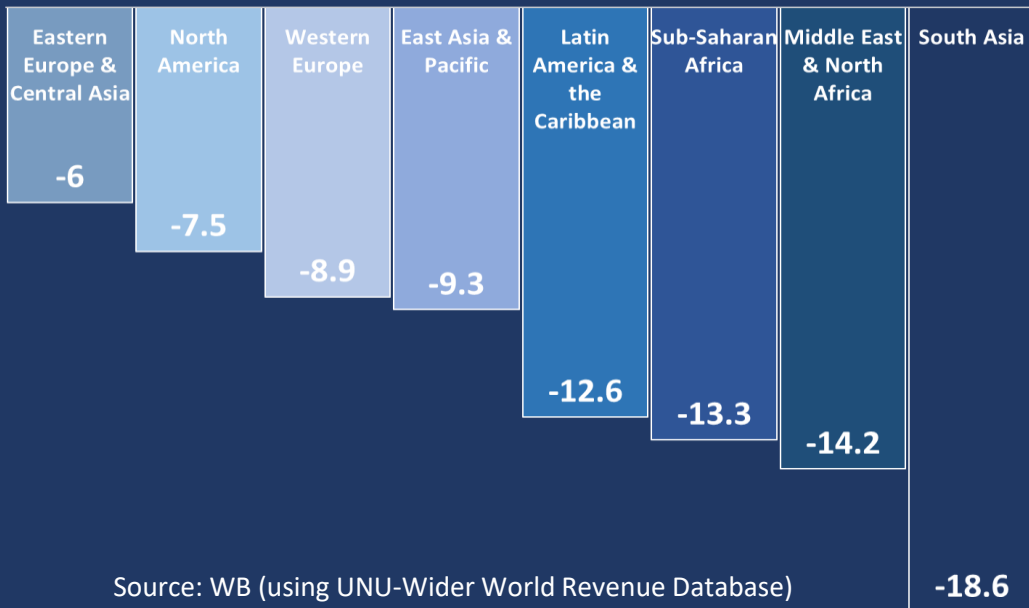
2. Drop in tax-GDP ratios during the current crisis (for the 35 countries for which data are available) matches or exceeds the drop in the 2009 financial crisis.

3. During the previous financial crisis year-on-year tax revenue dropped by a maximum of 10% (ECA region).  
The average time countries took to recover to 2009 pre-crisis tax-to-GDP ratios was more than 5 years (some even took 10 years).

Many additional countries are expected to drop below the 15% tax-to-GDP level (before COVID-19, 21 IDA countries under the 15% threshold )

This calls for a short-to-long term strategy to address the potential crisis in revenue

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

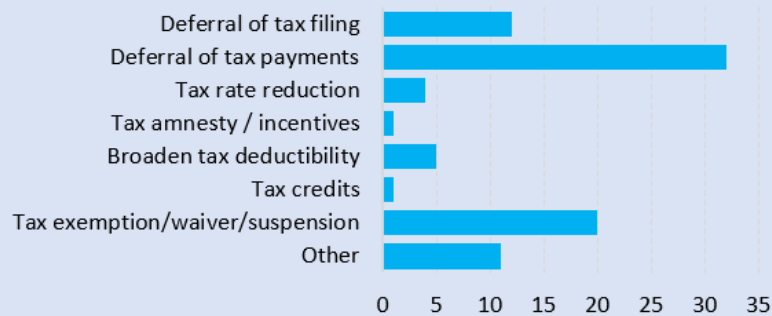


Source: WB (using UNU-Wider World Revenue Database)

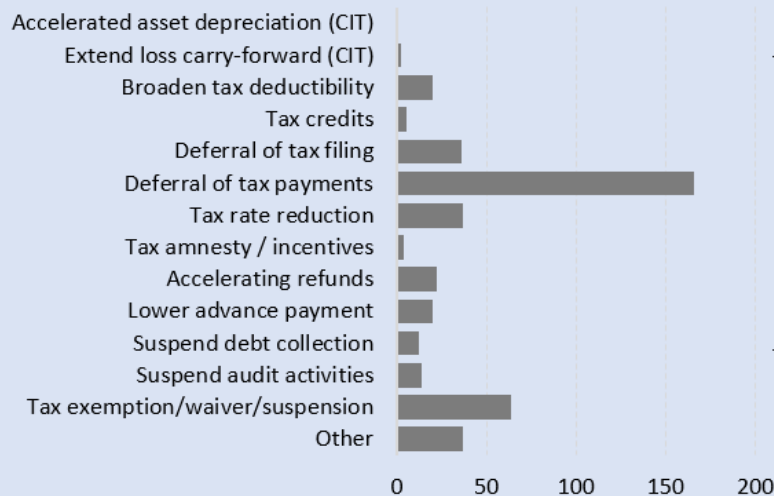
# Most member countries have adopted revenue measures to stabilize the economy – Fiscal space has shrunk

Revenue Measures (number) for IDA and IBRD countries (until October 2020)

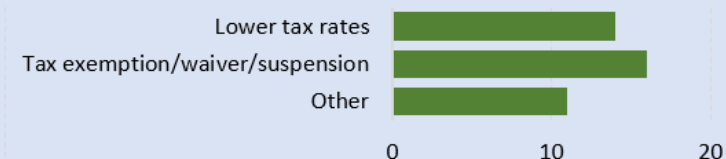
## Protecting Individuals



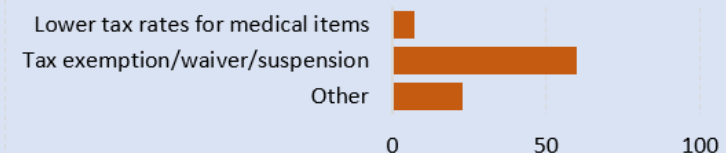
## Protecting Businesses



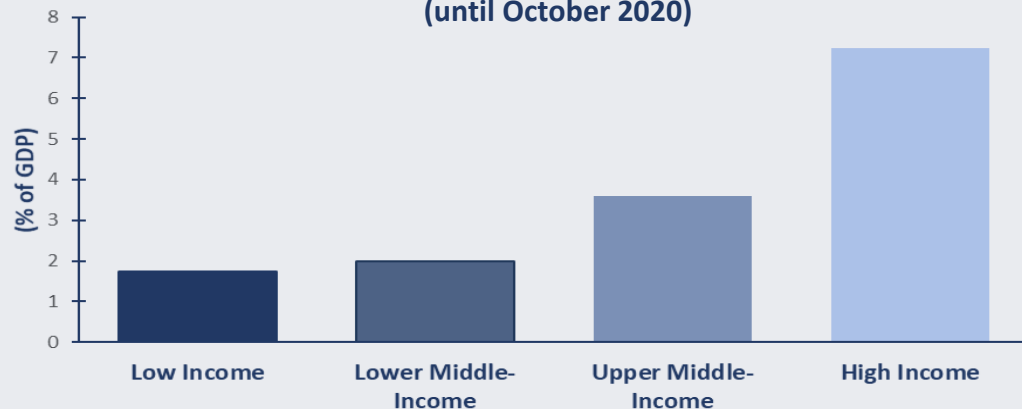
## Boosting consumption



## Promoting Availability of Medical Items



Additional spending and revenue forgone on COVID measures (until October 2020)



Source: IMF Fiscal Monitor Oct-2020

- The revenue impact of these measures is still uncertain
- Tax deferrals could become permanent revenue losses
- Some tax rate reductions could become permanent
- Some tax exemptions can take many years to unwind

Evidence from previous crisis suggests that some policy measures could take several years to be reversed; e.g., it took 3 years for VAT rates in ECA and LAC and 4 years for PIT rates in SSA to come back to pre-crisis levels

# Bank's DRM approach for better revenues to achieve SDGs:

- i) providing countries with a stable, predictable and sustainable fiscal environment, and
- ii) promoting fairness, equity and inclusive growth to build trust



## Country-Level Activities

**Integrated tax policy and administration approach for better outcomes**

- Enhancing the quality of tax systems: more and better revenues
- Strengthening the operational capacity of tax administrations: enforcement and facilitation
- Building trust and boosting accountability: public-private dialogue and fiscal transparency



## Global Knowledge

**Cutting-edge Research and tools for better informed policy decisions**

- **Diagnostic tools:** strengthening countries' capacity to evaluate tax reform options (e.g., benchmarking, microsimulation models, incidence analysis, etc.)
- **Toolkits, Policy notes and Research:** practical advice targeted to developing countries' needs and capacity
- **Advocate for developing countries needs on global tax issues:** tax transparency, tax avoidance, digital taxation, tax competition/harmonization, etc.



## International Collaboration & Coordination

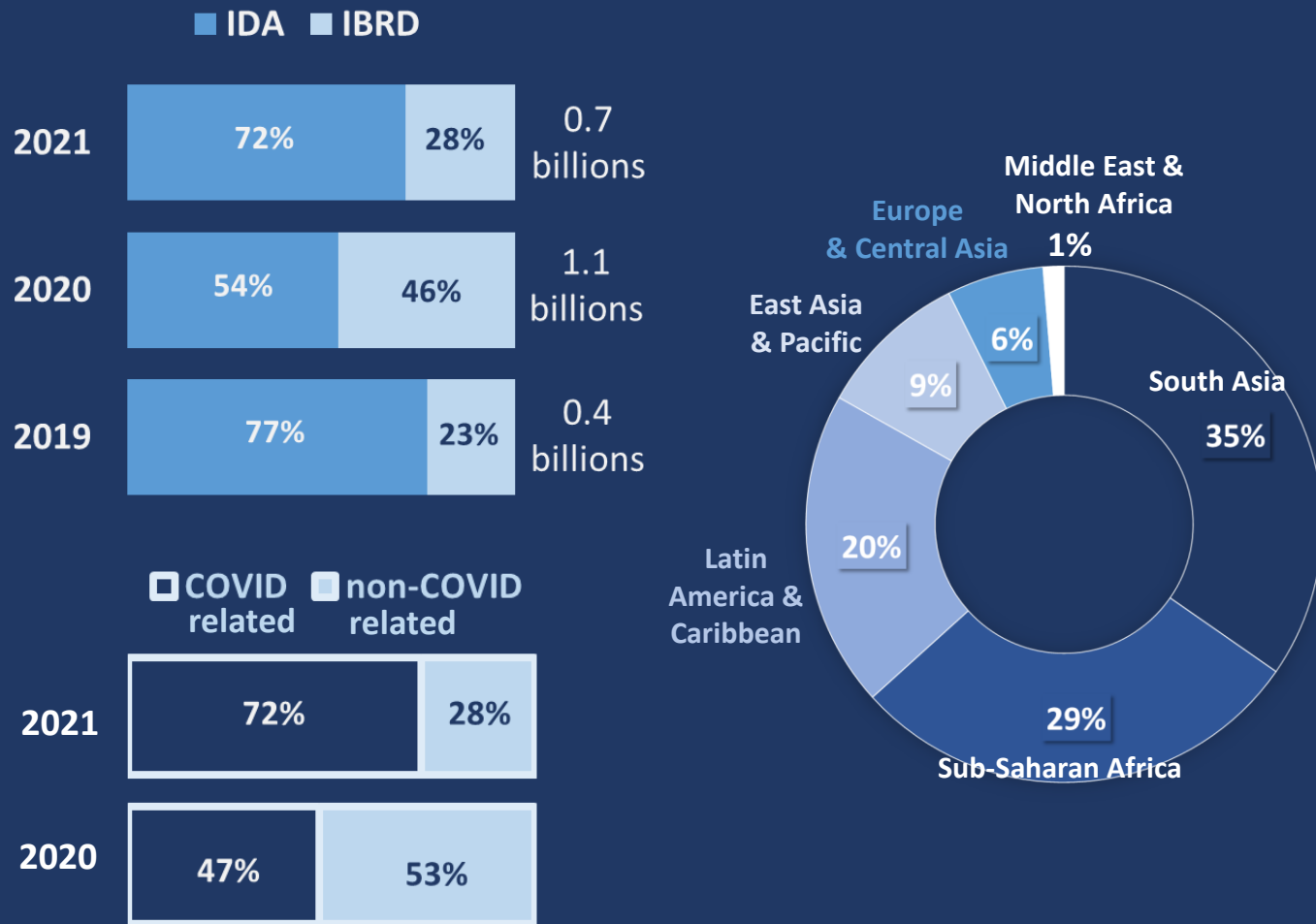
**Partnerships for scaled-up country work and global presence**

