



FISCAL AFFAIRS

Managing VAT Compliance and Administration

IMF VAT WEBINAR SERIES

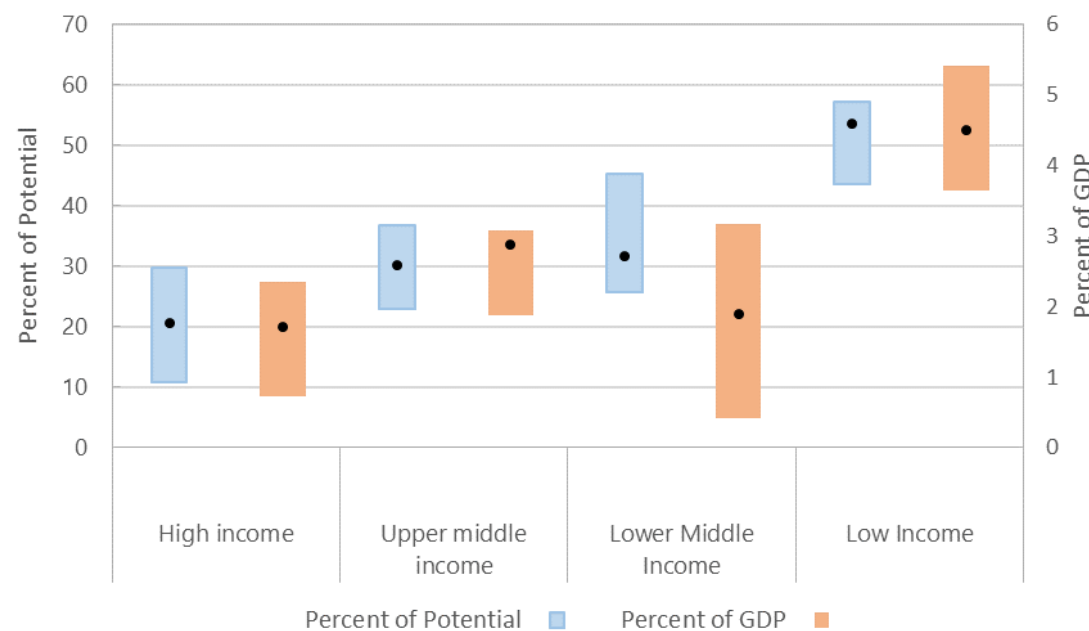
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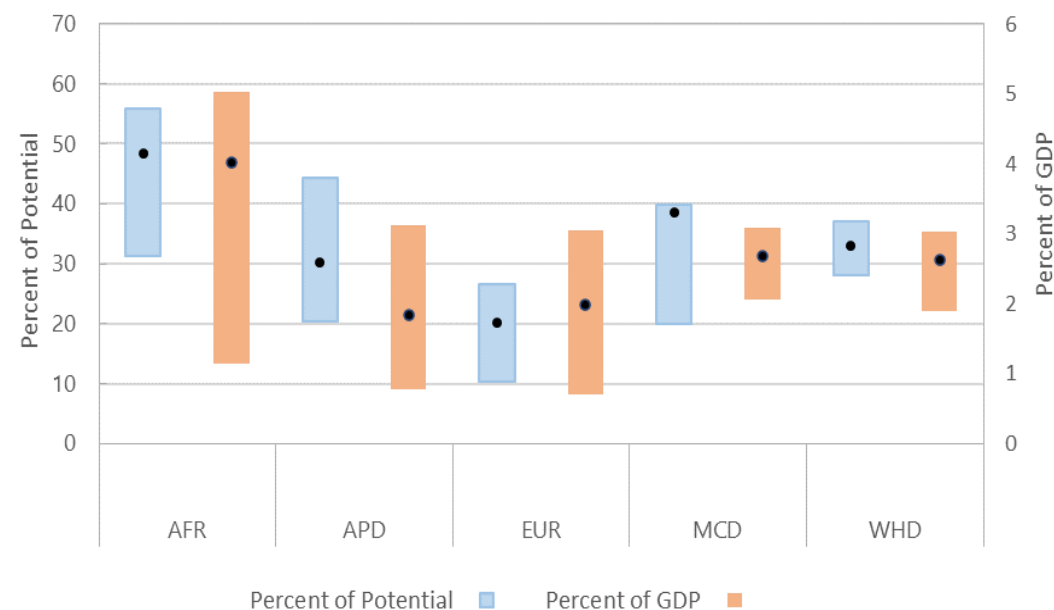
VAT compliance gaps by income level and region

