



# Capacity Building for Tax Administration to Mobilize Domestic Resources for Development

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**12<sup>TH</sup> TAX ADMINISTRATION CONFERENCE**

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# FIGHTING POVERTY, IMPROVING LIVES in Asia and the Pacific

## WHO WE ARE

ADB is an international development finance institution. We provide loans, grants, and expertise to our developing member countries to help reduce poverty and create a world in which everyone can share the benefits of growth.

President  
**Takehiko Nakao**

Headquarters  
**Manila, Philippines**

Founded  
**1966**

**67**  
Members

**48**  
Regional  
members

**19**  
Nonregional  
members

**32**  
Field offices

**3,062**  
Total employees

We help to **DEVELOP**

the region and its people  
through our support for...



### What we promote

- Private sector development/operations
- Good governance and capacity development
- Gender equity
- Knowledge solutions
- Partnerships

### Key areas of operation

- Infrastructure
- Environment, including climate change
- Regional cooperation and integration
- Finance sector development
- Education

## Key Facts

**Dean:** Dr. Naoyuki Yoshino

**Office:** Tokyo, Japan

**Established:** 1997

**Personnel:** 51 representing  
15 nationalities

- The think tank of the ADB (Asian Development Bank).
- Provide intellectual input for policy makers in developing Asia.
- Conduct research on medium- and long-term sustainable development issues.
- Capacity building & training programs for mid- to senior-level government officials.

## ADB's priority sectors & themes:

- Strengthening Tax Administration
- Promoting financial inclusion
- Aging and pensions in Asia
- SME credit databases & credit scoring
- Structural transformation of Asian labor force
- Poverty reduction

### Research Activities:

- Books
- Working papers
- Conferences
- High-Level Forums
- Seminars



### CBT Activities

- Policy Dialogues
- E-Learning Courses
- Course-based trainings

# Domestic Revenue Mobilization

*Better tax systems crucial for development*

***“Domestic resource mobilisation and effective use is the crux of our common pursuit of sustainable development and achieving the SDGs.”***

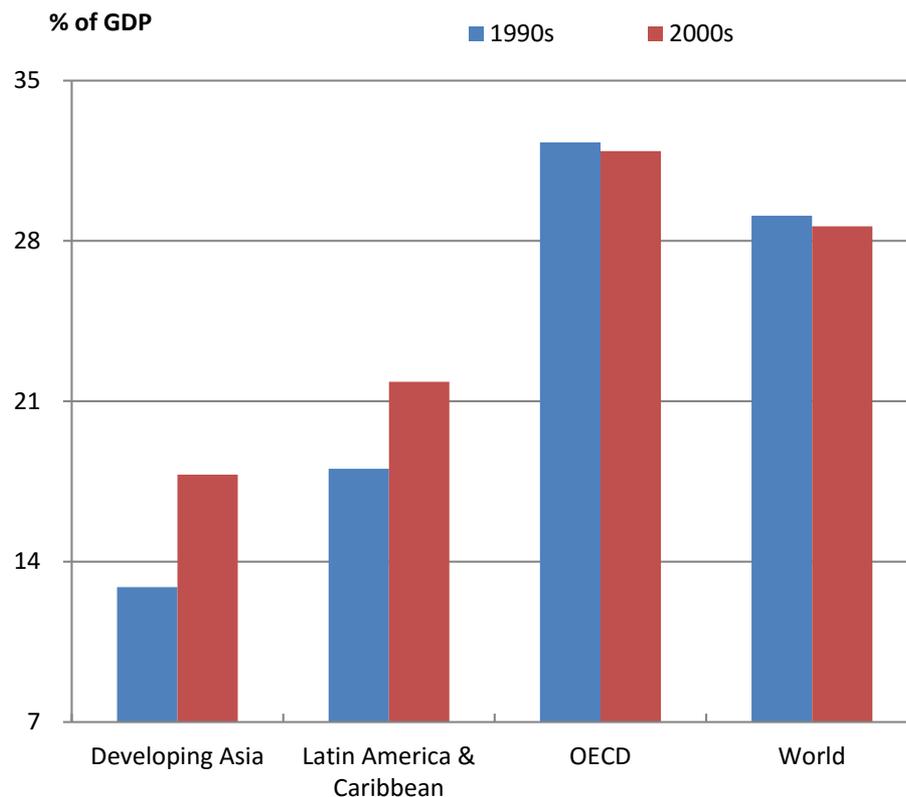
*The Addis Tax Initiative – Declaration, July 2015*