- Strengthening collaboration with other partners (including the IMF, OECD and UN) to address challenges to the global tax reform
- Strengthening collaboration on country-level operations: e.g., joint missions and toolkits
- Consolidating partnership under the Global Tax Program (GTP): US\$80 mil secured, financed by 8 donors (Australia, France, Japan, Luxembourg, Norway, Switzerland, United Kingdom)



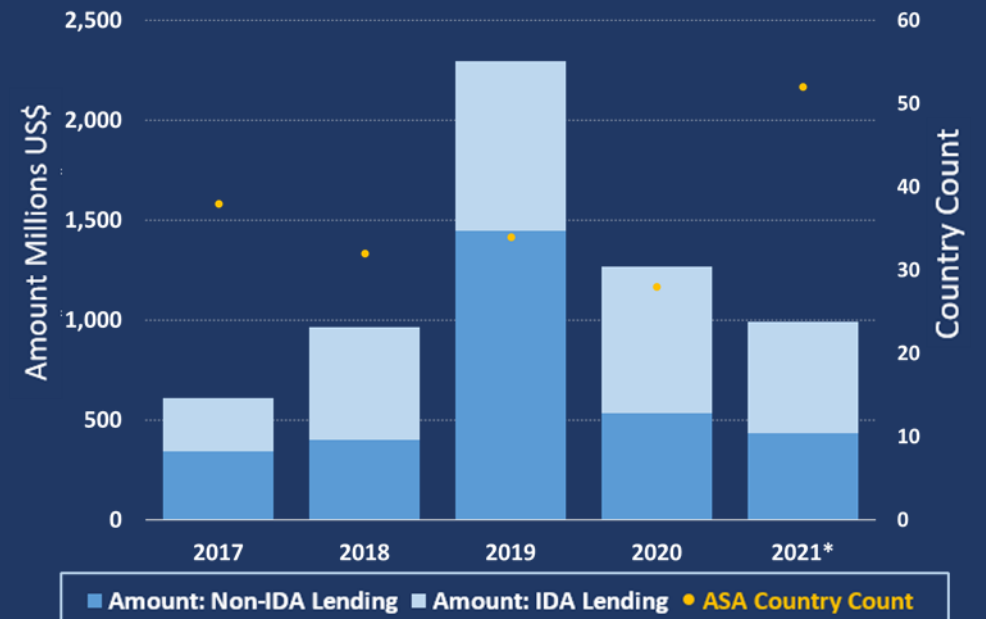
# The Bank is responding to these challenges: Lending and ASA activities have rapidly increased to support countries (especially IDA countries) during the pandemic

## DRM-related lending operations (by approved FY)



January 2021: ASA projects almost doubled (compared to FY20)

## DRM Lending Commitments (US\$) & ASA (by approved FY)



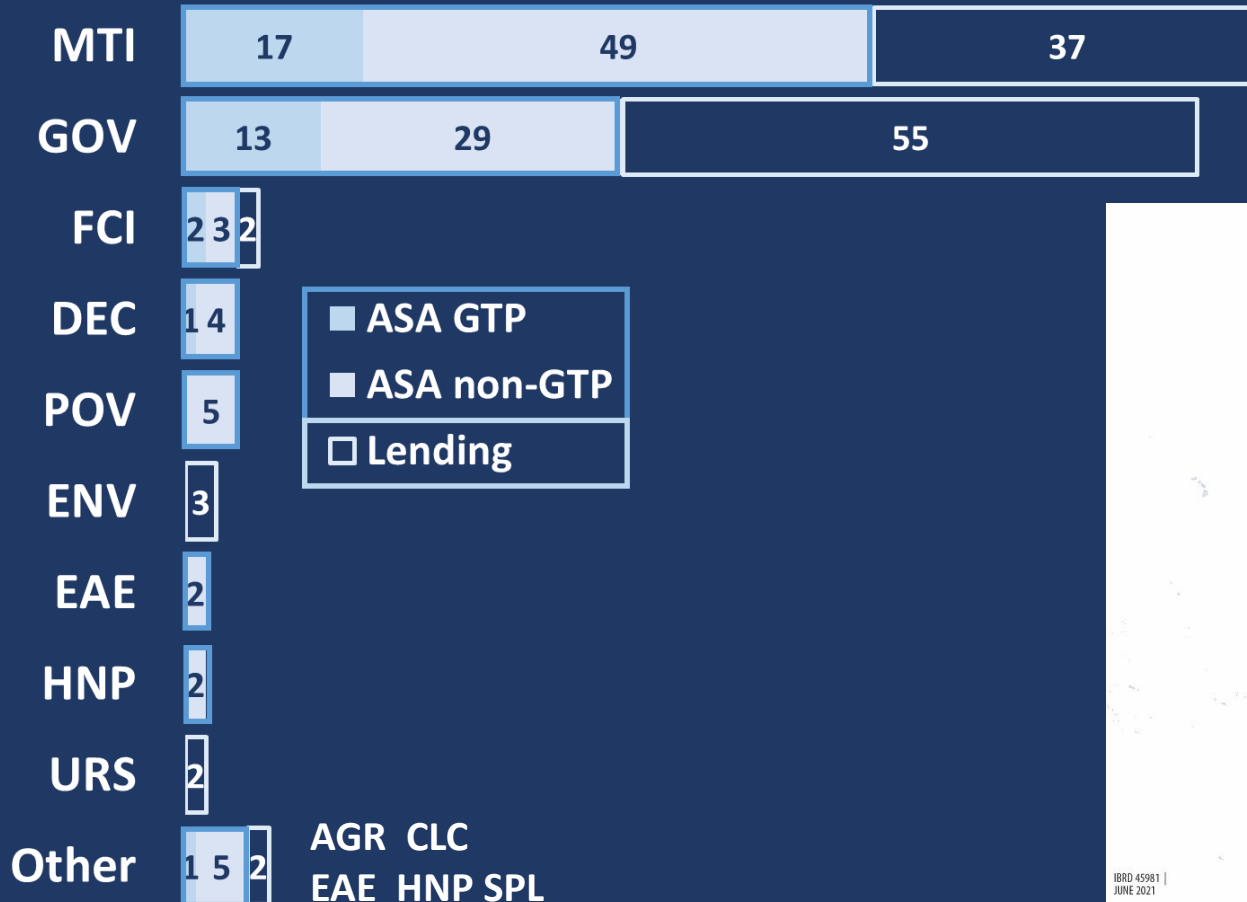
(\*) 2021 Includes pipeline

2019: includes 4 projects (1 IDA, 3 IBRD) with commitments over USD\$ 100 million

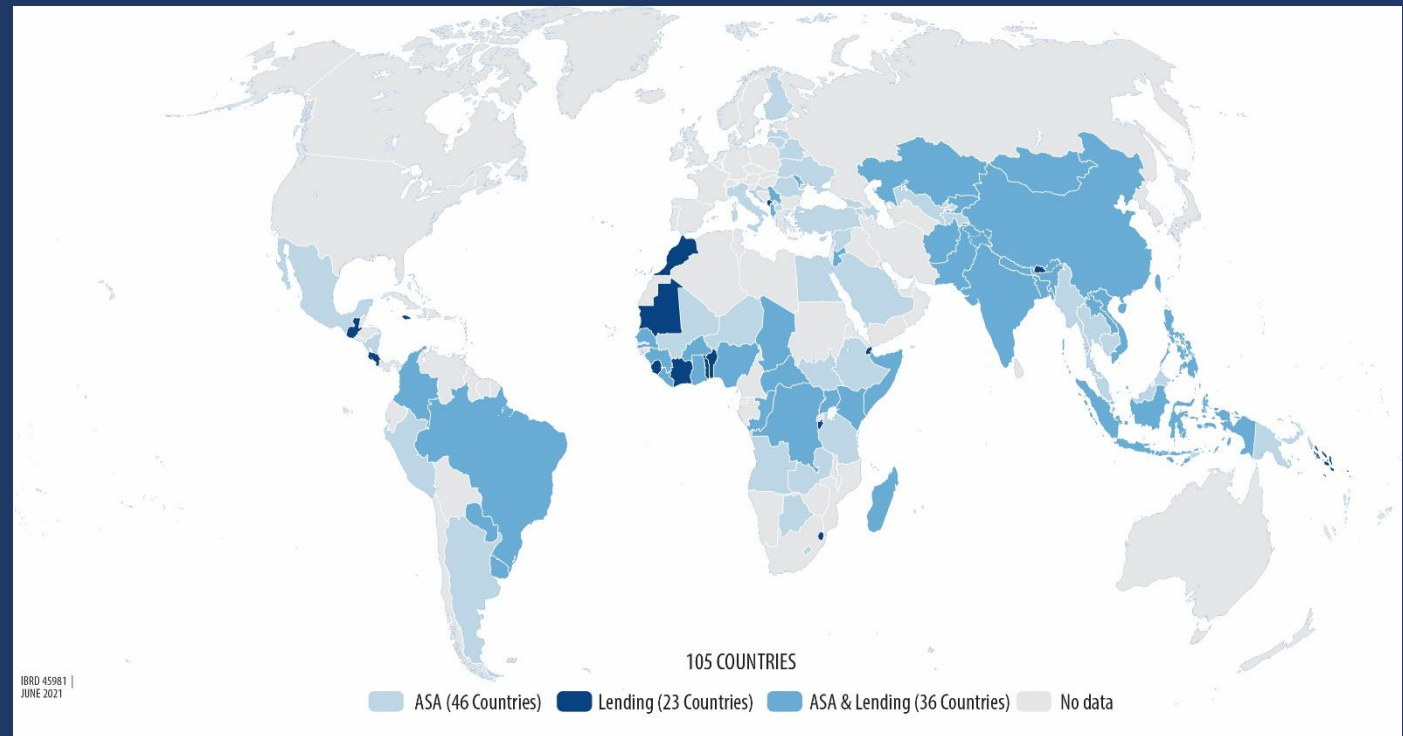
# Bank's current engagement on DRM covers 105 countries – The Global Tax Program (GTP) has supported the scale up of ASAs

(See Annex for details on the GTP)

## Active DRM Lending and ASA Projects (P-codes)



**Total Outstanding** US\$ 2.8 billion in lending  
**Commitments** 233 active projects (ASA & lending)



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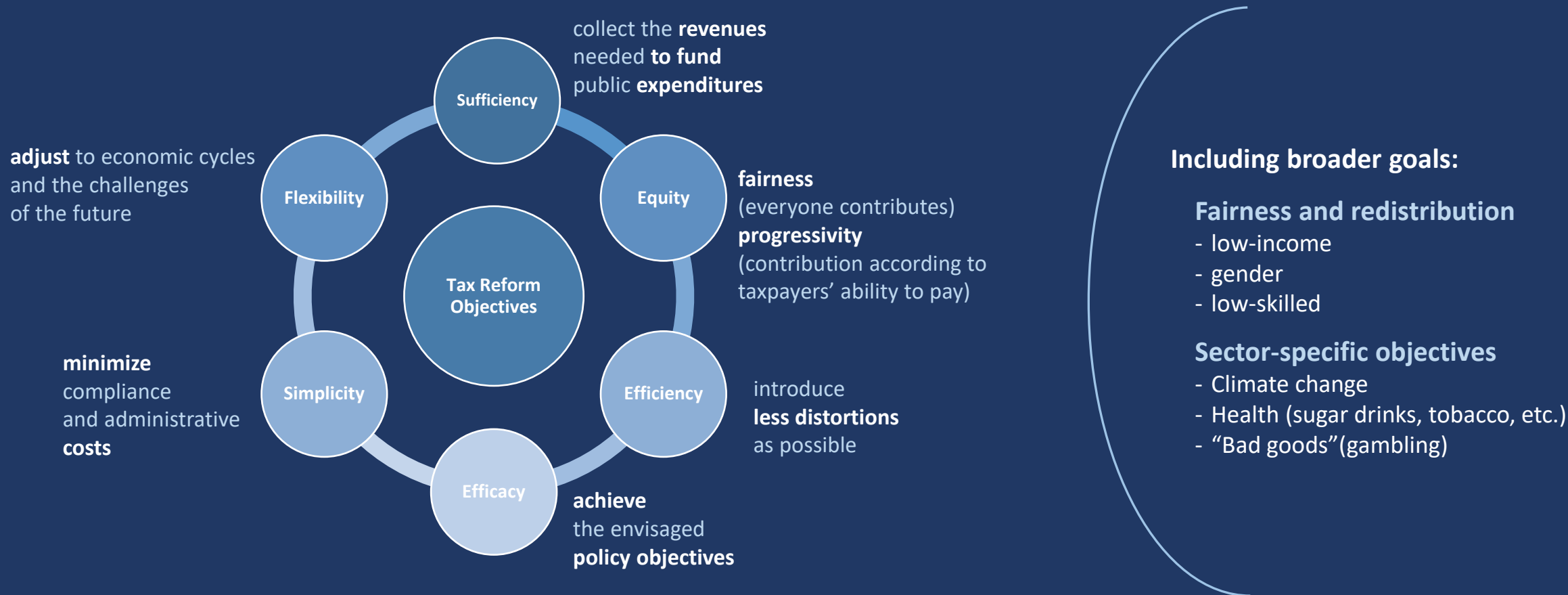
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**Part V.** Forward Looking

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# DRM is about better revenues and building back better ...