Compliance gaps are higher in lower income countries...likely explaining regional differences

VAT compliance gaps by income level
(median and inter-quartile range)



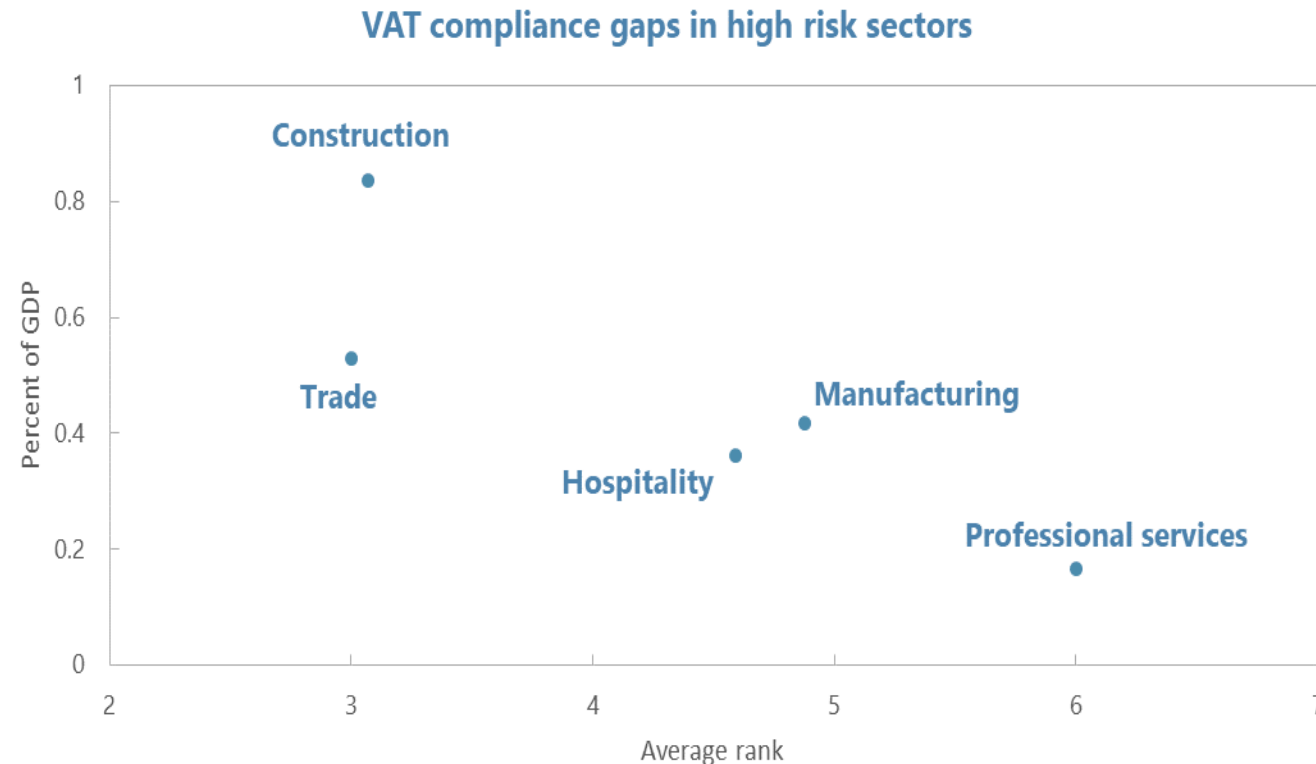
VAT compliance gaps by region
(median and inter-quartile range)



Source: IMF staff calculations using results of VAT gap studies conducted in 32 countries. Regions based on IMF internal administrative regions.

Economic sectors with high compliance risks

A few sectors typically contribute to largest compliance gaps



IMF VAT gap studies disaggregate compliance gap by 10-15 industrial sectors.

