

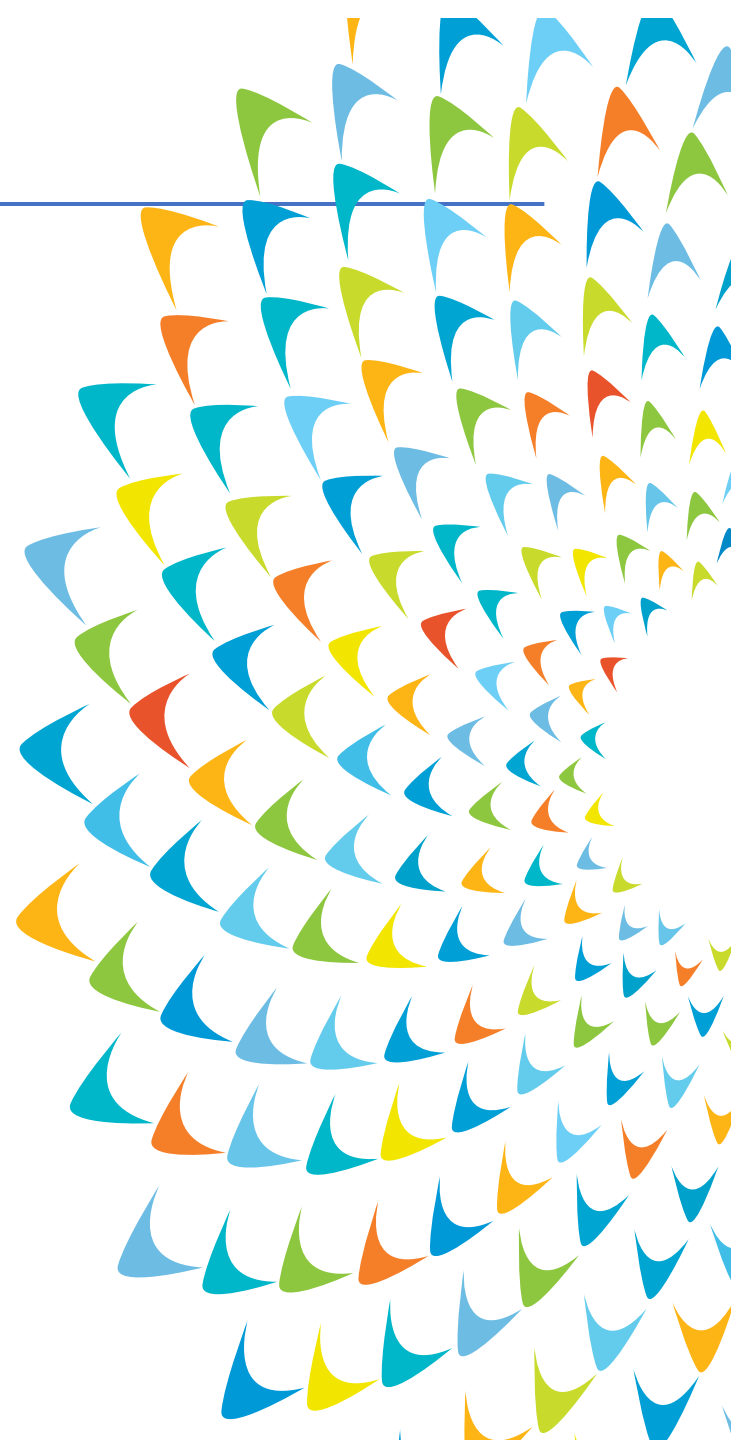


Collecting More

The 9th Tokyo Fiscal Forum: Strengthening Public Finance by
Collecting and Spending Transparently and Efficiently

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5 June 2024





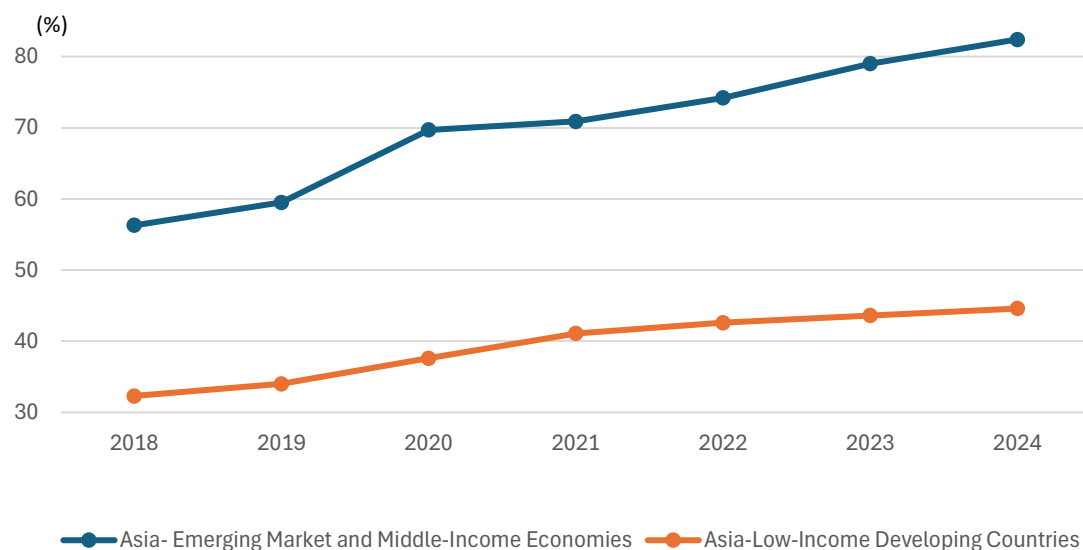
How to measure the tax potential: Overview of tax revenue in Developing Asia



