Improving Domestic Revenue Mobilization in Lao PDR

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TABLE OF CONTENTS

LIST OF CHARTS

LIST OF FIGURES

LIST OF TABLES

ABBREVIATIONS

ADB	- Asian Development Bank
AfDB	- African Development Bank
BCEL	- Banque Pour Le Commerce Exterieur Lao Public
BEPS	- Base Erosion and Profit Shifting
CIF	- Cost Insurance and Freight
CIT	- Corporate Income Tax
CRS	- Computer Reservation System
CSIS	- Center for Strategic and International Studies
DRM	- Domestic Resource Mobilization
ECDPM	- European Centre for Development Policy Management
EU	- European Union
FDI	- Foreign Direct Investment
FMIS	- Financial Management Information System
GDP	- Gross Domestic Product
GoL	- Government of Laos
ICT	- Information and Communication Technology
IFC	- International Finance Corporation
IMF	- International Monetary Fund
IT	- Information Technology
JICA	- Japan International Cooperation Agency
LAK	- Laotian Kip
Lao PDR	- Lao People Democratic Republic
LDC	- Least Developed Country

LICs	- Low-Income Countries
LTU	- Large Taxpayer Unit
MTRS	- Medium Term Revenue Strategy
NSEDP	- National Socio-Economic Development Plan
ODA	- Official Development Assistance
OECD	- Organization for Economic Cooperation and Development
PERs	- Public Expenditure Reviews
PFM	- Public Finance Management
PHC	- Population and Housing Census
PIT	- Personal Income Tax
POS	- Point of Sale
SDGs	- Sustainable Development Goals
SOEs	- State-Owned Enterprises
TA	- Technical Assistance
TaxRIS	- Tax Revenue Information System
TIN	- Tax Identification Number
TSDP	- Tax Strategic Development Plan
UNCTAD	- United Nations Conference on Trade and Development
UNECA	- UN Economic Commission for Africa
USAID	- United States Agency International Development
USD	- United States Dollar
VAT	- Value Added Tax
WB	- World Bank

ABSTRACT

How can a developing country like Lao PDR enhance domestic revenue collection to fund its vast development needs to support the National Socio-Economic Development Plan and to graduate from the Least Developed Country (LDC) status. Some of the key solutions of this question can be revealed by analyzing and assessing historical data and tax reform experiences in Lao PDR. Some recommendations stand out through Lao circumstances: (1) high management commitment and involvement of key stakeholders are vital importance to support tax reforms to achieve revenue collection goals; (2) continuously pursuing both existing tax policy and revenue administration tend to see much larger and constant gains in the medium and long run; and a successful strategy often starts with public finance management reform measures with immediate effect to build momentum. These can include: simplifying the tax revenue system; keeping in check exemptions, tax incentives and tax holidays; continuously modernizing the tax system; better managing compliance risks through taxpayer segmentation, beginning with strengthening the large taxpayer units (LTUs). In addition, a comprehensive reform strategy should include a medium-term revenue strategy, which can help to properly sequence reform measures and facilitate their implementation.

Keywords: domestic revenue mobilization, tax revenue, tax policy, tax administration, tax reform, and public finance management.

1. INTRODUCTION

The domestic revenue mobilization through taxation reforms is central to Lao PDR to finance social and economic development. Enhancing tax reform is essential to ensure the needs for improvement in the future of tax administration and ensure that tax revenue collection increases to GDP (at a level of 16-18 percent of GDP) as well as to support the macro-fiscal objectives of the Government and the National Socio-Economic Development Plan. Since, domestic revenue collection in Lao PDR was in downward trend compared to GDP in the recent years. Tax collection in such low levels, puts aspirations of enhancing tax revenue mobilization in Lao PDR, including not least putting obtainment of the Sustainable Development Goals (SDGs) at risk. The crucial need to mobilize additional domestic resources is heightened by the uncertain prospects for Official Development Assistance (ODA) and the currently rising trend of public debt in Lao PDR. Against this background, reinvigorating efforts to mobilize domestic revenues will be central to the government's efforts to maintain macroeconomic stability, while making progress in addressing the country's pressing development needs. Tax revenue mobilization, also, aiming at increasing tax collection with the effort to achieve the goals and objectives mentioned in the Public Finance Development Strategy as well as the Tax Strategic Development Plan is of critical importance for Lao PDR.

This paper uses historical fiscal data, public finance, tax policy and tax administration measures and reforms taken in Lao PDR from 2002-2018 and other countries' experiences to analyze and assess how domestic revenue mobilization is influenced through those reform strategies and measures. Causality cannot reliably be inferred given the lack of additional data related to micro-evidence in Lao PDR during the study period. Therefore, further extension to deeper study and analysis by using different tools and techniques may be needed. The research focus on how to enhance tax revenue collection to finance the vast the national socio-economic development requirements by analyzing and assessing the strategies and measures have been taken by the Government of Lao PDR in those periods.

By analyzing and assessing what worked in Lao PDR, the author draws broad lessons what strategies other low-income countries or developing economies could consider. Precisely speaking, there is no one-size-fits-all approach, however, one can hope to find in the experiences broad and potentially generalizable features that appear to have contributed to considerable revenue increases. The goal of this paper is, therefore, to encourage policymaking to continue to consider substantial taxation reforms and support them in doing so, by sharing other country experiences in achieving large tax revenue increases. The high level-management commitment and involvement of key stakeholders, and comprehensive implementation of the strategies related to tax reform should be in place in order to achieve the goal and objectives of rising tax revenue to GDP in the future.

The rest of the paper is organized as follows. The paper looks at various literature reviews and case studies of enhancing domestic revenue mobilization. Then it looks into a general background of the Lao economy and public finance development. In addition, the paper assesses the key taxation and reforms measures under previous and existing reform strategy which led to large revenue gains, and what needs to be done to further improve domestic revenue mobilization. Consequent upon assessing tax revenue development and existing reform strategy and measures, the paper concludes by highlighting some key lessons learned for this scoping exercise and then provides some recommendations by deepening ongoing reform measures, and drawing lessons learned from case studies.

2. Literature Review and Case Studies

2.1 Concept of domestic revenue mobilization

Domestic resource mobilization (DRM) refers to the generation of government revenue from domestic resources, from tax or non-tax resources (royalties, licenses, levies or other income).[2] DRM creates additional space to sustain budgetary expenditures, fosters ownership and reduces reliance on external aids. When assessing DRM, both the volume of revenue (e.g. tax to GDP ratio) and the content and fairness of tax policies (e.g. to avoid distortions and inequity) must be considered).

The ability to collect taxes is a key concern of economic policymakers in several countries.[3] Many studies have shown that while some countries exhibit marked increases in their tax-to-GDP ratios, others indicate no increase in their ratios over extended periods. Greater domestic revenue mobilization is critical for many countries, and especially in developing countries, enhancing the mobilization of tax resources is integral for governments to create fiscal space to fund public investment and deliver public services. Enhancing tax revenue collection is therefore at the top of agendas of policymaking in many countries. In recent years, many governments and multilateral institutions have shown wider and renewed aspirations for enhancing tax revenue capacity, originating in the recognition that tax revenue capacity is at the core of state building and development. The importance of building tax revenue capacity was called on by many international organizations to monitor revenue mobilization efforts.

Financing for development on issues in domestic public resource mobilization and international development cooperation were core issues which were discussed in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development (see Note of Trade and Development Board on Intergovernmental Group of Experts on Financing for Development in the first session by the UNCTAD Secretariat, 2017). Center for Strategic and International Studies (CSIS) (2016) also discusses domestic resource mobilization (DRM) and public finance management (PFM) by exploring several facets of domestic resource mobilization and examining the interaction between DRM and PFM. The results show that DRM is commonly defined as the mix of financial resources available to a government to finance its operations, including direct and

[2] European Commission, *"Domestic Resource Mobilization"*: ec.europa.eu/euopeaid/financing-development/domestic-resource-mobilization_en. accessed November 14, 2019.

[3] Akitoby et la. (2018)" Tax Revenue Mobilization Episodes in Emerging Markets and Low-Income Countries: Lessons from a New Dataset" Working Paper, International Monetary Fund.

indirect taxes, other revenue, and borrowing from local capital markets. This series of policy platforms is primarily concerned with the tax or domestic revenue side of DRM and these two subsequent platforms explore to how good PFM impacts DRM and the political side of DRM by examining tax system reform and the role of donors. Donors have long provided assistances for tax reform, however, since the adaptation of the Millennium Development Goals in the 2000s, donor and recipient countries have increasingly placed local resources at the central of efforts to tackling development challenges. This conversation has obtained vital importance in last five years as international communities adopted the more ambitious Sustainable Development Goals in 2015, which aim to get rid of extreme poverty by 2030.

The European Centre for Development Policy Management (ECDPM) (2011) discusses fiscal challenges and development opportunities about key questions on domestic resource mobilization. Although the question of domestic resource mobilization (DRM) has never been of the development agenda, not least in developing countries, it is increasingly the emphasis on renewed favor from developing and developed economies alike. This is especially so since the Monterrey Consensus (2002) and Doha Declaration on Financing for Development (2008), which highlight the requirement to foster sustainable and efficient mechanisms to generate public domestic resources in developing countries, through tax policy in particular. As further illustration, the Organization for Economic Cooperation and Development (OECD), the African Development Bank (AfDB) and UN Economic Commission for Africa (UNECA) chose to select the 2010 edition of the African Economic Outlook on *'Public Resource Mobilization and Aid.'* While African governments have been committing to good governance and improving tax performance in national budgets, two recent European Commission Communications, on EU Development Policy and Budget Support respectively, both prominently mention the need to assist to improve domestic revenue mobilization in developing countries.

According to the Learning Product on Tax Revenue Mobilization: Lessons from World Bank Group Support for Tax Reform, World Bank (2017), domestic revenue mobilization through tax reforms is important to ensuring sustainable financing of development. Many international initiatives are under processes that focus attention on constraints to growth, especially in low-income countries, where domestic taxes and foreign private and market-related borrowing do not expand enough to pay for declining flows of official development assistance. This learning note reviews World Bank Group support to tax policy and administration reform over period 2005-2015 by drawing mainly on three sources such as a systematic review of Implementation Completion and Results Reports Reviews of World Bank operations and EvNotes for IFC Advisory Services, related Project Performance Assessment Reports, and relevant countries case studies from various Independent Evaluation Group evaluations. The evaluative findings cover two dimensions of effectiveness in case of tax reforms and the quality of monitoring and evaluation are vitally important for domestic revenue mobilization.

Domestic revenues can lead to improved development only if they are translated into productive and beneficial public expenditure. As a result, either revenues are taken as given or spending is considered without addressing the tax policy and administrative measures needed to yield the required resources. Considering tax and expenditure policy issues jointly greatly enhances the likelihood of achieving revenue sufficiency for sustained economic and social development. The two goals are linked and should be addressed in tandem. Therefore, both revenue and expenditure reforms should be embedded in broader public financial management reforms. When this is done, domestic revenue mobilization rightly becomes a development tool for generating revenues to support sustained and inclusive economic development.[4]

2.2 Case studies of domestic revenue mobilization

Akitoby et la (2018 and 2019) studied Tax Revenue Mobilization Episodes in Emerging Markets and Low-Income Counties by taking lessons from a new dataset that provides a comprehensive and analysis of efforts to increase tax revenues in Low-Income Economies and Emerging Markets between 2000-2015; and the case studies in Tax Revenue Mobilization in Low-Income Countries by analyzing and using information from IMF country reports (including staff reports and technical assistance (TA) reports) as well as conducting interviews with mission chiefs, country desk economists, and TA experts who engaged with the authorities on tax reforms of seven episodes of large tax revenue mobilization in Burkina Faso, The Gambia, Maldives, Mauritania, Rwanda, Senegal, and Uganda. These studies conclude that tax revenue mobilization during the period which revenue administration and tax policy reforms played a vital role in rising the tax-to-GDP ratios of those countries and case study countries can strengthen their capacity to collect tax revenue

[4] Junquera-Varela, Raul Felix, Marijn Verhoeven, Gangadhar P. Shukla, Bernard Haven, Rajul Awasthi, and Blanca Moeno-Dodson. 2017. *Strengthening Domestic Resource Mobilization: Moving from Theory to Practice in Low-and Middle-Income Countries*. Directions in Development. Washington, DC: World Bank.

by pursuing reform strategies. It is essential to note that, while these countries enhanced tax collection through tax policy and revenue administration reforms, this does not imply that there remains no scope to further raise tax collection.