Construction and trade sectors - largest average compliance gaps.

Trade sector - highest average ranking.

Large gaps - manufacturing, hospitality, professional services.

Construction - largest gap in 8 countries.

Manufacturing - largest gap in in 4 countries.

Source: IMF staff calculations using detailed results of IMF VAT gap studies conducted in 32 countries.

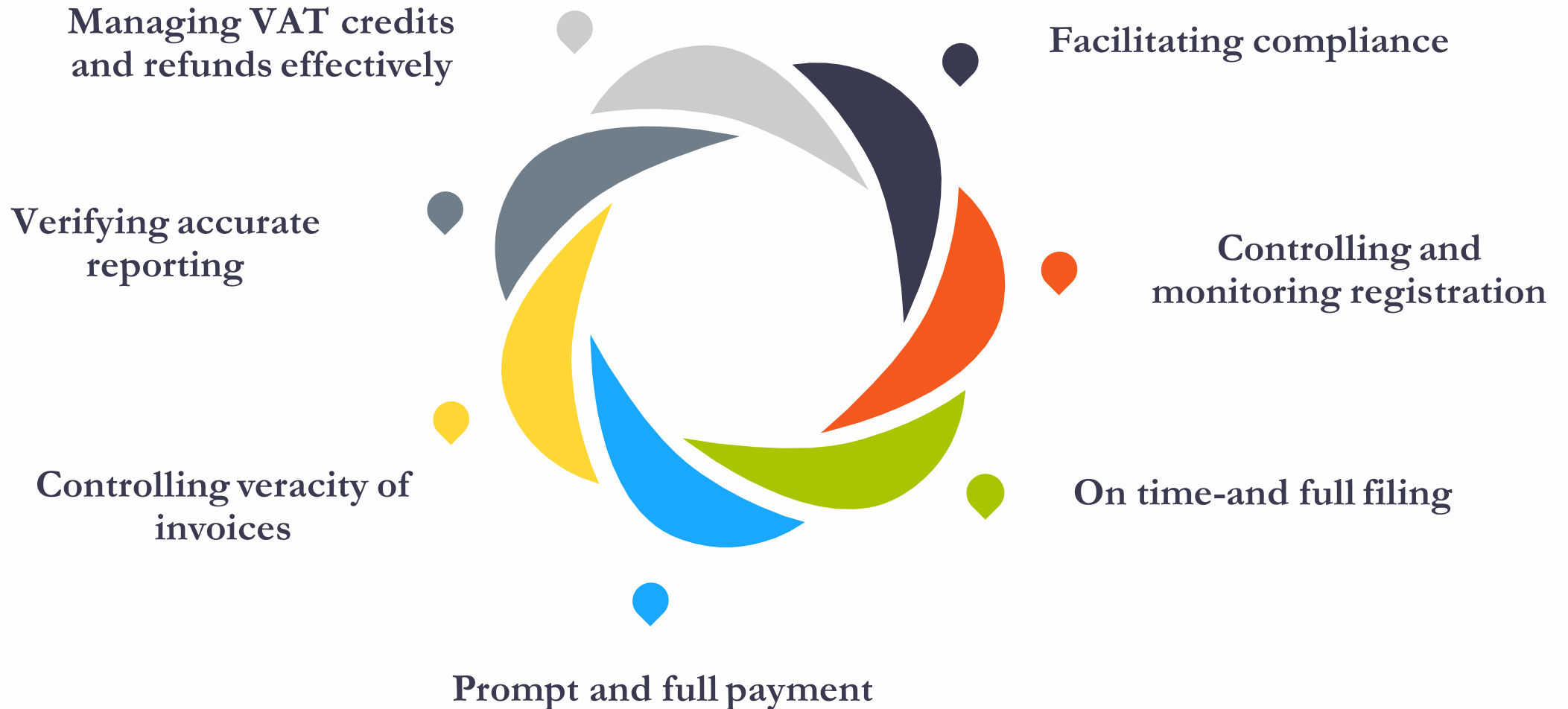
Sectoral compliance gaps ranked for individual countries in descending order (1 = largest sectoral gap)

Prerequisites for a well-functioning VAT

- ✓ Good design of VAT policy and legal framework.
- ✓ Careful setting (and adjusting) of VAT threshold.
- ✓ Self-assessment, digital, and efficient processes.
- ✓ Extensive use of third-party data and robust analytics.
- ✓ Collaboration between tax and customs administrations.
- ✓ Well-resourced tax administration with sound institutional framework.