**Better Tax Policies, Stronger Administration, and Enhanced International Cooperation**

**ADB Projects underway:**

<b>RE TA</b>	<b>Enhancing Transparency and Exchange of Information for Tax Purposes</b>
	<b>Tax Policy and Administration Research and Capacity Development</b>
<b>Country TA</b>	<b>E-Tax Administration (Mongolia), Tax Administration Capacity Development (Maldives, Philippines), etc.</b>

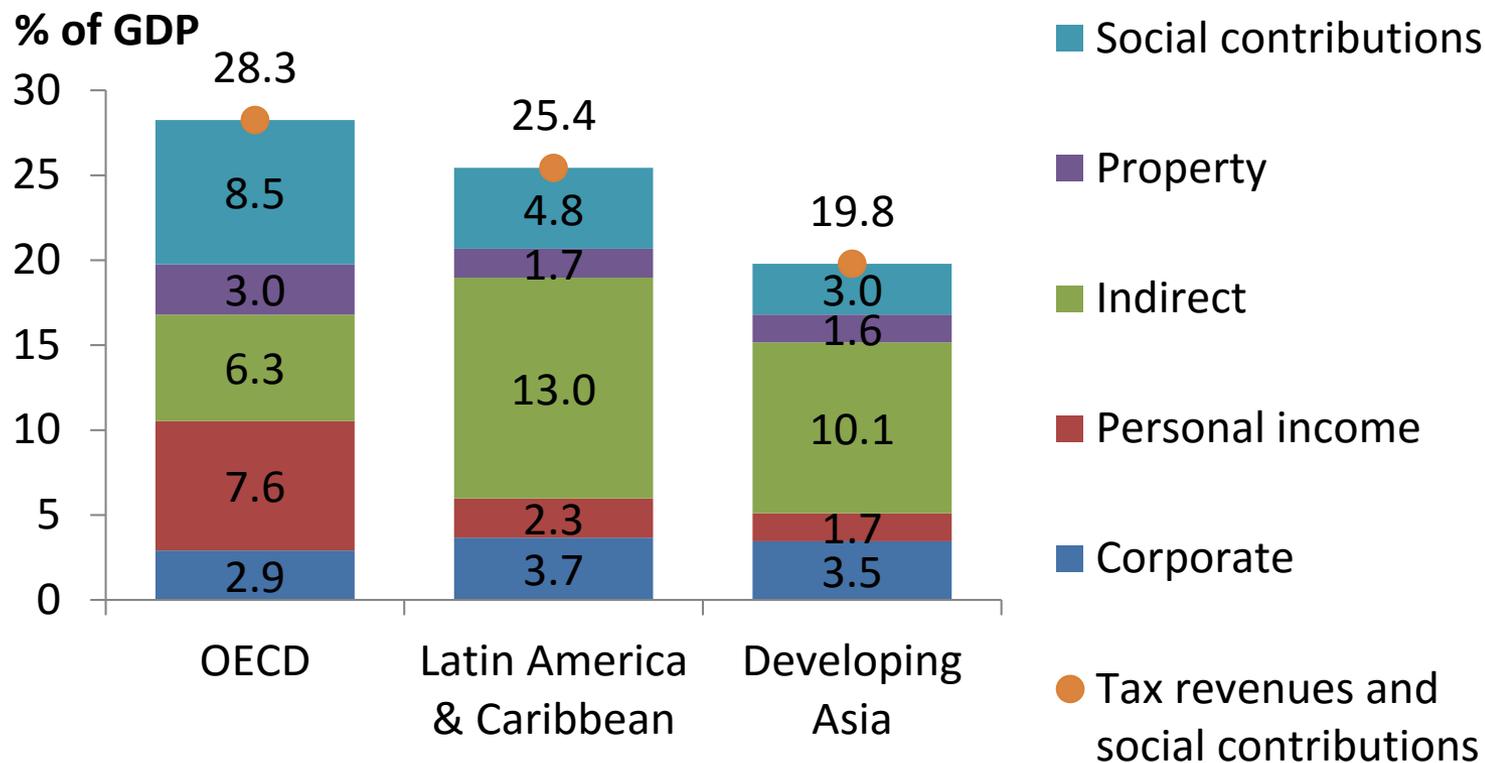
**Tax revenues, share of GDP**



Source: ADB estimates based on data from the International Monetary Fund, Revenue Data.