In response to COVID-19, **Pandemic of Inequality**, tax policy needs to put a heavier weight on measures that increase **fairness and progressivity**, are **growth friendly** and tackle **health and climate change**.



# ... and the need to tackle inequality through the tax system

**THE EQUITY OF A COUNTRY TAX SYSTEM IS DEFINED BY  
HOW REVENUE IS COLLECTED AND HOW IT IS SPENT**

| <b>PERSONAL<br/>INCOME TAX</b>                            | <b>WEALTH<br/>TAXATION</b>  | <b>CORPORATE<br/>INCOME TAX</b>                                     | <b>INDIRECT<br/>TAXATION</b>                                       | <b>SECTOR-SPECIFIC<br/>TAXES</b>                           |
|---|---|---|--|--|
| More progressivity,<br>including taxing capital<br>income | Greater reliance on<br>property taxation and<br>other taxes on wealth | Removing opportunities<br>for tax avoidance;<br>reducing exemptions | Broad bases and offset<br>by direct subsidies or<br>cash transfers | Addressing climate<br>change and health-<br>related issues |
| <b>TAX ADMINISTRATION REFORMS</b>                         |   |   |  |  |

- The current tax structure in development countries is less effective in addressing inequality - Relatively low reliance on progressive taxes (income taxes contribute less than one-third of revenue, with a particularly low reliance of personal income tax)
- Strengthening the fairness and progressivity of tax systems is fundamental for building trust, which, in turn, raises tax revenues.

# COVID-19 crisis is creating momentum to address old tax reform challenges and to promote new tax instruments

## Challenges

- Expand existing/explore new tax bases (including undertaxed and untaxed bases) e.g., capital income, property, net wealth, tax expenditures, digital economy, carbon emission



- Rethink international tax rules to stop tax avoidance by corporations and high-net-worth individuals



- Replace global tax competition with coordination and harmonization



## Opportunities

- Increase progressivity of the current tax system



- Strengthen the use of tax policy instruments to tackle climate change



- Promote broader policy objectives with excises; e.g., health



- Automation of tax administrations (facilitation and enforcement)



During the recovery phase, countries face the challenge to find a right balance between more revenues while also supporting economic growth

# Progressivity of the Personal Income Tax (PIT) should be improved

Low marginal tax rates at the top and inappropriate income exemption thresholds

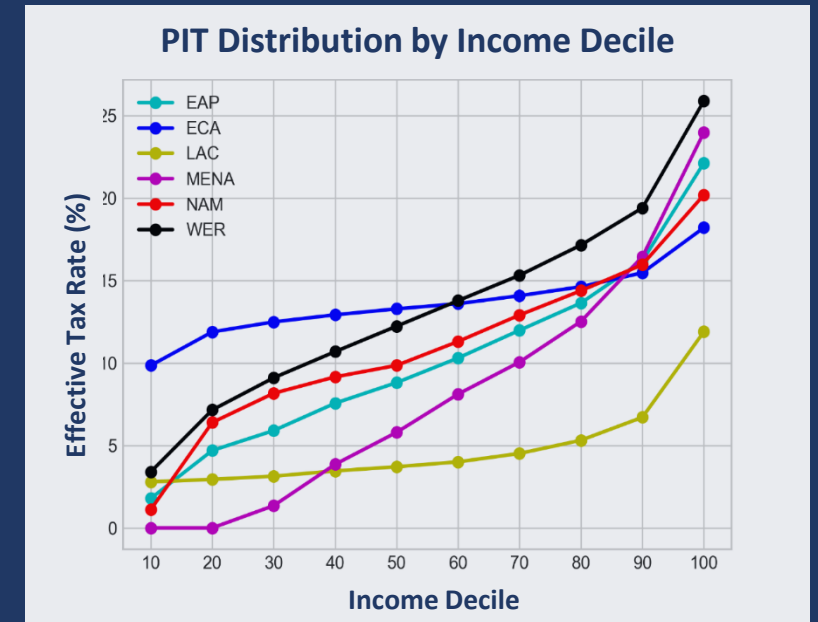
- make the PIT rate structure less progressive (almost flat) in many developing countries.

Need a better design of PIT reliefs

- benefit disproportionately the better off
- Possible solutions: capping the benefits, replacing deductions by tax credits, etc.

Low and non-taxation of capital income (e.g., capital gains, interest & dividend income...)

- reduce progressivity and introduce distortions on economic decisions.



Source: WB

**Progressive taxation helps limit inequality at the top, fight poverty and increase social mobility**

# The Bank's CEQ methodology supports fiscal policy decisions to improve inequality and poverty

Assessing the incidence of tax and expenditure systems to make informed policy decisions

## Commitment to Equity

- Partnership with Tulane University's Commitment to Equity Institute
- Implemented in over **80 countries**
- Inspired **new SDG indicator 10.4.2** – important step toward the creation of a global standard for assessing government effectiveness in tackling inequality

Pushing the frontier: Gender & Health

### Gendered CEQ

- Adding a gender lens to fiscal incidence analysis
- Pilot to (i) develop a methodology to analyze net impact of fiscal policy on households of different gendered and age compositions; and (ii) conduct two country case studies

### Health Taxes

- Includes taxes on products that have a negative impact on public health (tobacco, alcohol, sugar-sweetened beverages)
- Incidence and cost/benefit analysis of short-term and long-term poverty and distributional effects
- Impact analysis on: improved health outcomes, revenues, reduction of out-of-pocket medical expenses

## CEQ Methodology

### Transfers

Cash transfers  
Indirect subsidies  
In-kind transfers

### Taxes

Income taxes and pension contributions  
Indirect taxes  
Co-payments and user fees

## Country examples

- **JORDAN** (2020): Incidence analysis of the fiscal system (income tax, GST social assistance and services, such as, electricity and water subsidies and education and health)
- **BARBADOS** (2019): Effects of the fiscal system and ongoing fiscal consolidation measures on inequality, including some policy recommendations
- **UKRAINE** (2019): First attempt at a comprehensive fiscal incidence analysis.



# A greater focus on wealth taxation needed to address inequality

**Global inequality exacerbated by significant concentration of wealth among the richest 10%**

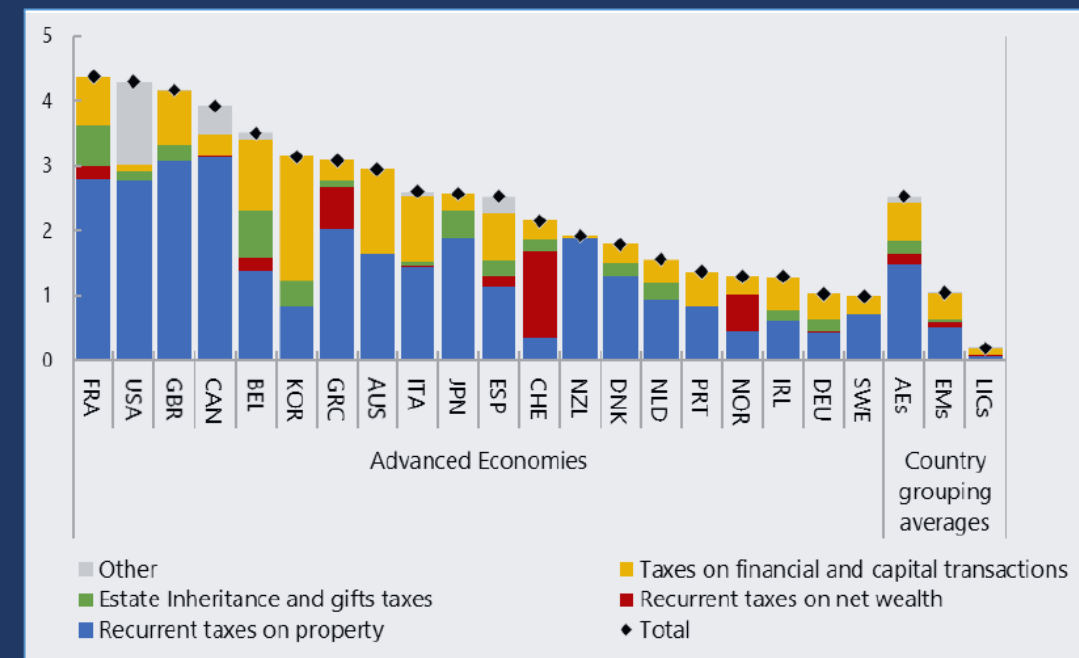
## TAX-RELATED FACTORS AFFECTING GROWING WEALTH AND WEALTH CONCENTRATION:

- tax avoidance and evasion behaviors
- poor design or non-existence of wealth taxes (including political economy factors)
- rapid capital accumulation due to non- or under-taxation of capital income
- assets that are exempt or receive relief
- inefficiency in property taxation

## MEASURES TO FACILITATE EFFECTIVE ENFORCEMENT OF INCOME AND WEALTH TAXATION:

- better designed wealth taxes
- global tax transparency standards and the use of third-party information (including the creation of beneficial ownership registries)
- a dedicated unit for high-net-wealth individuals in the revenue administration (e.g., Uganda)

**Taxes on wealth  
(% of GDP)**



Source: OECD Revenue Statistics

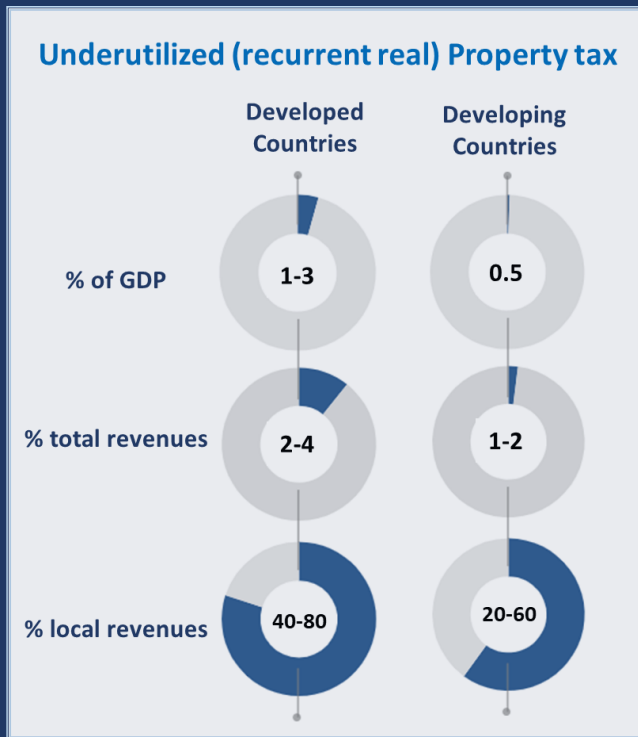
# Potential to increase revenue and improve equity through taxes on real, immovable property