VAT Compliance Risk Management

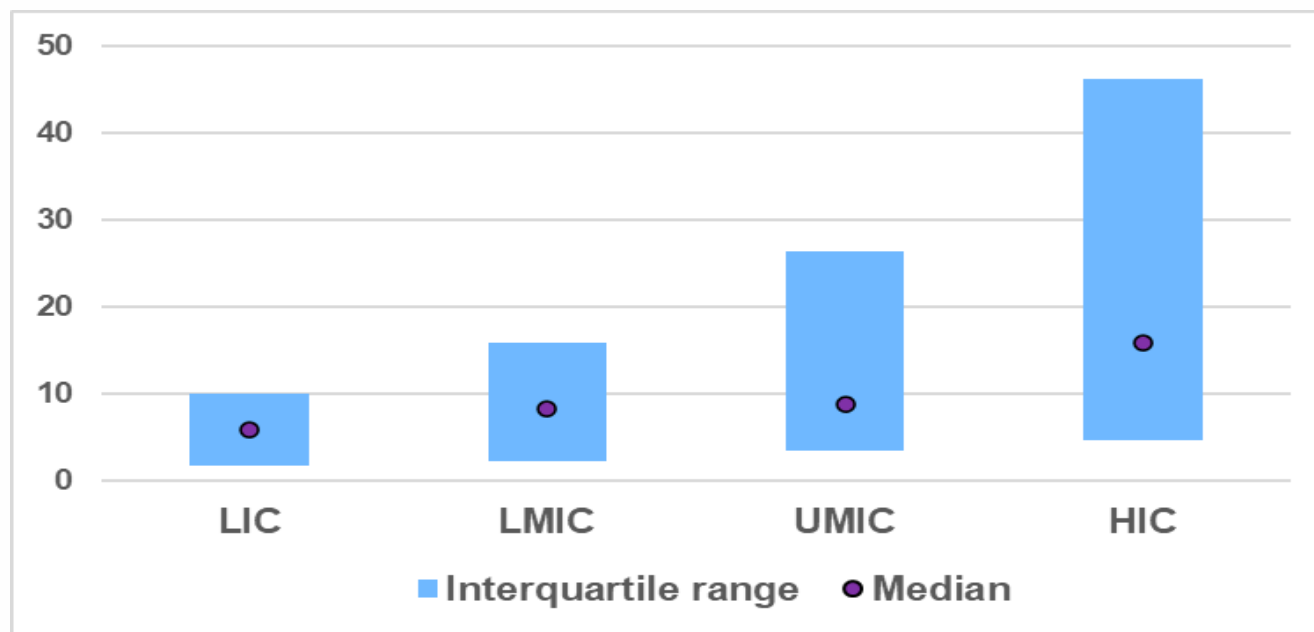
An integrated focus is key



VAT refunds

Proportion of VAT refunded increases with income – and may explain size of VAT gaps

VAT refunds as a percent of gross VAT collections
(median and inter-quartile range)



Higher Income countries pay more refunds and have lower VAT gaps (for many reasons).

Does a better functioning VAT refund mechanism encourage compliance and contribute to lower VAT gaps?