Akitoby et., la (2018 and 2019) show that tax policy and revenue administration reform featured prominently and covered a broad spectrum of legal, technical, and administrative measures as follows:

❖ **Tax policy reforms**

- **Reviewing tax exemptions**

Reviewing and removing tax exemptions, including tax holidays, and tax incentives to assess tax expenditures and building capacity for developing estimates of tax expenditure will help to improve tax policy, revenue performance, and transparency of the tax system and better inform decision making. Improvement in revenue performance can be gained from both reducing tax policy gaps, in areas of tax legislations that may result in revenue losses as from tax incentives, or from strengthening tax administration with improvements in taxpayer compliance. In several cases, tax reforms both reduced tax expenditures and tax rates, resulting in increased revenue yield. Tax expenditure reduction has been implemented in a variety of ways, including reducing or limiting tax holidays, reducing exemptions, and most specifically reducing investment incentives that benefit only some industries while the rest of the economy bears the full tax burden.

Removing or curbing exemptions would enhance the tax base and increase tax revenues, while reducing the tax system's complexity. Several countries lose a sizable revenue through poorly-designed exemptions such as costly tax holidays and other tax incentives to attract investment. From case studies, some low-income countries removed or reduced tax exemptions, for instance, Uganda reduced many exemptions for VAT in which of many goods were removed from zero-rating), in the case of Mauritania, the exemption on corporate income tax (CIT) were removed to enhance revenue by 1.3 percentage points of GDP. Rwanda revised its investment code to eliminate some exemptions and removed incentives granting VAT exemptions on imports for investment certificate holders. It should, however, be noted that even though removal of tax exemptions can be a done quickly with support from core stakeholders, it is easy to reverse the reform as well.

- **Simplify tax system and reform indirect taxes**

A simplified tax system can be essential in fostering taxpayer compliance and a simpler tax system and legislation could improve tax administration in case studies from Burkina Faso and Senegal. Reform indirect taxes on VAT and general goods and services taxes. The VAT, though it would require thorough preparation, has proved to be an efficient and strong revenue booster: countries that introduce a VAT tend to raise more revenue than those without one (Keen and Lockwood, 2010). The Gambia replaced a general sales tax with a VAT in 2013 to broaden the tax base and lift indirect tax revenues by 1-1.5 percent of GDP. Mauritania implemented VAT reforms (e.g., covering the mining sector, broadening the tax base, increasing VAT registries) and improved VAT C-efficiency from 37 percent in 2009 to 72 percent in 2012. Maldives introduced the tourism sector goods and services taxes and the general goods and services taxes in 2011 to achieve a sizable increase in indirect taxes.

❖ **Tax administrative reforms:**

1) Enhancing management, governance, and human resources in cases of The Gambia, Maldives, Rwanda, Senegal, and Uganda by headquarters design and monitoring-function efforts were set up or refined, which improved capacity to design and monitor delivery of administrative programs, and helped to support tax collection, including by hiring more qualified staff and investing in strengthening the technical skills of staff of revenue agencies.
2) In establishing or strengthening the segmentation of taxpayers by properly managing tax compliance risk, the segmentation of taxpayers—taking into account different characteristics and compliance risks—is critical. Taxpayers segmentation improves the organization and operations of tax administration, beginning with the establishment and/or strengthening of the Large Taxpayer Office in case of Burkina Faso, Senegal, and Uganda, and implementing appropriate compliance programs for segmentation. As a result, filing and payment compliance was facilitated across segments.
3) Enhancing compliance risk management by identifying, assessing and mitigating compliance risks is important to support the functioning of the tax administration. Comprehensive reforms by targeting all segments and covering all domains. Senegal, Rwanda, and Uganda, for example, established fundamental elements of a compliance management system, while the Maldives launched an audit program to enhance tax compliance.

4) Introducing more modern business procedures leveraging IT—Successful revenue mobilization hinges on managing information and leveraging the power of the data to improve compliance and fight tax fraud. Country case studies have taken advantage of IT systems to advance their revenue mobilization reforms. Uganda, for example, redesigned business processes and automated them using e-tax. Also, the Maldives installed core IT systems, and e-filing/e-payment was implemented and used by large businesses for sector goods and service tax, withholding tax, green tax, and remittance tax returns. Rwanda automated tax and customs administration, which facilitated an improvement in coordination between the tax and customs offices. In addition, Rwanda introduced electronic filing and implemented electronic registration which help to improve the registration process. In this context, IMF (2018a) also discusses the role of new technologies (that is, digitalization) to empower policymakers with quicker access to more reliable information and to enhance the tax base. It is important to stress, however, that IT alone is not enough. IT improvements will need to go hand in hand with advances in other administrative procedures to realize the full benefits (IMF 2015b).
5) Reform indirect taxes on excises for specific goods (e.g., cigarettes, alcoholic beverages, and motor fuels)—This could be an effective measure because such taxes can raise revenue rather quickly without fundamental changes to tax systems.[5] Excises on these specific goods could work as corrective tools to alter individual behavior in a way that is socially desirable. For instance, Burkina Faso increased the excise tax for alcoholic beverages, as did Mauritania on tobacco.

- ❖ Most country cases also deal with the challenge by reforming customs administration. Improving compliance and strengthening the customs clearance process can help to boost tax revenue. For instance, Burkina Faso used the Automated System for Customs Data to connect five additional border posts to improve customs clearance procedures and limit fraud. Customs reforms were also implemented in other cases such as, The Gambia and Rwanda.

United States Agency International Development (USAID) (2018) conducts case studies of domestic revenue mobilization through tax policy and tax administration reforms for five different developing countries, including Afghanistan, Bosnia and Herzegovina, Nepal, the Philippines, and

[5] While selective excise and broad-base consumption taxes are efficient sources, it is important to ensure that countries have access to strong safety nets that adequately protect vulnerable from associated price increase. However, discussing this issue is beyond the scope of this paper.

Rwanda by using each profiled countries' data and information during period 2001-2016. These five countries differ in essential ways, however, with respect to their resource mobilization experiences, they also have much in common. These case studies indicate the potential for rising revenue-to-GDP under the right circumstances, highlight core themes of how this was achieved in these developing countries and provide many salient lessons with implications for international support or aid for domestic revenue mobilization. Results of case studies from each of the profiled countries show considerable progress in terms of increasing government revenues. For example, Rwanda saw its revenue-to-GDP ratio rise from a few percentage points of GDP to almost 20 percent of GDP over the last two decades. In Nepal, budget revenues also increased quite rapidly, from 12 percent of GDP in 2007 to about 22 percent in 2016. Bosnia and Herzegovina, where essentially no revenues were being collected at the end of the civil war in 1995, today mobilizes close to 35 percent of GDP in public funds yearly. In Afghanistan, government revenues were less than one percent of GDP under the Taliban and today are around 12 percent. Even the Philippines, where there have been several challenges from domestic rent-seeking and continuing policy and administration weaknesses, revenues have begun to climb and a wide "sin tax" reform is viewed as a model of how tax revenue policy can simultaneously support revenue mobilization and social goals. Beside revenue mobilization, there some cases have led to improvements in the business environment and reduced corruption and reduced in the number of tax compliance costs.

2.3 Analytical tools and techniques for assessing domestic revenue mobilization

Le, Tuan Minh, Leif Jensen, G.P. Shukla, and Nataliya Biletska (2016) present five types of the following analytical tools and techniques to evaluate the revenue performance that are helpful for assessing major tax regimes in developing countries:

1) Profile analysis: revenue data are presented as amounts in local currency and as a share of GDP. This is the first and most used statistic in measuring revenue performance;
2) Trend analysis: revenue data are presented as levels, growth rate, and shares of GDP over a period of time and it indicates performance overtime;
3) Composition analysis: data are presented as a share of total revenue to illustrate the contribution of each type of tax revenue to total revenues. Tax expenditures—if readily available or conceivable to be estimated under the coverage of the Public Expenditure Reviews (PER)—would also be included here;

4) Tax revenue deviation analysis: it measures the deviation between actual and targeted revenue collections, and serves as an important entry point for drilled-down performance assessments of revenue agencies;
5) Efficiency and incidence analysis: the assessment covers to what extent taxation can distort investment, consumption and savings and looks into the redistribution impact under the various tax sources.

3. Lao Economy and Public Finance

3.1 Lao Economy

3.1.1 Real growth rate and GDP per capita

The environment of Lao economy has been improving since starting the economic reform process in 1986 under the New Economic Mechanism. The economy of Lao PDR has shifted, from a centralized and planned economy, toward an open, liberalized market-oriented system. Opened and developed policies toward global market have been put in place to promote and attract Foreign Direct Investment. These changes have made favorable conditions for further economic development for Lao PDR.

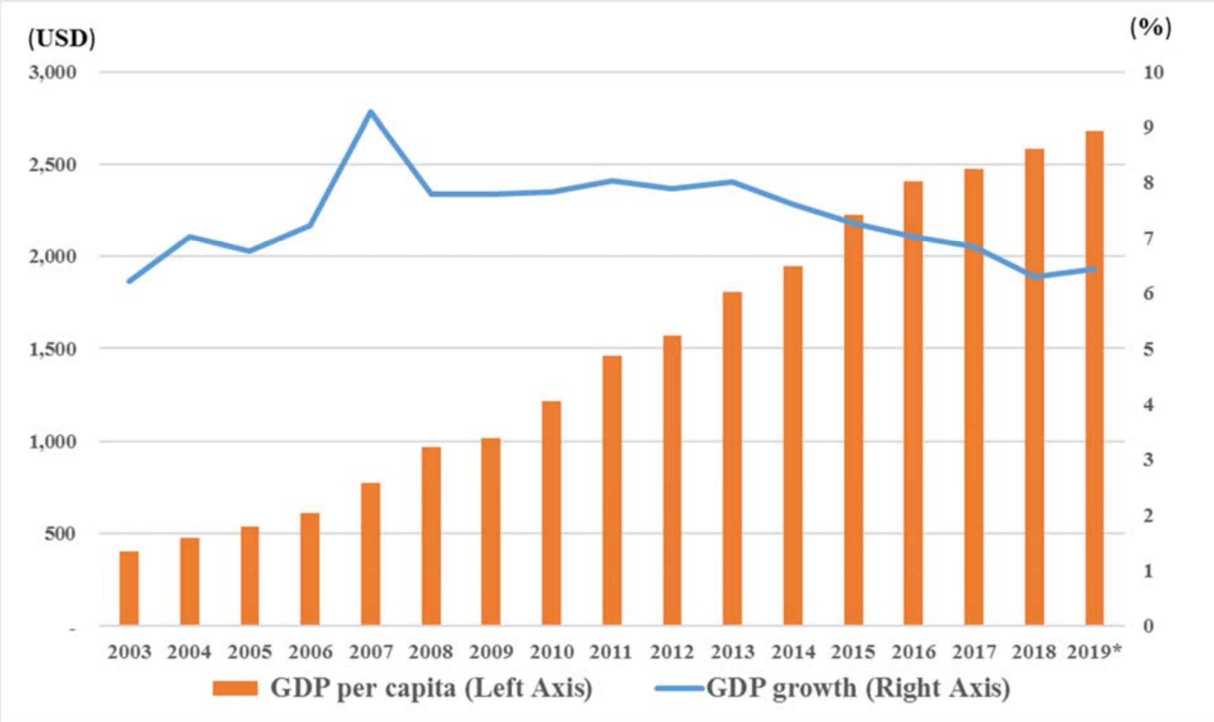
The Lao economic growth continued to remain strong. GDP growth rate sharply increased from 6.2 percent in 2003 to the highest recorded rate of around 9.2 percent in 2007. The marked increase in growth is driven by foreign investment inflows in the hydro-power and mining contributions and growing in exports from mining products. The expected sustained growth is contributed from agriculture, manufacturing and service sectors since rising foreign direct investment (FDI) in the agriculture, manufacturing, and the increasing trend in the tourism sector. As a consequence, the fiscal condition was also in a good position due to robust economic growth and the government revenue collection has increased as result from the broadened tax base in the new Tax Law and to the increased receipts from large investment projects and tourism (Figure 1).