Present Challenges Across Public Finance

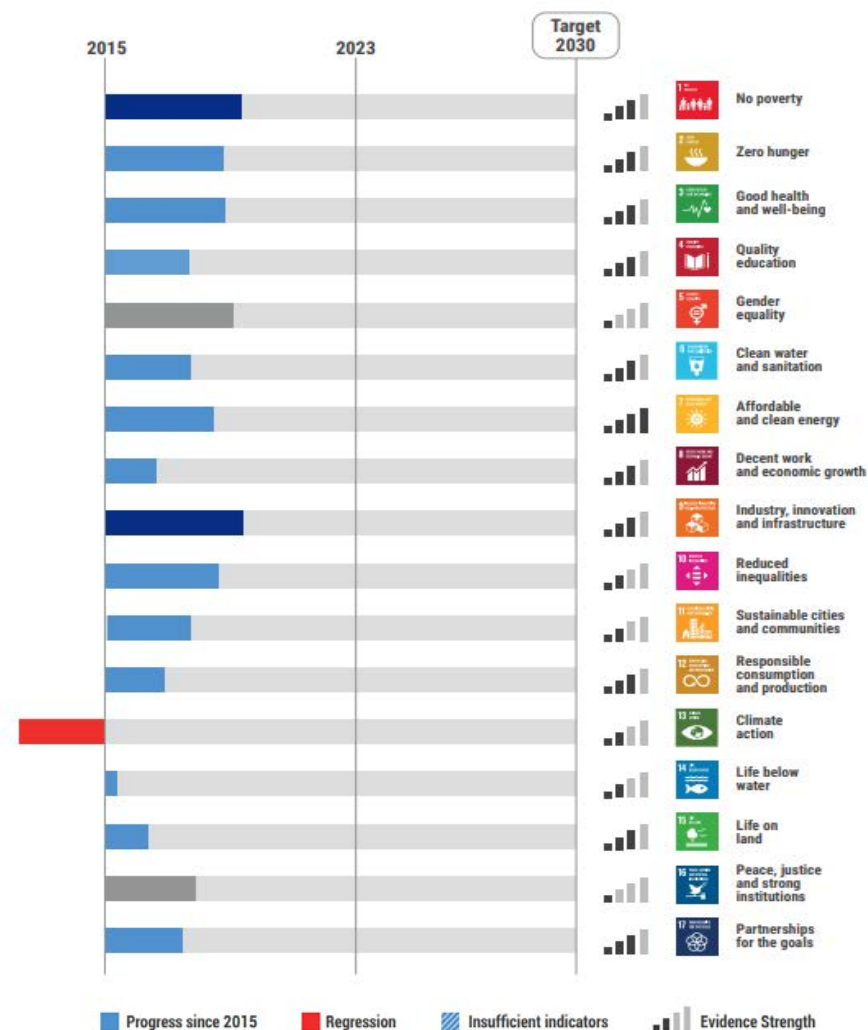
- ❑ High and rising debt-to-GDP ratios (Figure 1)
- ❑ Meeting developmental expenditures without risking debt sustainability
- ❑ Poor performance of meeting SDGs (Figure 2)

Figure 1: Debt to GDP, 2018-2024



Source: IMF Fiscal Monitor April 2024

Figure 2: Snapshot of SDGs progress in Asia and the Pacific, 2021



Source: Asia and the Pacific SDGs Progress Report 2024, UNESCAP



Overview of Tax Revenue in Asia and the Pacific

- ❑ Generally low tax-to-GDP ratios and volatile (Figure 3).
- ❑ Many economies fall short of 15 % threshold (Figure 4).
- ❑ Significant gaps exist in PIT and property taxes (Figure 5).