## 1. REVENUE AND EQUITY POTENTIAL BUT POLITICALLY SENSITIVE

- Visible, tangible and immobile tax base
- Robust, high value tax base in urban areas worldwide

## 2. DESIGN AND IMPLEMENTATION ARE CRITICAL FOR SUCCESS

- Cutting-edge technology to reduce administrative and compliance costs (registries, valuation, operations and taxpayer services)
- Inter-governmental cooperation as a win-win for improving property registry



Currently also providing support to Burkina Faso, Ghana, Liberia, Nigeria, Tanzania, Palestinian territories, Pakistan, Sierra Leone and Zambia

### Kigali, Rwanda

**Revenue could be increased up to 10-fold from two sources**

- Improve collection of existing lease rate (flat fee/m<sup>2</sup>) & e-billing
- Establish property tax of 1% on building value (law passed in 2018)
- But: Exemptions matter significantly for overall yield

**Repeat of exercise for new land tax shows improvements in technology**

- Satellite imagery & machine learning at scale
- Get much improved 3D footprints for land valuation in capital to apply new law
- Apply 2D footprints in secondary cities where height does not vary much
- Also using this to value all agricultural land (mortgages & fair land acquisition)

**Currently negotiating dynamic updates**

- Monitor new building activity in near-real time (link to building permits)
- Implement planning regulations & follow up on unauthorized construction

**Technology applied to all of Africa with BMGF support**

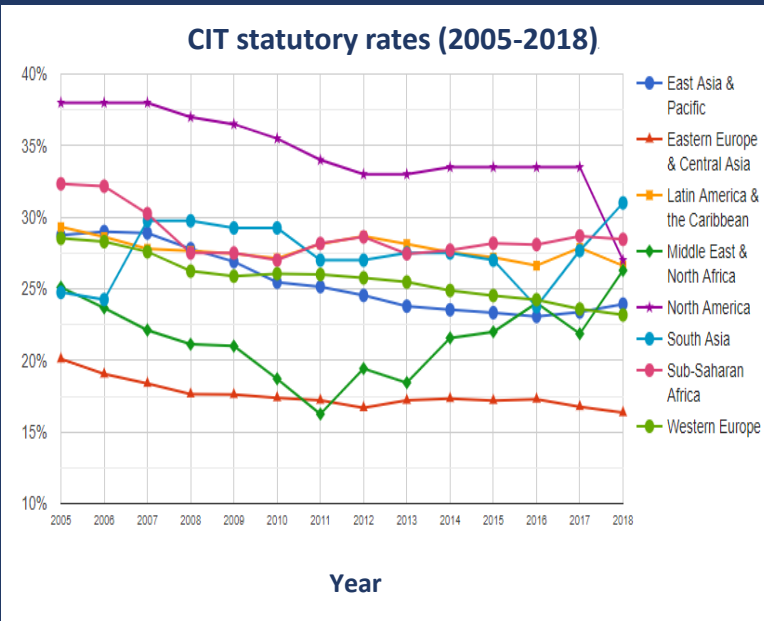
- 342 mn. building footprints; 3.8 mn km of road – available to Bank for analysis only

### Nigeria States

**SFTAS project & Technical Assistance**

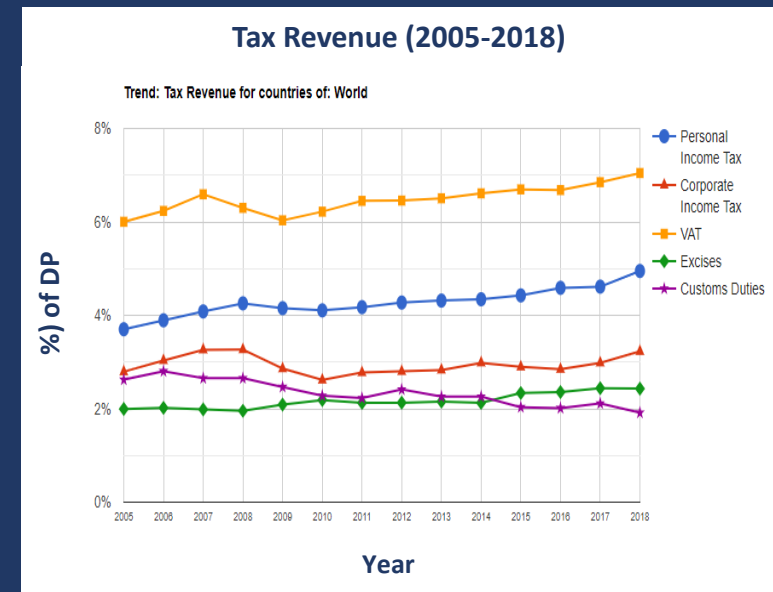
- **Updating property records:** firm to provide GIS data and orthophotos to map every building; software for States to conduct field enumeration (ArcGIS Pro plus survey123 - a desktop software that allows for the creation and management of geospatial data)
- **Reforming legislation**
- **Technical/Project Management support**
- Executive Governors have approved the State work plan and budget for updating property records for inclusion in the FY21 State Budget

# Competition to attract investment should be driven by other factors (e.g., improvements in infrastructure, bureaucracy and costs/skills of the workforce), not by tax incentives



Source: WB

- Low-income countries particularly exposed to tax competition, causing a race to the bottom of corporate income tax (CIT) statutory and effective rates.
- Falling CIT rates in nearly all regions have not reduced CIT collections, which have remained stagnant as compared to other revenue sources.
- Indirect taxes have largely borne the brunt of revenue increase measures exacerbating inequality.



Source: WB

- Regional efforts at limiting tax competition have not been successful in the absence of a compliance mechanism.

- A global effort (binding rules) needed - involving governments as well as multinational corporations (one of the main source of demand for lower CIT rates)

# Streamlining ineffective tax expenditures (TEs) can increase effective rates and revenues, and improve equity

## Benefits from streamlining ineffective TEs:

- 1) simplify the tax system
- 2) raise more revenue (or the same revenue at lower tax rates)
- 3) enhance progressivity and efficiency

## Some TEs might have positive effects on inclusive growth

- in particular, when they are well targeted; e.g., to encourage human capital accumulation to low-income individuals.

## If introduced, target TEs to investments that create positive externalities

- Replace CIT profit-based tax incentives (e.g., tax holidays and exemptions) by targeted cost-based tax incentives (investment tax credits, accelerated depreciation) to those creating positive externalities (e.g., public infrastructure by the private sector).

## WB Technical assistance & Capacity building

### Improving transparency of TEs

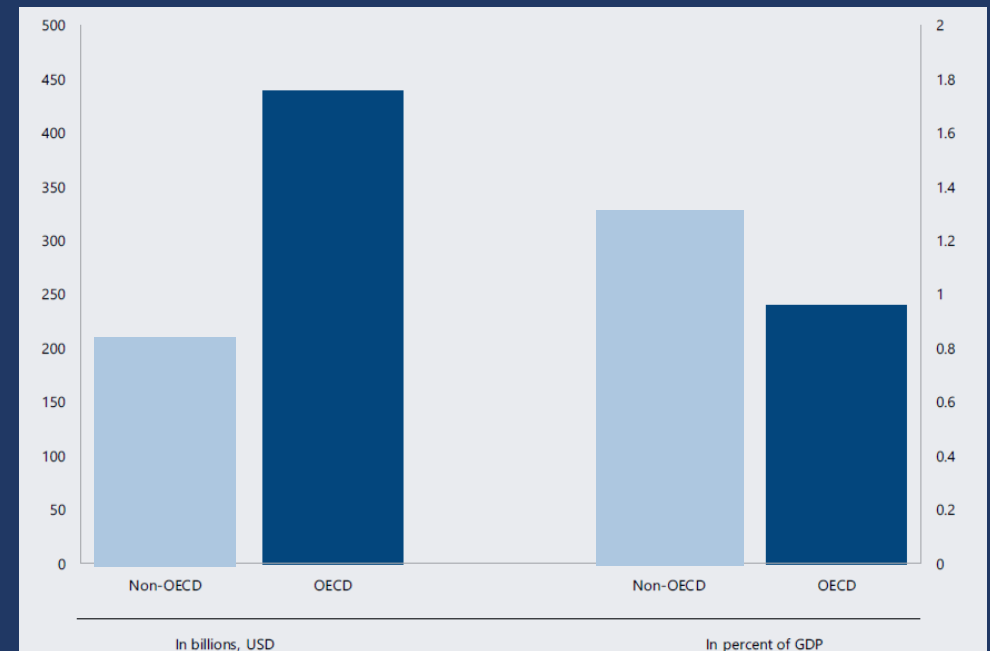
- Support to evaluate cost (revenue forgone) and benefits (labor, investment, savings..) of main tax expenditures
- Improve governance (transparency on management and administration)
- Foster regional cooperation

# Addressing tax avoidance can raise significant revenue as well as increase fairness and equity

Potential CIT revenues losses because of profit shifting in developing countries (US\$ 200 billion per year) are equivalent to the estimated revenue loss caused by the pandemic, and higher than the ODA they receive each year.

- Significant progress on measures to tackle tax avoidance through profit shifting; e.g., the improvement of international standards with the G-20/OECD Base Erosion and Profit Shifting (BEPS) project but still a way to go, including to address avoidance by high-net-worth individuals
- Greater advocacy needed to address concerns from many developing countries about:
  - 1) the complexity of some of these measures and their capacity to effectively implement them, and
  - 2) reservations on whether some of these measures reflect their realities and priorities

Estimates of revenue lost from profit shifting



Source: IMF (2019)

# Addressing tax avoidance and digitalization of the economy requires rethinking global tax rules

## ➤ Global Minimum Tax

- Can help to address profit shifting and dampen tax competition
- Could increase global corporate tax and high-net-worth-individuals' tax revenues in low-income countries
- Face relatively modest legal impediments, though administration can be complex
- Areas of potential issues with the current negotiations at G20/Inclusive Framework include
  - Carve outs limiting the scope of the Global Minimum Tax such as to certain sectors and certain sizes of business, etc. which may increase the complexity of the new guidelines and reduce its effectiveness;
  - The establishment of an institutional framework that is as inclusive as possible; ideally placed under a multilateral institution whose membership covers nearly all developing countries

## ➤ Direct taxation of foreign digital suppliers

- New source of taxing rights (taxing business without any physical presence)
- Multilateral approaches: e.g., residual profit-based Amount A under OECD's Pillar One
- Unilateral approaches: e.g., turnover-based digital services taxes, income-based withholding taxes, expanded permanent establishment rules
- Challenges: double taxation, administrative complexity, tax discrimination

## ➤ New technologies are creating new challenges

- Taxation of crypto assets and cross-border delivery of services

# COVID-19 crisis has created opportunities to levy VAT on e-commerce, which in many countries escapes taxation

**VAT and the digital economy** - Introducing a VAT on e-commerce where it is undertaxed or non-taxed will:



- protect **tax revenue** (growing VAT revenue losses & indirect impact on direct tax revenues) and
- **level the playing field** between digital and traditional trade suppliers (reduce competitive distortions and negative impact on employment)