In 2008, the growth rate, after the highest growth rate record in the previous year, has sharply decreased due to the impact of the global financial crisis in 2008 to 2009 on the Lao economy, however, the impact was not as large as initially expected. The economic growth remained at about 8 percent until 2013, driven by continued growth in hydro-power and mining sectors in parallel with the growth in the service, agriculture, and tourism sectors. As a result of the favorable growth, the government collection of revenue was enabled exceeding the targets approved by the National Assembly for continual years from 2006 to 2010. The expenditure side has also slightly increased over years to support the growing need for development and provision of public services and the growing demand on the main events hosted by Lao PDR. The operation of large projects in 2010, such as the Nam Theun 2 Hydro-power Project, also supported the economic performance and contributed to further development of the hydro-power potential until 2013.

The during 2013 to 2018, the GDP growth rate has been on a downward trend from 8 percent in 2013 to around 6.3 percent in 2018 mainly impacted by external and internal factors. A decline in commodity prices results in a fall in investment in the mining sector as a main element of the external factors. The impact of internal factors was due to the government of Lao PDR revising policies with relation to the mining sector, a temporary cessation granting new concessions on mining licenses, undertaking an assessment on previous and current implementation projects; and a cessation in granting a quota for logging and exporting timber and strict control on public investment projects. The government still faced a high budget deficit during those years since the government revenue has decreased resulting from the decrease in ODA. The real GDP growth per capita considerably increased from USD 405 in 2003 to USD 2.585 in 2018 in line with the continued economic growth since 2003.

GDP growth slowed down to 6.3 percent in 2018 from 6.8 percent in 2017, as both agricultural and industrial production declined mainly due to natural disasters. Heavy rainfalls from tropical storms resulted in flooding across the country, followed by the tragic collapse of Xe-Pian Xe-Namnoy dam. Notwithstanding these disruptions, inflation remained below 3 percent. Credit growth declined due to the economic slowdown, the legacy of non-performing loans, and fiscal tightening. In 2019, the growth is estimated to slightly increase to 6.4 percent from 6.3 percent in 2018, supported by some new hydro-power projects and strong FDI from China in agriculture, manufacturing assembly and services, including the Kunming-Vientiane Railway Construction under the Belt and Road Initiative which started in early 2017.

Figure 1. Real Growth Rate and GDP per Capita



Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR, and International Monetary Fund, World Economic Outlook Database, April 2019.

3.1.2 Population growth

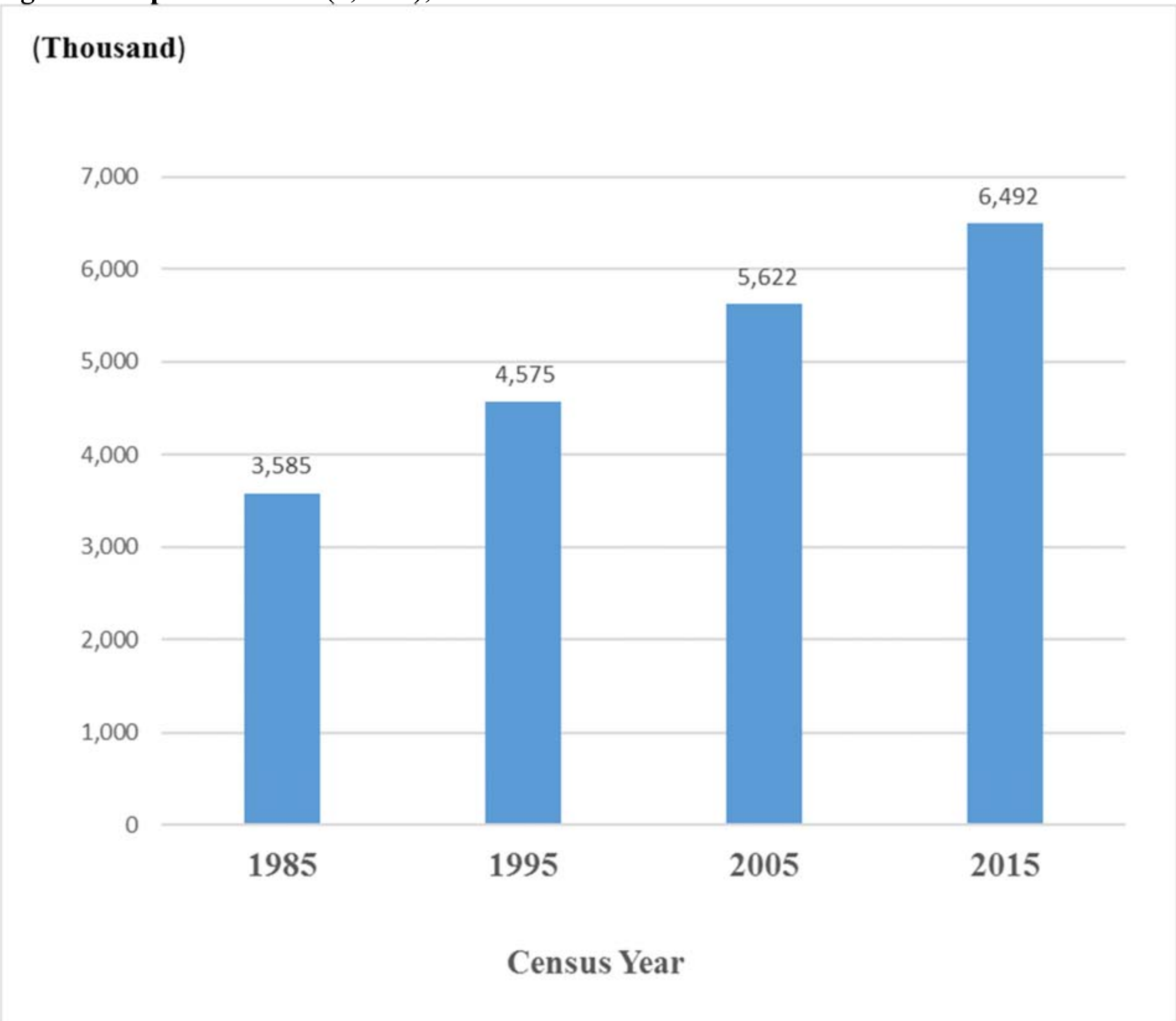
According to the 2015 Population and Housing Census (PHC), the total population of Lao PDR amounted to 6,492,228 as of March 1, 2015. As indicated in Figure 2 the population has nearly doubled from 3,584,8035 in 1985, when the first census was conducted. About one million people have been added to the country's population every decade. At its current population, the country remains one of the smallest in Southeast Asia—slightly bigger than Singapore, but less than half of neighboring Cambodia.

Although the population has grown during the last three decades, the results of PHC population censuses show the rate of increase has been on a downward trend.[6] During 1985-1995, the average population growth rate was 2.47 percent annually. In the following decades, the annual growth rate fell to 2.08 percent (1995-2005) and 1.45 percent (2005-2015), as shown in Table 1.

[6] Based on the assumption that the coverage of the census enumeration remained the same.

The declining growth rate could well be the result of falling birth rates. However, migration cannot be discounted as a major factor in this demographic dynamic, especially during the last one or two decades. It is widely believed that many Lao people move to neighboring countries for economic reasons, with Thailand a popular destination on account of similarities in language and culture.

Figure 2. Population Size (1,000s), 1985-2015



Source: Report Census and Survey, Lao Statistics Bureau, 2015

Table 1. Enumerated Population and Intercensal Annual Growth Rate of Lao PDR

Census Year	Enumerated Population	Average Annual Growth Rate Between PHCs (%)
1985	3,584,803	
		2.47
1995	4,574,848	
		2.08
2005	5,621,982	
		1.45
2015	6,492,228	

Source: Report Census and Survey, Lao Statistics Bureau, 2015

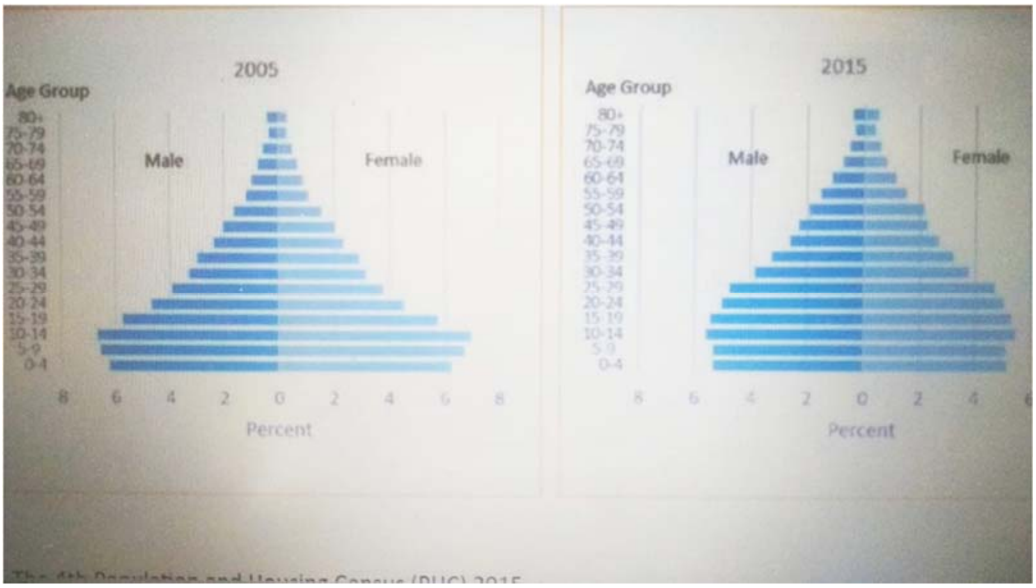
Demographic and Social Characteristics.

The sex ratio in Lao PDR was 101. This indicates there were 101 males for every 100 females. The nation's population is defined as being relatively young, with 32 percent of the population aged 0-14 years. The working age population of 15-64 years accounted for 64 percent, with 4 percent of the total population aged 65 years and above (Figure 2.2).

In 2015, the total dependency ratio was 57 persons, down from 77 in 2005, for every 100 persons of working age.

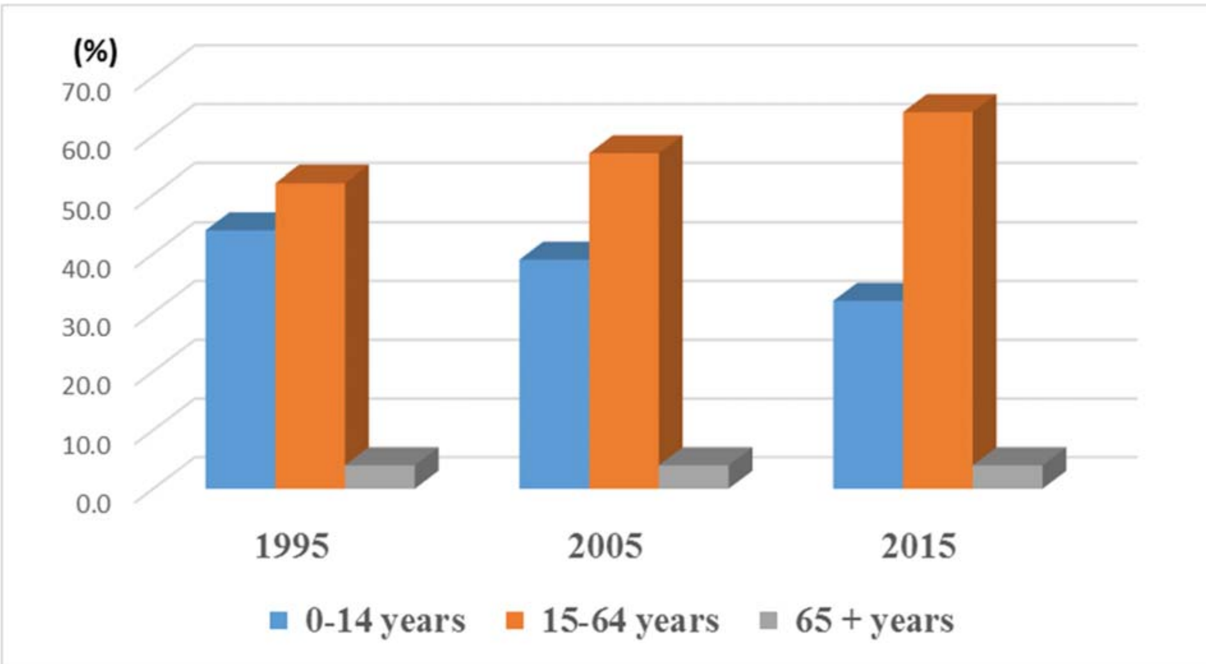
About 29 percent of the population age 15 and above had never married and 63 percent were currently married, while 3 percent were divorced/separated, 4 percent widowed and 1 percent in consensual union (Figure 2.3).