.....implying a clear need to improve revenue mobilization across all categories

**Composition of tax revenues and social contributions, 2010**

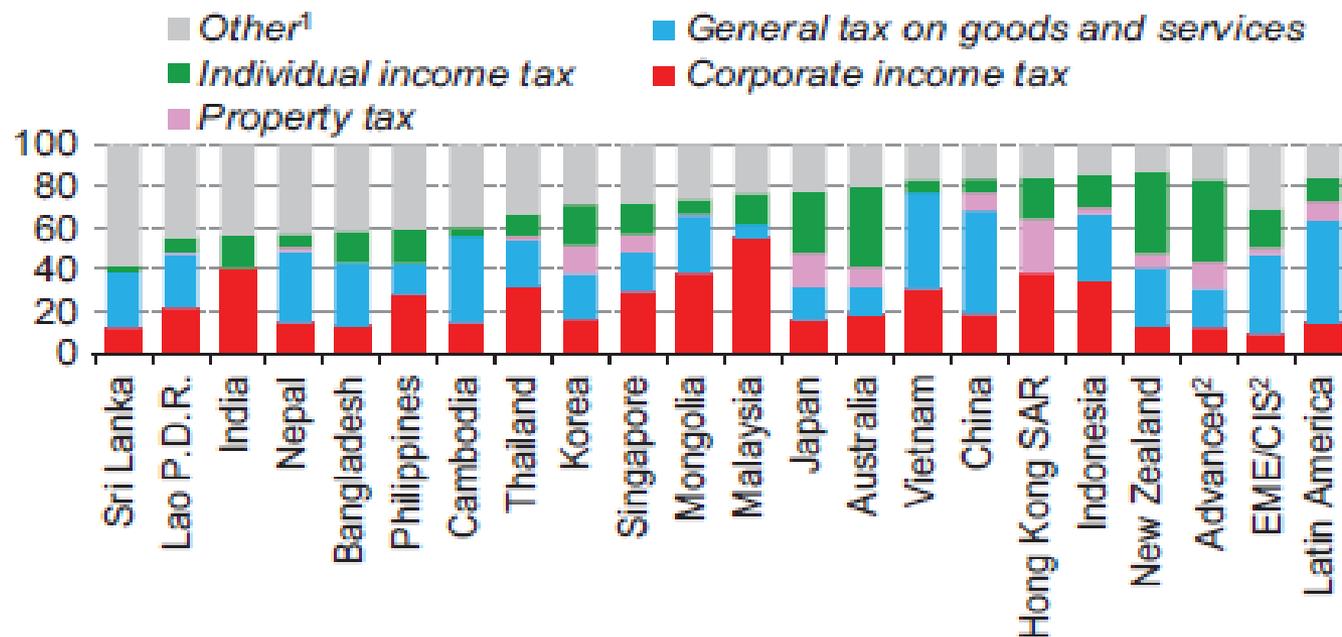


**A wide range of options should be explored.**

- Broaden base for personal income tax and VAT
- Increase use of corrective taxes and nontax revenues
- Introduce progressive taxes on property, capital gains, and inheritance
- Improve collection and tax administration through ICT and international cooperation

# Selected Tax Revenues by Category

(In percent of total tax revenue, 2011 or latest available)



Sources: IMF, Government Finance Statistics database, and World Economic Outlook database; OECD; and IMF staff calculations.

