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ATI Commitment 2: Monitoring Indicators

"ATI partner countries have committed to step up domestic revenue mobilisation as a key means of attaining the SDGs and inclusive development".

Commitment 2 of the Addis Tax Initiative focuses on the reform progress of the ATI partner countries. The monitoring of ATI Commitment 2 thus aims to track the developments in the area of domestic revenue mobilisation (DRM). Since there are various aspects of revenue mobilisation, a set of indicators is used to assess progress and to provide a comprehensive picture of DRM reform. Dimensions of DRM include overall revenue performance, transparency, effectiveness, efficiency in tax collection, taxpayer-friendliness and the impact of taxation on the business environment. Moreover, factors such as equity and fairness of the tax system play an important role for attaining the Sustainable Development Goals as stated in ATI Commitment 2.

Monitoring the efforts and results under ATI Commitment 2 is important in order to track the progress made and to contribute to peer learning through the dissemination of good practices. Furthermore, the monitoring aims to identify regional and topical trends in the area of DRM as well as providing an outlook on planned activities to foster effective coordination

The ATI members agreed to developing a reasonable set of DRM performance indicators that are both holistic (in covering the various dimensions of Commitment 2) as well as comparable and consistent across countries to monitor partner countries' progress against their ATI commitment 2.

ATI members has agreed on a new list of 11 indicators for monitoring the progress of the ATI member countries in their implementation of the ATI commitment 2.

#	Category	Description / Calculation of Indicator(s)

1	**Revenue trends**	**1.a. Revenue statistics**: These statistics are intended to provide a snapshot of recent trends in domestic revenue mobilization for each country.
		
		Calculation: For each country, revenue data should be presented both in the aggregate and disaggregated by revenue type, for each of the most recent three fiscal years (e.g., 2016-2018). Specifically:
		
		• Total revenue, including grants
		  ○ Total revenue, excluding grants
		  ▪ Tax revenue
		  • Corporate income tax (CIT)
		  • Personal Income tax (PIT)
		  • Value-added tax (VAT) or General Sales Tax (GST)
		  • Excise taxes
		  • Taxes on international trade and transactions
		  • Property Taxes
		  • Capital Gains (if not captured by PIT)
		  • Other taxes (include list of the taxes that have been categorized as “other”)

		▪ Non-tax revenue • Resource revenue • Social contributions • Other non-tax revenue
2	**Timely filing of declarations**	**2.a. On-time filing rate**: This indicator uses recent filing data to compute an on-time filing rate for each of the core taxes (i.e. corporate income tax (CIT), personal income tax (PIT), value added tax (VAT) or General Sales Tax (GST), and pay as you earn (PAYE)). A high on-time filing rate is indicative of effective compliance management and, along with high on-time payment rates, provides a good measure of voluntary compliance in the tax system. **Calculation**: The on-time filing rate is measured separately for each of the "core" taxes for the most recent completed fiscal year. Specifically: • The number of CIT declarations filed by the statutory due date as a percentage of the number of declarations expected from active CIT taxpayers. • The number of PIT declarations filed by the statutory due date as a percentage of the number of declarations expected from active PIT taxpayers. • The number of VAT/GST declarations filed by the statutory due date as a percentage of the number of declarations expected from active VAT/GST taxpayers. • The number of PAYE withholding declarations filed by employers by the statutory due date as a percentage of the number of PAYE declarations expected from active employers.