Figure 2.1. Age Pyramid of the Population, 2005-2015



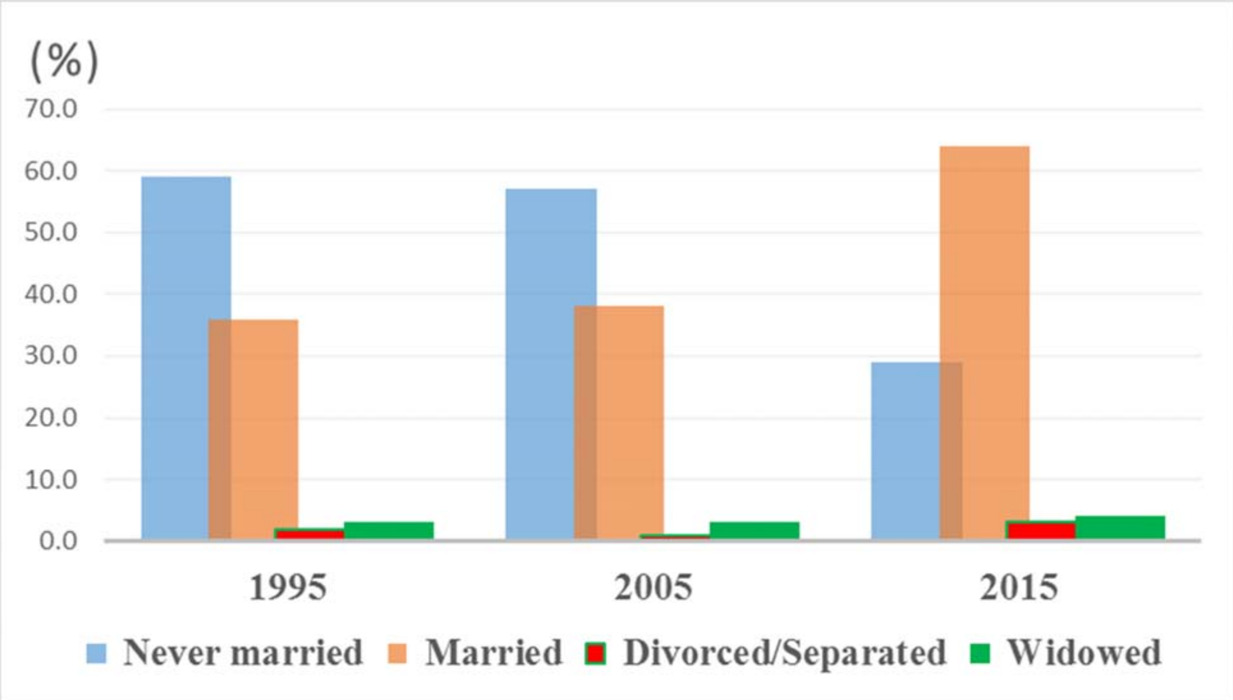
Source: Report Census and Survey, Lao Statistics Bureau, 2015

Figure 2.2. Age Composition percent of the Population, 1995-2015



Source: Report Census and Survey, Lao Statistics Bureau, 2015

Figure 2.3. Married Status percent of the Population, 1995-2015



Source: Report Census and Survey, Lao Statistics Bureau, 2015

Economic Activity

Out of the total population aged 10 and above (figure 2.2), 68 percent were 'usually employed,' 1.4 percent were reported to be 'unemployed' and 29 percent were outside the labor force. The unemployment rate was 2.1 percent, of which the rate (3.7 percent) was highest in urban areas and just 1.4 percent in rural areas with roads and 1 percent in rural areas without roads. The proportion of employed population aged 10 and over by main activity indicated that 10 percent worked for the Government, 0.9 percent for State Cooperatives and 7.5 percent for the private sector.

Job creation and employability

Since during the 1980s, 1990s, 2000s, and up to recently, the population growth has increased the working-age population, as well as improving and expanding of the formal sectors like industries, manufacturing and services. Before Lao PDR changing to a market economy, more than two-thirds of population relied on subsistence farms or agriculture due to industry, manufacturing and service sectors not being well-developed. After the Government of Laos (GoL) promotion policy for investment to support economic growth, especially from the agricultural sectors to expand to industry, manufacturing and service sectors. The working-age population in all these sectors has increased year by year. This may result in more working-age population being employed, as well as their income being increased in parallel with economic growth.

3.2 Public finance

3.2.1 General budgetary operation

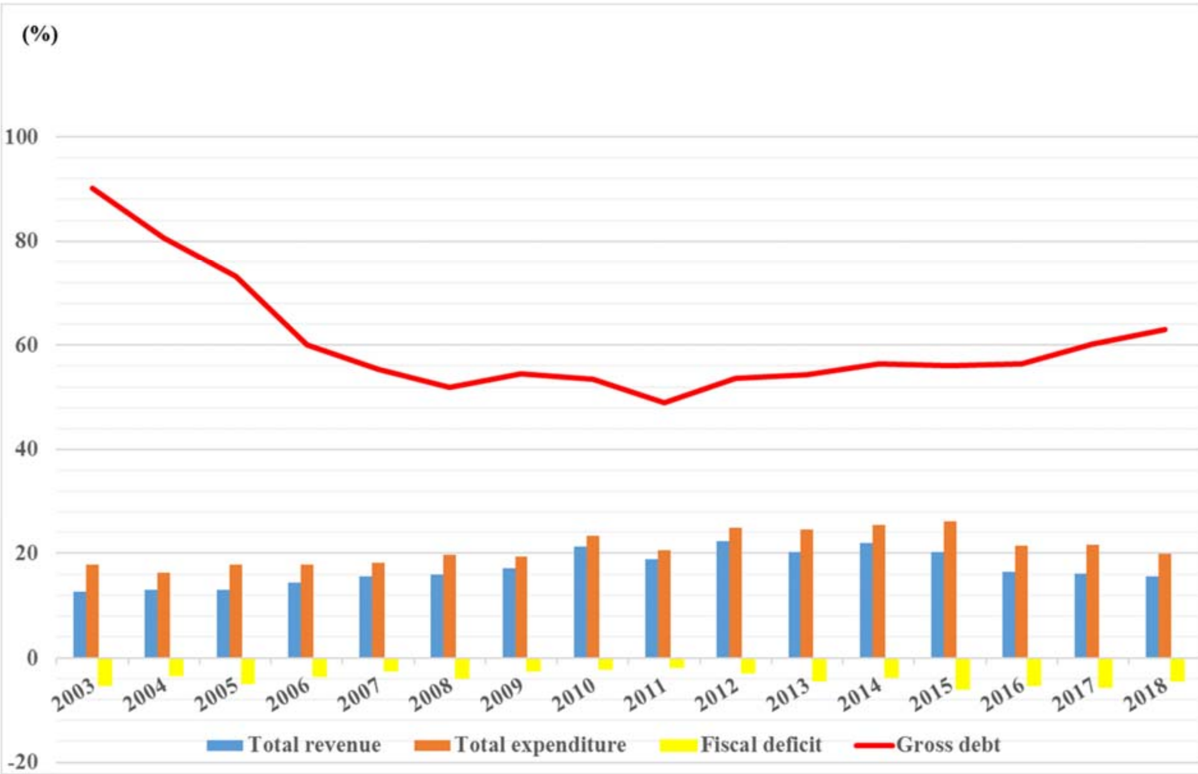
The state budget operation aimed to support the implementation of the National Socio-Economic Development Plan (NSEDP) and to boost stable economic growth and social development. To translate orientations, goals and policies introduced in each year, GoL issued decrees, detailed sectoral regulations and organized meetings to disseminate those legislations to sectors at national and sub-national levels to ensure effective and unified implementation for goal attainment.

In general, the total revenue performance was increased almost double from 12.6 percent of GDP in 2003 to 22.4 percent of GDP in 2012 in response to strong economic growth. Nevertheless, after 2012 the total revenue trend went down dramatically to 15.5 percent of GDP in 2018, due to decrease in grants and tax revenue-to-GDP ratio. Although the actual revenue increased, it was slower than actual economic growth. While the revenue mainly relies on goods import and domestic consumption, the slowdown of economic growth has directly posed an impact on revenue base. Thus, the economic growth rate was at 6.3 percent of GDP in 2018 mostly on account of tax exemption for large construction projects according to the Law on Investment Promotion. As a result, revenue from this section is not yet collectible (Figure 3).

The total expenditure-to-GDP increased sharply from 17.8 percent of GDP in 2003 to 26.1 percent of GDP in 2015, due to the capital expenditure trend compared to GDP which jumped from 7.8 percent in 2013 to 9.8 percent, and 10.8 percent in 2014 and 2015, respectively. However, the expenditure-to-GDP decreased from 2016 to 2018, reduced from 21.5 percent to 19.9 percent respectively, due to decrease in revenue-to-GDP. To manage the budget deficit at the rate approved by the National Assembly, GoL, thus, introduced fiscal consolidation, including an anti-extravagance measures and state budget expenditure savings leading to moderate reduction in expenditure-to-GDP ratio.

The fiscal deficit-to-GDP between 2003 and 2018 fluctuated. It dropped from 5.8 percent in 2003 to 1.8 percent in 2018. It then rose to 5.9 percent in 2015 and went down to 4.4 percent in 2018.

Figure 3. Budgetary operation percent to GDP for 2003-2018



Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR, and International Monetary Fund, World Economic Outlook Database, April 2019.

Lao PDR has faced fiscal risks due to the huge general gross debt over the past years. Since 2003, government gross debt to GDP amounted to round 90 percent and started to sharply decline to 49 percent of GDP in 2011, and then began slightly increased to 63 percent of GDP in 2018, of which external debt stock amounted to more than half of that.

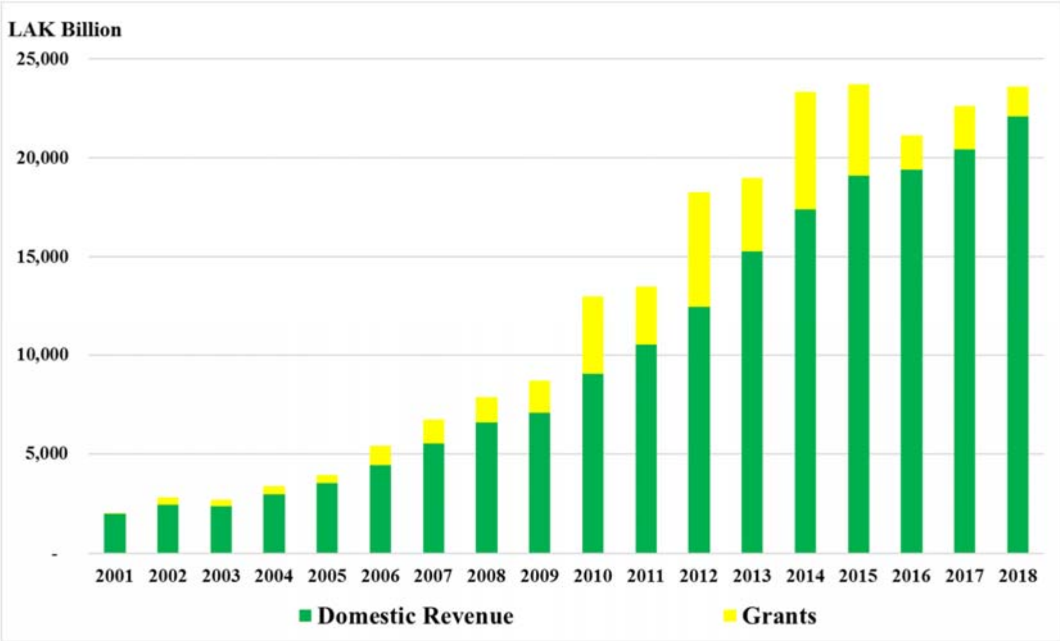
3.2.2 Budget revenue

The budget revenue includes domestic revenue and grants (Figure 4). In the past 15 years between 2001 to 2015, budget revenue management had steadily improved, and revenue collection targets, on average, were exceeded (102.3 percent of the planned targets). On average, government revenues amounted to around 21.5 percent of GDP, of which domestic revenue and external grants represented an average of around 17 percent and around 4.5 percent of GDP, respectively. Domestic revenue has increased continuously from LAK 2,022 billion in 2001, equivalent to around 14.5 percent of GDP in 2001 to LAK 19,080 billion, equivalent to around 19.8 percent of GDP in 2015. Budget revenue management has improved gradually and targets approved by the National Assembly in the period of 2006-2010 were exceeded.