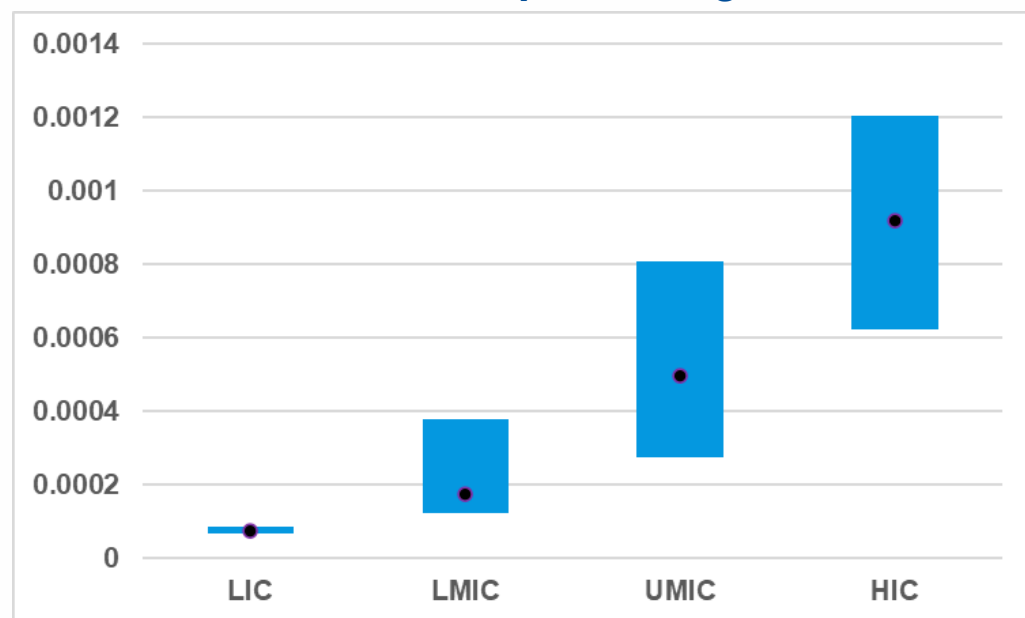
Source: IMF staff calculations using TADAT data – sample of approximately 70 countries.

Tax administrations need to be well-resourced

Lower income countries are less well resourced as measured by staff to country population...

...and are less able to devote resources to audit and verification activities

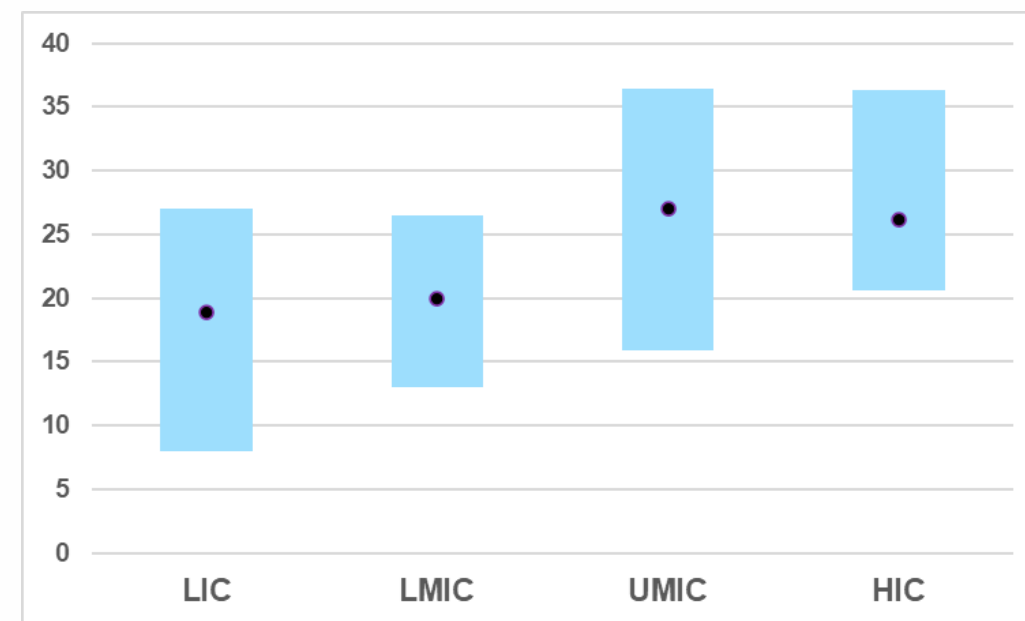
**Tax administration staff per citizen
(median and inter-quartile range)**



Tax administration staff are measured in full-time equivalents (FTEs)

