



Tax Policy Challenges for Economic Growth and Fiscal Sustainability

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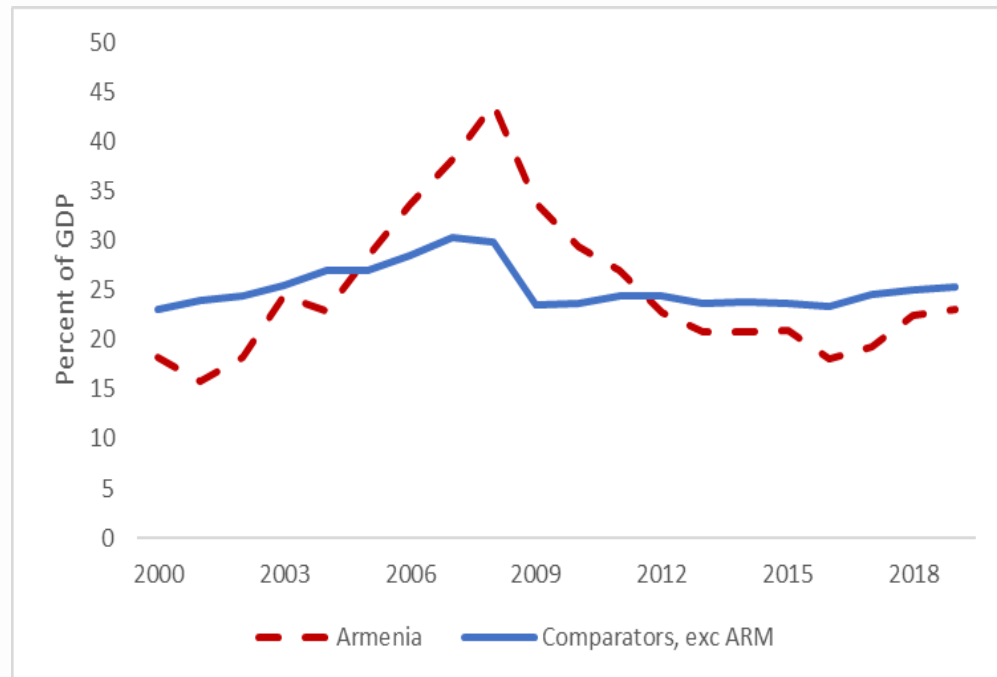
Optimal tax policies as a balancing act

- Promote economic growth
- Be regionally competitive
- Provide funding for capital and social spending
- Support fiscal sustainability
- Pursue distributional fairness
- Be administrable and be administered effectively and efficiently



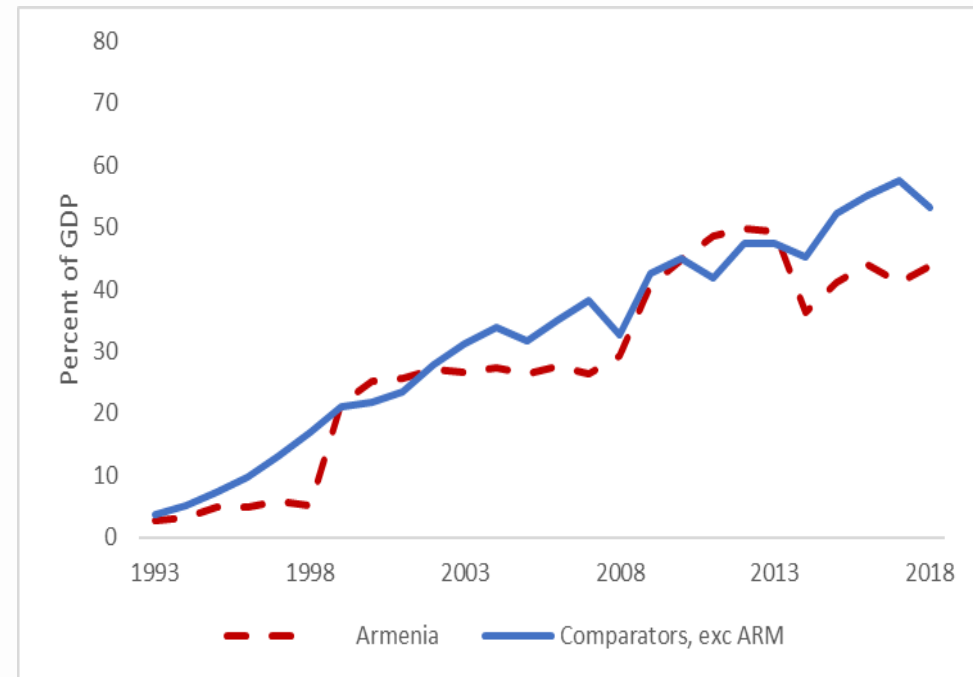
Tax policies should promote economic growth

Investment (Percent of GDP)



Source: IMF, World Economic Outlook.