In 2016, total budget revenue amounted to LAK 21,141 billion, decreased by around 8.4 percent compared to the previous year due to the decrease of grants. Total budget revenue performed at 95.5 percent of the revised budget plan. The domestic revenue reached LAK 19,392 billion, increased by around 2 percent compared to the previous year, and performed at 97.9 percent of the revised budget plan, which was equivalent to around 17.8 percent of GDP. Grants amounted to LAK 1,749 billion, decreased by 62.1 percent compared to the previous year, and performed at 76.6 percent of the revised budget plan, and was equivalent to 1.4 percent of GDP.

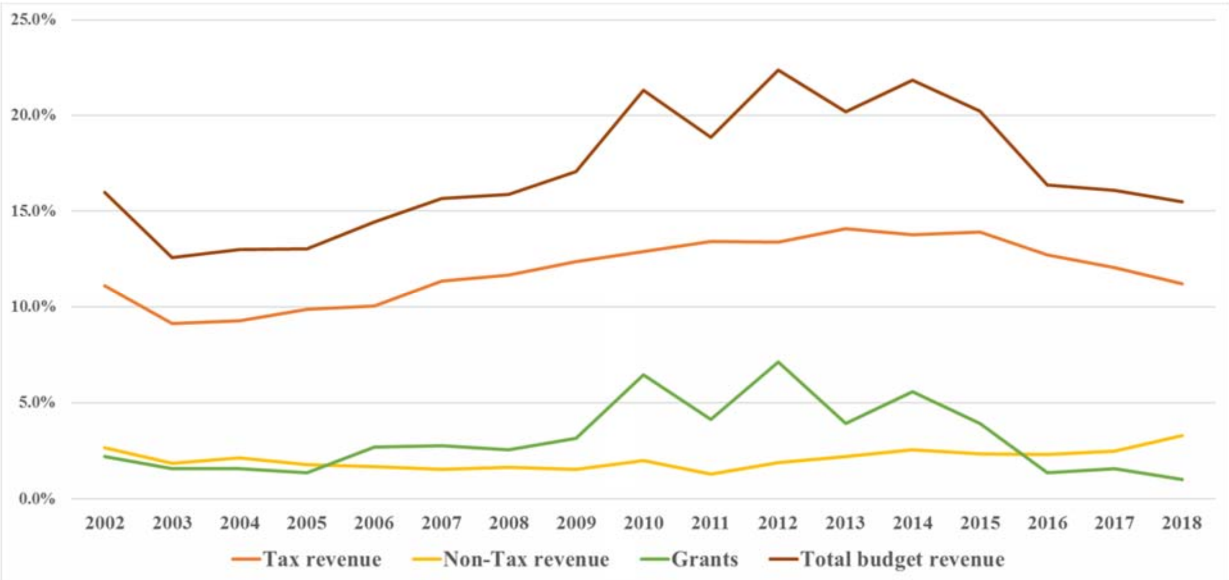
In 2018, The total revenue gradually increased, after declining in 2016, to LAK 23,609 billion, almost the same amount as of 2015. However, grants amounted to LAK 1,514 billion, decreased by 13.4 percent, and 31.1 percent compared to 2016, 2017 respectively.

Figure 4. Trend in domestic revenue and grants in LAK Million, 2002-2018



Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

Figure 5. Trend in Budget Revenue as Percent of GDP from 2002-2018



Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

Domestic revenues include tax revenue and non-tax revenue. Tax revenues were the main source of the budget revenues accounted average at 12 percent of GDP since 2002 to 2018. Tax revenue-to-GDP overall showed an increasing pace from 2002 to 2013. It increased from 11.1 percent of GDP in 2002 to 14.1 percent in 2013. After a steady increase up to 2013, tax revenue gradually declined to 11.2 percent of GDP in 2018, and increased only 0.1 percent compared to 2002. Non-tax revenues mainly include administration charges, dividends, overflight rights, and on-lending interests. The non-tax revenues accounted average was only 2 percent of GDP between 2002 to 2018 (Figure 5).

3.2.3 Tax revenue

The tax revenue is collected from direct and indirect tax in Lao PDR. It is mainly from value-added tax (VAT), excise tax, profit tax, income tax, other fees, import duties, royalties, and other tax revenue, of which the main composition tax revenue was collected from VAT, excise tax, profit tax, and income tax (Figure 6) as the following:

– **VAT** is an indirect tax collected on the goods consumption and services in Lao PDR at the rate of 10%. VAT replaced business turnover tax in 2010. VAT was the largest source of the tax revenue and accounted for 25.9 percent of tax revenue in 2010. VAT performance has increased year by year. In 2018, VAT reached LAK 5,201 billion and accounted to 30.4 percent of total tax revenue and 3.4 percent of GDP. Of which, VAT from imported goods and services collected by customs sector was LAK 2,066 billion and equal to 39.7 percent of total VAT in 2018. The domestic VAT collected by the tax sector was LAK 3,135 billion, equal to 60.3 percent of total VAT in 2018.

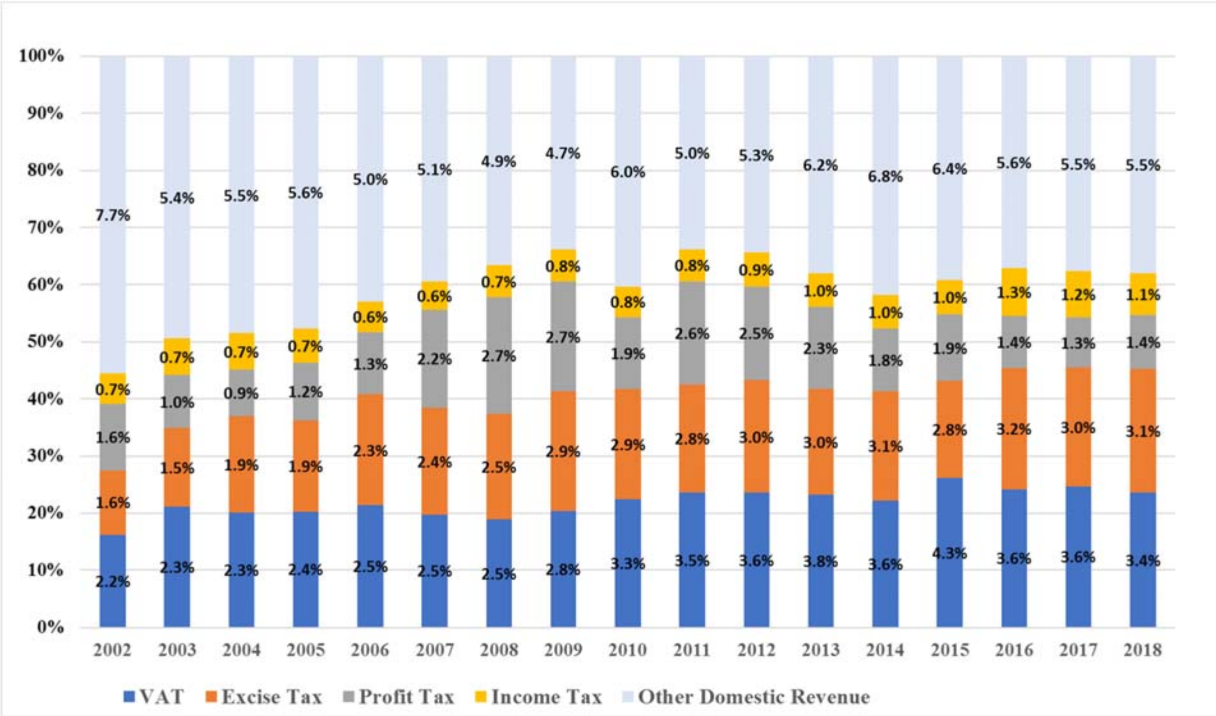
– **Excise tax** is an indirect tax levied on certain luxurious goods and services in different rates between 3 percent and 90 percent. It is the second source of tax revenue after VAT covering 28.1 percent of tax revenues in 2018. It has increased year by year. In 2002, it amounted to LAK 278 billion, which increased to LAK 1,749 billion in 2010, and constantly increased to LAK 4,799 billion in 2018, which increased by 12.8 percent from 2017 and was equal to 3.1 percent of GDP. While the main source of excise tax in 2018 levied on imported goods and services amounted to LAK 2,968 billion which increased by 18.1 percent compared to last year or 61.8 percent of total excise taxes, collecting from domestic goods and services collection was LAK 1,831 billion, which increased by 6.5 percent or was equal to 38.2 percent of total excise taxes and was equal to 3.1 percent of GDP.

– **Profit tax** (corporate income tax) is a direct tax collected from the profits of domestic and foreign companies. It is the third largest source of tax revenue after the VAT and excise tax. In

2002, profit tax was reported at LAK 283 billion, was equal to 1.6 percent of GDP, and increased to 1.9 percent of GDP in 2015. The performance of profit tax in 2017 performed below the plan due to decrease in profit tax from the mining sector as larger taxpayers faced impacts of a price decline in the global market on their business operation and profit. Thus, they could not fulfil their tax obligations. In 2018 profit tax accounted to LAK 2,073 billion, equal to 1.4 percent of GDP, lower than of that in 2002. The profit tax revenue, compared to tax revenue, showed a fluctuated trend. It decreased from 14.4 percent in 2002 to 11.2 percent in 2003 and increased to 21.5 percent in 2009, and decreased to 10.7 percent in 2016, and then slightly increased to 12.1 percent in 2018. The main reason for the increased period was a rise in profit tax from the mining and hydropower sectors.

– **Income tax** is a direct tax collected from income, profits, and capital gains by individuals and businesses operating in Lao PDR. Income tax was the fourth largest revenue source after profit tax. Income tax performed at around 0.7 percent of GDP during 2002 to 2012, and then increased to about 1 percent of GDP in the period of 2013 to 2018, and accounted to LAK 1,619 billion in 2018, equal to 9.5 percent of total tax revenue, and decreased by 2.3 percent compared to 2017 performance.