Figure 3: Tax to GDP in developing members and OECD, 2017-2021

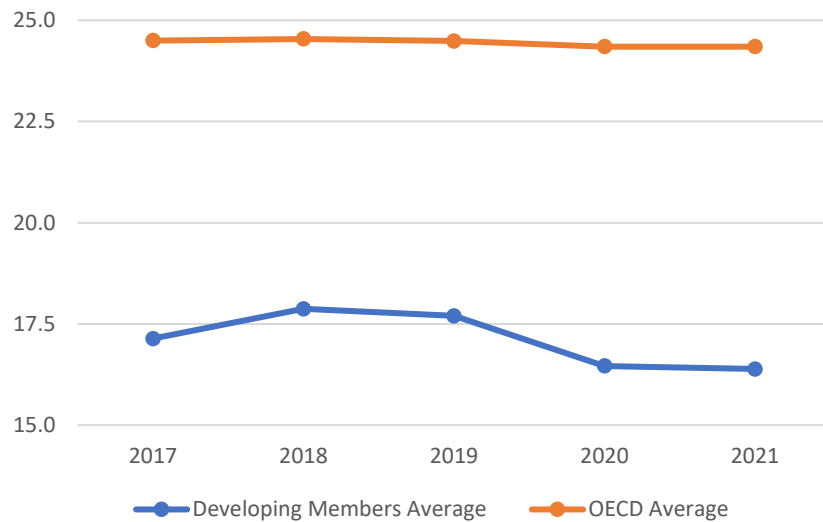


Figure 4: Tax to GDP in developing members, 2021

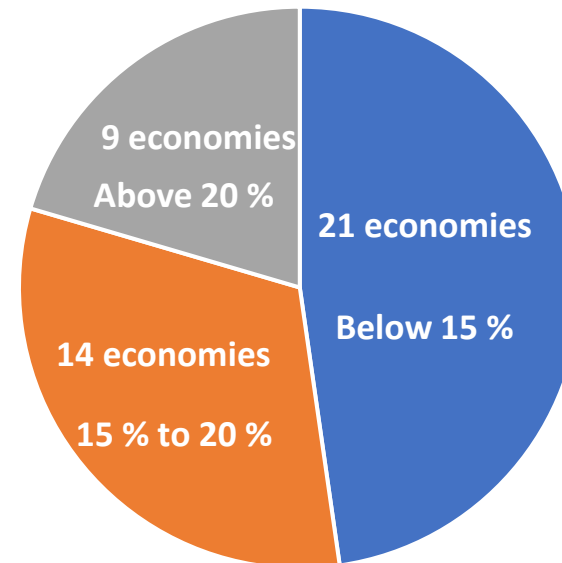
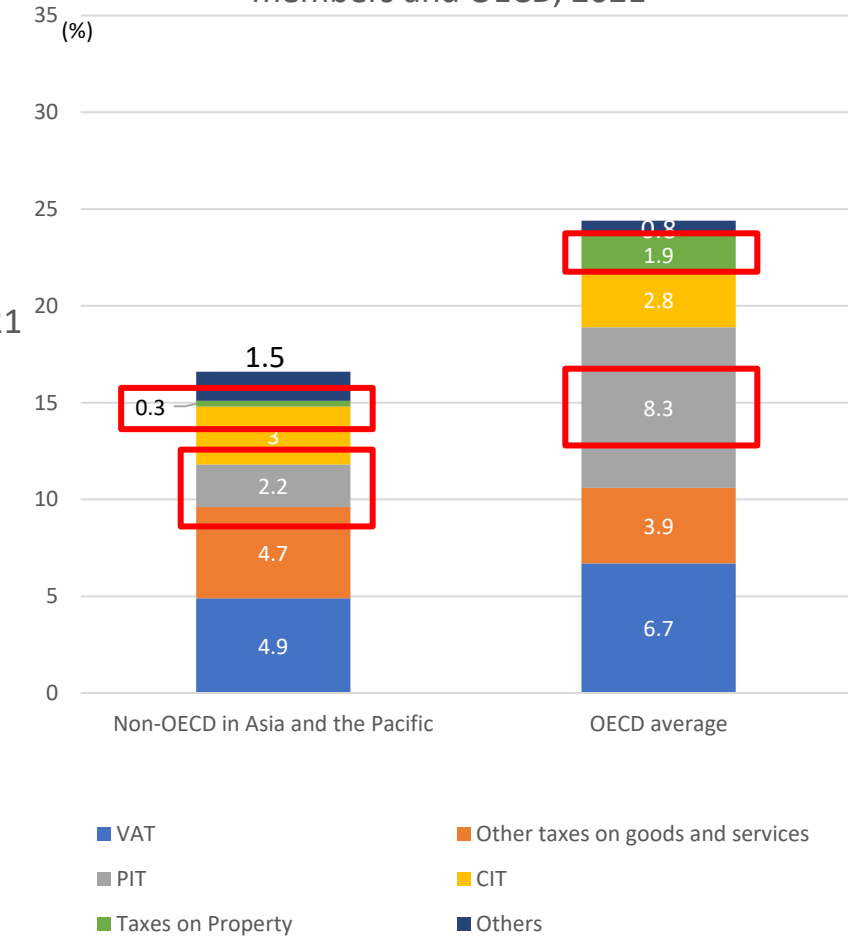


Figure 5: Tax Structure of developing members and OECD, 2021



Note: In terms of OECD average, FY 2020 data is used for FY 2021 due to the data unavailability. Data do not include Social Security Contribution.
Source: ADB staff estimates based on ADB Key Indicators Database (Accessed 31 May 2024), OECD Global Revenue Statistics Database (Accessed 31 May 2024), IMF Article IV Staff Report.