## VAT Regional Toolkit on Digital

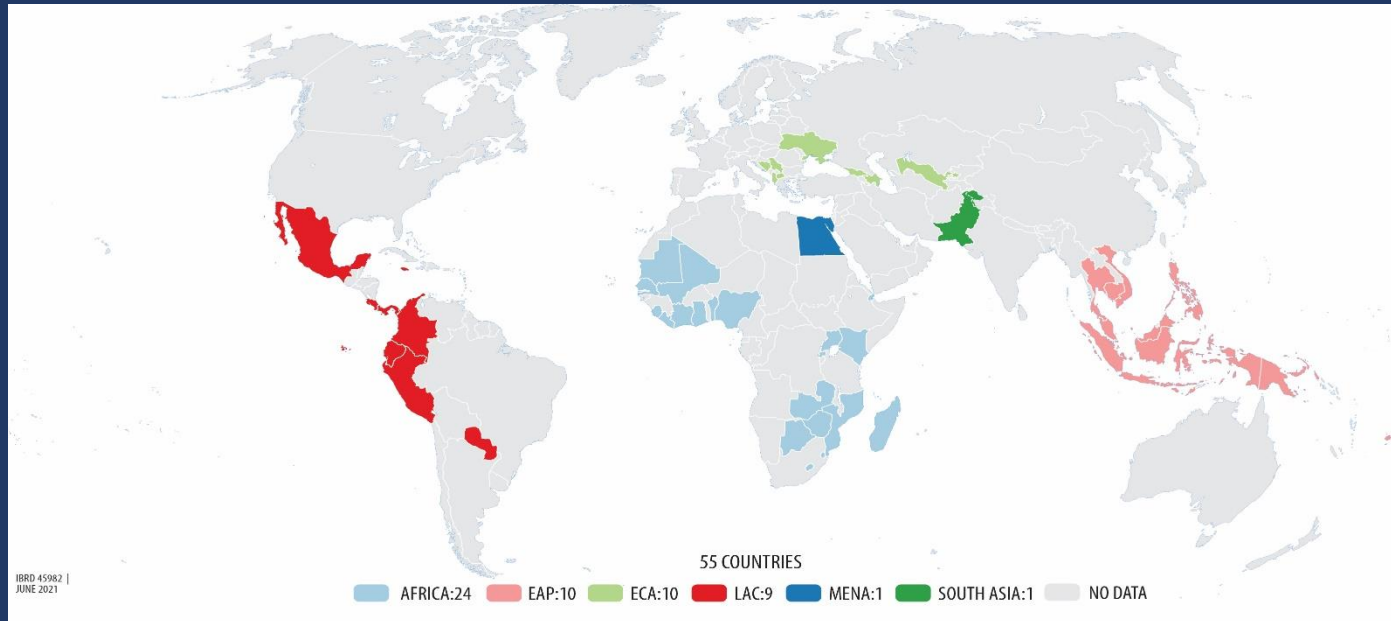
- A joint OECD-WB project to develop practical toolkits for LAC, Africa and Asia, in collaboration with regional organizations (e.g., CIAT/IADB, ATAF, ADB)

## Country support

|                    |                 |
|--------------------|-----------------|
| Cabo Verde         | Mexico          |
| Cambodia           | North Macedonia |
| Cameroon (lending) | Philippines     |
| Indonesia          | Tajikistan      |
| Jamaica            | Uzbekistan      |
| Malaysia           | Vietnam         |

# Selected examples: Bank's support on international tax (including on IFFs) contributes to increase revenues and improve progressivity

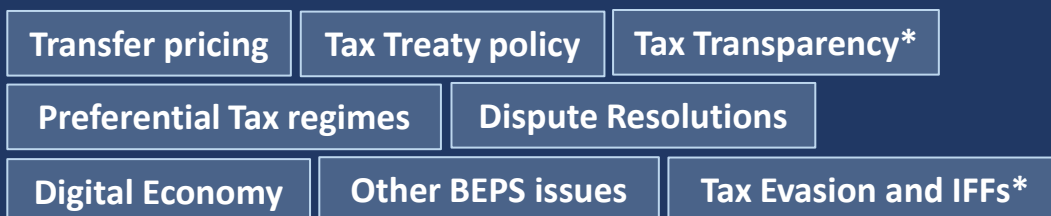
## Technical assistance and capacity building support (close cooperation with the OECD and Global Forum)



## SELECTED OUTCOMES (technical assistance)

- **Additional Revenue from TP adjustments:** Kenya (US\$ 135 mil), Peru (US\$ 12mil in 2018), Uganda (US\$45 mil in 2021 in only 2 cases), Vietnam (US\$ 116 in 2017)
- **Enacted TP Legislation (including on Country-by-Country Reporting):** Benin, Cabo Verde, Peru, Zimbabwe
- **Revised Treaty Tax Policy:** Cambodia, Indonesia, Jamaica, Peru, Senegal (treaty with Mauritius terminated), Thailand
- **Enacted tax transparency legislation (EoIR/AEOI) & AEOI started:** Panama , Peru

## MAIN TOPICS



\* Jointly with WB financial integrity team (FCI)

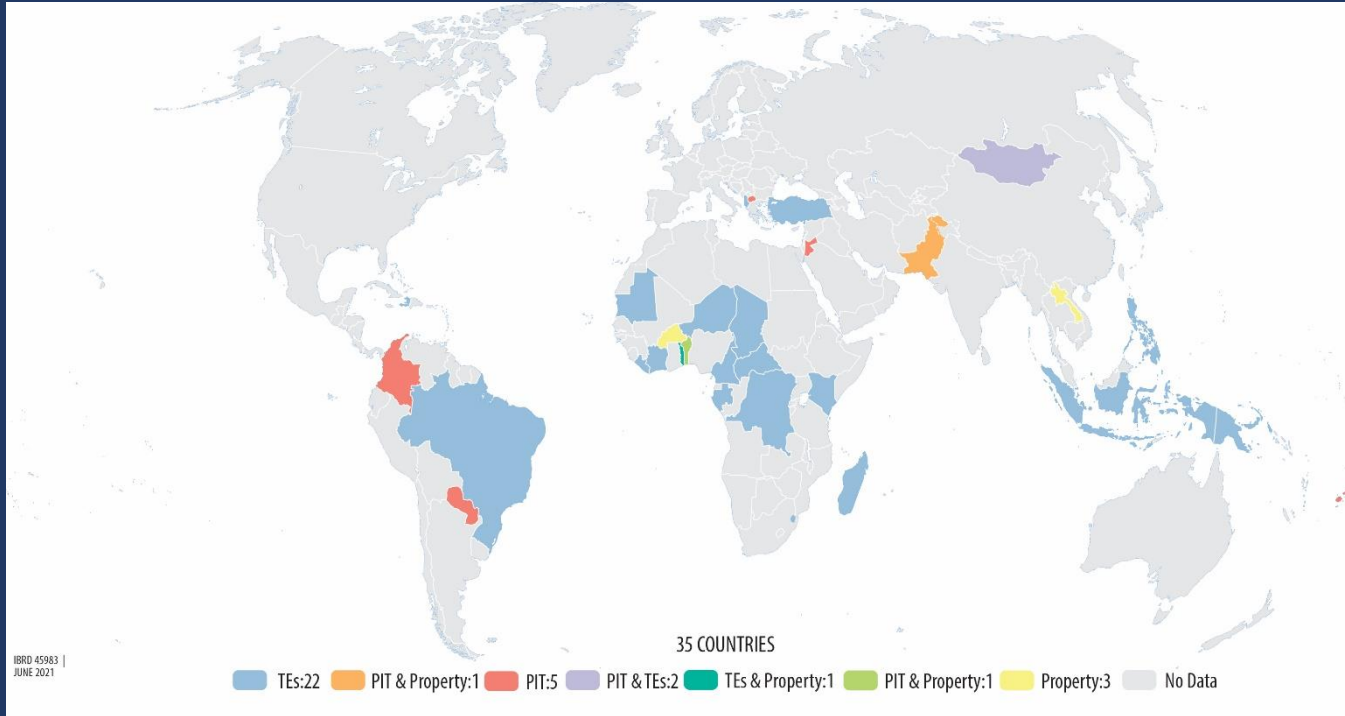
## PRIOR ACTIONS IN LENDING OPERATIONS (4 countries)

- 3 Exchange of Information on Request
- 3 Beneficial ownership (tax/financial integrity)\*
- 3 Automatic exchange of information
- 2 Transfer pricing legislation
- 2 Tax treaty policy (e.g., treaty model, MAC, MLI)
- 2 Other BEPS related issues



# Selected examples: Increasing lending support to improve the equity of the income tax regimes

## Lending Operations with PIT Progressivity, TEs and/or Property Taxes Measures



### 6 Prior Actions on Property Taxation (6 countries)

- 2 Registry
- 1 E-payments
- 1 Progressive rates
- 2 Valuation

### 32 Prior Actions on Tax Expenditures (26 countries)

|                                     |    |
|-------------------------------------|----|
| Publish inventory of Tax Incentives | 6  |
| Undertake TEs Cost-Benefit analysis | 11 |
| Remove/Reduce Tax Expenditures      | 18 |
| Publish Tax Expenditure Statement   | 5  |
| Improve governance of TEs           | 3  |

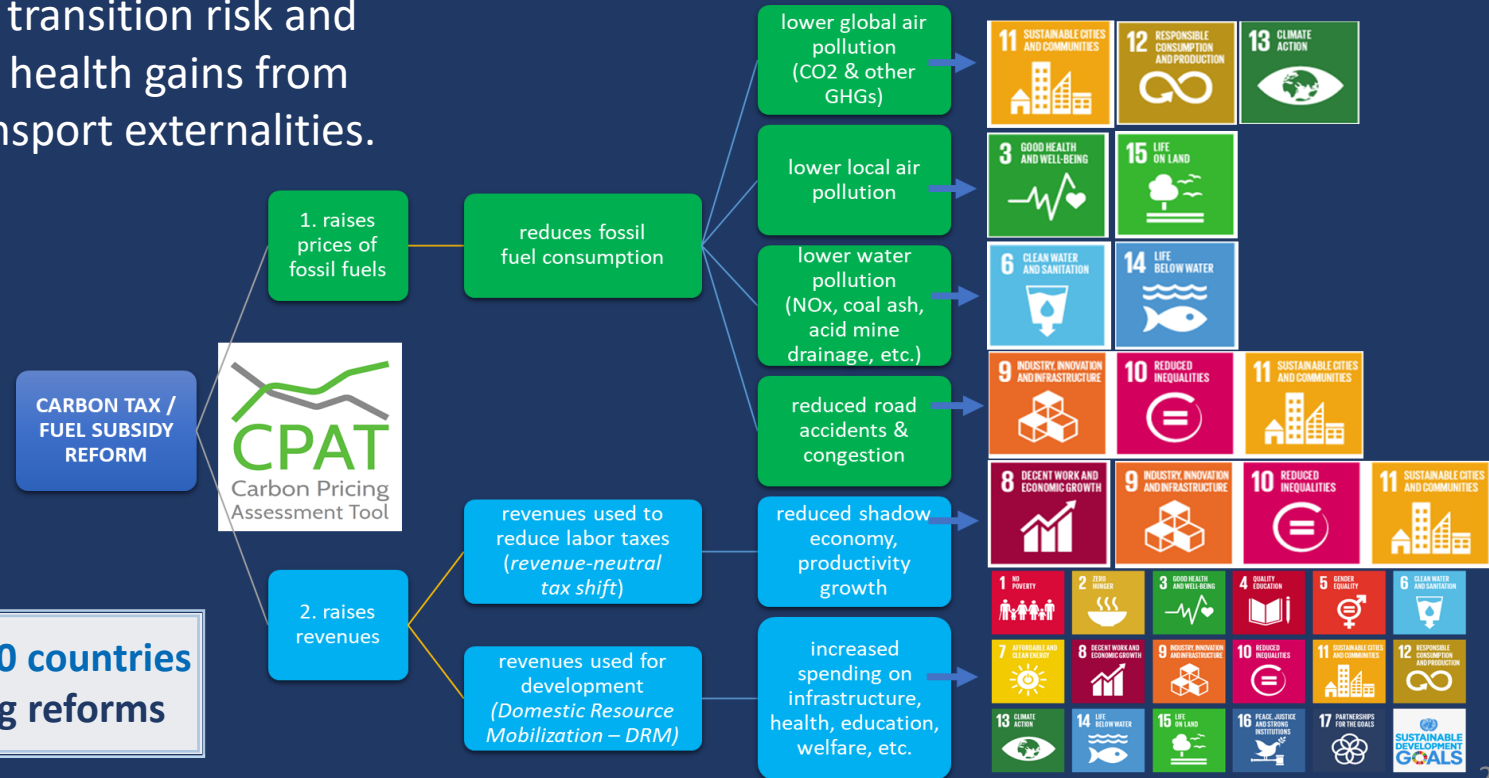
### 15 Prior Actions to increase PIT progressivity (9 countries)

|   |   |
|---|---|
| Raise PIT rates of high-income groups                     | 4 |
| Adjust the income-tax threshold                           | 4 |
| Introduce caps to tax reliefs (deductions and exemptions) | 3 |
| Introduce (raise) taxation of capital income              | 4 |