Figure 6. Tax revenue by items in percent of GDP from 2002-2018

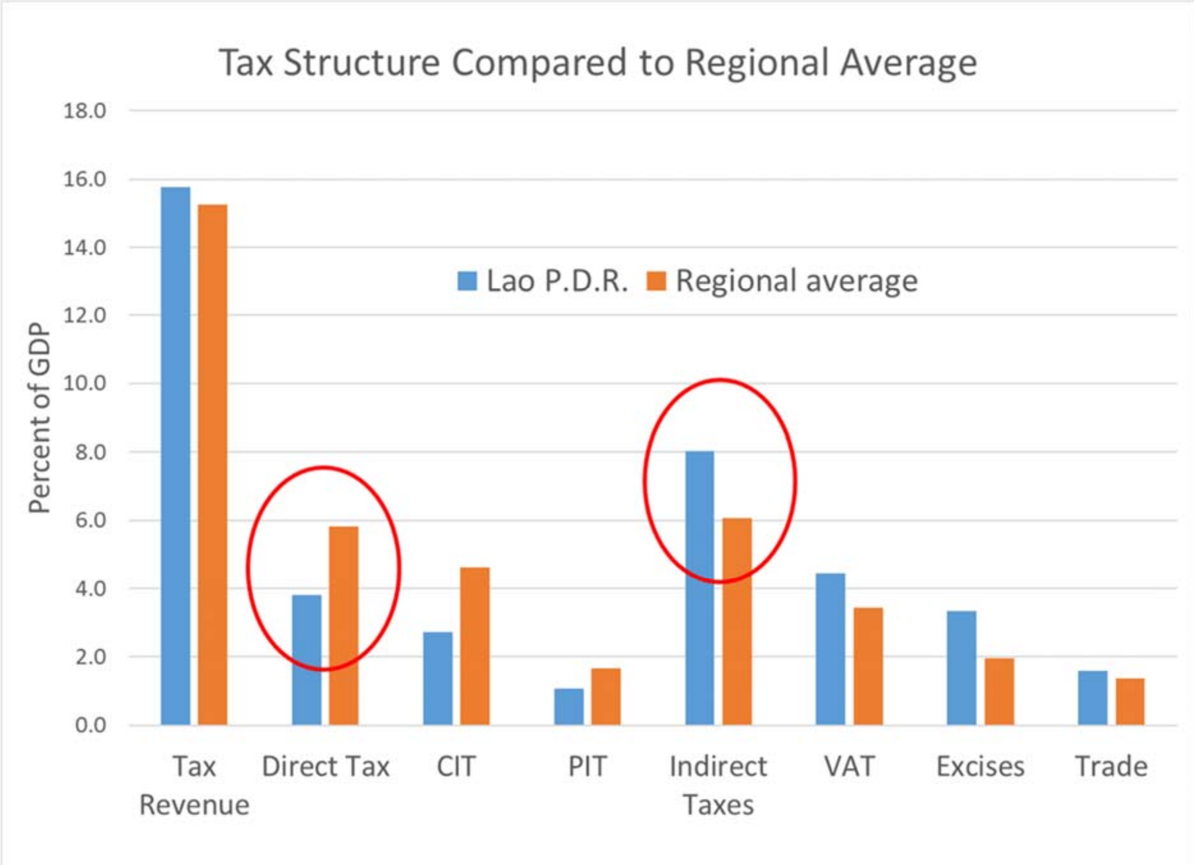


Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

3.2.4 Comparison of Lao tax system with neighboring countries in the region

Comparison of the level and structure of Laos' tax system with those of other countries in the region may indicate areas for reform, stated the IMF Technical Assistant Report for Lao PDR (2017). Since tax systems respond to national priorities and preferences, conformity with neighboring countries (China, Indonesia, Malaysia, Philippines, Thailand, and Vietnam) is not necessary for all taxes. However, due to the fact that countries within a region often share many economic and social characteristics, comparison of their tax structures can show areas of under or over exploitation of revenue potential. With comparison to other countries in the same region, Laos raises roughly similar overall levels of tax revenue, but it relies less heavily on direct taxes than on indirect taxes. Both CIT or profit tax and the personal income tax (PIT) underperform the regional average, while both VAT and excise overperform. Overall, indirect taxes tend to be easier to collect than direct taxes. Therefore, relying more on these instruments conserve administrative resources. However, indirect taxes also tend to be more regressive than direct taxes, meaning that they tend to account for a larger share of lower-income taxpayers' income. Developing the PIT and CIT as well as recurrent property taxes could therefore make Lao tax system more equitable, or progressive (Figure 6.1)

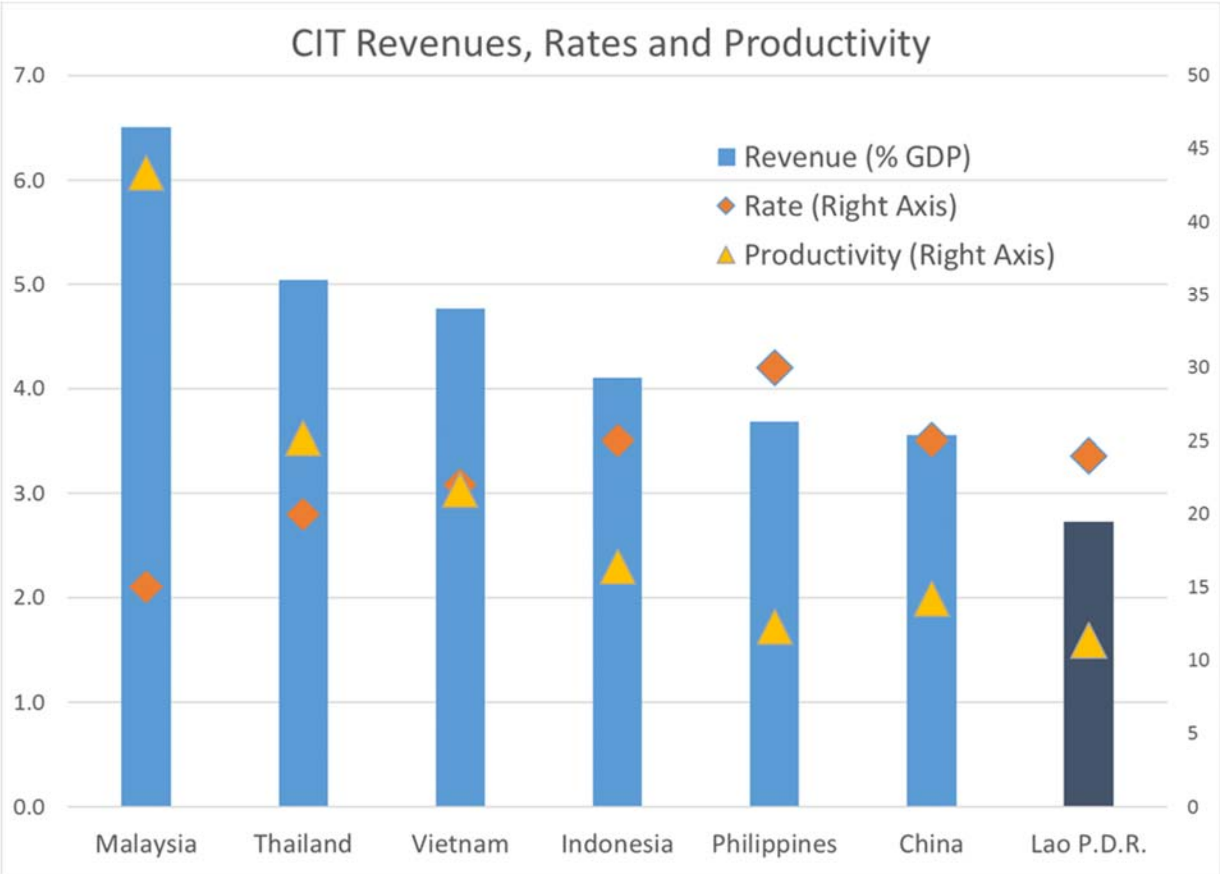
Figure 6.1. Lao Tax Structure vs Regional Average



Source: IMF, Technical Assistant Report for Lao PDR, 2017

The standard profit tax rate is 24 percent in Lao PDR, placing it in the middle of the range for the region (Figure 6.1.1). However, Lao PDR raises profit tax revenue less and has the lowest productivity compared to other countries in the region in terms of the ratio of revenue as a share of GDP to the profit tax rate. This suggests that profit tax in Lao PDR has a narrower than average base due to a small business sector and/or generous tax incentive. Though competition for foreign investment argues against any rise in the rate, there may be scope to improve productivity by broadening the base. Profit tax incentives, especially tax holidays should be reviewed for cost effectiveness and where possible reduced.

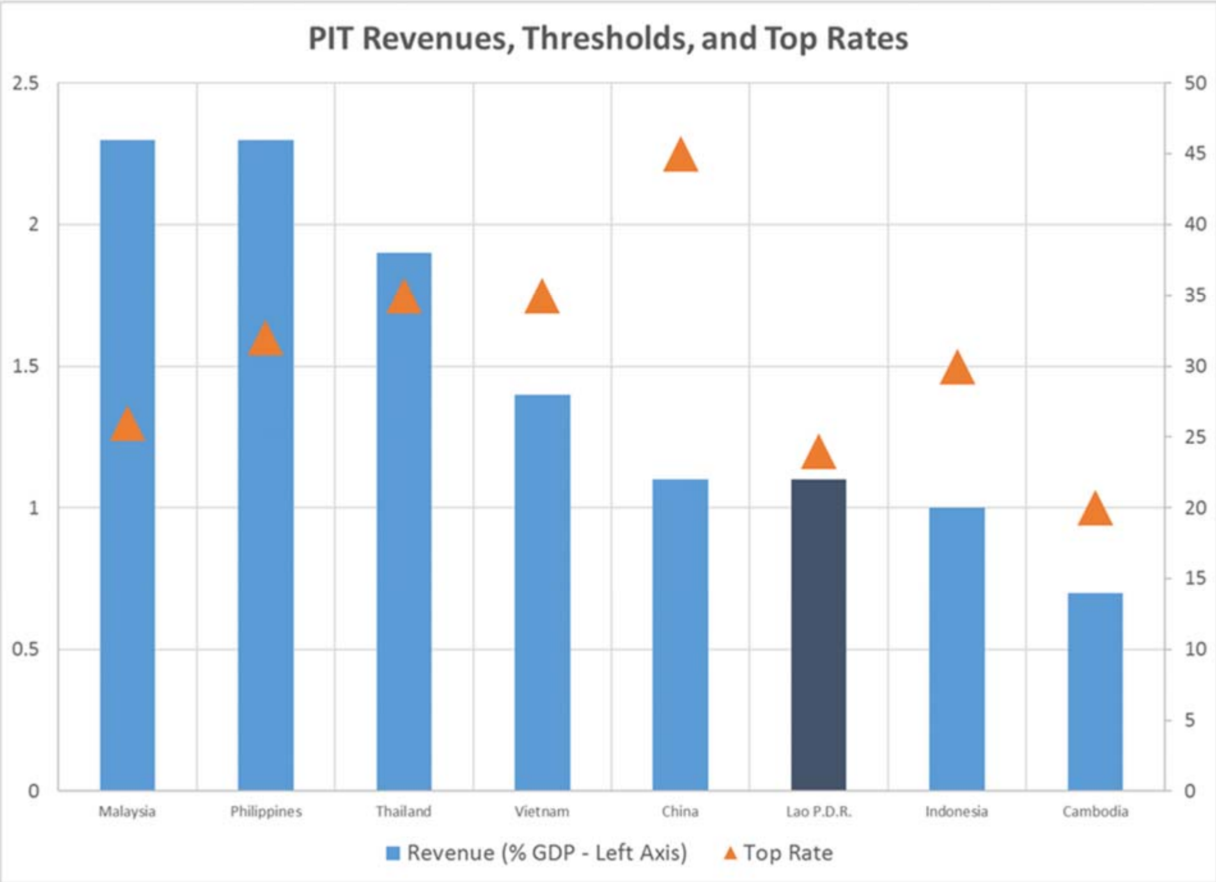
Figure 6.1.1 Profit Tax or Corporate Income Tax (CIT), Rates and Productivity



Source: IMF, Technical Assistant Report for Lao PDR, 2017

The personal income tax in Lao PDR yields just over one percent of GDP, placing it in the lower end of the range for region (Figure 6.1.2). Lao PDR has a dual income tax structure like many countries which combines a progressive tax on labor income and a low, flat tax on capital income. Personal income tax on labor income, which tends to be far less mobile than capital income, is a prime source of progressivity in most countries' tax systems. Lao PDR has a relatively low top rate (24 percent) and a very low threshold of only 6 percent of per capita GDP compared to other countries in the region. Raising both of these parameters toward the regional averages of 32 percent and 78 percent, respectively, would make the personal income tax more progressive and encourage formal labor market participation by low-income workers. Levying a low, flat tax on capital income eases administration and discourages capital flight. However, as different rates are imposed, some of which are very low, revenue could be augmented by unifying them at 10 percent.