Notes: The averages for Non- OECD in Asia and the Pacific (25 economies) and the OECD (38 countries) are unweighted. 2020 data are used for OECD average. VAT: Value Added Tax, PIT: Personal Income Tax, CIT: Cooperate Income Tax.
Source: OECD Global Revenue Statistics Database (Accessed 31 May 2024)



Challenges and opportunities for strengthening tax capacity in Asia and the Pacific



Challenges and Opportunities for Improving Revenue Efforts

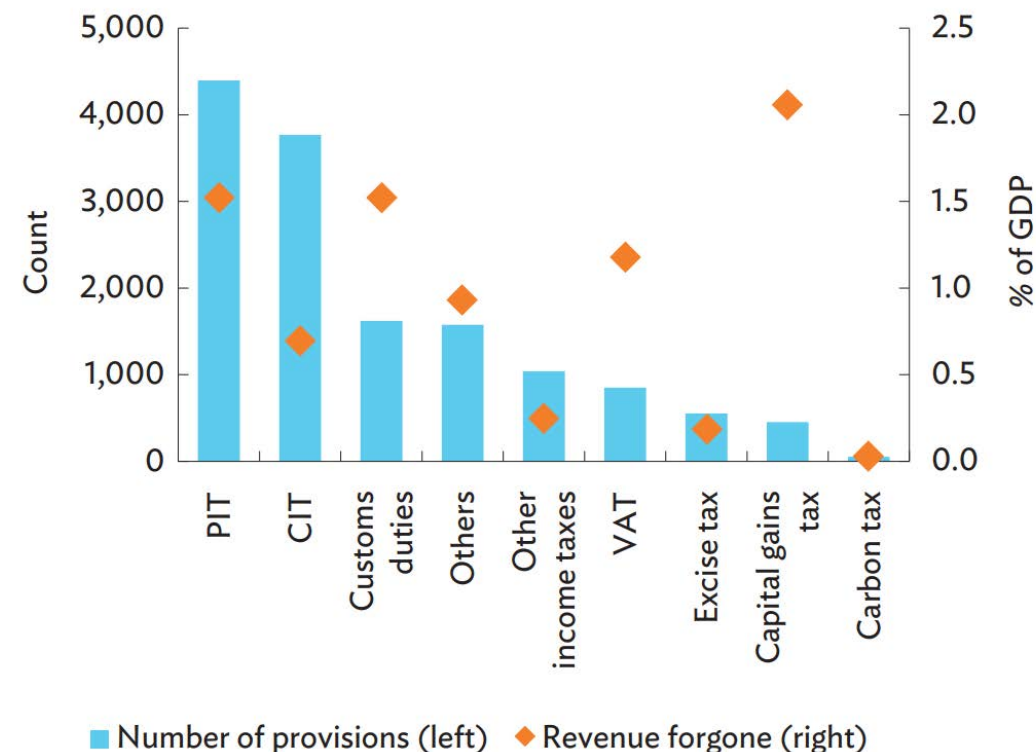
- ❑ Rationalizing tax expenditure to optimize revenue forgone.
- ❑ Addressing the informal sector through more effective ways to tax economic activities.
- ❑ Digital transformation is imperative to revenue efforts.
- ❑ Leverage property taxes to provide more source of revenue to municipalities.
- ❑ Promote international tax cooperation to capture revenue from digitalization of economic activities.



Rationalizing tax expenditure to optimize revenue forgone

- ❑ Tax expenditures can be costly (the global average over the 1990-2020 period is 3.8 per cent of GDP). ¹
- ❑ PIT, VAT, and Customs account for significance share of revenue forgone in the selected economies in the Asia and Pacific (Figure 6).
- ❑ Customary to give tax holidays in Asia and the Pacific region. ²
- ❑ ADB supports estimation of the amount of revenue forgone to increase transparency of tax expenditure. ³

Figure 6: Number of provisions and average revenue forgone, by tax base (level 2, 1990–2020) –Selected Asia and the Pacific Economies ⁴



