ATI Webinar: Country experiences with formulating and implementing national revenue reform strategies

MTRS approach to Tax System Reform

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Outline

- **Why an MTRS?**
- **Details of the MTRS approach, including its four interdependent components.**
- **Status of MTRS across countries**
- **Uganda case study**

MTRS

- ***<u>High-level road map of the tax system reform over 4-6 years</u>***—its policy, administration, and legal components.

- Government's strategy to mobilize its own resources to finance its spending needs, while creating appropriate incentives for economic and social development.

Why an MTRS/What makes it different?

- Need to improve the quality of the tax systems, notably in the context of achieving the SDGs.
- Break with a focus on short-term measures and commit to a more comprehensive reform of the tax system.
- Visible country led – raises profile of tax system and increases accountability.
- Direct link to and driven by spending/financing needs.
- Increased certainty - clearer picture of likely revenue in the medium-term.
- Involvement of ‘whole of government’, civil society.
- Building tax capacity is a protracted/persistent effort.
- Better sequencing, integration of revenue reforms.
- Enhance coordination among donors/partners.

Core Elements of an MTRS

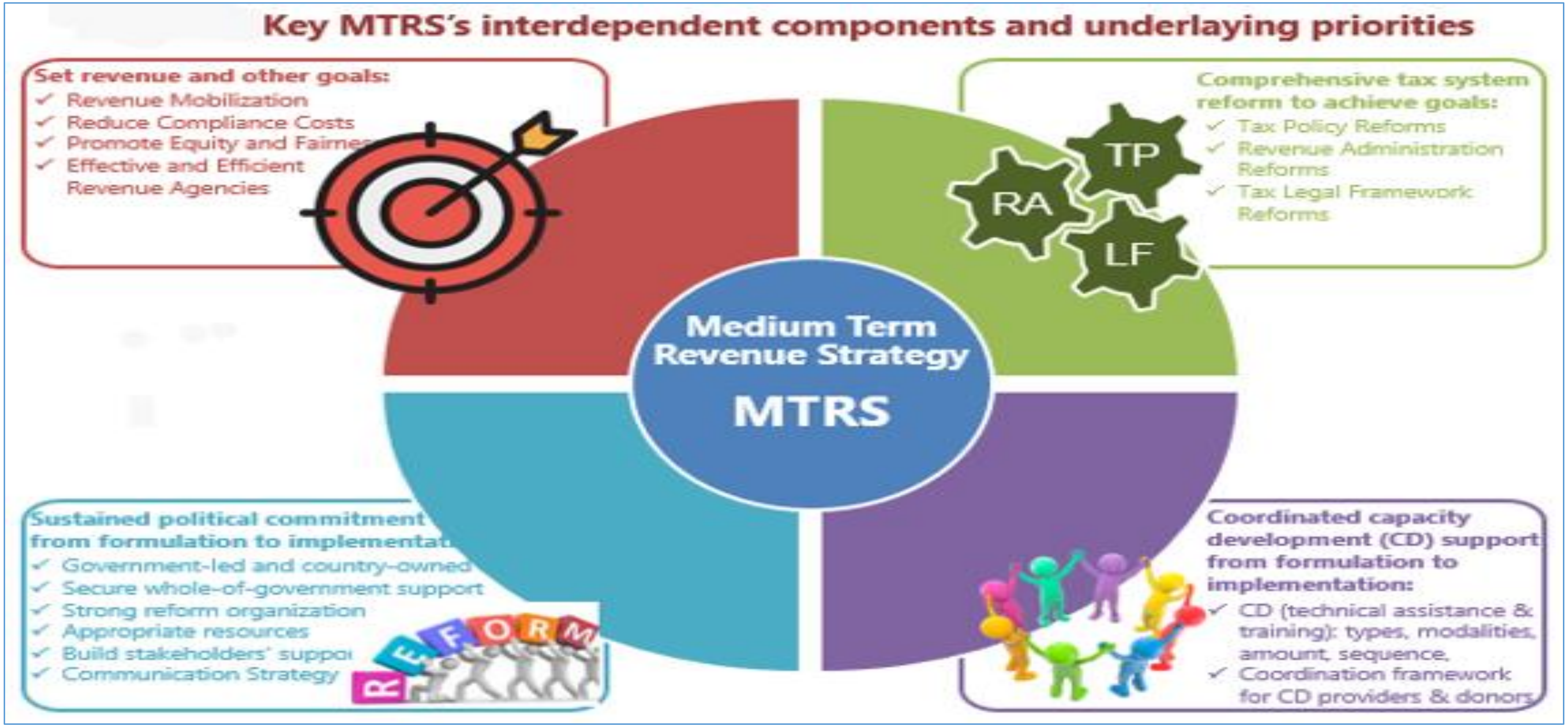
- A *broad consensus* on the level of revenue mobilization effort for the medium-term (4-6 years).