3	**Timely payment of taxes**	**3.a. On-time payment rate:** This indicator uses payment data to compute the percentage of payments (both number and value) made on time during the most recent fiscal year. High on-time payment rates are indicative of effective compliance management and, along with high on-time filing rates, provide a good measure of the level of voluntary compliance in the tax system. **Calculation**: Two dimensions measure the extent of on-time payment over the most recent completed fiscal year: • The number of VAT/GST/CIT/PIT/PAYE payments made by the statutory due date as a percentage of the total number of payments due. • The value of VAT/GST/CIT/PIT/PAYE payments made by the statutory due date as a percentage of the total value of VAT/GST payments due.
4	**Use of electronic services**	**4.a. E-filing rate**: This indicator measures the extent to which declarations, for all core taxes, are filed electronically. High e-filing rates indicate the presence and use of modern filing methods that help to minimize the costs and burdens of tax compliance. For purposes of this indicator, electronic (e-) filing involves facilities that enable taxpayers to file tax declarations via the Internet. **Calculation**: The e-filing rate is measured separately for each of the "core" taxes (i.e. CIT, PIT, VAT/GST, PAYE) for the most recent completed fiscal year. Specifically: • The number of CIT declarations filed electronically as a percentage of all CIT declarations filed.

		• The number of PIT declarations filed electronically as a percentage of all PIT declarations filed. • The number of VAT/GST declarations filed electronically as a percentage of all VAT/GST declarations filed. • The number of PAYE declarations filed electronically as a percentage of all PAYE declarations filed.
		4.b. E-payment rate: This indicator measures the extent to which payments, for all core taxes, are made electronically. High e-payment rates indicate the presence and use of modern payment methods that help to minimize the costs and burdens of tax compliance. For purposes of this indicator, methods of electronic (e-) payment include credit cards, debit cards, digital payments (e.g., mobile money), and electronic funds transfer (where money is electronically transferred via the Internet from a taxpayer's bank account to the Treasury account). **Calculation**: Two dimensions measure the extent to which payments were made electronically during the most recent completed fiscal year: • The number of payments made electronically as a percentage of the total number of payments received for each tax type (CIT, PIT, VAT/GST, PAYE). • The value of payments made electronically as a percentage of the total value of payments received for each tax type (CIT, PIT, VAT/GST, PAYE).
5	**Effective audit program**	**5.a. Value of audit effort**: This indicator measures the value of audit assessments relative to total tax revenues collected by the government. Viewed together with the "audit hit rate" (below), this indicator provides an indication of the effectiveness of the tax administration's audit program, which represents an important tool for ensuring the accuracy of tax reporting.

		Calculation: Calculated as follows, for the most recent completed fiscal year: • Total additional assessments from audits (including penalties and interest) as a percentage of total tax revenues collected during the fiscal year.
		5.b. Audit hit rate: This indicator computes the percentage of audits completed that result in an additional assessment during the fiscal year. Viewed together with the "value of audit effort" (above), this indicator provides an indication of the effectiveness of the tax administration's audit program, which represents an important tool for ensuring the accuracy of tax reporting. **Calculation**: Calculated as follows, for the most recent completed fiscal year: Number of audits completed where a tax adjustment was made as a percentage of the total number of audits completed.
6	**Effective arrears management**	**6.a. Stock and flow of tax arrears**: This indicator measures the value of year-end tax arrears relative to annual tax revenue collections, and is measured for the most recent three fiscal years to provide an indication of the annual change in the government's arrears inventory. 'Tax arrears' include tax, penalties, and accumulated interest. **Calculation**: Calculated as follows, for each of the most recent three completed fiscal years: The ratio of total end-year tax arrears relative to annual total net tax collections, expressed as a percentage.
		6.b. Stock and flow of collectible arrears: This indicator provides a more refined picture of accumulated arrears, focusing only on those arrears considered collectible. 'Collectible' tax arrears is defined as the total amount of domestic tax, including interest and penalties, that is overdue for payment and which is not subject to collection impediments (e.g.,

		some or all of the taxes are in dispute, amounts are not legally recoverable, or the arrears are otherwise uncollectible but have not been written off). **Calculation**: Calculated as follows, for each of the most recent three completed fiscal years: • The ratio of end-year 'collectible' tax arrears relative to annual total net tax collections, expressed as a percentage.
		6.c. Stock and flow of old arrears: This indicator measures the extent to which tax arrears are significantly overdue (i.e. older than 12 months). A high percentage of old tax arrears may indicate poor debt collection practices and performance given that the rate of recovery of tax arrears tends to decline as arrears get older). **Calculation**: Calculated as follows, for each of the most recent three completed fiscal years: • The ratio of end-year tax arrears older than 12 months relative to total end-year tax arrears, expressed as a percentage.