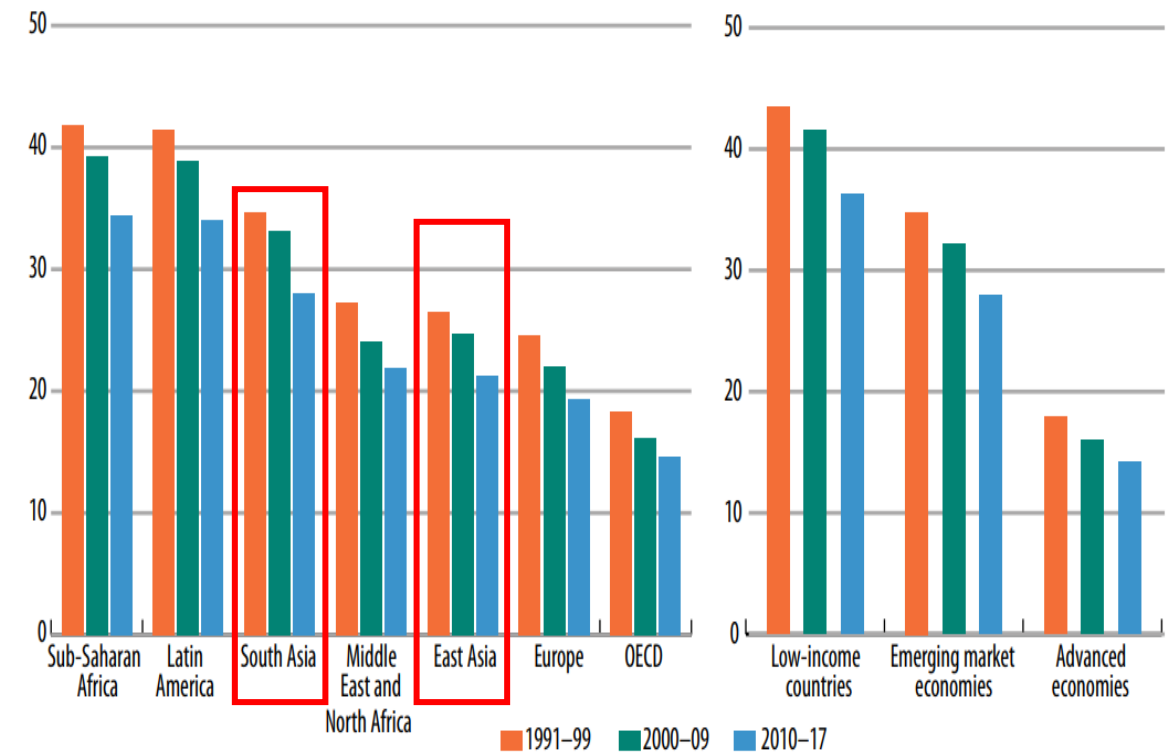
CIT = corporate income tax, GDP = gross domestic product, PIT = personal income tax, VAT = value-added tax.
Notes: Latest available data for both revenues forgone as a percentage of GDP and tax are 2018 for Bhutan, India, and Mongolia.
Estimates for panel (a) include Armenia, Australia, Bhutan, India, Indonesia, Kazakhstan, Mongolia, New Zealand, Pakistan, Papua New Guinea, the Philippines, the Republic of Korea, and Sri Lanka.



Addressing the informal sector through more effective ways to tax economic activities

- ❑ Still accounts for about one-third of low- and middle-income countries' economic activity (Figure 7).
- ❑ Undermines tax collections; reducing the shadow economy is associated with higher tax collections. ¹
- ❑ High priorities in the half of revenue bodies in ADB's developing members. ²
- ❑ Requires simple tax policy design and incentives, integrated compliance risk management (CRM) strategies, and the use of ITC. ^{1,3}
- ❑ CRM approach is emerging areas in ADB's developing members; one third do not have comprehensive CRM approach. ²

Figure 7: Size of the informal economy by region and by income level (as percentage of GDP). ⁴





Digital transformation is Imperative to Revenue Efforts

- ❑ Revenue bodies in ADB's developing members continue to expand their use of technologies but are still behind OECD economies (Figure 8).
- ❑ Some of them may simply need more ICT expenditure (Figure 9).
- ❑ Need to think beyond technology; Legal framework, business process, staff capacity development, etc.
- ❑ The government should develop strategy and roadmap. International benchmarking and gap analysis is instrumental. ¹