Figure 6.1.2 Personal Income Tax (PIT), Rates and Productivity



Source: IMF, Technical Assistant Report for Lao PDR, 2017

3.2.5 Budget revenue collection and taxpayers

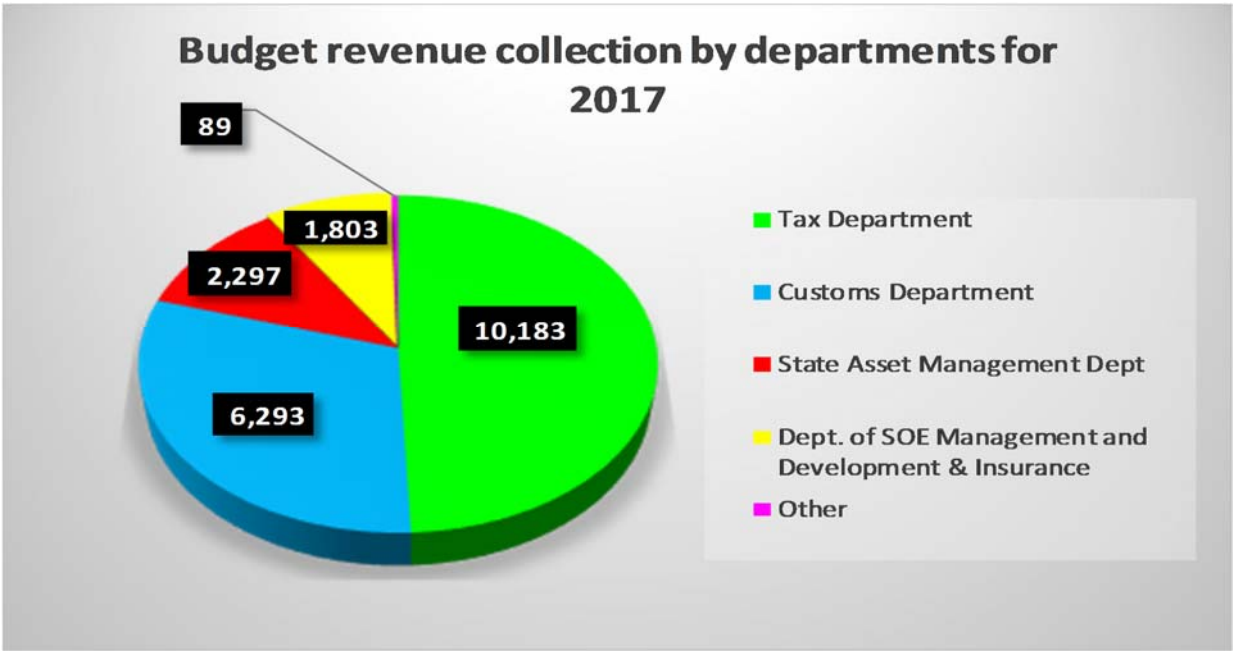
There are four departments (Chart 1) in charge of domestic revenue collection under the Ministry of Finance such as the Tax Department, Custom Department, State Asset Management Department, and the State-Owned Enterprises (SOEs) Management and Development, and Insurance Department. The revenue in percentage was collected by the Tax Department and accounted to LAK 10,183 billion, 49.5 percent of total domestic revenue and 7.2 percent of GDP. Custom duties, collected by the Custom Department, was LAK 6,293 billion, and accounted for 30.6 percent of total domestic revenue and 4.5 percent of GDP. State Asset Management collected revenue from state assets and was LAK 2,2297 billion, accounting for 10.9 percent of total domestic revenue and 1.6 percent of GDP. The SOEs Management and Development, and Insurance Department collected LAK 1,803 billion, and accounted for 8.6 percent of total domestic revenue and 1.3 percent of GDP. Others accounted to LAK 89 billion (Figure 7 and Table 2).

The Tax Department supervises 17 provinces' taxation, the Vientiane Capital, and 139 districts' taxation throughout Lao PDR to process tax administration. In 2019, there are 2,492 tax officials to supervise, manage, and collect tax for the whole country, of with 130 in the Tax Department at the central level, and 2,362 at the local level (provincial and district taxation). The number of tax officials at the district level is almost double in comparison with those at the provincial level.

There are 103,774 taxpayers in Laos in 2019, with 8,303 taxpayers using bookkeeping properly, which is equal to 8 percent of total taxpayers, with large number of taxpayers paying lump-sum tax (62,275), which is almost 60 percent of total number of taxpayers. Only 6,674 taxpayers (around 6.5 percent of the total tax bases) are registered to the VAT system.

The Tax Department (headquarters) is in charge of around 408 taxpayers, which is equal to more than 60 percent of total tax revenue collection, and also, around 39 percent of total tax revenue collection is collected at the local level (Provinces and Districts).

Figure 7. Budget revenue collection by Department in 2017 (Billions of LAK)



Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

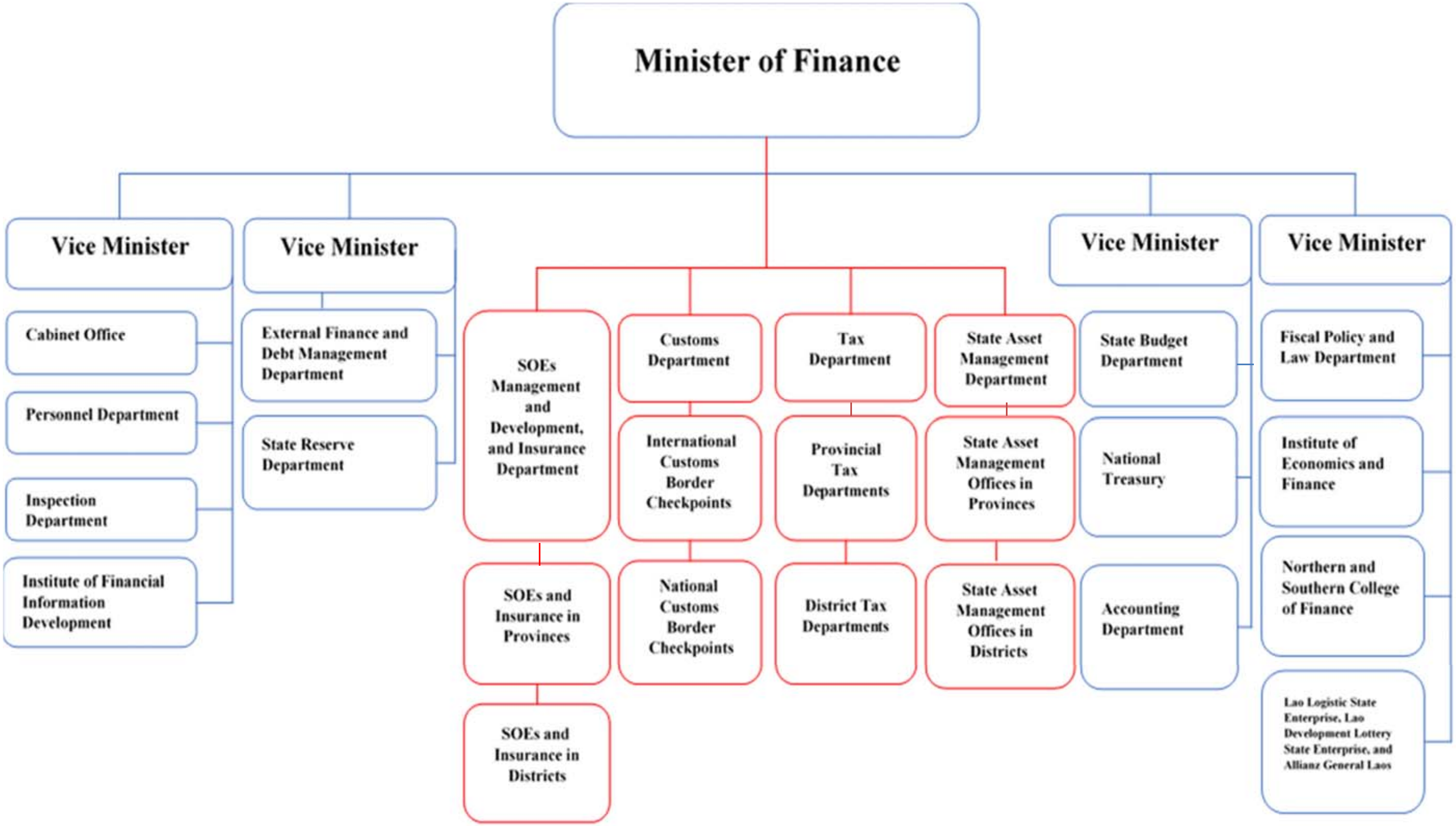
Table 2. Domestic revenue collection by revenue departments from January-December 2017

(Billions of LAK)

Lao PDR: Government revenue January-Dec 2017 (EST)							
	Customs	Tax	State asset	SOEs	Other	Total	% to Plan
Tax Revenue	6,261,954	9,265,981	1,390,503	0	0	16,918,437	96.1%
1. Profit Tax	30,771	1,948,890	0	0	0	1,979,660	98.9%
2. Income Tax	0	1,602,583	0	0	0	1,602,583	123.7%
3. Land Tax	0	113,149	0	0	0	113,149	78.0%
4. Business Licences	0	0	0	0	0	0	
5. Minimum Tax	0	0	0	0	0	0	#DIV/0!
6. Turnover Tax	0	0	0	0	0	0	#DIV/0!
7. VAT	1,898,929	3,035,372	0	0	0	4,934,302	86.6%
8. Excise Taxes	2,513,761	1,720,202	0	0	0	4,233,963	95.0%
9. Import Duties	970,574	0	0	0	0	970,574	71.4%
10. Export Duties	28,989	0	0	0	0	28,989	64.4%
11. Registration Fees	0	0	74,463	0	0	74,463	106.4%
12. Other Fees	818,931	845,785	0	0	0	1,664,715	161.2%
13. Natural Resources Taxes	0	0	609,709	0	0	609,709	94.5%
14. Timber Royalties	0	0	335,451	0	0	335,451	
15. Hydro-Power Royalties	0	0	370,880	0	0	370,880	117.0%
Nontax Revenues	31,305	916,917	847,152	1,776,816	88,853	3,661,043	101.3%
1. Leasing Fees	0	0	66,483	3,482	0	69,965	107.7%
2. Concessions	0	0	61,248	0	0	61,248	66.1%
3. Fines	31,305	35,728	16,167	101	0	83,302	124.6%
4. Administration Fees	0	881,189	0	262	0	881,451	55.2%
5. Dividends	0	0	0	934,088	0	934,088	211.3%
6. Interest	0	0	0	838,883	0	838,883	111.1%
7. Overflight Rights	0	0	656,950	0	0	656,950	112.6%
8. Forest Preservation and SME Funds	0	0	4,282	0	0	4,282	63.0%
9. Other (Microwave fee for State asset)	0	0	42,022	0	88,853	130,875	
Total Tax and NonTax Revenues	6,293,259	10,182,898	2,237,654	1,776,816	88,853	20,579,480	97.0%
Asset Sale	0	0	59,459	954	0	60,413	52.7%
Capital Return	0	0	0	26,065	0	26,065	20.4%
Total Revenue with Asset sale	6,293,259	10,182,898	2,297,113	1,803,834	88,853	20,665,958	96.3%

Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

Chart 1 Organization of the Ministry of Finance of Laos



Source: Ministry of Finance of Lao PDR

3.2.6 Current situation of tax policy and administration

After the Public Finance Development Strategy 2025 and Vision 2030 In 2017 was approved in July, 2017 by the Prime Minister, the Tax Strategic Development Plan 2018-2020 was approved by the Minister of Finance. The Tax Strategic Development Plan defined detailed tasks of tax administration in contributing to the aforementioned Public Finance Development Strategy to support its implementation to achieve Vision 2030, the Social-Economic Development Strategy 2025 and the 8th National Socio-Economic Development Plan (2016-2020).

To overarching goal of Vision 2030 and the Public Finance Development Strategy 2025 is to rectify the foundation for Public Finance Management, to ensure macro-economic sustainability, to explore the revenue potential to support the implementation of a National Socio-Economic Development Plan and to create favorable conditions for Lao PDR to get rid of the status of the Least Developed Country by 2020.

The Strategic Development Plan clearly spells out the direction and focus for the tasks, based on observations of lessons learnt in the past 5 years, of tax administration in the next three years in order to modernize tax administration and contribute to implement the Public Finance Development Strategy. This plan also identifies approaches to ensure the need for changes in the future of tax administration and ensure that the tax revenue collection will be increased at the level of 16-18 percent of GDP, as well as to support the macro-fiscal objectives of the Government.

The Tax Strategic Development Plan plays important role to formulate robust and required foundations in support of modernizing tax administration. The main mission aims to improve timely taxpayer services, fairly collect revenue and comply with laws to support budgetary revenue streams for national building and development and economic growth. It is expected that this Tax Strategic Development Plan will support the above-mentioned missions.

Tax Strategic Development Plan focuses on four development programs. The first program is to strengthen legal frameworks, the second is to improve revenue collection, the third is to modernize tax administration, and the fourth is to build staff and institutional capacity. In this plan, there are targeted tasks and prioritized subprograms, being implemented in the next few years. These development programs will be beneficial to various functions of tax administration.

