IMPROVING RESOURCE MOBILIZATION AND TAX ADMINISTRATION

In the Road Map towards the implementation of the UN Millennium Declaration, it is clearly pointed out that the mobilization of domestic resources, is the foundation for self-sustaining development. Domestic resources finance domestic investment and social programmes which are essential for economic growth and for eradicating poverty. In this context, a sound fiscal policy, responsible social spending and a well functioning and competitive financial system are the elements of good governance that are crucial to economic and social development. Strategies for moving forward include, inter alia, disciplined macro-economic policies and fiscal policy, including clear goals for the mobilization of tax and non-tax revenues and responsible public spending on basic education and health, the rural sector and women.

The Monterrey Consensus adopted at the International Conference on Financing for Development has recommended, inter alia, that developing countries and economies in transition should set up an effective, efficient, transparent and accountable system for mobilizing public resources and managing their use by Governments as also emphasized the need to secure fiscal sustainability, along with equitable and efficient tax systems and administration, as well as improvements in public spending that do not crowd out productive private investment.

Developing countries and countries with economies in transition are currently confronting unsustainable fiscal deficits, unabating debt service charges, and declining assistance seriously affecting their development process. It would be in their interest to overhaul the strategies of domestic and external financial resources mobilization through tax and non-tax instruments that are fair, equitable and create minimal disincentives for economic efficiency, and initiate tax reforms to simplify and rationalize the tax structure. The non-tax revenues include social security contributions, grants from foreign governments and international organizations, property income, interest, dividends from state enterprises, rents from government property, fines, penalties and forfeits and sale of goods and services. There should be greater emphasis on improving the efficiency and effectiveness of the revenue administration, strengthening the institutional framework, selection of taxes and duties which are administratively feasible and lend to realistic collections, widen the tax base and progressively integrate the “informal” sector into the mainstream of the national economy.

A good tax system should generate revenue increase in line with nominal growth of GDP and without frequent changes in tax rates. That makes it predictable for both the administration and the business community. This a particular issue in developing countries and economy in transition where the GDPgrowth may be led by a growing informal sector, which is hard to reach and not fully monetized. In addition most workers are employed in agricultural and/or small enterprises in informal sector where payment is rarely regular or book-recorded.

In the context of international economic relationships, there should be increased stimulus to finalize bilateral tax treaties, protect the interests of national revenue from the adverse effects of operation of electronic commerce, transfer pricing mechanisms, non-cooperative tax jurisdictions and other tax shelters and secure legitimately due tax revenues from income attributable to the new and innovative financial instruments, but avoid harmful tax competition.

It was considered that while the evidence of the quantitative impact of globalization on public revenues is still limited, there are indications that it may reduce tax revenues due to increased tax competition among jurisdictions to attract foreign direct investment, exponential growth in electronic commerce, increased mobility of factors of production, and growing importance of off-shores and non-cooperative tax jurisdictions. The fall in revenues might further aggravate the problem of budgetary deficits of fiscally-stretched economies.

Governments in developing countries and economies in transition which wish to undertake fiscal reforms should also take into account the concomitant tax administration reform, since weak tax administration will make it difficult to achieve the objectives of overall fiscal reform. Tax administration reform should encompass the re-definition of fiscal relationships, and the adaptation, as appropriate, of the organizational structure of tax methods and administration procedures. The organizational structure should be such as to enable the tax administration to achieve the highest possible degree of voluntary taxpayer compliance, and to administer the tax laws efficiently, effectively and fairly, with the highest degree of integrity.

A desirable tax reform should not introduce changes in relative prices and should leave the allocation of resources undisturbed. This is achievable by broadening the tax base and keeping tax rates as uniform as possible. It should be noted however that most tax administrations lack adequate resources to function in an efficient manner whereas most of taxpayers have limited capacity to keep accounts. That has led the tax administration to opt for the least resistant business and fast identifiable that are overtaxed and therefore creating an incentive for tax evasion and corruption. That raises not only an issue of efficiency but also a matter of equity.

. It is commonly held that tax policy and tax administration are intrinsically linked. In this interrelationship, however, formulation of tax policy is generally seen to precede tax administration. This is because only when a tax structure is legislated does tax administration come to play its role in the implementation of the tax law. In developing countries and economies in transition, however, the direction of the link may not be quite so apparent. Indeed, it has been observed that in developing countries tax administration *is* tax policy. This would imply that, however fine the design of the tax structure might be in a representative developing country, it is the manner of interpretation and implementation of the law that counts. These elements reflect the need for adequate capacity of the tax administration in place to implement the law.

In many developing countries, tax laws themselves may be extremely well designed and detailed. But unless the accompanying tax administration is able to handle those laws in terms of having the appropriate staff to interpret and implement them, the field level reality of the actual incidence of the tax system may be quite different from the original objectives. The taxes may be passed on to those on whom they are not meant to fall, and the distribution of the burden may turn out to be indiscriminate.

A successful tax administration reform includes among others two conditions: a political commitment and a well trained and dedicated tax staff. As regard to the political commitment, it is worth to note that interest groups of taxpayers may make it hard to reform a tax system that will increase (or make accurate) their tax burden. It is also important to find the appropriate incentives for taxpayers and tax administrators. These incentives should go along with measures that minimize the cost of tax compliance and establish procedures for detecting violations and electing appropriate penalties.

. While dealing with the question of the impact of tax policy on tax administration in developing countries and economies in transition, it is not as though the design of tax policy in developed countries does not affect its administration. The complexity in their tax structures has necessitated increasing international cooperation on exchange of taxpayer information, transfer pricing and arms length rules, and attempts at the development of harmonized rates, accounting rules and executive statutes and action[1]. Thus, the design of tax policy is of paramount importance for tax administration. If efficient and feasible administration is an objective, the structure of all taxes should comprise common elements: low rates, few nominal rates, a broad base, few exemptions, few incentives, few surcharges, few temporary measures; and where there are exceptions, clear guidelines. This is because a simple tax structure induces better tax administration.

………….

[1] International Fiscal Association (1996): " *Visions of the Tax Systems of the XXI Century"* 50th Congress in Geneva, Kluwer, *The Hague*