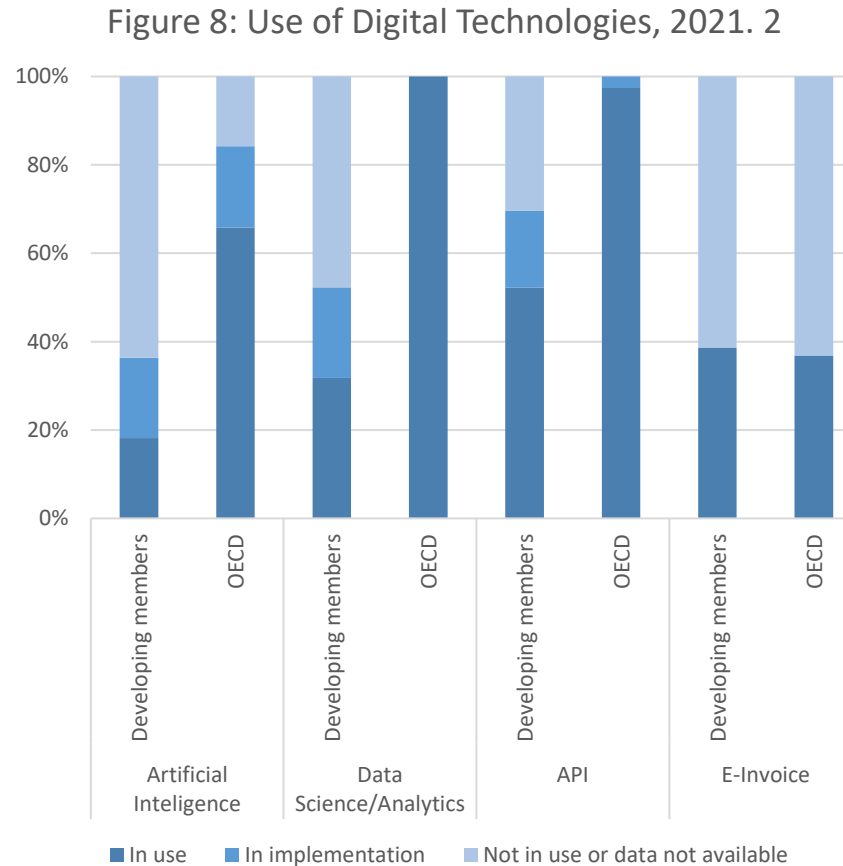
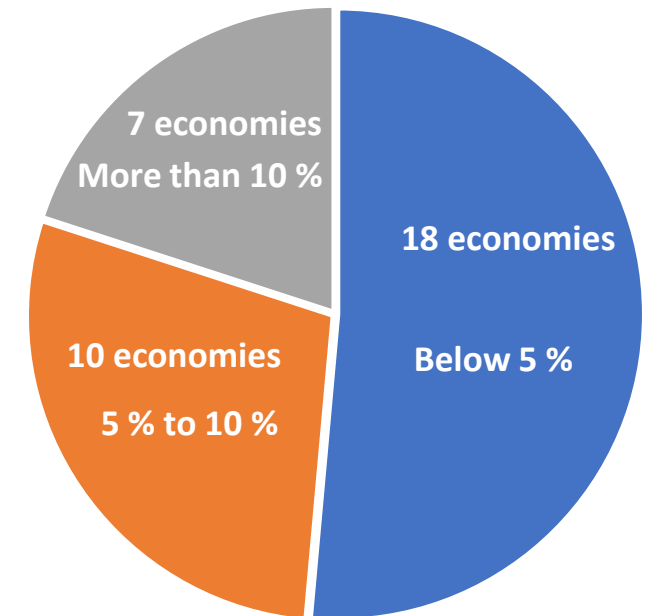


Figure 9: ICT expenditure in the Asia and Pacific (% of total expenditure of tax administration) ²





Leverage property taxes to provide more source of revenue to municipalities

- ❑ Recurrent taxes on immovable property represent a significant portion of local governments' revenue. ¹
- ❑ The performance are low in many of ADB's developing members (Figure 10).
- ❑ Reforms require comprehensive approach, i.e. across administration (coverage, valuation, collection) and policy (tax base, liability assessment). ²
- ❑ Use of technology is an integral part of property tax management.

Figure 10: The use of recurrent tax on immovable property in Asia and the Pacific (% of GDP) ³

More than 1 % (4)	Between 0.5% to 1% (2)	Less than 0.5 % (11)
Australia, Japan, Korea, New Zealand	Georgia, Singapore	<u>Bhutan</u> , Cambodia PRC, Indonesia Kazakhstan, Kyrgyzstan, Lao PDR, Mongolia, Philippines, <u>Thailand</u> , <u>Viet Nam</u>

Note: percentage of the economies underlined are less than 0.1 percent.