7	**Use of dispute mechanisms**	**7.a. Use of internal administrative review procedures**: This indicator measures the extent to which a review (i.e. objections) process exists and is used by taxpayers to challenge an assessment resulting from an audit or other administrative action. An effective tax dispute resolution process is one that is fair and impartial, accessible to taxpayers, and effective in resolving disputed matters in a timely manner. Therefore, this indicator focuses on both the stock and flow of cases under administrative review. **Calculation**: Three dimensions are measured for each of the three most recent completed fiscal years: • percentage of internal review cases at end of fiscal year • percentages of internal review cases initiated during fiscal year • percentages of internal review cases resolved during fiscal year
8	**Revenue productivity**	**8.a. VAT efficiency**: The VAT is one of the major revenue producers for most low and lower middle-income countries. Given the importance of this tax, there are a number of specialized measures of VAT productivity that allow governments, researchers, and the public to better understand how effectively VAT is generating revenue. **Calculation**: Three indicators are used here to measure VAT productivity. Specifically: • VAT efficiency: Calculated by dividing actual VAT collections as a percent of GDP by the standard VAT rate. In principle, a VAT with no exemptions, a single rate, and full compliance should result in VAT efficiency ratios close to 100 percent. • VAT collection efficiency (C-efficiency): A more refined measure of VAT productivity, C-efficiency is calculated by dividing actual VAT collections as a percent of GDP by the ratio of the standard VAT rate to Total Consumption

		Expenditure as a percent of GDP. Like VAT efficiency, a VAT with no exemptions, a single rate, and full compliance should result in ratios close to 100 percent. • VAT gross compliance rate: Calculated by dividing VAT revenues by the multiple of total private consumption and the VAT rate. (The VAT Gross Compliance Rate is actual VAT collections as percent of potential VAT collections.) The VAT gross compliance rate is like the VAT collection efficiency (C-efficiency), except that the former relates VAT collections to household consumption, rather than aggregate consumption.
9	**Impactful taxation**	**9.a. Tax-free threshold**: Most tax codes incorporate a tax-free allowance, meaning that the first portion of personal income is tax-free and tax is only paid on income above that threshold. The intent of such allowances is to provide relief to the poorest segments of the population. The PIT tax-free threshold is but one indicator of the progressivity of taxation in a country. **Calculation**: The level of annual income below which no tax, or a zero tax rate, applies, expressed as a ratio of GDP per capita. For instance, if the tax-free allowance is $500 (i.e. any annual income up to this amount is not subject to tax), and GDP per capita is $1,000, the tax-free threshold is equivalent to 0.50 or 50% of per capita GDP.
		9.b. Progressivity of the tax structure: This indicator measures the progressivity of the tax structure on paper, based on the rates and levels of the core taxes—namely, value-added tax (VAT), corporate income tax (CIT) and personal income tax (PIT), as applicable. The progressivity of each tax is scored separately, where: • A VAT with a low statutory rate is considered progressive (even more so where the country exempts or applies a reduced rate to basic foods and where the registration threshold is high); • A CIT with a high statutory rate is considered more progressive;