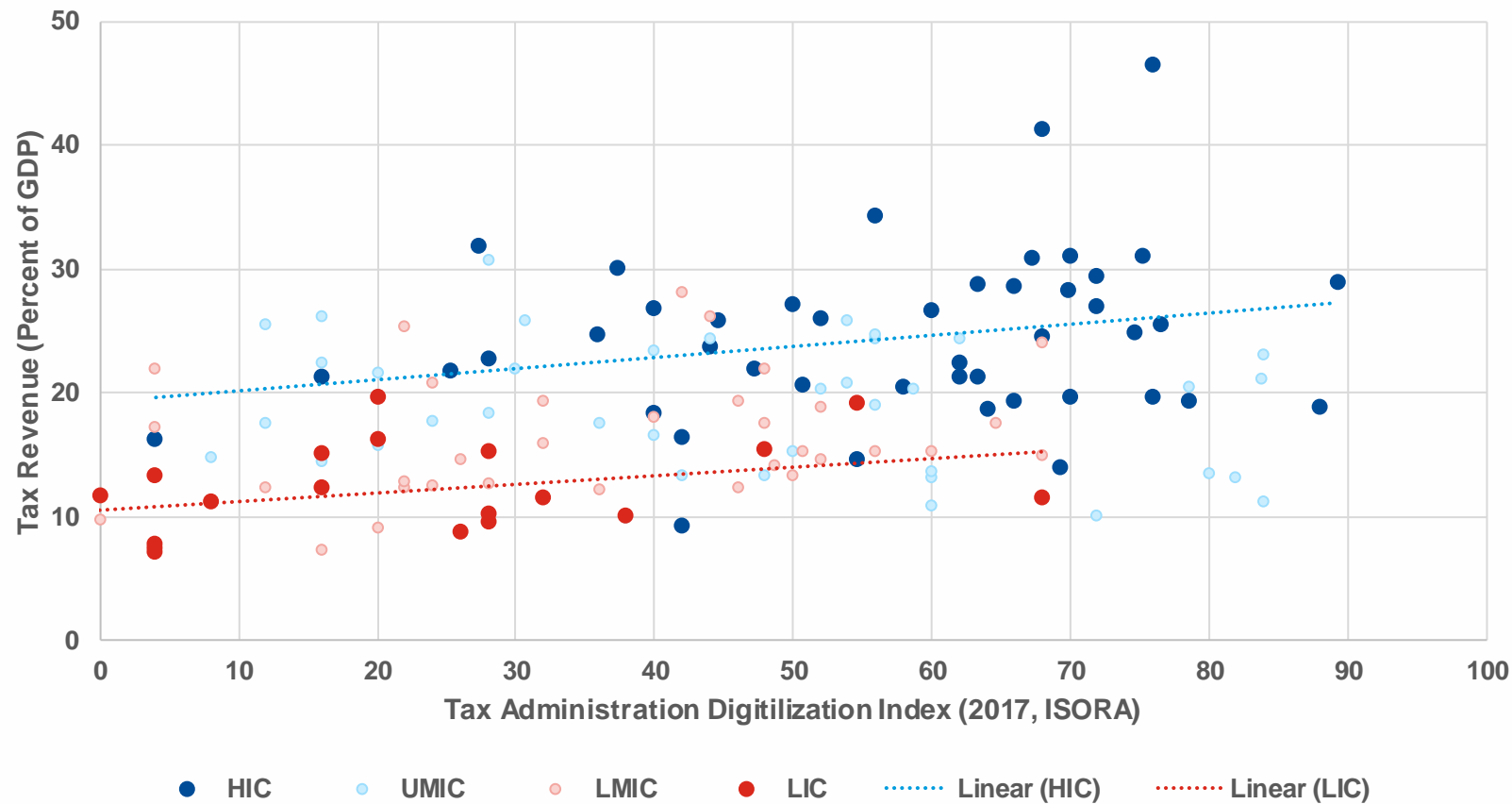
Source: IMF staff calculations using ISORA 2018.