- A *comprehensive tax system* reform plan, reflecting country circumstances and the state of institutional capacity and tax reform efforts underway

- A *country's commitment* to a steady and sustained implementation, notably by securing political support and resourcing.

- A framework for *coordinated CD financing* (technical assistance and training).

MTRS – Four Interdependent Components



Country-led effort

- Single document setting forth the country’s vision of the tax system.
- Whole Government and inclusive approach to leading tax system reform.
- The plan supports the country’s development objectives.

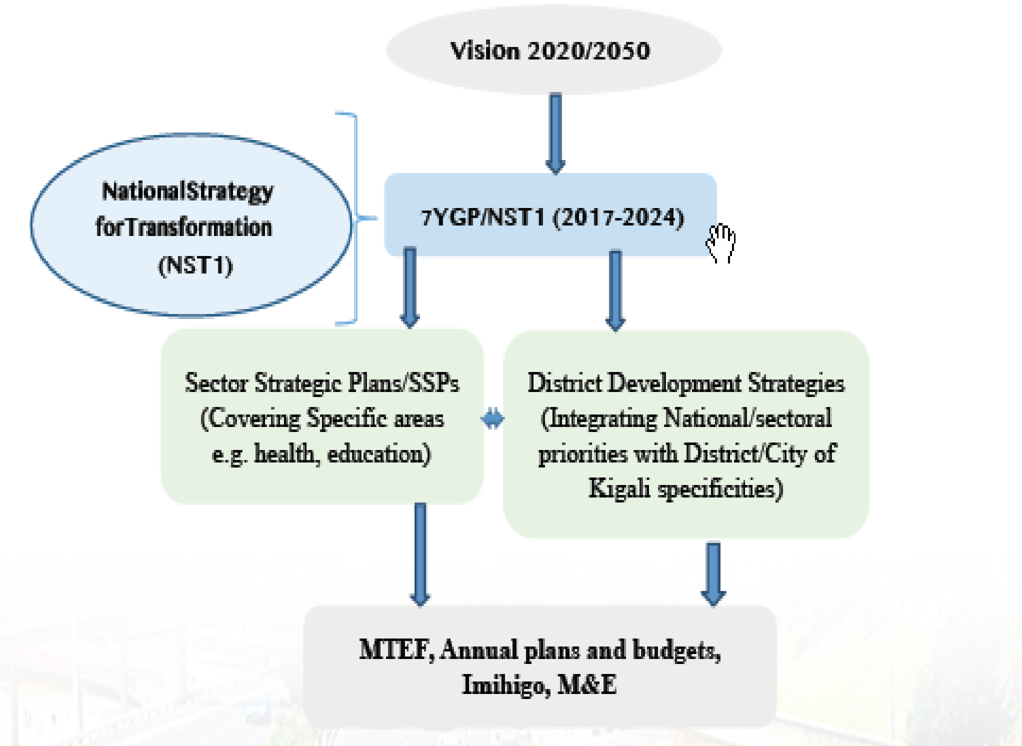
Builds consensus around a revenue target