Inbound FDI (Percent of GDP)

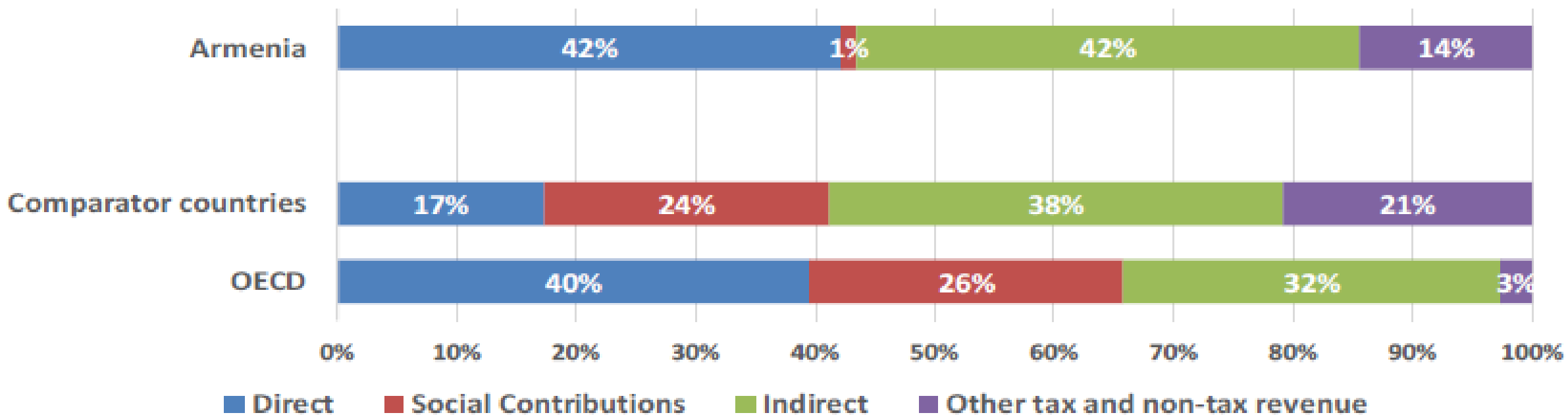


Source: UNCTAD.

Non-tax factors matter too!

Tax policies should promote economic growth (2)

