



PFTAC PACER Plus Talanoa

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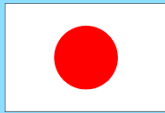


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Session 3 – Domestic Revenue Mobilization

Domestic Revenue Mobilization

Broadening the Tax Base

Strategies to Optimize VAT

Tax Expenditures

Revenue Administration

Katrina Williams – Revenue Administration Advisor PFTAC

Li Liu- Senior Economist IMF Tax Policy

Koni Ravono – short term expert - PFTAC

What is Domestic Revenue Mobilization

Definition of Domestic Revenue Mobilization (DRM)

- Process of generating income through internal sources
- Primarily involves taxation

Purpose of DRM

- Funding public services and infrastructure
- Achieving sustainable economic development

Importance of DRM

- Ensures financial independence
- Reduces reliance on external aid and loans

Components of DRM

- Effective collection of tax revenues
- Management of other domestic resources

The Importance of DRM

Financial Independence

- Enhancing tax collection reduces dependence on foreign aid and loans

Public Services Improvement

- Increased revenue funds essential services like healthcare, education, and infrastructure

Economic Stability

- Stable revenue streams contribute to economic stability and planning

Social Equity

- Well-structured tax system addresses income inequalities and ensures fair wealth distribution

Bottlenecks in Revenue Collection

Over-reliance on Fishing Revenue and Grants

- Dependence on limited sources of income
- Vulnerability to external economic factors

Lack of Reform Momentum

- Slow progress in implementing necessary changes
- Resistance to new policies and practices

Policy and Legislative Constraints

- Outdated or restrictive regulations
- Need for modernization and flexibility

Insufficient ICT Support

- Lack of technological infrastructure

Understaffed Tax Administrations

Key Strategies for Enhancing DRM

Broadening the Tax Base

- Expanding taxable activities and entities
- Increasing overall tax revenue

Enhancing Policy Frameworks

- Developing well-structured tax policies
- Promoting fairness, efficiency, and economic growth

Modernizing Tax Administration

- Utilizing modern technology
- Streamlining tax collection and management

Improving Tax Compliance

- Reducing tax evasion and avoidance
- Better enforcement and taxpayer education

Challenges in DRM

Informal Economies

- High levels of informal economic activity limit tax collection effectiveness

Administrative Capacity

- Limited capacity and resources within tax administrations hinder effective tax collection