- Inclusive – multiple stakeholders

- Society's expectations on public services:
    - Expenditure needs
    - SDGs agenda

- Social and economic development vision

Rwanda Development Planning Framework



Integrates various aspects of reform

A framework for coordinating CD

- Provides framework for common understanding of government RM priorities across development partners (DPs).
- Helps identify support provided and needed (who does what).
- Helps align activities among different DPs…

Designing and implementing an MTRS

- Four steps need to be undertaken in a systematic manner:

1. *Understanding the MTRS approach to tax system reform*—including its four interdependent components.

2. Taking stock of ongoing efforts—of the several tax system reform initiatives.

3. *MTRS gap analysis*—comparing ongoing reform efforts with the four interdependent components of an MTRS.

4. Addressing MTRS gaps by formulating an MTRS—building on ongoing tax system reform efforts.

Countries currently following MTRS approach

- Implementation support: Egypt, Liberia, Pakistan, Papua New Guinea (PNG), Rwanda, Uganda
- Early implementation: Senegal
- Formulation support: Albania, Bangladesh, Benin, Ethiopia, Kenya, Indonesia,* Maldives, Sierra Leone, Thailand,* and Vietnam
- Dialogue pre-formulation: Cameroon, Ethiopia, Jordan, Lao People's Democratic Republic, Malaysia, Mongolia, Morocco, and Uzbekistan

*currently not implementing an MTRS

Progress to date: MTRS countries

- Egypt, Pakistan, Rwanda and Uganda have made progress in their MTRSs and have advanced to the stage of implementation after finalizing their strategy.
- A few new countries, such as Kenya, Maldives and Sierra Leone, have embarked on an MTRS journey and are receiving IMF support to formulate their MTRS approach.
- Some countries have used the MTRS concept to refine and advance certain aspects of their practice toward making tax policy and strengthening revenue administration, without embarking on a full-scale MTRS (e.g., Indonesia and Thailand).

Country case study – Uganda DRMS

Formal governance arrangements put in place:

- A DRM Committee set up to guide the development of the DRMS and coordinate interventions to support revenue mobilisation.
- Lead development partner appointed (IMF) and partners' DRM group set up co-chaired by IMF and DFID.
- A drafting committee coordinated by TPD and comprising officials from MFPED, URA, NPA, EPRC, and the Parliamentary Department of Research.
- DRMS drafts reviewed by the various levels of MFPED leadership which helped to ensure a sense of whole-of-government support for the DRMS.

Country case study – Uganda DRMS

Extensive preparatory work, coordinated support of DPs:

- Over 30 academic papers, diagnostic studies, and technical assistance reports, covering both Ugandan and global experiences.
- Other key government publications - The Uganda Vision 2040, the Second National Development Plan, the National Budget Framework Paper FY2018/19 – FY2022/23, the Ministry of Finance Strategic Plan 2016-2021, and the Public Financial Management Reform Strategy consulted.
- Discussions with IMF country team, within the context of a Fund supported program, shaped the macro framework and fiscal policy.

Country case study – Uganda DRMS

Extensive stakeholder consultations:

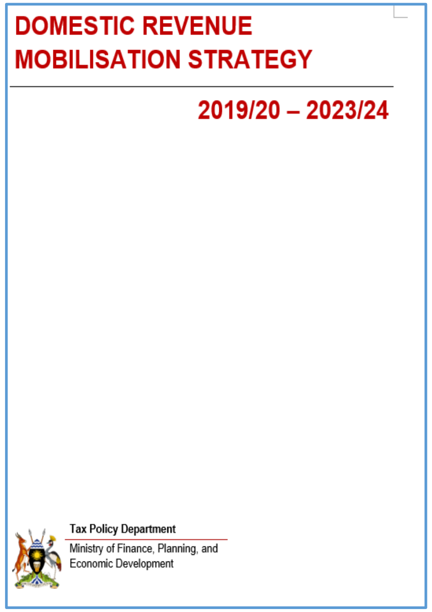
- Formal, informal, or targeted, to build broad-based consensus.
- Examples:
  - URA "Open Minds Forum".
  - MFPED and URA consultative workshop for key stakeholders.
  - Invitation to civil society representatives.
  - Involvement of several private-sector tax experts.