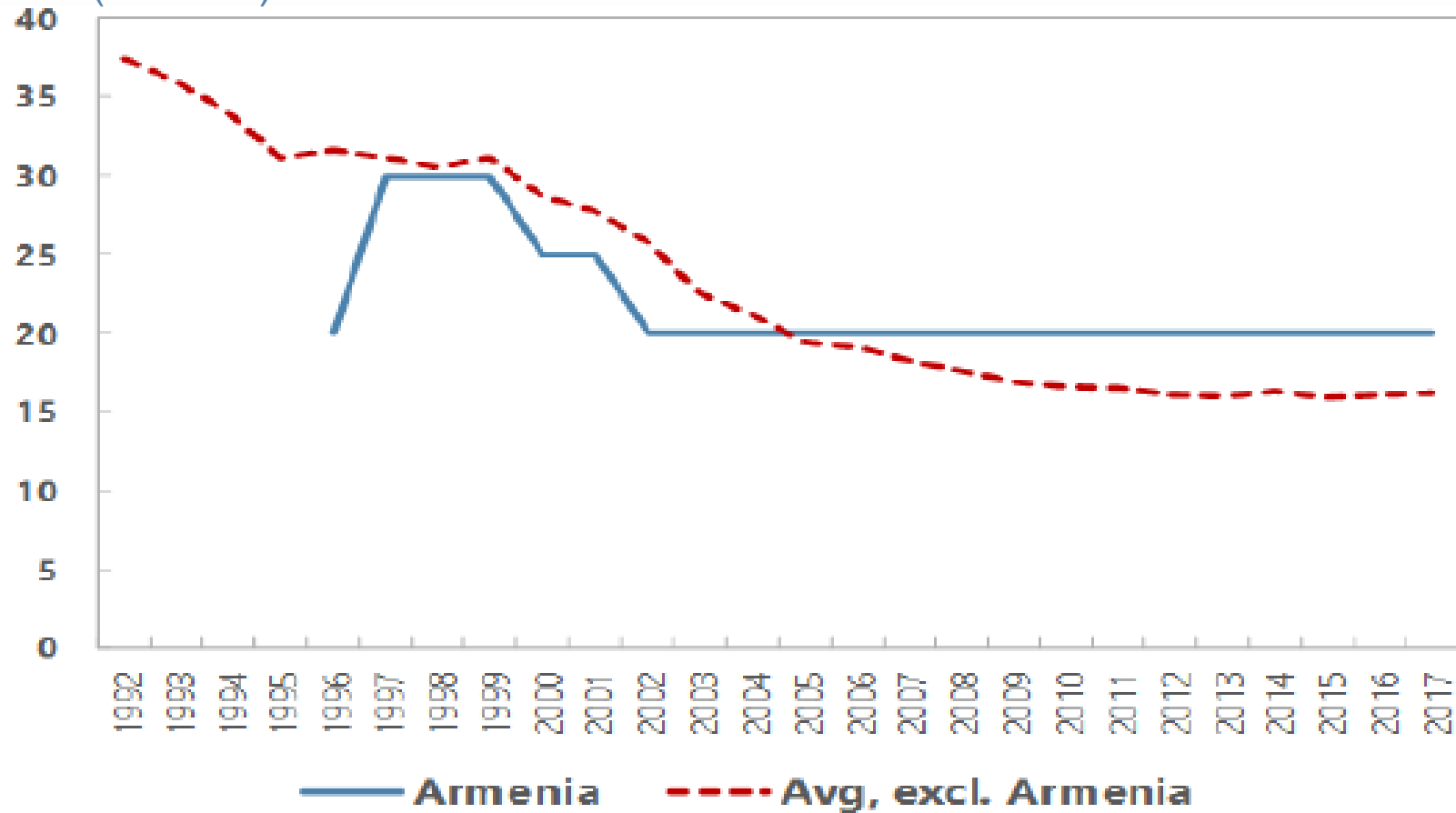
General Government Revenue by Source
(Percent)



Source: IMF, World Economic Outlook and OECD.

Tax policies should be regionally competitive

Statutory CIT Rate, 1992 - 2017
(Percent)



Source: IMF, Fiscal Affairs Department, Internal database.

Tax policies should be regionally competitive (2)

