

Core Elements of a Medium-Term Revenue Strategy



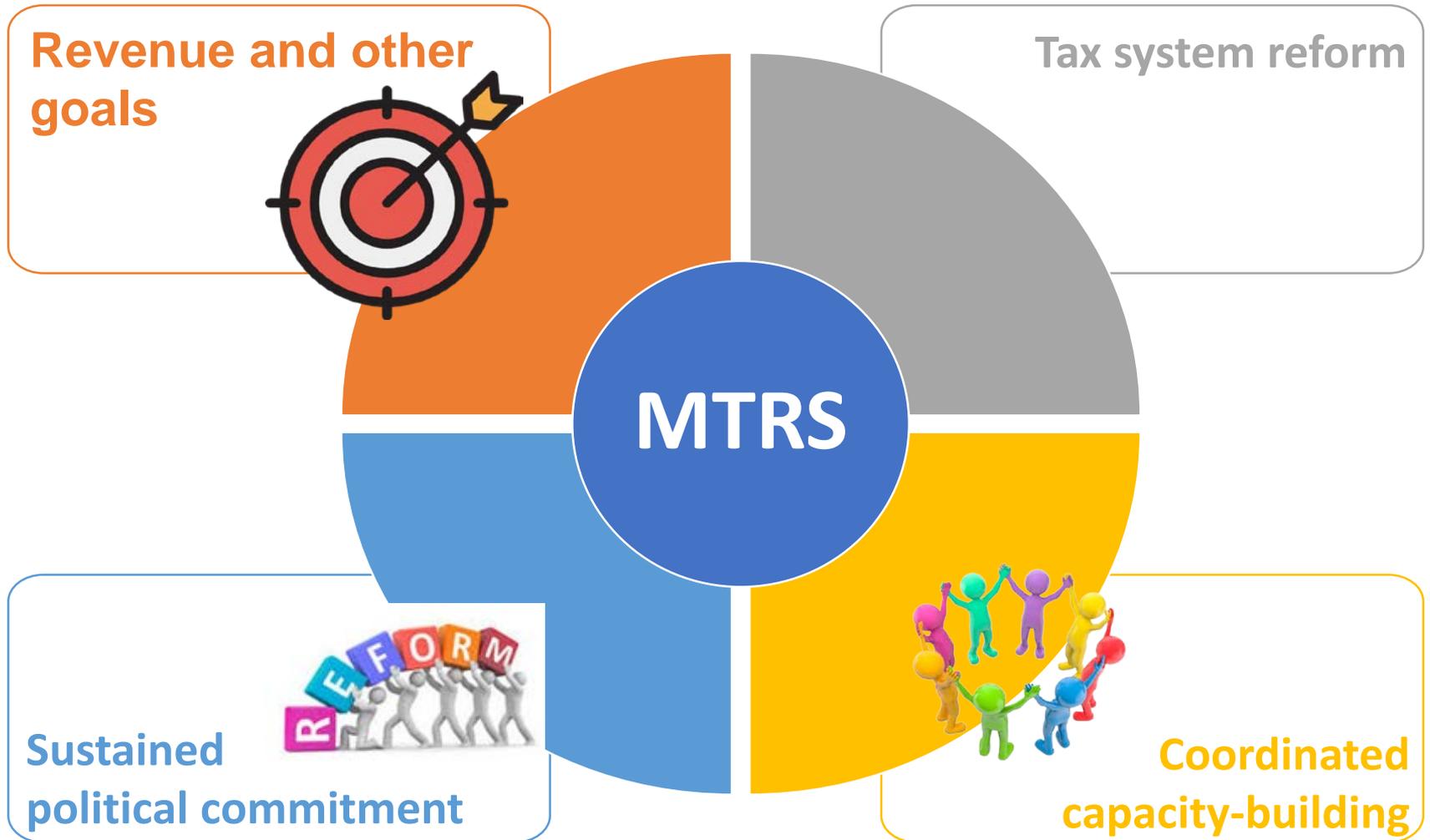
Debra Adams

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Outline: MTRS Components



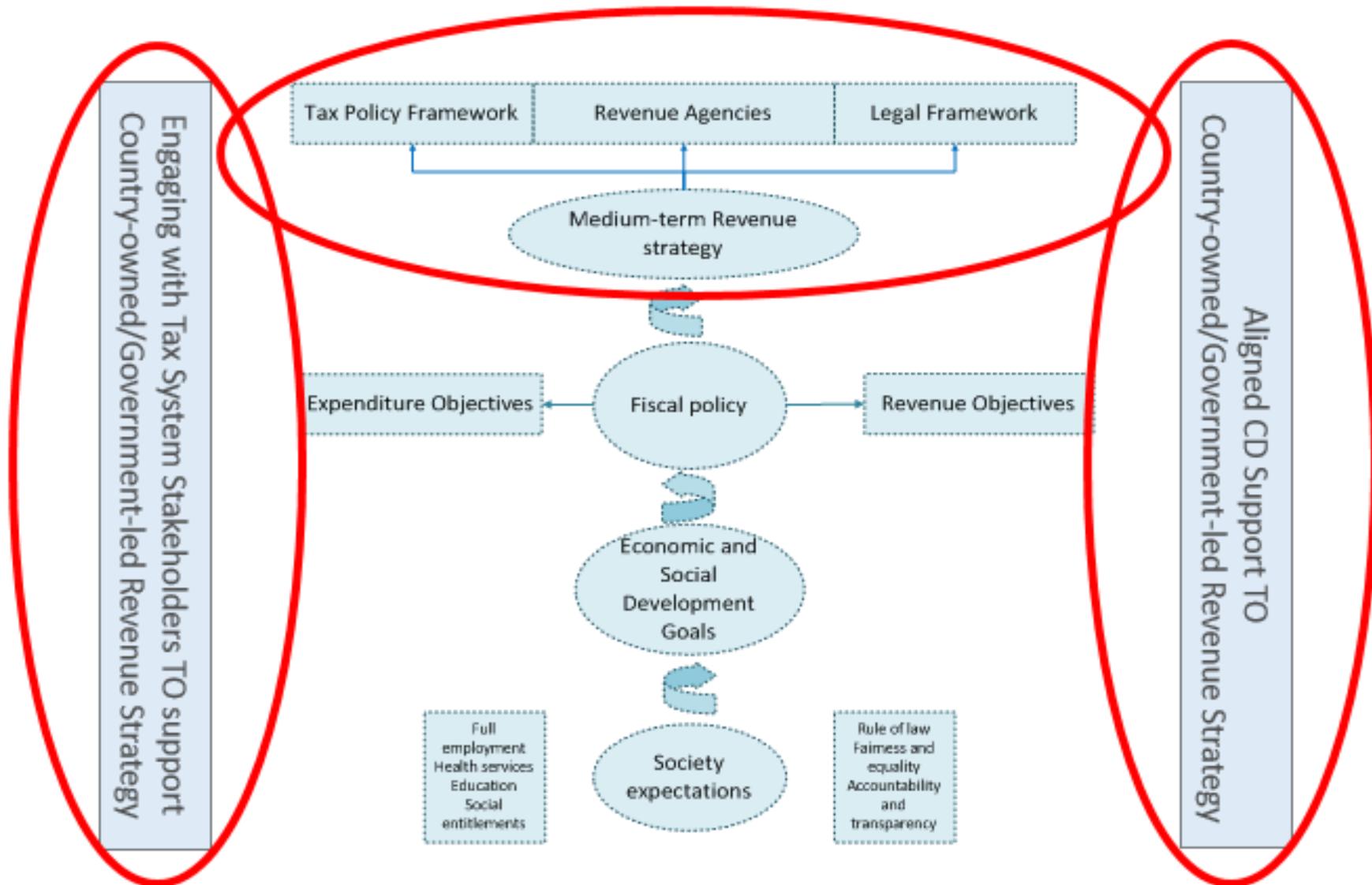
Why an MTRS?

- Direct link to and driven by spending needs
- Increased certainty - clearer picture of likely revenue
- Involvement of 'whole of government', civil society
- Visible country commitment - increased accountability
- Building tax capacity is a protracted/persistent effort
- Better sequencing, integration of revenue reforms
- Medium-term vision - benefit low capacity environment
- Enhance coordination among donors/partners