Country case study – Uganda DRMS

DRMS objectives defined:

- Improve revenue collection, raise tax/GDP ratio to 18% -20% (from 14.6% of GDP in 2018/19) in next 5 years.
- Create a sound and buoyant tax system that continues to promote industrialization, social welfare, and private sector development.
- Strengthen capacities of revenue administrations, ensuring that revenue is raised in an economically efficient way and reduce the compliance burden.
- Improve citizens’ perceptions of taxation, raising visibility, and creating a tax system that makes all proud to be Ugandan.
- Enhance transparency and accountability in the tax system.
- Enhance taxpayer services, education, and information.

Country case study – Uganda DRMS


DOMESTIC REVENUE MOBILISATION STRATEGY

2019/20 – 2023/24

Tax Policy Department

Ministry of Finance, Planning, and Economic Development

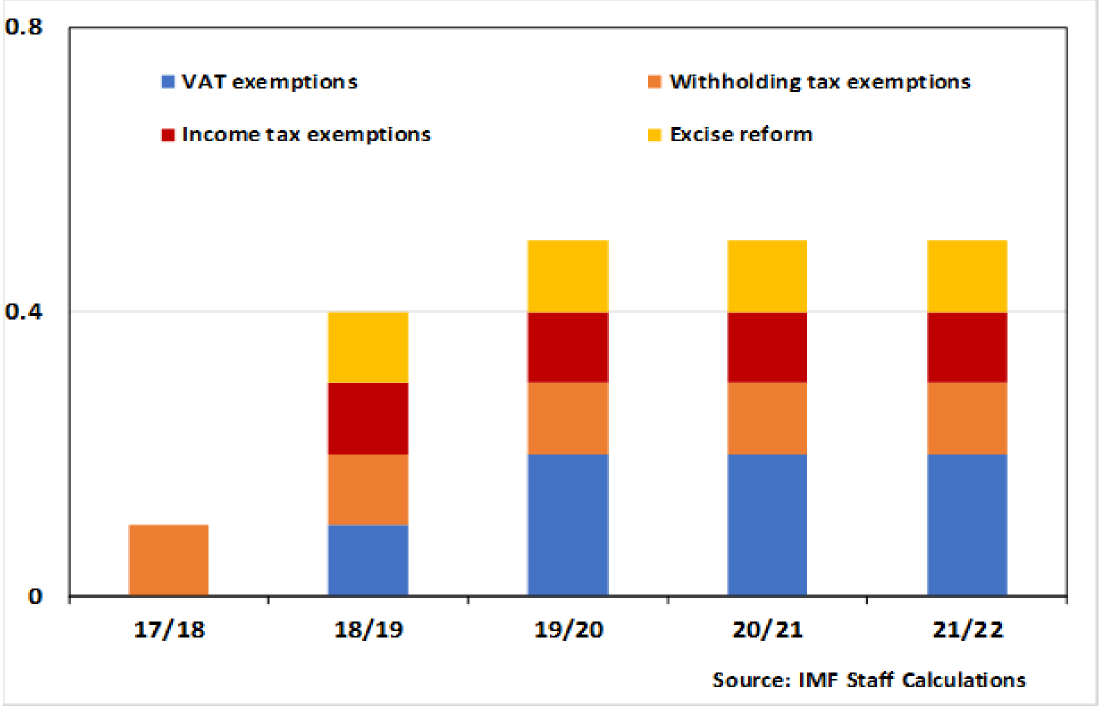
Comprehensive reforms proposed, 2019/20 to 2023/24:

- Addresses three core constraints:
  - Political economy issues which might influence pace of progress.
  - Structural factors in tax policy design which have proved difficult to reform historically.
  - Administrative effort required to expand taxpayer base and compliance, and related changes to improve the efficiency of revenue collection.