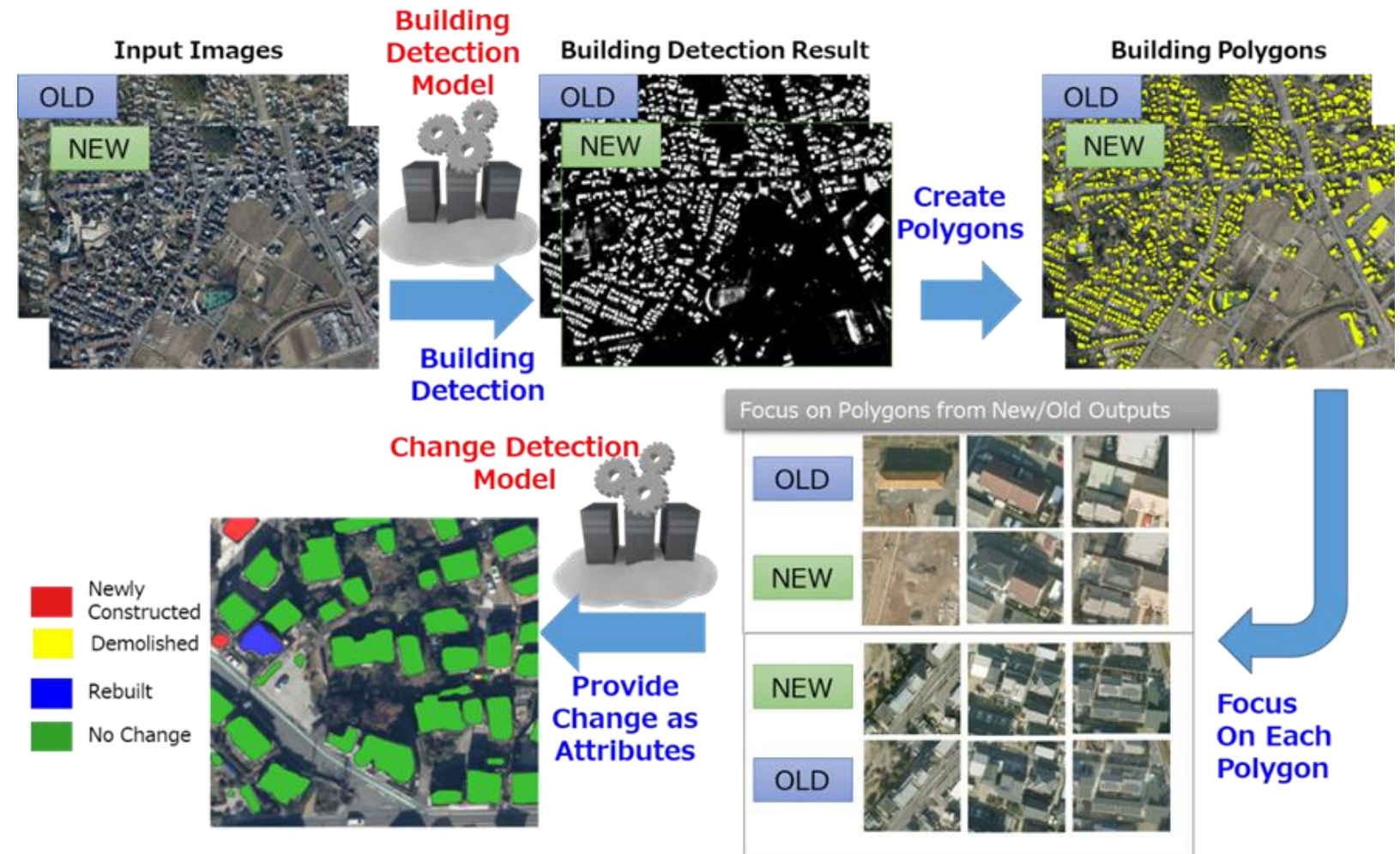


Satellite Based Technology and AI potentially provide cost effective solution

Satellite Based Technology and AI would

1. remotely monitor property status with minimum/targeted on-site visit survey;
2. provide automatic tracking of changes of property developments with minimum manual investigations;
3. reduce risk of human errors and improve institutional integrity; and
4. compare the actual property tax revenue with a model of the potential tax yields.

Figure 11: Use of Satellite Based Technology and AI





Promote international tax cooperation to capture revenue from digitalization of economic activities

- ❑ The Asia Pacific region is center of glowing digital economy; accounting for 48% of digital platform revenues. ¹
- ❑ Implementing Two-Pillar Solution and safeguarding the revenue from VAT against cross-border supplies of goods and services are essential to address the tax challenges arising from digitalization of the economy.
- ❑ Effective use of the information exchanged remains critical for tax authorities to tackle international tax evasion.
- ❑ Participation of ADB's developing members in global taxation efforts is lagging (Figure 12).

Figure 12: Progress on implementation of tax integrity standard by 46 ADB Developing Members ²

	Global Forum (GF)	BEPS IF
AS AT OCT 2016	20	11
AS AT NOV 2023	29	23
SUMMARY	17 are not GF members	23 have not joined BEPS IF

Note: BEPS = Base erosion and profit shifting, Global Forum = Global Forum on Transparency and Exchange of Information for Tax Purposes, IF= Inclusive Framework,
Source: OECD