# A green tax reform can generate revenues with large positive environmental effects

- Negative externalities such as GHGs are a large unused tax base with considerable potential to raise revenue and create incentives to shift towards more sustainable investments.
- Raising environmental taxes can create an environment-economic ‘double dividend’: raising revenues at relatively low cost, reducing asset exposure to climate transition risk and producing development co-benefits, such as health gains from reduced air pollution, cleaner water and transport externalities.
- A Carbon Tax:
  - offers the most cost-effective lever to reduce carbon emissions
  - performs better than other taxes at covering the informal sector, and
  - is relatively robust to evasion

The Carbon Pricing Assessment Tool (CPAT) supports 150 countries with a rapid, country-specific analysis of carbon pricing reforms



**PRIOR ACTIONS IN LENDING OPERATIONS**  
**(13 countries)**

10 Excises (cars, coal, diesel & other petroleum products)

1 Carbon tax    2 VAT    1 Charge on plastic bags

1 Exception/reduced rate on electric/hybrid cars

# The use of excise taxes for improving health outcomes increases revenue and improves equity

**More than 10 million premature deaths each year (about 16% of all deaths in the world) could be prevented by reducing consumption of tobacco, alcohol, or sugar-sweetened beverages**

- Excessive consumption of unhealthy products is persistent/increasing in many LMICs, where non-communicable diseases affect people at a younger age.
- Excise taxes are an important instrument to improve health outcomes. Evidence shows that when long-term dynamics are considered these taxes are progressive.
- Health taxes result not only in healthier populations but also generate revenue in challenging tax administrations and low- capacity environments.

## GTP and Health Taxes Program

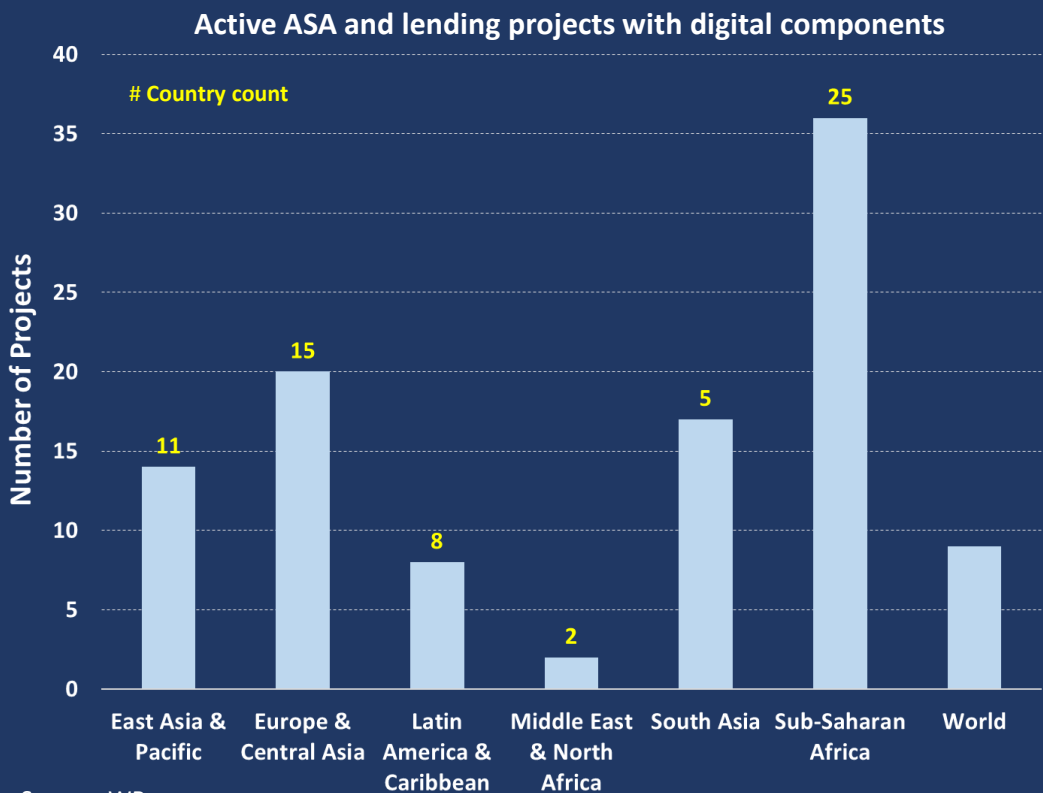
TA and ASA country's support  
Joint MTI, HNP & Poverty GPs program

Excise taxes that increase the prices of tobacco, alcohol and sugar-sweetened beverages by 50% would raise on average 0.7% of GDP in additional revenue in low- and middle-income countries  
(WB, 2019)

## **Prior Actions** **Lending operations** (14 countries)

11 Tobacco  
10 Alcohol  
7 Sugar drinks

# COVID-19 has made digital transformation a matter of necessity and urgency



- Big lesson from the COVID-19 pandemic: The **criticality of internet-based compliance and payment platforms** for revenue administrations.
- Where such platforms existed, the negative impact of COVID-19 on revenue was **not a function of administrative factors** but restricted to economic factors.
- The ability of revenue administrations to **maintain business continuity** in a pandemic emerged as a critical element of success.
- **Countries had different starting points** and, hence, varying levels of readiness to face the COVID-19 pandemic crisis.
  - Low-capacity environments faced the most difficulties in keeping revenue administrations fully functional, suffered the most in terms of revenue declines.
  - Higher capacity revenue administrations minimized the disruption of revenue collection efforts.

## PRIORITIZE AUTOMATION ENHANCEMENTS AND USE OF DISRUPTIVE TECHNOLOGIES

Extend the scope of **e-filing/e-payment** - reduce compliance and administrative costs, and interaction with taxpayers and trade entities.

Use technological advancements and tools for **digital audits and taxpayers' services**.

Enhance the use of **third-party data** and **data analytics**.

Incorporate **international tax** issues as part of the ICT and compliance strategies.

**Accelerate the move to  
a digital revenue administration**

# ... and strengthened the need for increasing support of tax administration reforms

## Post COVID-19 revenue administration measures (recovery and consolidation phases)

### FORMULATE A COMPREHENSIVE BUSINESS CONTINUITY PLAN

Ensure flexibility and adaptability to new challenges.

### STRENGTHEN TAX COMPLIANCE STRATEGIES

Supported by simplification and certainty measures to prevent and tackle informality.

Develop solid risk-based management mechanisms.

Strengthen enforcement and communications capacity.

### SIMPLIFY REGULATIONS AND PROCEDURES

Improve facilitation and foster formality by reducing compliance costs.

Improve administration.

### STRENGTHEN VAT MANAGEMENT

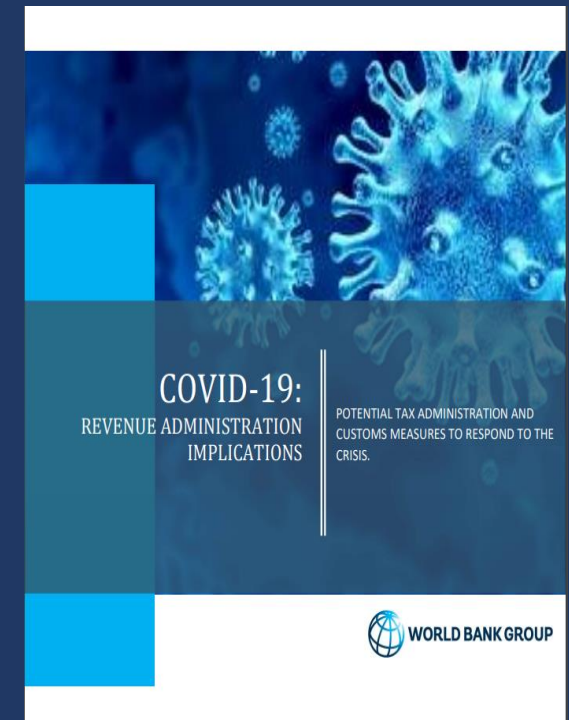
Strategy and action plan (e.g., ease registration, filing, payment and refund).

### MONITORING AND EVALUATION

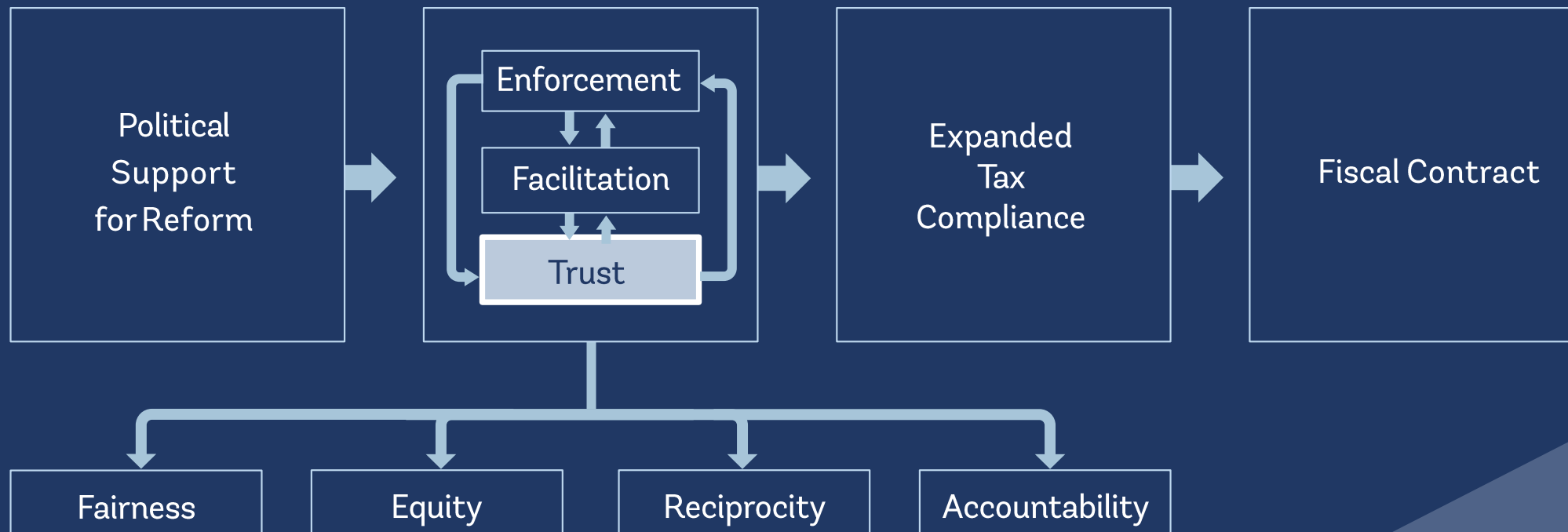
Including monitoring and evaluation of the effectiveness of the COVID-19 reliefs.

### PRIORITIZE MEASURES TAILORED FOR THE TAXATION OF THE DIGITAL ECONOMY

Develop strategy and action plan for the design and implementation of new measures.



# Taxpayers' trust instills voluntary compliance based on elements of tax morale, reciprocity (based on service delivery), equity and fairness



Source: Dom, R., Custers, A., Davenport, S., Prichard, W., (forthcoming), Innovations in Tax Compliance: Building Trust, Navigating Politics and Tailoring Reform, DC: World Bank

Improving trust through equity and fairness, facilitation and certainty can help incentivize voluntary compliance, including from the increased informal sector that is emerging from the COVID-19 crisis.