Uganda DRMS: IMF advice -
Options for comprehensive tax reform

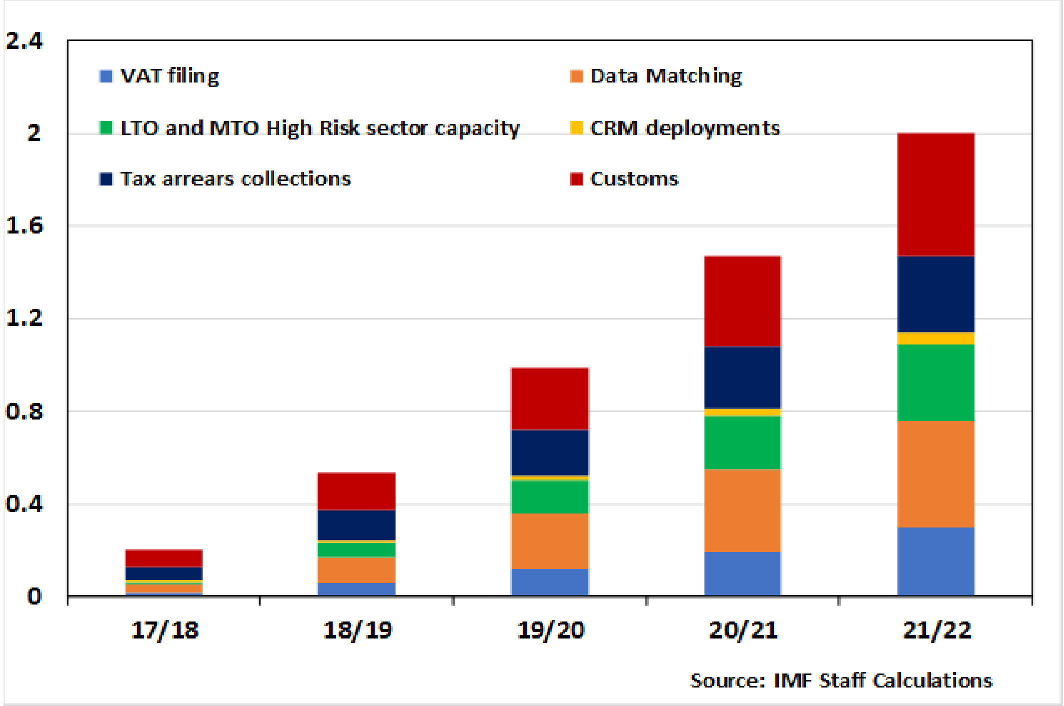
Potential revenue of at least 0.5% of GDP (cumulative over 5 years)