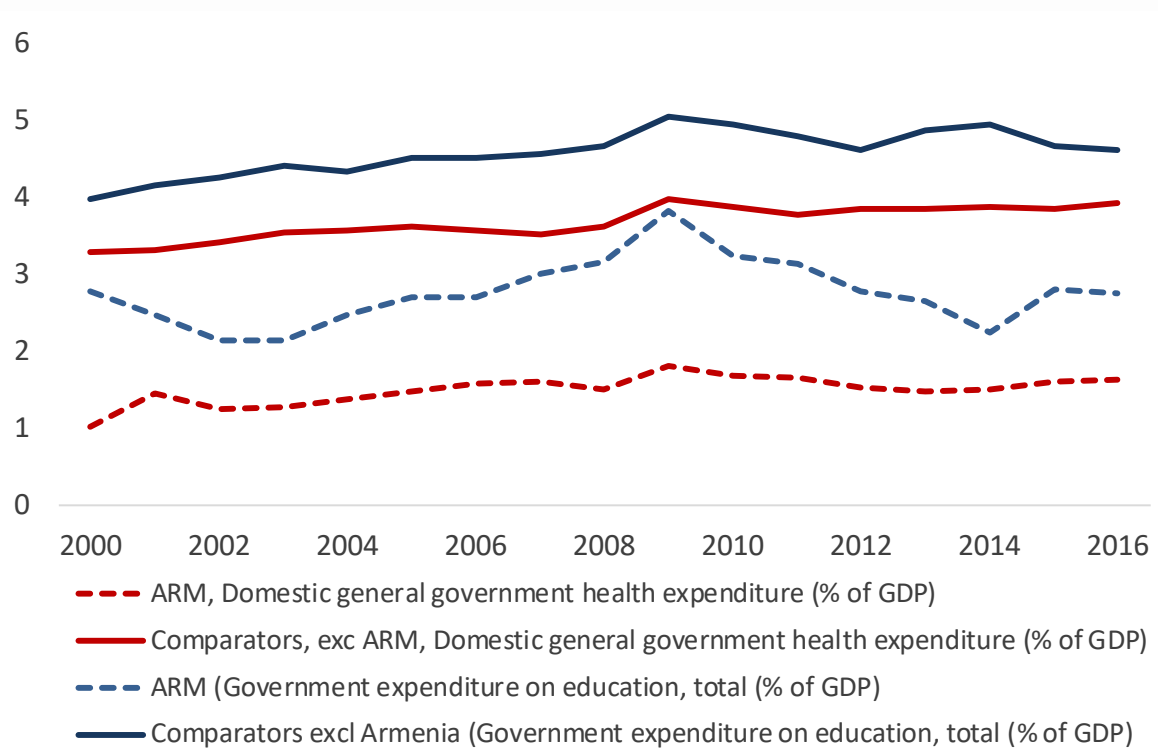
CIT: Micro-Simulation of Effective Tax Rates (Percent)

Backward-looking average effective tax rate		
A	Agriculture, forestry and fishing	4.2%
B	Mining and quarrying	19.3%
C	Manufacturing	19.9%
D	Electricity, gas, steam and air conditioning supply	20.0%
E	Water supply, sewerage, waste management and remediation activities	20.0%
F	Construction	12.0%
G	Wholesale and retail trade; repair of motor vehicles, motorcycles	17.3%
H	Transportations and warehouse economy	19.8%
I	Accommodation and food service activities	20.0%
J	Information and communication	13.5%
K	Financial and insurance activities	14.1%
L	Real estate activities	19.8%
M	Professional, scientific and technical activities	18.7%
N	Administrative and support service activities	19.4%
O	Public administration and defence	20.0%
P	Education	16.5%
Q	Human health and social work activities	19.8%
R	Arts, entertainment and recreation	19.7%
S	Other service activities	19.7%
U	Activities of extraterritorial organisations	0.0%

Source: IMF staff calculations, based on data provided by the SRC.

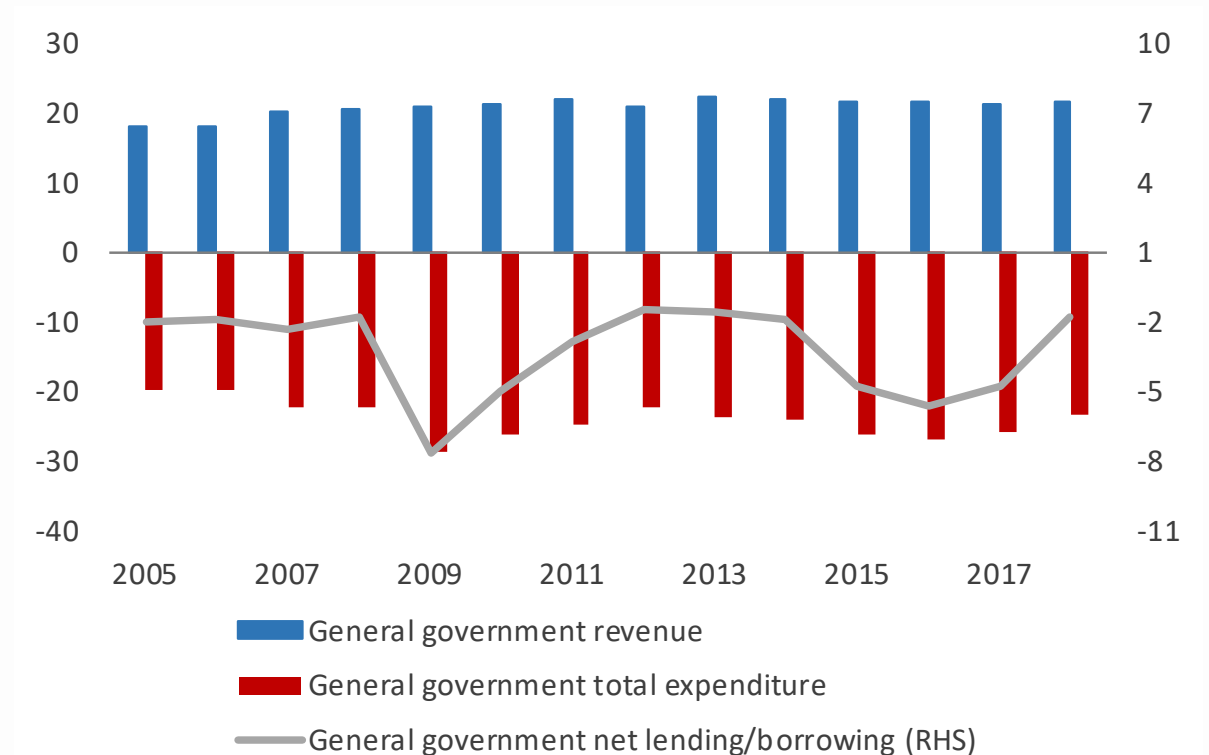
Tax policies should provide funding for capital and social spending