1. Broad consensus on level of revenue mobilization effort

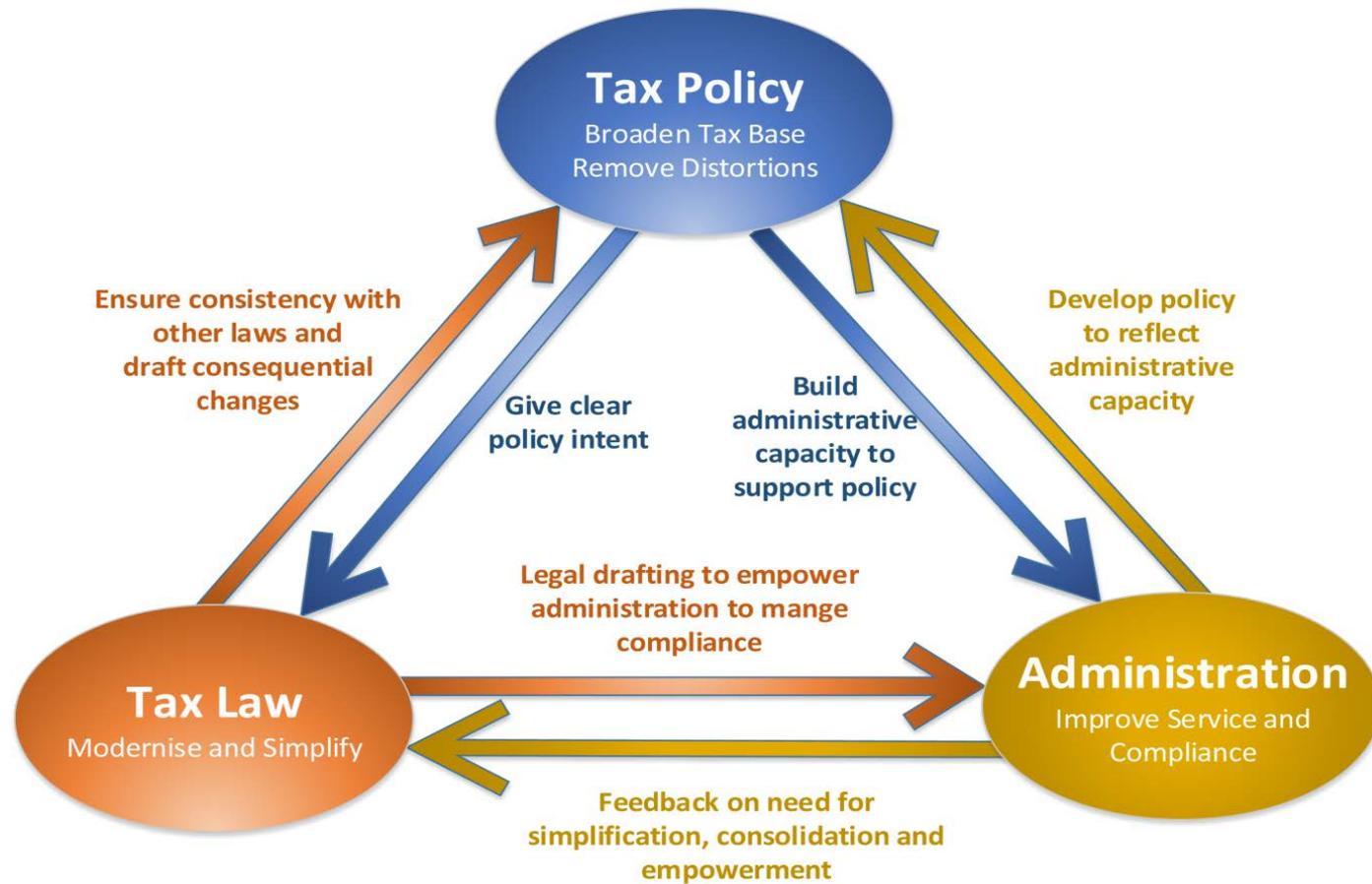
- Broad consensus on medium-term revenue goals
- Government-led – whole-of-government approach
- Society's expectations on public services
 - Expenditure needs
 - SDGs agenda
- Social and economic development vision
- Inclusive – multiple stakeholders, community reps
- Ideally reflected in medium term budget

Stakeholder engagement



2. Comprehensive tax system reform plan

- Prioritized and sequenced reform of the tax system
- Build an MTRS on current reform efforts



2. Comprehensive tax system reform plan

A. Redesign tax policy:

- How efficient, equitable and effective is current tax policy framework in meeting revenue needs?
- Diagnosis of:
 - policy design features (e.g. neutrality versus bias)
 - tax mix (e.g. consumption, labor, capital, natural resources)
 - economic and social impact (e.g. on growth and equity)
 - consistent with medium term fiscal and expenditure framework

2. Comprehensive tax system reform plan

B. Reform of revenue administration

- Meeting revenue needs depends on taxpayers' compliance – efficient and effective revenue agency
- Diagnosis across three levels:
 - levels/rates of taxpayers' compliance with main taxes
 - institutional management and governance arrangements against good international practice and trends
 - management and performance of core revenue functions
- Without well-organized reform management process, institutional reforms are more difficult to achieve

2. Comprehensive tax system reform plan

C. Reform of legal framework

- Robust and enabling legal framework to support policy and administrative improvements:
 - substantive laws setting the taxes
 - procedural laws establishing powers and taxpayers' rights for fairness and effectiveness
- Sequencing of reforms is vital, given lengthy timelines to amend or pass new legislation
- Unreformed legal set-up could become significant impediment to broader reforms

3. Country commitment

- Strong when urgencies arise
- Diverse motivations – too often a quick fix
- Government must lead tax system reform
- Country-owned objective at highest level
- Success factors depend on government decisions
 - strategy aims, governance, teams, political support, timeframe of effort, reform management process, communication, institutionalization, monitoring and accountability

4. Secured financing and external support

- Where appropriate, TA to help formulate, implement
- MTRS framework - coordinates capacity development with government in lead
- Designate a lead TA provider
- All support provided, received under MTRS umbrella
- Formal agreement with donors/partner (e.g. MOU)
- Embracing this coordinating approach is an important distinctive feature of the MTRS

Risks

- High expectations – ultimately decisions lay on government lead ad they have to implement
- Inflation of the concept – not every revenue reform is or needs to be an MTRS
- Inability to review, refocus and recalibrate during implementation – things will not go to plan
- Supply driven technical assistance may linger

Case study—Papua New Guinea MTRS 2018-2022

- Supports PNG's long-term vision
- Declining revenue collection trends since 2015
- Revenue need: Revenue targeted to trend up to 14 per cent of GDP by 2022
- MTRS target: Modern and robust PNG tax system that is fair with equitable tax laws and an efficient revenue administration
- Targeted FAD support
- Launched November 2017



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Thank you