Cumulative Increase in Tax-to-GDP: Policy Measures

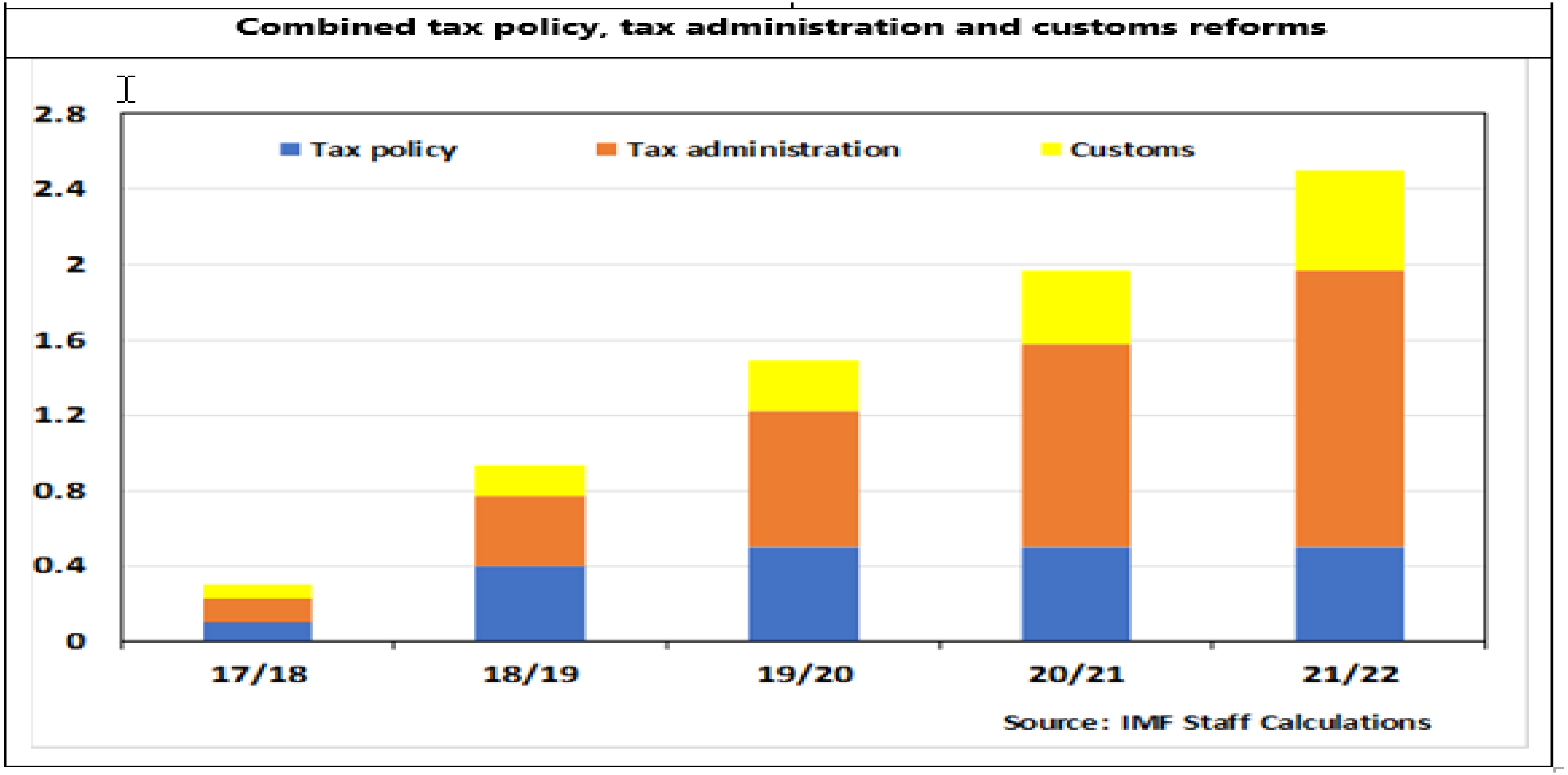


Potential revenue of around 2.0% of GDP (cumulative over 5 years)

Cumulative Increase in Tax-to-GDP: Tax and Customs Administration



Uganda DRMS: IMF advice - Combined revenue potential - tax policy, tax and customs administration reforms



Uganda DRMS: IMF advice - Options for comprehensive tax reform – details…

A Medium-Term Revenue Strategy for Uganda

Objectives

- Increase tax-GDP ratio by 2.5 percent points of GDP in 5 years—from 13.5 percent to 16.0 percent by FY2021/2022
- Continue broadening the base of the major taxes and expand income tax withholding
- Improve the effectiveness of compliance programs and increase the risks of non-compliance
- Improve community perception of tax system fairness