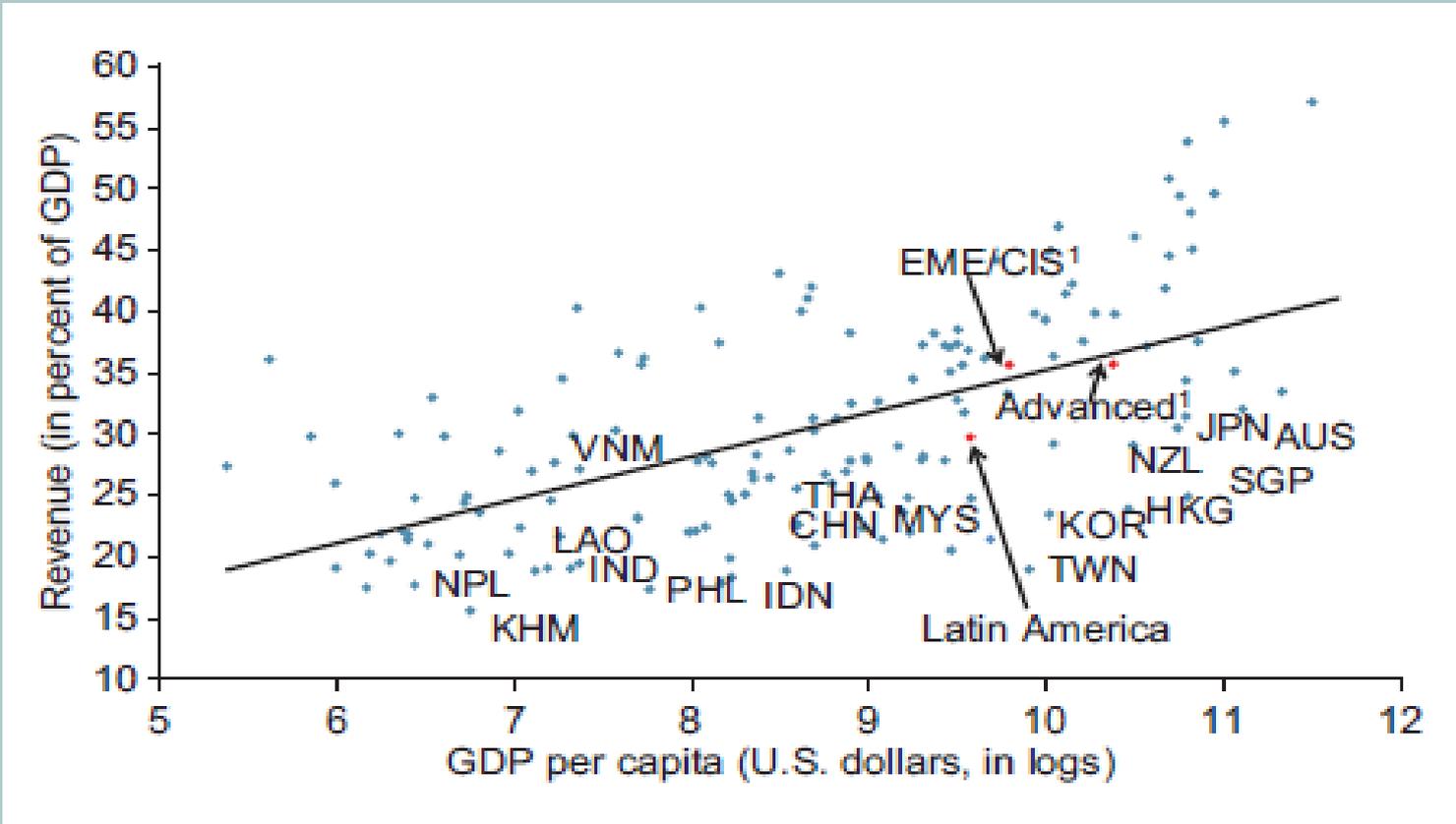
<sup>1</sup> Includes excise tax, international trade and transactions tax, tax on profits of fiscal monopolies, unallocated taxes on profit/income, and other taxes.

<sup>2</sup> Advanced economies excluding Asia. EME/CIS stands for Emerging Europe and Commonwealth of Independent States.

# REVENUE ADEQUACY

- Rely on good revenue producers
  - VAT, personal income; Profits, Payroll
  - In small and less developed economies, excises and import taxes may be important
- Look for **elastic** taxes, i.e., taxes that keep up with the economy
  - Taxes levied on growing economic sectors
  - Ad valorem rather than specific tax rates
  - Prompt collection of taxes (especially in a high-inflation environment)

# General Government Revenue and GDP per Capita, 2011



Source: IMF, World Economic Outlook database.

<sup>1</sup> Advanced economies excluding Asia. EME/CIS stands for Emerging Europe and Commonwealth of Independent States.

# FISCAL POLICY PRIORITIES FOR THE ASEAN-5

## Fiscal space to foster medium-term growth

### Revenue reforms

- Raising revenues in an increasingly globalized economy will require strengthening broad-based taxes on relatively immobile bases and improving tax compliance
- Given the distortionary effects of the corporate income tax, and what are likely to be permanent declines in CIT revenue from the financial sector, reforms need to focus on broadening consumption and property taxes, which are less harmful to growth

