



IMF Technical Assistance the Formulation of Tax Codes

*“Drafting a Unified Tax Code
- Heading Towards Change “
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Motivation



- Anecdotal evidence and surveys point out to high tax compliance costs in Armenia , for several reasons, but especially because of the lack of a Tax Code.
- High tax compliance costs reduce tax collections, but also are an impediment to investment and growth.
- The IMF has assisted many country members in the formulation of Tax Codes, especially in this region and in particular Armenia (attempt of 2006).



Outline of the presentation

1. Overview of IMF Technical Assistance on Formulating Tax Codes
2. Most common elements found in a well-designed Tax Code
3. Main elements of a well-functioning legislative process for the formulation of a well-designed Tax Code

IMF Technical Assistance on Tax Codes



- A great variety of *countries*: advanced, emerging markets, and developing countries in all continents, with different legal traditions. A very intense involvement in this region.
- A large range of *issues*, from Mining Codes, Custom Codes, Tax Codes, Codes on Tax Benefits.
- A *multidisciplinary approach*, that includes work of different departments , such as Fiscal Affairs Department and Legal Department.

Most common elements a well-designed Tax Code



- Organization and operation of the tax system, introduction, change and abolition of taxes
- Legal status of tax payers, tax authorities, tax agents, etc
- Determination of objects of taxation, tax obligations and enforcement measures
- Tax accounting, responsibility for tax offenses, and appeals against action (or inaction)



Tax Codes usually include a list of legal and policy principles....

- What is considered a tax law? Could taxation issues be included in non-tax legislation? Could tax laws be applied retroactively?
- General taxation principles: progressivity? ability to pay? Legality? What are the taxes that would be included in the tax system?
- Rules to establish new taxes other than those envisaged by the Tax Code as well as amendment or abolition of taxes shall be carried out exclusively through the adoption of a law on making changes to the Tax Code



...a lot of definitions....

- Activities: economic activity, employment, charitable activity, income, tax obligation, tax assessment, tax violation, etc
- Individuals: tax payer, related person, physical person, relative, etc
- Entities: enterprise, resident vs. non-resident, non-commercial organization, etc
- Locations: place of management, place of establishment, permanent establishment, etc.
- Others: market prices, official exchange rate, official interest rate, statute of limitations, business days, etc

...and a large coverage of rights and obligations



- **Tax authorities:** to conduct tax assessment, verification, questioning, demand documentation, auditing, identification numbers, presumptive techniques, issuing bidding ruling, attachment of property, interest on tax arrears, etc
- **Taxpayers:** to get notifications, to examine audits, to present explanations, to appeal, legal representation, keep records, fill tax returns, interest on overpayments, etc.
- **Tax agents:** e.g. banks, withholding agents, etc

Key elements of a well-defined legislative process...



- Explain the policy objectives and the rationale for the reform initiative to gain taxpayers' support
- Carefully planned and consistent consultation process with taxpayers.
- This entails the release of draft legislation, the issuance of discussion papers by the Ministry of Finance, etc,
- To achieve predictability and certainty the draft Tax Code will have to be debated with tax practitioners, taxpayer associations, tax officers, lawyers, and business.



Conclusion

- Formulating a well-designed Tax Code for Armenia could be a quite challenging; not only a compilation or elimination of contradictions
- It should be preceded by the design of an internally consistent tax policy framework about “what is the tax system that is right for Armenia (IMF 2011) ”.
- In addition, the formulation should be guided by an ample consultation process, as the one just launched by the Armenian authorities.
- The IMF stands ready to assist the Armenian authorities in this endeavor, in coordination with other donors—but we would need first to draw lessons from the previous attempt in 2006!!
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