Government Health and Education Expenditure (Percent of GDP)



Source: WB, WDI October 2019

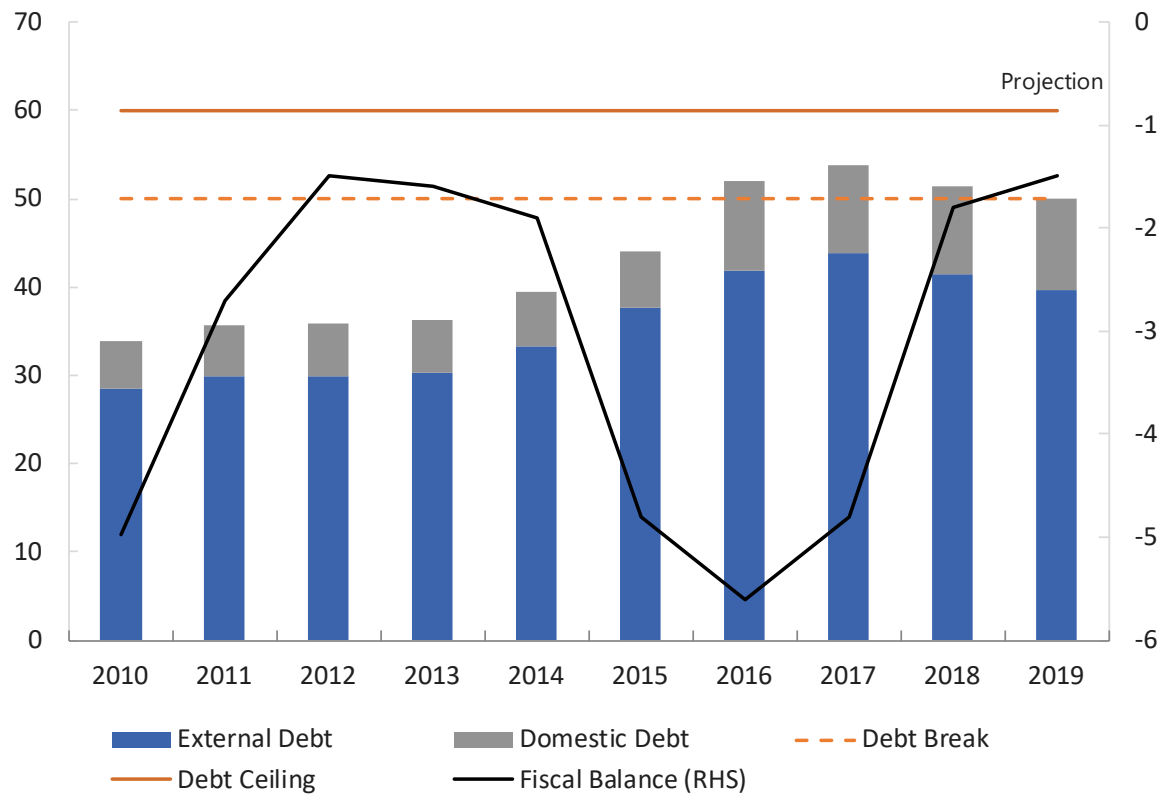
Government Revenue, Expenditure and Net Lending/Borrowing (Percent of GDP)