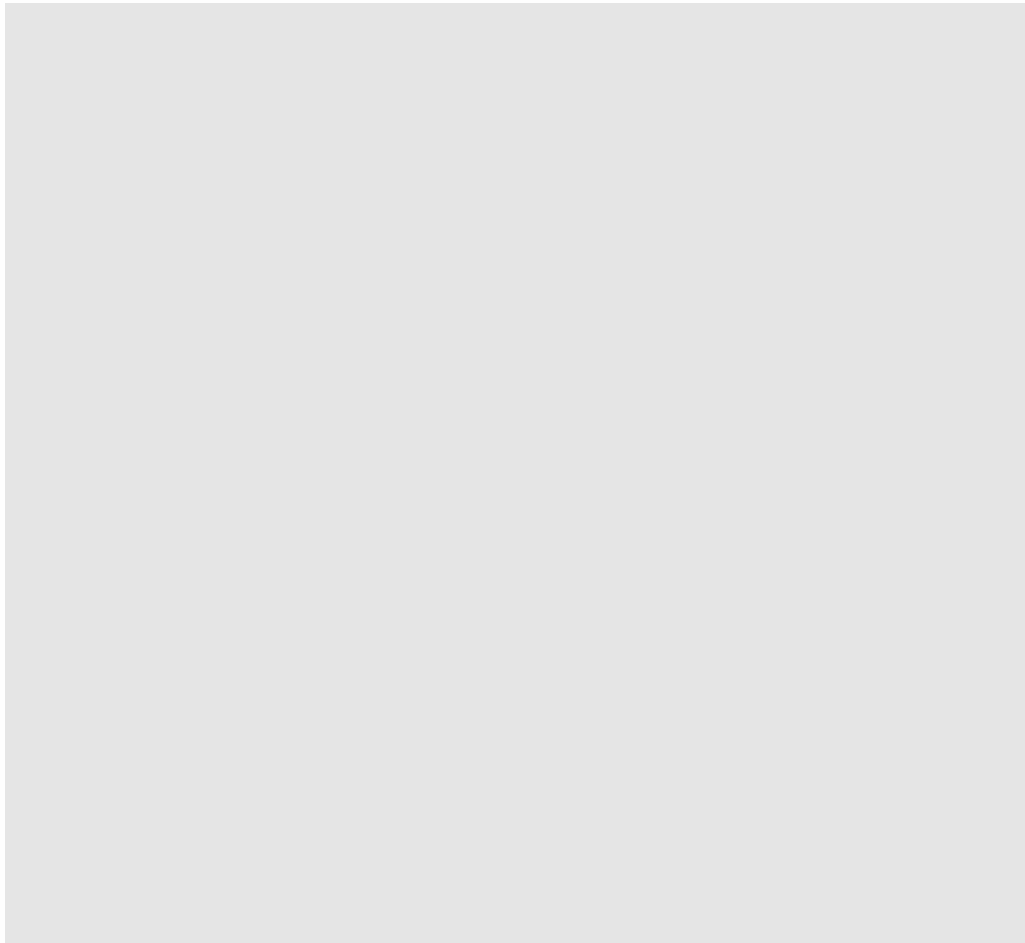
Political Will

- Success of DRM initiatives depends on strong political commitment and governance structures

Economic Fluctuations

- Economic instability affects revenue collection and forecasting

Pacific Islands Countries



Unique Context of Pacific Island Countries

- Small, dispersed populations
- Reliance on external aid

Challenges in Mobilizing Domestic Revenue

- Broadening the tax base
- Improving compliance
- Enhancing tax administration efficiency

Importance of DRM

- Critical for sustainable development
- Provides resources for public services
- Ensures economic stability

Broadening the Tax Base

Definition and Purpose

- Increasing the range of income, goods, and services subject to taxation
- Enhancing revenue collection by capturing a wider scope of economic activities
- Reducing dependency on a narrow set of taxable items

Benefits

- Distributing the tax burden more evenly
- Improving compliance by minimizing loopholes and exemptions

Importance for Pacific Island Countries (PICs)

- Unique economic challenges: small and dispersed populations, reliance on external aid, limited economic diversification
- Optimizing domestic revenue mobilization efforts
- Increasing financial independence
- Supporting public services

Efforts to Broaden the Tax Base

Improving Tax Compliance

- Reducing tax evasion

Eliminating Unnecessary Tax Exemptions

- Removing unneeded tax incentives

Introducing New Taxes

- Taxing previously untaxed sectors or activities

Enhancing Administrative Capacities

- Effective implementation and enforcement of tax policies

Creating a Resilient and Inclusive Tax System

- Supporting long-term economic growth and stability

Introducing Value Added Tax Tax Policy design elements (Li Liu)

Morning Tea

10.30-10.45

Country Exercise on VAT

At your tables

- Discuss the elements of good VAT design : How does your country compare to 'good VAT design': what areas do you do well, which could be improved?
- Prepare report back – rate your country and explain why this rating: and one thing you could do to shift rating towards '10'
- NB: on a scale of 1 to 10 where:

1 - no VAT or consumption tax: 10 - where all elements of good VAT design are in place and operating to expectation

You have 30 minutes for this table discussion

Country report backs

Place country name and rating on a sticky label

Place sticky label on the 'continuum' between 1 and 10

- Explain to the group your reasoning for that rating
- What one thing would you focus on to shift your rating towards a '10'

Thirty minutes in total for report backs.

Lunch
12-1pm

Tax Expenditures
What are they?
The Impact of tax expenditures
(Li Liu)

Country Exercise on Tax Expenditures

To be scoped

30 Minutes

Country report backs

To be scoped

30 Minutes

Afternoon Tea

2.30-2.45pm

Revenue Administration VAT Compliance (Koni Ravono)

Summary and Key Insights