Tax Policy Reform (0.5 points)	Tax Administration Reform (2.0 points)	Legal Framework Reform
Value-Added Tax • Continue rationalizing exemptions • Limit "deemed" VAT • Maintain a single rate VAT **Excise Taxes** • Consider new excise on motor vehicles • Regularly adjust rates for inflation **Corporate Income Tax** • Rationalize income tax exemptions • Protect base from international tax planning • Consider expanding withholding tax on goods and services **Extractive Industry Taxation** • Clarify tax treatment of upstream and downstream sectors	**Taxpayers' Compliance Management** *Launch a Compliance Improvement Program (CIP) with targeted, well-resourced, and supervised plans for:* • Value-Added Tax • Large and Medium Taxpayers • Withholding Obligations • High Income Self-Employed Individuals *Underpin the CIP with the following supporting initiatives:* • Strengthening audit of high-risk sectors • Improving tax arrears management • Building an effective data matching capability • National deployment of Risk Enterprise Analysis (REA) tool	**Tax Procedures Code (TPC)** • Review and amend the TPC to enable the URA to gain access to bulk data from other organizations, especially public entities, as a source of third-party information. **VAT Act, Income Tax Act, TPC** • Review the penalty and interest regime for the VAT, Income Tax (including Withholding Tax) and other taxes to ensure that there are adequate penalties for noncompliance with basic tax obligations. • Revise tax law framework to provide legal backing for the tax treatment of e-commerce reporting and the use of e-documents (tax and financial documents).
Tax Policy Development and Transparency • Estimate and publish an annual tax expenditure statement • Strengthen capacity for revenue analysis in the Tax Policy Department	**Traders' Compliance Management** *Launch a Compliance Improvement Program (CIP) with targeted, well-resourced, and supervised plans based on:* • Strengthening risk management • Improving capacity to detect and deter noncompliance • Facilitating trade *Underpin the CIP with the following supporting initiatives:* • Strengthening staff capacity in key areas • Set up a dispute resolution committee in customs	

Cross-cutting measures	External Resources
• Link compliance with government spending more explicitly • Regularly measure taxpayers' perception of corruption and validate staff financial disclosures • Strengthen inter-agency and inter-sector collaboration • Harness technology to improve compliance and cleanse taxpayer data • Strengthen capacity of staff in tax policy and revenue administration	• Identify available external support from development partners to support implementation of MTRS measures and develop capacity in key areas

Country case study – Uganda DRMS

Recent developments and next steps:

- DRMS discussions fed into the 2018/19 Budget; pre-finalization.
- DRMS finalized in mid 2019 and presented to Cabinet for information.
- Implementation plans have undergone several adjustments, mostly because of the COVID-19 pandemic, including incorporating DRMS recommendations in respective Strategic and Business Plans.
- DRMS a critical framework for reform measures to be implemented!

Country case study – Uganda DRMS

Recent developments:

DRMS Implementation:

- Revenue gains of 0.7 percent of GDP in FY21/22
- Expected tax revenues increases of at least 0.5 percent of GDP annually over the medium term through tax policy and administration measures that are regularly reviewed and updated.
- Newly adopted tax expenditure framework—developed with help from World Bank TA—will establish a tax rationalization plan that identifies savings of at least 0.1 percent of GDP in FY22/23 and at least 0.2 percent of GDP thereafter.
- Regular publication of the tax expenditure since FY 19/20 is improving transparency and continues to illustrate the potential for large savings in this area.

Country case study – Uganda DRMS

Current status and next steps:

- Uganda is improving tax collection with a tax-to-GDP ratio target of 18% by 2023-24 (URA Commissioner-General John Musinguzi).
- Uganda tax collections fund about 47% of the budget and the country borrows the rest.
- At 13% of GDP, Uganda is below the sub-Saharan Africa average of 16% of GDP.
- To fully fund its spending, Uganda would have to double ratio to 26% of GDP.

THANK YOU