Source: IMF WEO October 2019

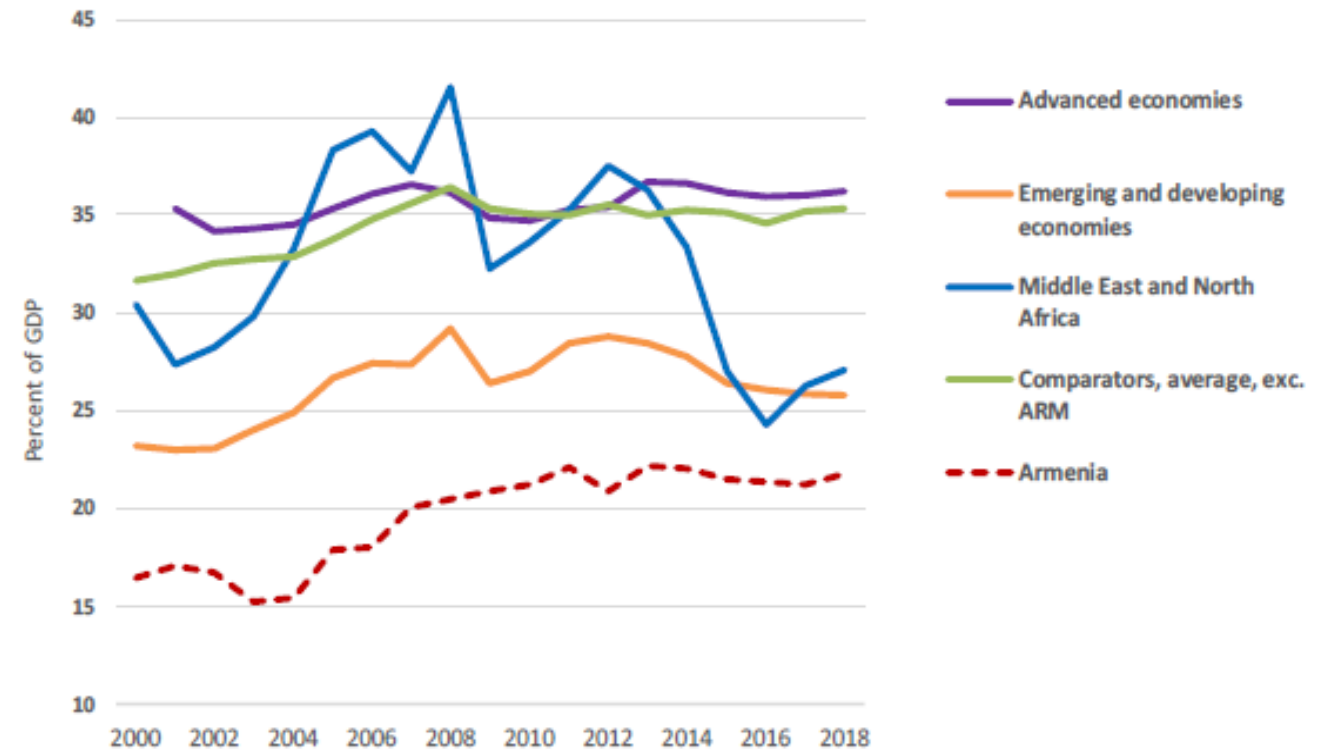
Tax policies should support fiscal sustainability

Central Government Debt (Percent of GDP)



Source: RA Ministry of Finance and IMF staff calculations.

Total Government Revenue (Percent of GDP)



Source: IMF, World Economic Outlook.

