

IMF Resident Representative Answers to FK-Kapital (previously Facts & Comments) Newspaper Questions on VAT/Tax Code

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1. What is your opinion towards IMF's interest in keeping VAT in Tajikistan and any other CIS country?

The IMF did indeed help with the introduction of VAT in many CIS countries, but this is in the interest of the countries concerned. After the collapse of the Soviet Union, tax revenues strongly declined in CIS countries, and the introduction of VAT was subsequently an essential part of rebuilding tax revenues, without which governments' functioning would be at risk. In Tajikistan, the share of VAT in total tax revenues grew from about a quarter around 2000 to almost half in 2007. How could the government be run without this? I do not know where you got the opinion that VAT was introduced, quoting you, "to kill local industry in the post-Soviet area and thus to promote consumption of foreign goods". The simple fact that VAT rates are generally the same for domestic goods as for foreign goods implies that this view cannot be true. In Tajikistan, the VAT rate is 20 percent on both domestic and foreign goods.

2. Is there a need for VAT in Tajikistan, and if so than what the percentage is optimal to your opinion?

As you will gather from my answer to your previous question, I think there is a clear need for VAT in Tajikistan. The optimal percentage depends on many factors, but, given the strong growth in the share of VAT in total tax revenues observed, the current rate seems appropriate.

3. Is the current Tax Code of Tajikistan optimal from the point of view of IMF recommendations?

The 2005 Tax Code constitutes a strong improvement over the previous one, and the focus should be on proper implementation of the current Tax Code. Many of the required supporting regulations that would describe existing tax legislation in more straightforward and easier language still need to be developed. This year's amendments to the Tax Code constitute the fifth time of changing the original text of 2005. Such a fast-changing legislation makes the Tax Code untransparent.

The Tax Committee should be commended for increasing tax revenues from 12.9 percent of GDP in 2000 to almost 18 percent in 2007. For further increase of tax revenues, in addition to properly implementing the current Tax Code, I think the focus should be on the following:

- i) Concentrating Tax Committee resources there where the largest revenue gains could be achieved, while reducing resources allocated to activities generating minimal revenue;
- ii) Increasing the collection capability of the Tax Committee, fighting tax arrears, and reducing room for discretionary decisions by tax officials to prevent possible corruption;
- iii) Enlarging the tax basis, by reducing the number of businesses operating informally and stimulating the start-up of new ones.