		• A PIT with a high tax-free threshold, a high top marginal rate, and a tax rate that increases relatively quickly with income is considered more progressive. Progressivity is scored on a scale of zero (least progressive) to 1.0 (most progressive), the maximum score of 1.0 is assigned separately to: (i) the country with the highest CIT rate in the sample; (ii) the country with the lowest VAT rate in the sample, adjusted for thresholds and reduced rates; and (iii) the country with the most progressive PIT, per the methodology above (excluding countries with a flat-rate PIT, which receive a score of zero). The indicator is then scored as the average of the VAT progressivity score, the CIT progressivity score, and the PIT progressivity score. The indicator identifies countries with higher and more progressive direct tax rates and lower indirect tax rates as being those which are making more effort to set tax rules which are progressive. It also shows that many countries have room for improvement by increasing very low or zero corporate and/or personal income tax rates, and reducing relatively high basic VAT rates, as well as setting higher minimum tax thresholds for personal income tax to exclude the lowest income earners, or lower top tax rate thresholds to make sure the highest income earners are adequately taxed. **Calculation**: See https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620553/rr-commitment-reducing-inequality-2018-091018-methodology-en.pdf (pages 7-8) for the methodology for calculating the T1 Indicator.
		9.c. Impact of taxation on inequality: This indicator measures the impact of government commitments to progressive taxation based on the revenue collected from different types of taxes. Specifically, it identifies the impact that tax revenue from PIT, CIT, VAT, social security contributions and customs and excise duties has collectively on reducing or increasing the Gini coefficient produced by the 'market' (i.e. before government spending and taxation are taken into account). The country with the largest decrease in the value of the Gini as a result of this tax revenue scores a maximum of 1.0, and the country that achieves the largest increase from regressive tax policy scores a zero.

		Calculation: This indicator is calculated by multiplying the total revenue collected from each form of taxation as a share of GDP by a standard global coefficient for each tax that predicts its impact on the Gini. The results for all taxes are then summed to measure the total predicted impact on the Gini. See https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620553/rr-commitment-reducing-inequality-2018-091018-methodology-en.pdf (pages 8-9) for the methodology for calculating the T2 Indicator.
10	**Tax expenditure estimation**	**10.a Tax expenditure as a percent of government revenue**: Tax expenditures are revenues that a government foregoes through the granting of exemptions, preferential tax rates, or other forms of tax relief. Given their impact on the government's resource envelope, and ultimately on the budget, tax expenditures are effectively government spending through the tax code. Estimating and publishing tax expenditures puts these policy choices into the public domain and thereby contributes to transparency. But in order for there to be genuine transparency and public accountability of these expenditures, information must be disaggregated by revenue stream and the intended beneficiaries must be published. **Calculation**: The sum total of annual tax expenditures, expressed as a percentage of total government revenue; and "total tax expenditure for each revenue stream: VAT, CIT, PIT, Property, Customs, Capital gains, excise taxes and natural resource revenue"
		10.b Transparency of tax expenditure: Open Budget Survey 'Question 45' The Open Budget Survey (OBS) assesses 110 + countries on a variety of indicators. OBS Question 45 assesses transparency of tax expenditures, by evaluating if governments publish a (i) statement of purpose or policy rationale; (ii) list of the intended beneficiaries; and (iii) an estimate of the revenue foregone. **OBS 'Question 45'**:

		Does the Executive's Budget Proposal or any supporting budget documentation present information on tax expenditures for at least the budget year? (The core information must include a statement of purpose or policy rationale for each tax expenditure, the intended beneficiaries, and an estimate of the revenue foregone.) a. Yes, information beyond the core elements is presented for all tax expenditures. b. Yes, the core information is presented for all tax expenditures. c. Yes, information is presented, but it excludes some core elements or some tax expenditures. d. No, information related to tax expenditures is not presented. e. Not applicable/other (please comment). **GUIDELINES**: Question 45 focuses on tax expenditures, asking whether "core" information related to these tax preferences is presented. These core components must include for both new and existing tax expenditures: • a statement of purpose or policy rationale; • a listing of the intended beneficiaries; and an estimate of the revenue foregone.
11	**Public accountability**	**12.a. Public accountability index** based on a series of "yes/no" questions such as • Publish its strategic plan? • Produce and publish its annual business/operational plans?

		• Produce and make public a formal set of service delivery standards? • Make public the formal set of service delivery standards? • Publish the results it achieves vis-à-vis its formal service delivery standards? • Publish its annual report? • Make key compliance risks public regularly? • Make reports of outcomes in addressing the above compliance risks public regularly? • Conducting taxpayer surveys **Calculation**: Each yes or no carries a value (e.g., Yes = 1, No = 0), and summing the yes's and no's for a country yields a composite score for its level of public accountability.

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