Tax policies should support fiscal sustainability (2)

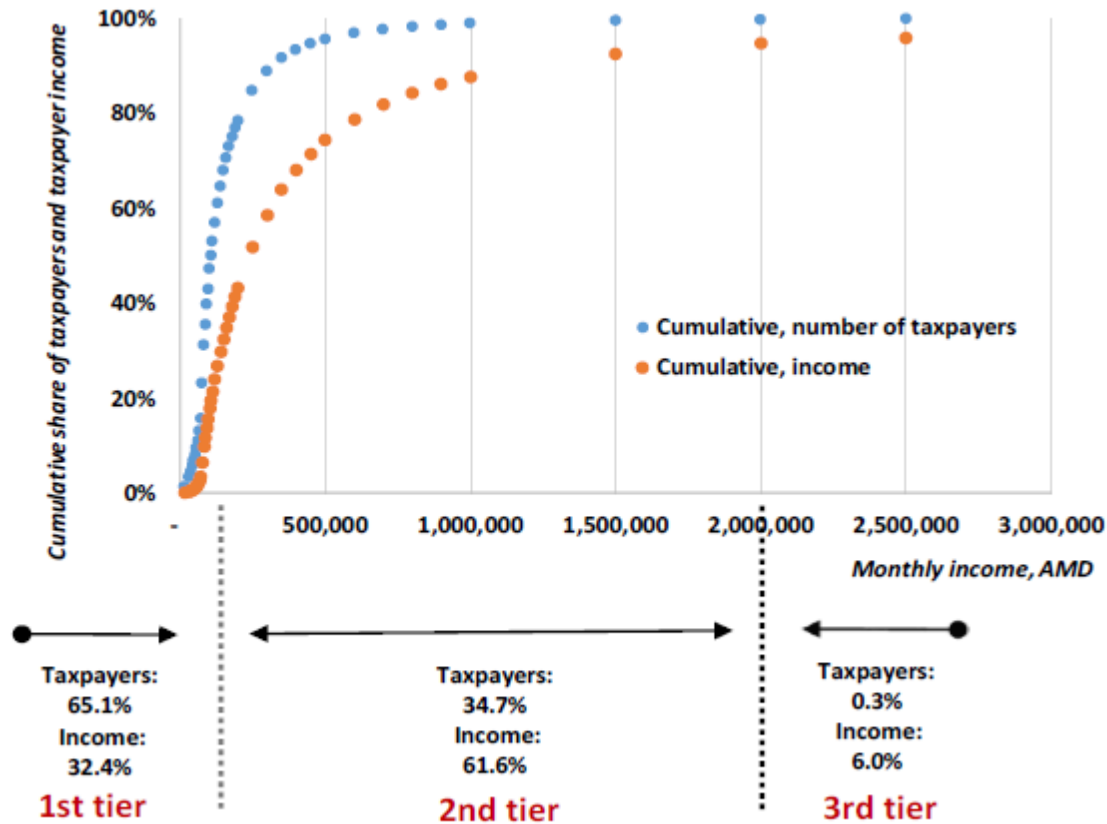
Armenia: Expected Impacts of Tax Reform (percent of GDP)

	2020	2021	2022	2023
Income tax and small business tax changes:				
Flattening PIT	-0.4	-0.5	-0.6	-0.7
Lowering CIT (affecting 2021 onwards)	0.0	-0.1	-0.1	-0.1
Keeping the higher turnover/VAT threshold	-0.2	-0.1	-0.1	-0.1
<i>Total</i>	-0.5	-0.8	-0.9	-1.0
Offsetting measures:				
Taxation on tobacco, and gambling, license fees	0.2	0.2	0.2	0.2
Increased excise taxes on alcohol, tobacco, natural gas, etc, and tax indexation	0.2	0.3	0.5	0.6
Reduction in govt.'s pension contribution	0.0	0.1	0.1	0.1
Unquantifiable tax measures (reducing exemptions and shadow economy)	0.1	0.2	0.1	0.1
<i>Total</i>	0.5	0.8	0.9	1.0

Source: <https://www.imf.org/en/Publications/CR/Issues/2019/06/05/Republic-of-Armenia-2019-Article-IV-Consultation-and-Request-for-a-Stand-By-Arrangement-46968>