# Select example: Comprehensive tax reform in Uzbekistan



A comprehensive package of tax policy and revenue administration reforms to modernize the tax system  
(complementing and closely collaborating with the IMF)

## Technical Assistance

- Tax policy and drafting of the tax code (including international tax issues & shadow economy)
- Tax administration (e.g., VAT implementation and refund, ICT diagnostics and action plan for investment)
- Capacity building (e.g., audits, risk management, arrears, transfer pricing)

## Lending Operation

- Modernizing tax administration (business processes, taxpayer services, ICT infrastructure)
- Addressing the shadow economy
- Strengthening collection capacity
- Improving the investment climate

## Highlights on outcomes

- Transitional VAT tax regime for SMEs: net increase of 21,000 registered taxpayers
- Adjusted VAT input tax credit: 7.5% increase in revenues (US\$ 2.5millions)
- Increased overall tax compliance: successful incentives to individuals to collect traceable receipts, data collection of unregistered businesses & establishment of book-keeping requirements for income tax purposes

# Selected examples: Impact of DRM projects (pre-COVID)

## **AFGHANISTAN** (2004-2019)

Customs revenue increased seven-fold with improvements on clearance and transparency of trade transactions.

## **BENIN** (2019-2021)

- 97% of large firms using e-filing, about 80% paying taxes through banking and e-payment systems (2019).
- Tax reliefs for cellphone companies abolished (2019).
- Increased revenues and improved progressivity by PIT and property tax reform (2021).

## **BURKINA FASO** (2018-2019)

Tax code changes to increase categories for beverages, tobacco, plastic bags, as well as for property and corporate taxes led to VAT collection over 8% of GDP and non-VAT revenues of 10.2% of GDP.

## **INDONESIA** (2015-2020)

- Taxpayers' registration increased by 5 p.p.t. up to 30% of total labor force.
- E-filing covering 97% of VAT returns and more than 70% of CIT returns.
- Audited high-risk taxpayers increased by 15 p.p.t. points.
- 63 additional institutions exchanging electronic data with DGT to support risk management.
- Annual filing ratio increased by 12 and 7 p.p.t. for individual taxpayers and corporations, respectively.

## **PERU** (2018-2021)

- Transfer pricing audit adjustments of more than US\$120 million in 2018 (joint OECD-WB TA support).
- Exchanging information on automatic basis (CRS) with 21 jurisdictions since December 2020.

## **TAJKISTAN** (2012-2019)

- 85 % increase in average tax revenue collected.
- Number of active firms and individual taxpayers filing taxes doubled.
- Number of hours spent on complying with tax-related regulations reduced by 36% .

## **UGANDA** (2016-2021)

Additional tax revenue of nearly US\$ 125 million through transfer pricing audits (joint OECD-WB TA support) - US45 million from only 2 cases.



# Update Outline

**Part I.** Executive summary

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**Part II.** DRM approach and COVID-19 impact

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**Part III.** Momentum for tax reform

**Part IV. Public Goods and Partnerships**

**Part V.** Forward Looking

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# Bank's analytical and advisory products and global advocacy help increase awareness and capacity

## Selected Tools

**Open Learning Campus**  
ACCELERATING SOLUTIONS THROUGH LEARNING

**eLearning Course on Transfer Pricing Electronic Learning Tool (Self-Paced)**  
ENROLL NOW!

The Transfer Pricing E-Learning Tool aims to build knowledge and skills of personnel in working on transfer pricing in tax administrations. The Tool is being developed by the Fiscal Policy and Sustainable Growth Unit. The Tool focuses in particular on the knowledge and skills required by personnel undertaking tax audits of multinational enterprises but will be useful and relevant to others seeking a comprehensive understanding of transfer pricing in practice.



**Tax DIAMOND**  
A toolset that accompanies the implementation and monitoring of tax reforms



Microsimulation Models  
Tax Incentive Analysis  
Tax Gap Models  
... Many more

## Selected Publications

**POLICY RESEARCH WORKING PAPER** 9437

**The Impact of COVID-19 on Formal Firms**  
Micro Tax Data Simulations across Countries

*Pierre Bachas  
Anne Brackmeyer  
Camille Semelet*

**DISCUSSION PAPER** Governance Global Practice No. 4 November 2019

**Thinking strategically about revenue administration reform: The creation of integrated, autonomous revenue bodies**

Raul Felix Junquera-Varela  
Rajul Awasthi  
Oleksii Balabushko

**WORLD BANK BLOGS** Published on Governance for Development

**A wealth tax to address five global disruptions**  
JIM BRUMBY | JANUARY 06, 2021  
This page in: English

**POLICY RESEARCH WORKING PAPER** 9399

**Determinants of Property Tax Revenue**  
Lessons from Empirical Analysis

*Rajul Awasthi  
Tuan Minh Le  
Chenli You*

**Tax Theory Applied to the Digital Economy**  
A Proposal for a Digital Data Tax and a Global Internet Tax Agency

Cristian Oliver Lucas-Mesa and Raul Felix Junquera-Varela

**One Earth** CellPress Gold Standard for the Global Goals 17 of 17 CO<sub>2</sub> offset

**Commentary**  
**Climate-Smart Fiscal Policy Can Foster a Lasting Economic Recovery**

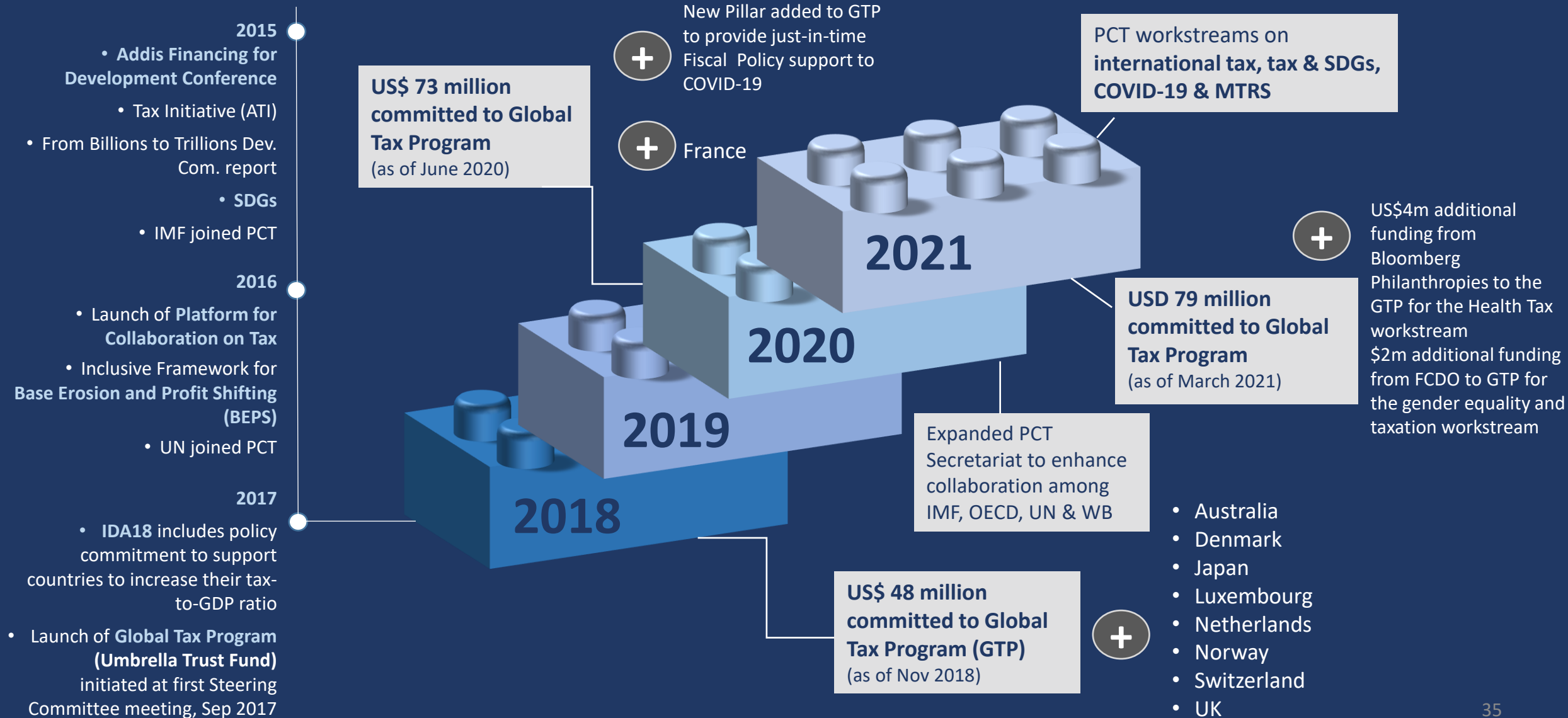
Marcello Estevão<sup>1\*</sup>  
<sup>1</sup>Macroeconomics, Trade, and Investment Global Practice, World Bank Group, Washington, DC, USA  
<sup>\*</sup>Correspondence: mestevas@worldbank.org  
<https://doi.org/10.1016/j.oneear.2020.08.017>

Need to scale-up the advocacy for developing countries on global tax issues (including at G7 and G20)

**INTERNATIONAL Banker**  
A MORE JUST INTERNATIONAL TAX SYSTEM  
March 4, 2021

# Enhanced cooperation between International Organizations and Development Partners to strengthen fiscal resilience and equity (GTP and PCT)

(See Annex for details on the PCT)



# Examples of collaboration with other IOs

## ETHIOPIA

Regular meetings and joint activities with the IMF.

For example, the rationalization review of tax expenditures was undertaken partly by the Bank (customs and domestic VAT) and partly by the IMF (corporate income tax), with methodology and set of recommendations broadly aligned, together with data sharing.

## PERU

Regular meetings and joint activities with the OECD and Global Forum (GF).

For example, joint technical assistance on transfer pricing and tax transparency, including support to strengthen information security management.

Some highlighted results of this OECD-WB collaboration include audits, adjustments in transfer pricing of more than US\$120 million in 2018; Peru BO legislation (drafted supported by the Bank) highlighted by the GF as a model to follow and used as a good practice by both the WB and the GF.

## SENEGAL

Regular meetings and joint activities with the IMF and OECD.

For example, joint IMF-WB support to elaborate the Medium-Term-Revenue-Strategy (MTRS); joint IMF-WB TADAT assessment; coordinated technical assistance with the IMF (tax policy and administration) and the OECD & Global Forum (international tax and tax transparency) to exploit synergies and complementarities.

## Tangible Results

- One voice: common technical understanding of countries' strategic priorities in tax reform and stronger leverage to support good practices
- Rationale of reform recommendations generally aligned across teams
- More effective interventions of all institutions providing technical assistance in the same country
- Enhanced coordination with other development partners (reduced risk of overlapping)

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# KEY MESSAGES – WB DRM approach to implement GRID

Looking forward, the Bank needs to:

1. Scale-up country support to reshape fairer, equitable, and greener tax systems based on country priorities and demands
2. More actively advocate for developing countries at the global level to ensure that their interests and challenges are addressed, including at the G20 and G7 level; and
3. Continue fostering international cooperation to address current and new challenges to support inclusive and greener growth, help reduce inequality and eradicate poverty

Potential interventions to improve the scope of success include:

1. Introducing DRM-related activities into Bank operations, from the CPFs and SCDs to lending operations and TA, and
2. Increasing Bank's human and financial resources to timely respond to greater demands from countries for support to address current revenue challenges, as well as to help them prepare ahead for future challenges. This could involve mainstreaming DRM experts in regional EFI units.

# Looking forward: Scaling-up country and global support

## SCALING-UP COUNTRY SUPPORT TO RESHAPE FAIRER, EQUITABLE AND GREENER TAX SYSTEMS

Focusing more on the **quality of revenues** by addressing:

- inequality (e.g., progressivity, undertaxed/untaxed capital income and wealth, gender bias);
- weaknesses in the global tax system (e.g., corporate and high-net-worth individuals' tax avoidance), and
- broader objectives (e.g., tackling climate change & reducing harmful consumption).

Supporting countries' capacities with **accelerating the move to a digital revenue administration**, maintaining business continuity and strengthening compliance strategies.

Continue assisting countries to curtail IFFs.