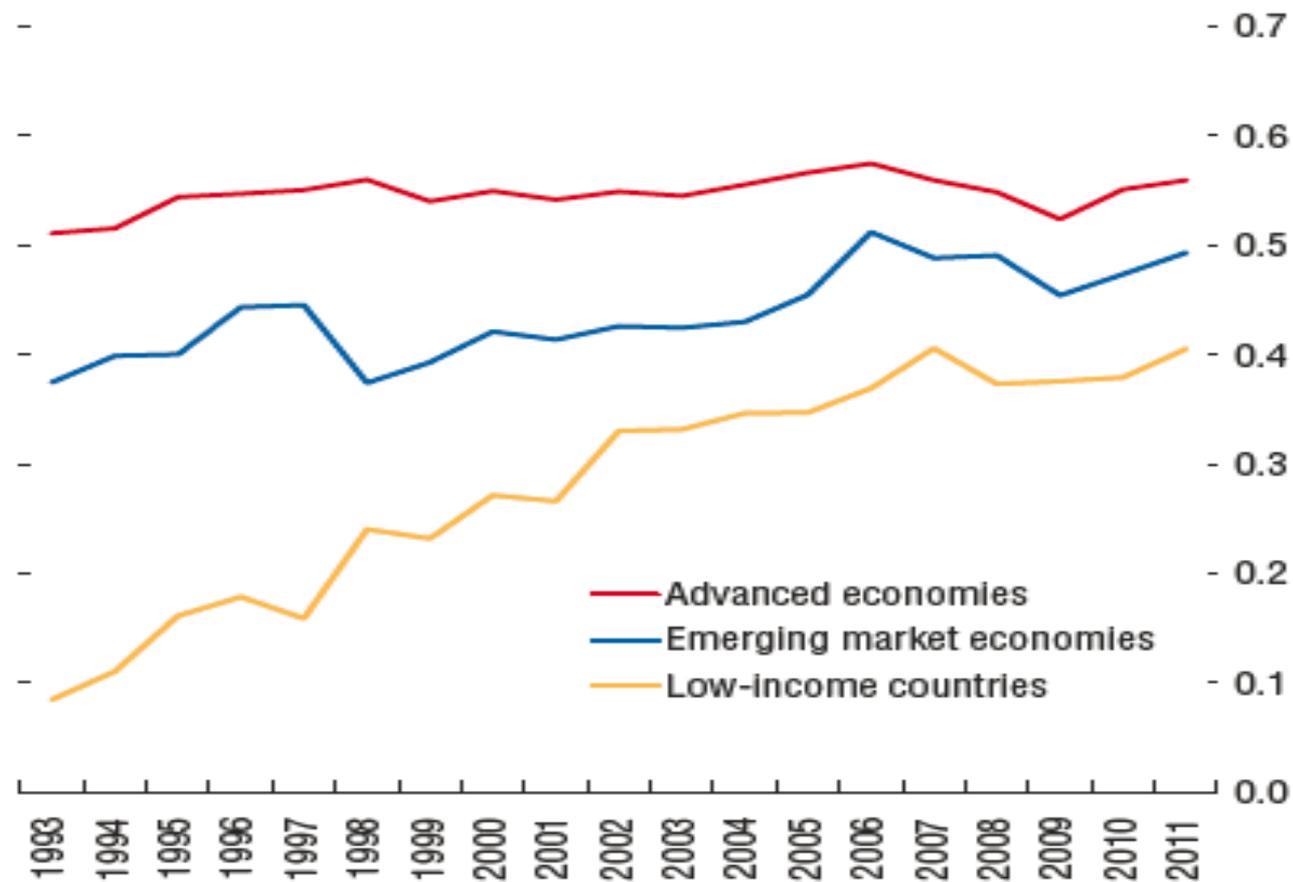
# FISCAL POLICY PRIORITIES FOR THE ASEAN-5

**Table 11. Tax Efficiency Indicators**  
(In percent)

	Philippines 1/ 2007	Indonesia 2/ 2008	Thailand 3/ 2007	Malaysia 2/ 2008	Singapore 2007	East Asia and Pacific 2008 or latest available	Low- Mid-Income 2008 or latest available	World
Total tax revenues to GDP	14	13	17	17	14	20	21	20
VAT								
Rate	12	10	7	...	7	11	16	16
Revenue share of GDP	2	4	4	2	...	5	7	6
Tax efficiency 4/	18	42	54	...	...	48	47	40
Corporate income tax								
Rate (maximum)	30	30	30	27	18	28	26	26
Revenue share of GDP	4	1	5	8	...	6	3	3
Tax efficiency	12	3	17	30	...	20	13	13
Personal income tax								
Rate (maximum)	32	30	37	28	20	29	27	30
Revenue share of GDP	2	4	2	3	...	4	3	4
Tax efficiency	7	14	6	9	...	14	10	12

## Figure 11. Trends in C-Efficiency, 1993–2011

(Unweighted averages)



Sources: IMF, Revenue Mobilization database; and IMF staff estimates.