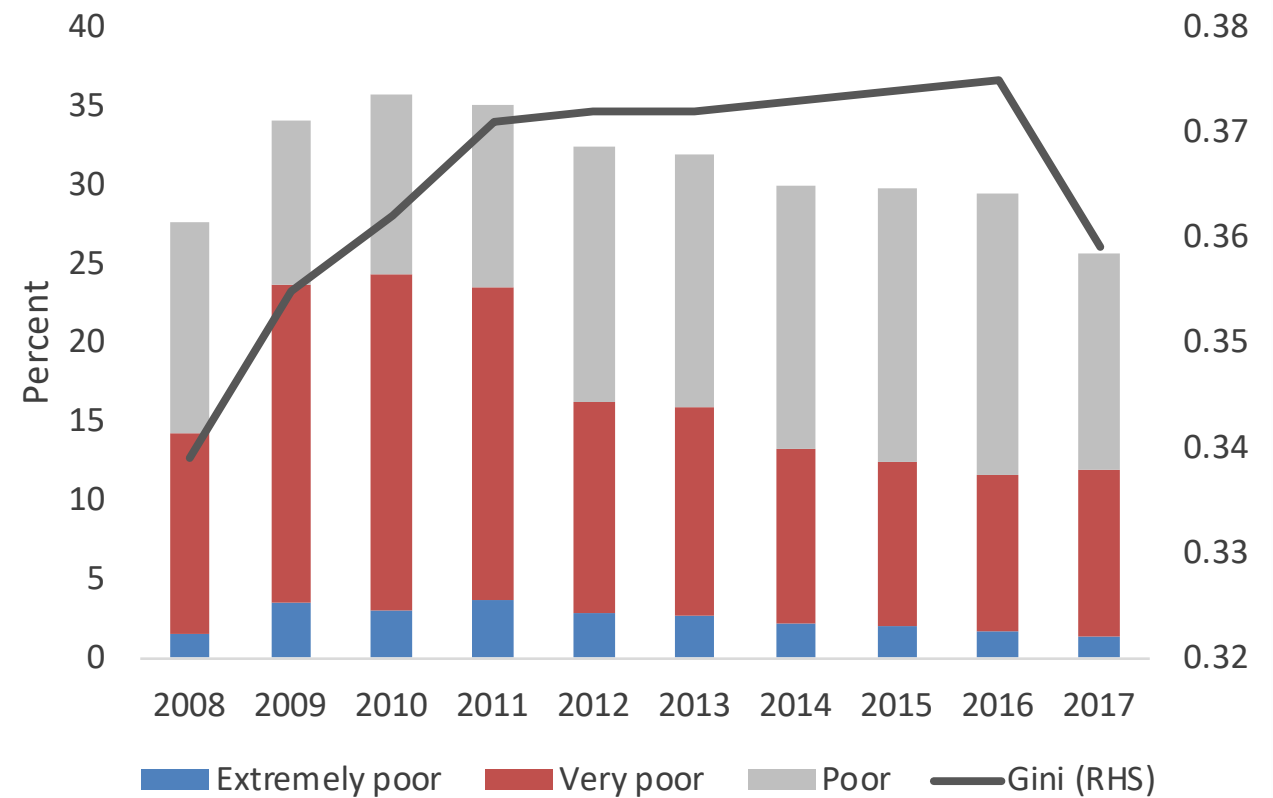
Tax policies should pursue distributional fairness

Distribution of Employees and Employee Income, 2017



Source: SRC and IMF staff calculations.

Poverty Levels (Percent of population)



Source: Armstat and IMF staff calculations.

Tax policies should be administrable and be administered effectively and efficiently

- Is the tax system simple enough?
- CIT: features a narrow tax base; non-uniform effective tax rates; tax exemptions and incentives.
- Turnover taxation: breeds tax arbitrage opportunities; business splitting; etc.
- PIT: no final reporting of personal income.
- The optimal tax compliance gap?



IMF engagement

Republic of Armenia: 2019 Article IV Consultation and Request for a Stand-By Arrangement. June 2019 <https://www.imf.org/en/Publications/CR/Issues/2019/06/05/Republic-of-Armenia-2019-Article-IV-Consultation-and-Request-for-a-Stand-By-Arrangement-46968>

Republic of Armenia: Technical Assistance Report – Growth-Friendly Rebalancing of Taxes. January 2019 <https://www.imf.org/en/Publications/CR/Issues/2019/05/14/Republic-of-Armenia-Technical-Assistance-Report-Growth-Friendly-Rebalancing-of-Taxes-46558>

Republic of Armenia: Technical Assistance Report – Strategic Choices for Tax Administration to Enhance Tax Compliance. April 2019.

Republic of Armenia: Technical Assistance Report – Improving Tax Compliance Risk Management. May 2018.