Collaborations with governments and development partners

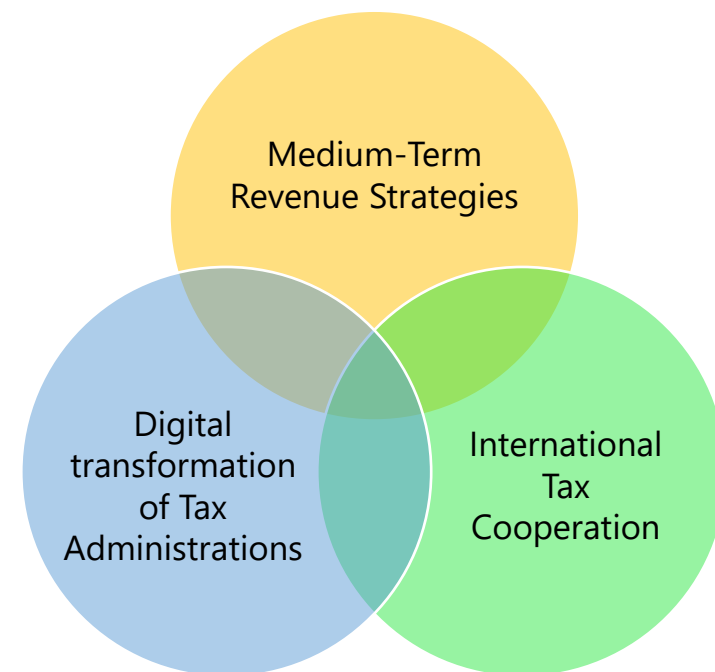


ADB Initiatives

Asia Pacific Tax Hub (APTH)

- Officially launched in May 2021 as an open and inclusive platform for:
 - Strategic policy dialogue
 - Knowledge sharing and capacity building
 - Development coordination among ADB, its members, and development partners.
- Three main areas that APTH primarily highlights to support our developing member countries:
 - Medium-Term Revenue Strategies and related initiatives
 - Digital Transformation of Tax Administrations
 - International Tax Cooperation (ITC).

Figure 13: APTH Three Key Building Blocks



Source: [Asia Pacific Tax Hub](#)



Collaboration on Knowledge and Capacity Building (2021-2024)

Knowledge sharing with partners, international finance institutions, bilateral revenue organizations, and DMCs in Asia and the Pacific

5,812

Participants

47

DMCs and Jurisdictions

57

Capacity Building Events
(2021-2023)

**ADB-WB Tax and
Digital Transformation
(2021)**

233 Attendees
Partner: WB

**VAT Digital Toolkit for
Asia and the Pacific
Virtual Workshop (2021)**

Webinar: 140 attendees
Partner: OECD, WBG

**Joint Event with WBG
on Tax and Digital
Transformation (2022)**

127 Attendees
Partner: WBG

**Workshop on Digital
Transformation
Maturity Model
(2023)**

76 attendees
Partner: OECD

**Training Workshop on
International Taxation
and Extractive Sector
(2023)**

60 Attendees (38 DMCs)
Partners: OECD, IGF

**PCT-ADB Joint Virtual
Seminar 1: Medium-
Term Revenue (MTRS)
Recovery and
Development in Asia
(2021)**

199 Attendees
Partner: IMF

**PCT-ADB Joint Virtual
Seminar 2: Medium-
Term Revenue Support
(MTRS) Recovery and
Development for Small
States in AP (2021)**

269 Attendees
Partner: IMF

**Workshop on
International Survey on
Revenue Administration
(2023)**

50 Attendees (19 DMCs)
Partner: OECD

**Workshop on
Strengthening Property
Tax Management
(2023)**

41 Attendees (10 DMCs)
Partner: Japan

**Strategic Workshop:
Innovative Tax
Administration (2023)**

90 Attendees (25 DMCs)
Partners: NTA, ADBI,
IMF, OECD, WBG, KDI,
JICA, SGATAR

**TADAT Workshop for
SGATAR and ADB
Members (2024)**

54 attendees (33 DMCs)
Partners: NTA, IMF, the
TADAT Secretariat, WBG

ADB

HIGH-LEVEL REGIONAL TAX
CONFERENCE 2023



6-7 November

150 Registered attendees
(44 Economies)



Building a Foundation for Reform Agenda in a Collaborative Manner

Cooperation on survey, benchmarking and gap analysis and diagnosis would facilitate (i) communication among the stakeholders, (ii) a shared view on the condition of the tax system and (iii) collaborative approaches in building a reform agenda.

ADB's experiences in TADAT



TADAT serve as an effective platform among development partners and the governments for information and knowledge sharing, capacity building, and development coordination.

Pakistan

Policy Based Lending (Improved Domestic Resource Mobilization Reform Program) is facilitating implementation of TADAT recommendations

- ❑ Ongoing tax reform initiatives are crystalized in preparing the TADAT Performance Assessment Report.
- ❑ “One Team” approach helped develop strong ties
- ❑ Led to more empowered staff in tax administration.
- ❑ The impact of this initiative can be assessed through repeat TADAT assessment after 4-5 years.

Bhutan and Maldives

The outcome of TADAT assessments provide inputs for **the Medium-Term Revenue Strategy** and **Policy Based Lending** will facilitate its implementation

Cambodia, Sri Lanka and Fiji

ADB supported implementation of TADAT recommendations using ADB's TA and the Domestic Resource Mobilization Trust Fund.



Thank you