Note: The C-efficiency ratio is defined as value-added tax (VAT) revenue divided by the product of the standard VAT rate and the VAT base (proxied by final consumption).

# Tax avoidance and evasion risks in Asia on the rise

Cross-border financial transactions are increasingly used to aggressively avoid and evade taxes

Base  
Erosion and  
Profit  
Shifting



Reducing  
Domestic Tax  
Revenues

- Developing countries lost \$5.6 trillion in illicit financial outflows in 2001-2010;
- Asia accounted for 61% of the total illicit outflows, which are illegally transferred and accumulated outside of the taxpayers' country of residence.

(Global Financial Integrity, a Washington-based NGO)

# Capacity Development Technical Assistance for EOI by ADB

## Enhancing Transparency and Exchange of Information for Tax Purposes

- To strengthen the capacity of tax authorities in the ADB Developing Member Countries that are members of SGATAR for the exchange of information for tax purposes and audit on cross-border tax evasion.

**Launched in April 2014**

- For the effective and sustainable capacity development of tax authorities, the focus has been on developing training modules, and delivering training courses targeting tax officials
  - (i) in charge of exchanging information with foreign tax authorities at their country headquarters, and
  - (ii) in charge of investigating cross border tax evasion cases at audit and investigation departments.

# Common Challenges for Asia and the Pacific

- Political leadership for strengthening tax administration: Autonomy and Resources (Philippines, Indonesia, Cambodia)
- Prevention and detection of corruption, which will improve voluntary compliance of taxpayers and donor's support
- The more use of ICT such as e-filing and e-payment, which will improve tax payer service, limit discretion and room for corruption
- Transparent taxation of foreign-owned companies, which will improve business environment and attract FDI
- International coordination to avoid harmful tax competition

## Typical advice for building Effective Tax Administrations (Vinette Keene, Fiscal Affairs Department, STI, ICD, IMF)

***A proper legal framework for tax administration*** that provides an appropriate balance between the rights of taxpayers and the powers of the tax agency.

***Efficient organizational and staffing arrangements,*** featuring strong headquarters; function-based organizational design; minimal management layers and appropriate spans of control; streamlined field operations; and organizational alignment to key taxpayer segments (e.g., a large taxpayer office); and sufficient numbers of staff assigned to each level of the organization and each function.

# Typical IMF advice cont'd

- ***A system of self-assessment*** directed at creating an environment of taxpayer voluntary compliance (thereby minimizing intrusion of revenue officials in the affairs of voluntary taxpayers, while concentrating enforcement efforts on those representing a higher risk).
- ***Streamlined collection systems and procedures*** aimed at securing timely revenues (when due) without imposing undue compliance costs and the cost of collection to the administration.
- ***Service oriented approaches*** whereby the tax administration operates as a trusted advisor and educator, ensuring that taxpayers have the needed information and services to meet their obligations voluntarily.

# Typical IMF advice cont'd

- ***Risk-based audit and other verification programs*** aimed at detecting taxpayers who present the greatest risks to the tax system, supported by effective dispute resolution programs.
- ***Extensive use of IT*** to gather and process taxpayer information, undertake selective checking based on risk analysis, automatically exchange information between government agencies, and provide timely information to support management decision making and tax policy formulation.
- ***Modern human resource management practices*** that provides incentives for high performance and high integrity among tax officers as well as develops staff competencies and professionalism.

# Typical IMF advice cont'd

- ***Effective models for ongoing institutional change***, including enhancing strategic management capabilities, building coalitions with external stakeholders, and developing an organizational culture that is receptive to change.
- ***An environment of integrity and good governance*** with transparency of taxpayer rights and appropriate staff conduct, with mechanisms to assure integrity of systems, procedures, and staff practices, and to regularly inform the public of organizational objectives, plans, and outcomes through the publication of annual reports.

# Comparative Analysis of Tax Administration in Asia and the Pacific

- ADB published *A Comparative Analysis of Tax Administration in Asia and the Pacific* in 2014.
- <http://www.adb.org/publications/comparative-analysis-tax-administration-asia-and-pacific>
- Presentation Slides on the following link:
- <https://www.imf.org/external/np/seminars/eng/2014/asiatax/pdf/Araki.pdf>

# Thank you !!

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