## INCREASED ADVOCACY FOR DEVELOPING COUNTRIES TO ENSURE THAT THEIR INTERESTS AND CHALLENGES ARE ADDRESSED

**Increasing Bank's global engagement**, including at G7 and G20 levels jointly with the IMF, to address tax avoidance by multinationals and high-net-worth individuals, with a practical policy and administrative framework for implementation as well as tax competition.

## CONTINUING TO FOSTER INTERNATIONAL COOPERATION TO ADDRESS CURRENT AND NEW CHALLENGES TO SUPPORT INCLUSIVE AND GREENER GROWTH, HELP REDUCE INEQUALITY AND RACE OUT OF POVERTY

**Finding consensual solutions** that consider developing countries' needs, priorities and capacity, including setting-up a Commission to examine the impact of current tax rules in exacerbating inequality.

**Addressing tax avoidance** by multinationals and high-net-worth individuals, **tax & financial opacity and tax competition** at the regional and global level.

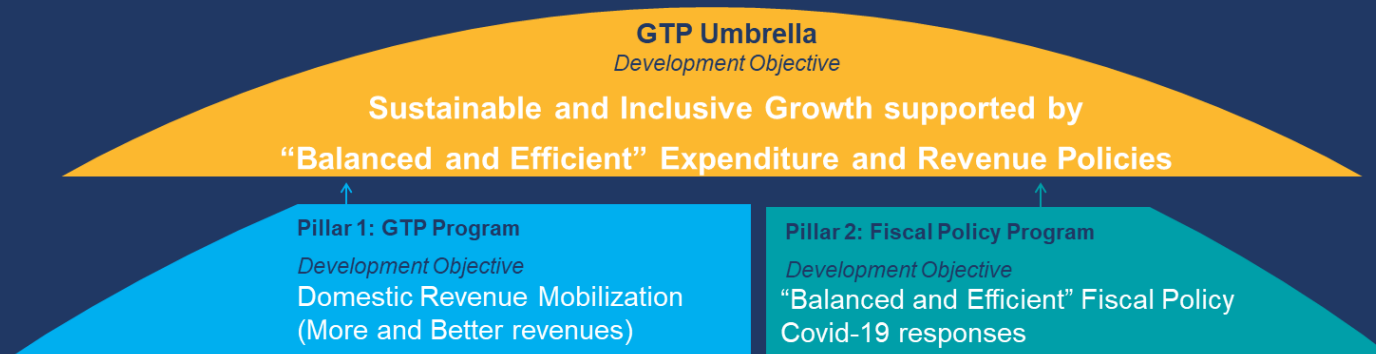
### Scaling-up this support requires:

- Strengthening the uptake of DRM-related activities in Bank's operations
- Increasing Bank's human (DRM experts) and financial resources to timely respond to increasing demands of countries

# Annex



# The Global Tax Program (GTP) has boosted funding to support tax reforms



**GTP Outcomes:**  
Strengthen tax and customs systems of developing countries by facilitating the design and implementation of evidence-based reforms

1. Public Goods contributing to efficient policy making and enhanced revenue authorities

2. Tailored country reforms based on evidence and international good practices

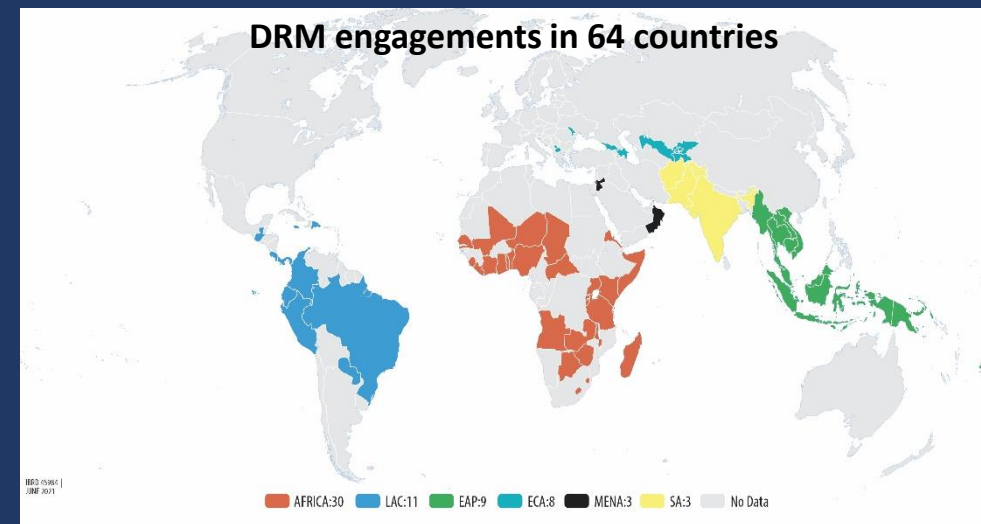
3. Strengthen DRM institutions by shared learning

**Fiscal Pillar Outcomes:**  
Efficient and timely fiscal COVID-19 rapid responses

1. Short-term DRM & expenditure measures mitigate social and economic impact of COVID-19

2. Fiscal strategies support resumption of sustainable growth and resilience

3. Global knowledge & Public Goods support countries' selection of the most appropriate measures



- 64 countries
- US\$80million secured
- Additional funds for gender & health

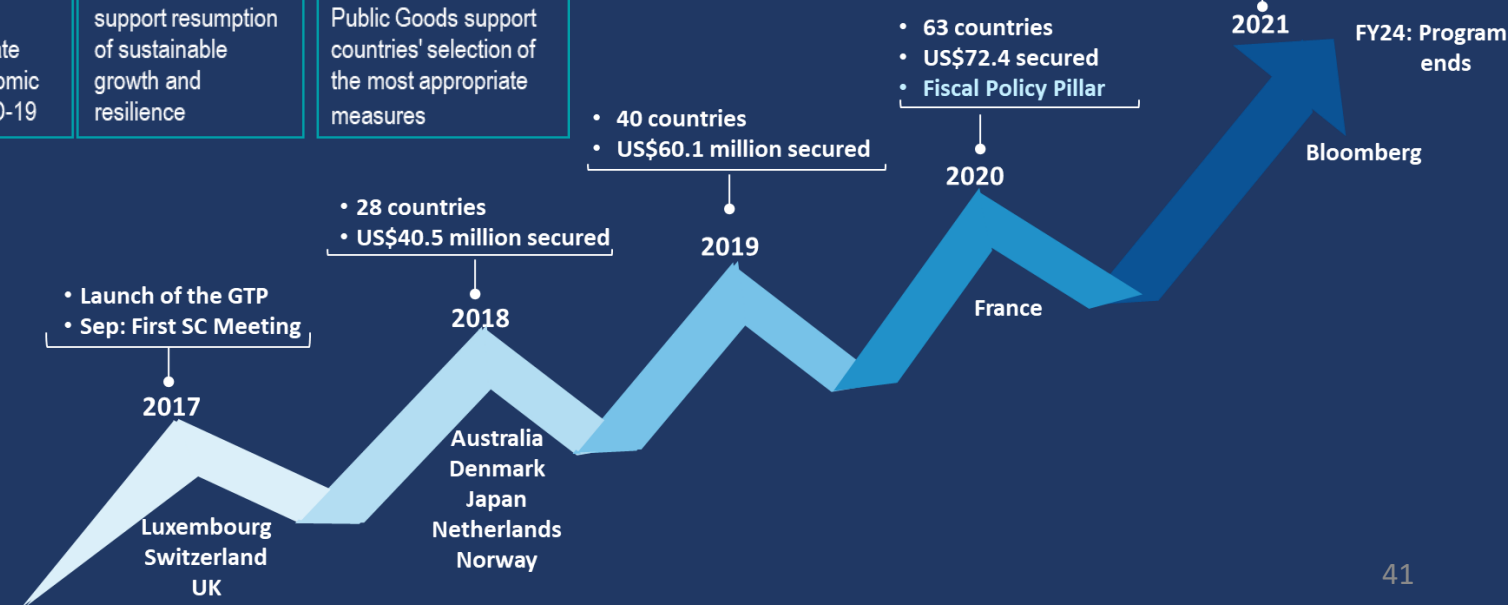
- 63 countries
- US\$72.4 secured
- Fiscal Policy Pillar

- 40 countries
- US\$60.1 million secured

- 28 countries
- US\$40.5 million secured

- Launch of the GTP
- Sep: First SC Meeting

**New Pillar created in 2020**  
to provide just-in-time  
**Fiscal Policy support to COVID-19**  
Additional secured funds: US\$5.4 million



# The PCT is fostering collective action for strengthening tax systems in developing countries through knowledge, outreach and collaboration



- A joint initiative of the IMF, OECD, UN and the Bank to enhance cooperation on Domestic Resource Mobilization (DRM).
- Recognized as **Top 50 Global Tax Influencers in 2020-2021** by the International Tax Review.

**PCT Website** launched in March 2020: 25k total visits and 15k unique visitors until February 2021; includes an **e-learning Repository** and **COVID-19 Response** pages

**Online Integrated Platform** launched in March 2020; an extensive database of DRM activities by PCT Partners; updated regularly

**Over 30 bi-monthly working level exchanges** between PCT Partners

**Medium Term Revenue Strategies (MTRSS)** in various stages of development and implementation in 23 countries

**3** New Toolkits on International Tax

**9** Virtual launch and Learning Workshops on toolkits with over 1500 participants in 2020-2021

**6** Outreach and Stakeholder Engagements in 2020-2021

**PCT Principals' Blog** on Partners' COVID-19 responses

# Selected DRM Tools

**Tax Treaties Explorer** | Tax treaties are agreements that divide the right to tax cross-border income, representing a balance between ‘source’ taxation (for countries seeking to tax foreign companies operating within their borders) and ‘residence’ taxation (for countries where multinational companies are based). In negotiating tax treaties, developing economies have often given up a significant amount of their source-based taxing rights, which limits their ability to raise tax revenue. This website allows you to explore a dataset of almost every tax treaty (2,398 in total) signed by developing economies from 1947 to 2019. This dataset is a project of the ICTD supported by the World Bank (GTP) and the G-24.

**Innovation in Tax Compliance (ITC) Conceptual Framework** | The framework proposes that by combining complementary investments in enforcement, facilitation, and trust, reformers can not only strengthen enforced compliance but can also (a) encourage quasi-voluntary compliance, (b) generate sustainable political support for reform, and (c) create conditions that are more conducive to the construction of stronger fiscal contracts. A key challenge for governments lies in finding the right combination of these three measures—enforcement, facilitation, and trust—to achieve revenue and broader development goals.

**Carbon Pricing Assessment Tool (CPAT)** | CPAT is a spreadsheet-based tool which allows for rapid, country-specific analyses of carbon pricing reforms on several metrics of interest. It includes various metrics that are central to the role of taxation for ensuring a green post-COVID recovery:

- Domestic resource mobilization potential of carbon taxes
- Output effects
- Distributional and poverty effects
- Pollution and health effects; low-carbon structural shift

# Selected DRM Tools

**Commitment to Equity (CEQ) Assessment diagnostic tool** | CEQ Assessments are designed to assess how revenue collection and public expenditures affect income inequality, poverty, and welfare more generally among different socioeconomic groups. Assessment results support governments to make better informed policy decisions.

**Tax Administration Diagnostic Assessment Tool (TADAT)** | The activity supports tax administrations by enhancing the diagnosis and monitoring of tax administration performance in client countries, helping to better inform the design of institutional strengthening operations.

**Tax Analysis Module (TPAF)** | The Tax Policy Assessment Framework (TPAF) provides a framework for assessments of major taxes and aims to provide an analytical basis and guidance for tax policy design. It is a public good for providers of technical assistance, from development professionals to country officials.

**Tax DIAMOND** | The Tax DIAMOND is a toolset designed by the World Bank Group that accompanies the implementation and monitoring of tax reforms as a key part of its strong technical assistance program for tax reform.

**Global Tobacco Control and Taxation Program** | Since 2013 to 2019, this program has assisted countries in designing tobacco tax policy reforms and increasing tobacco tax rates as a win-win policy measure.