**Percent of staff allocated to audit, investigation and
other verification (median and interquartile range)**



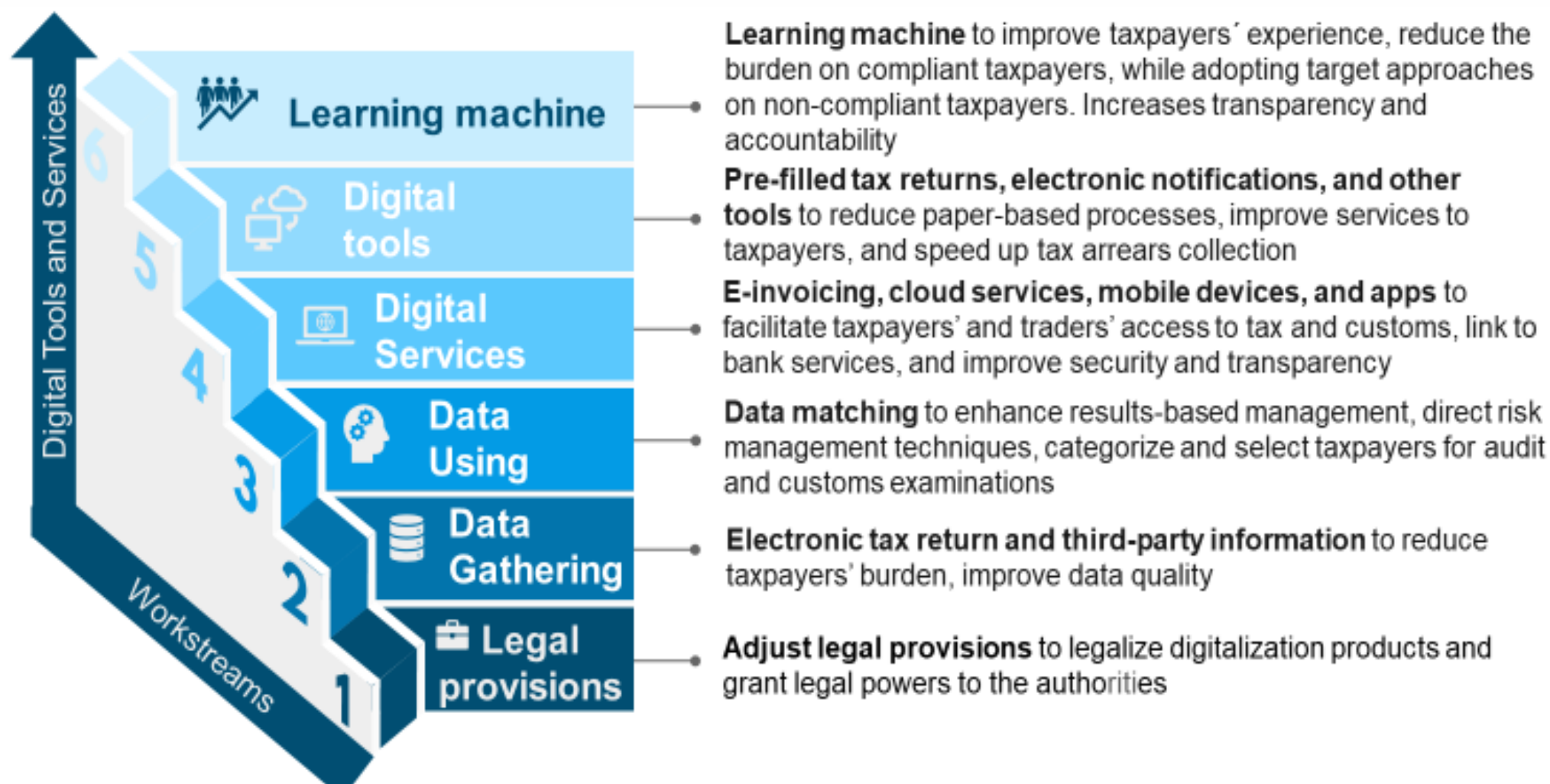
Tax administration digitalization

Tax administrations with greater degree of digitalization show higher tax/GDP ratios...but other factors also at work



Source: IMF staff calculations using WEO GGRT to GDP and ISORA 2018 data.

Digitalization affects VAT Administration via multiple channels



Thank you!