4. Assessment of Domestic Revenue Mobilization in Lao PDR

4.1 Assessment of tax revenue development from the previous reform measures

Lao PDR made good progress at economic reform through implementing its "New Economic Mechanism" in the first half of the 1990s. The average growth rate was 7-8 percent. However, from 1997 the reform momentum waned. Ambitious investment plans, especially irrigation projects to achieve rice self-sufficiency, were pushed through despite domestic resource constraints and the Asian crisis in 1998-1999 with inflation at its highest record of 130%.

The serious concerns were solved by tightening macroeconomic policy to quickly bring down inflation and stabilize the exchange rate and strengthen tax administration. Since then inflation fell sharply from 130% in mid-1999 to 9 percent in early 2001. Revenue grew by more and more as the targeted increase stemmed mainly from better reporting of timber royalties, and strong efforts to improve tax administration, specifically through developing more effective procedures for the large taxpayer unit, which was supported by IMF technical assistance. The 7th Lao Revolutionary Party Congress took place in 2001, and stressed the importance of economic development as the means for poverty reduction, and recognized the problems arising from attempting this through inflationary financing. With respect to high political commitment to the pace of policy implementation, the leadership continues to favor a carefully phased and market-based approach, to avoid major disruptions that could undermine the consensus for reform. On the fiscal side, keeping the overall deficit to an average of around 5 percent of GDP during 2001-2003, and protecting medium-term sustainability by relying mainly on external concessional financing, and avoiding domestic bank financing were enacted. In fiscal reform, fully implementing administration reforms, developing the system of LTUs, strengthening customs department, reducing tariff exemptions, and rationalizing the excise duty system, continuing to improve tax administration, better management of non-tax revenue sources, focusing on large taxpayers in preparation for the introduction of a VAT in 2003 (however, VAT law was approved in 2006 and come to enforce in 2010). From those reforms, revenue performance then gradually increased.

Tax revenue has almost been rising trend in Lao PDR from 9.1 percent of GDP in 2003 to reach 14.1 percent of GDP in 2013. Performance of tax revenue then slightly decreased to 13.9 percent, and 11.2% of GDP in 2015 and 2018, respectively. The declining growth was caused by the slowdown in global and regional economies, falling worldwide prices of mining products and oil, which caused some mining companies to temporarily stop their gold production operations and reduce their production exports. The price of agricultural products, such coffee, rubber, also did not recover, hence, resulting in reduced tax collection. Furthermore, the slow economic growth in recent years and exemption and/or tax holidays under the Law on Investment Promotion has affected budget base. Consequently, tax revenue-to-GDP has been slightly decreased (Figure 8).

The 2006 revised Budget Law envisages the centralization of tax, customs and treasury administration and reform of inter-government fiscal relations.[7] Some changes in revenue assignment were affected in 2007. As a result, tax revenue has increased by 1.4 percent of GDP from 10 percent of GDP in 2006 to 11.4 percent of GDP in 2007.

VAT replaced turnover tax and was enforced in 2010, leading to VAT increases of 0.5 percent of GDP compared to the previous year and became the largest source of tax revenue accounting for 25.9 percent of tax revenue in 2010. VAT steadily increased year by year to 4.5 percent of GDP in 2015 (resulting from policy reforms by revising VAT law in 2014), and increased to 1 percent of GDP compared to 2010, due to higher effective VAT on petroleum (by eliminating VAT exemption on oil imported), luxury goods, and vehicles, stricter enforcement of customs rules, and other efforts to strengthen tax administration and enhance compliance. Weak mining revenue to offset the gains from overall administrative efforts resulted in an expansionary revenue stance. Profit tax, which was the third largest revenue source, declined by 0.8 percent of GDP in 2010 compared to 2009 mainly due to the effect of global recession, and then slightly decreased year by year to around 1.4 percent of GPD in 2018, due to the economic slowdown and may be impacted from reducing general profit tax rate from 35 percent to 24 percent in 2015.

Lao PDR has revised VAT Law in 2014 and revised tax law in 2015 to rebuild fiscal buffers. A key reform objective of tax policy and administration was to boost the tax-to-GDP ratio to build space for priority spending and investment. Non-commodity revenue could be raised by broadening the tax base, including exemptions, and strengthening tax administration by taking some important measures to improve the valuation of imported vehicles, to calculate import taxes, eliminating

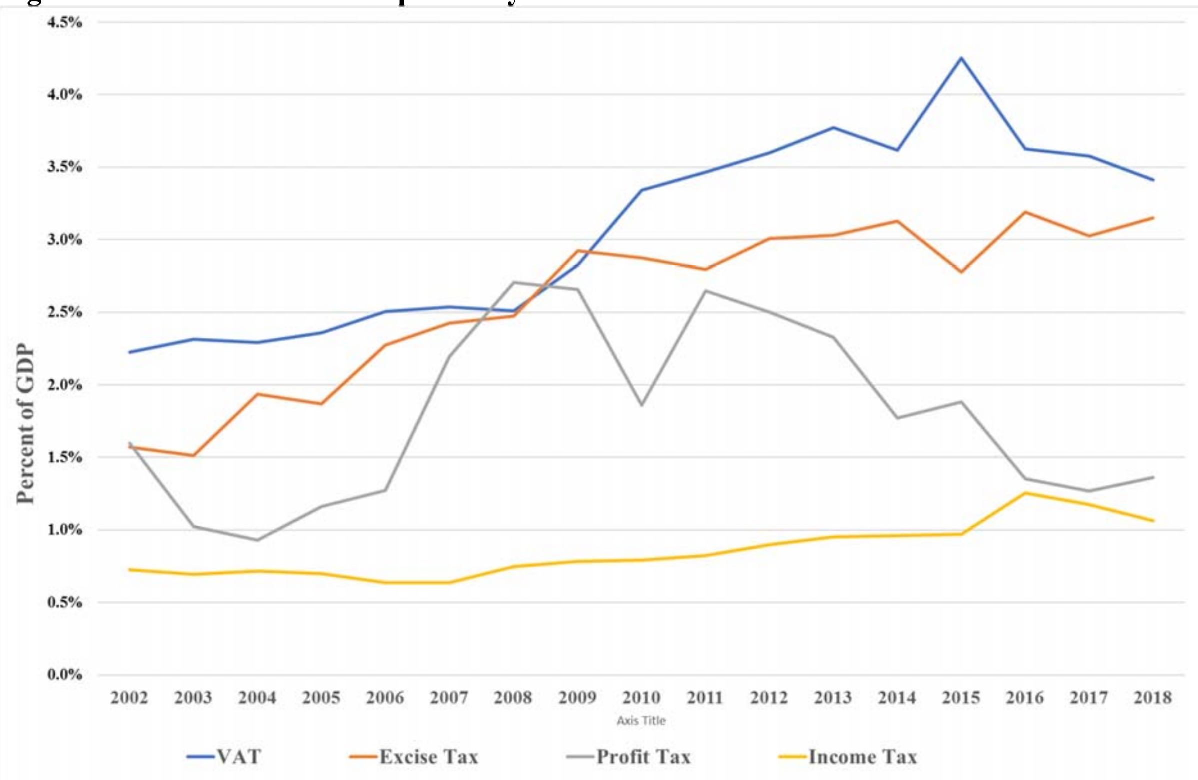
[7] Taxes accruing fully to central government will now include import duties, turnover and excise taxes on imported goods, and mining taxes. Taxes accruing fully to local authorities will be limited to land and personal income tax. the turnover and excise taxes on domestic goods and the profit tax will be shared according to criteria mentioned in regulations.

exemptions for oil imports in public projects, revising excise taxes, and better administrating VAT. This led to VAT increasing by 0.7 percent to GDP in 2015 compared to the previous year. However, excise tax slightly declined by 0.3 percent of GDP in the same period, due to a drop in the number of vehicle imports affected by changing the valuation of imported vehicles (changing from middle price declaration to CIF prices).

VAT law was revised in 2018, setting good treatment and becoming clearer in principle in terms of timely refund, elimination of the zero rate for some imported raw materials, and a 10-percent rate for mining production exports. In addition, revised tax administration, new income tax and excise tax laws which were approved in mid of 2019, further development of property tax and land tax, as well as revised relevant regulations are expected to lead to larger revenue gains for Lao PDR (Figure 9).

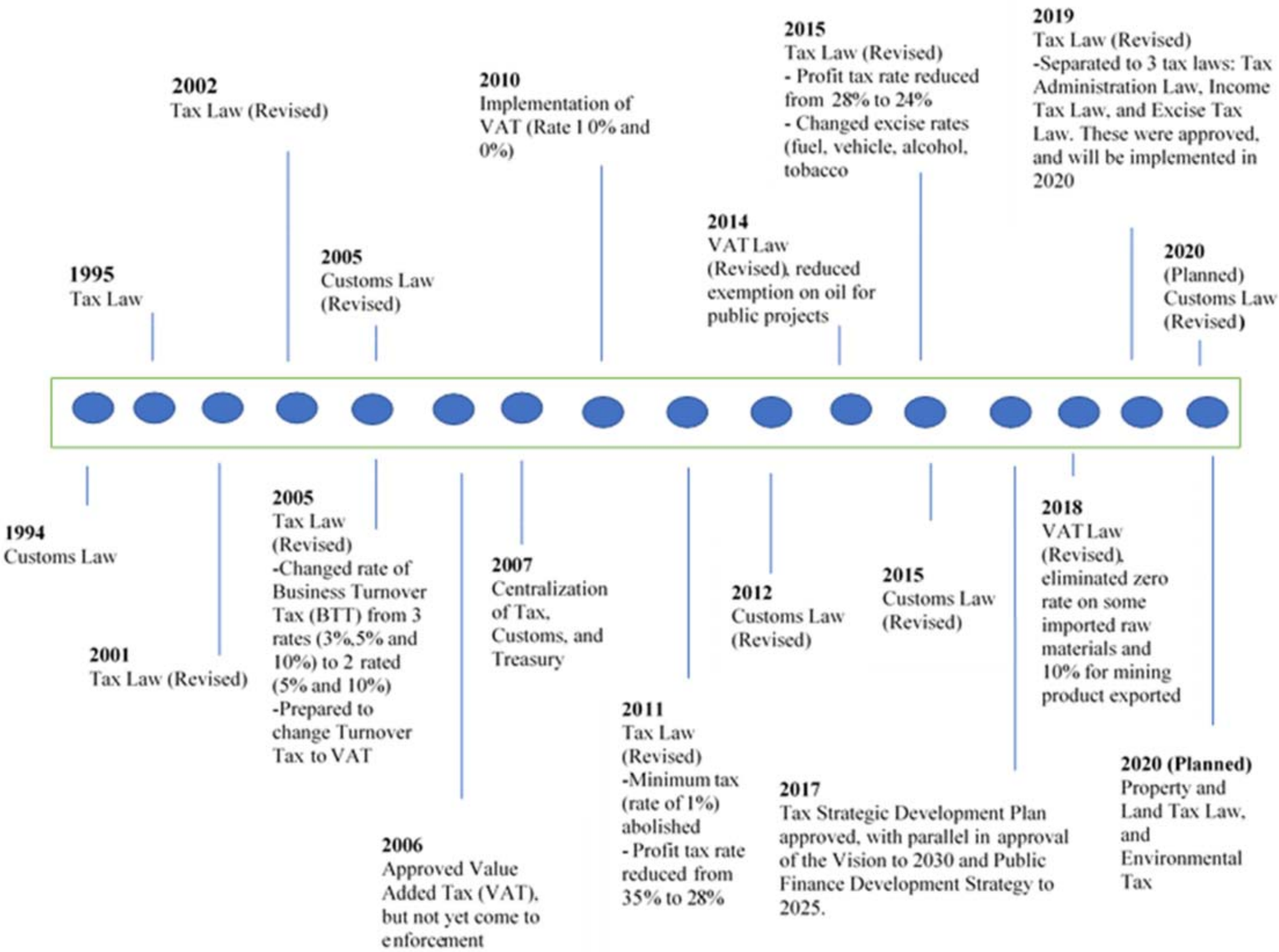
General observations as shown in Figure 4, the growth rate of domestic revenue collection continuously increased year by year from 2001 to 2018 resulted from reform and administration measures taken in the related periods of time.

Figure 8. Tax Revenue Development by Items in Percent of GDP from 2002-2018



Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

Figure 9. Timeline of Major Tax and Customs Reforms in Lao PDR (1995-2020)



Source: Ministry of Finance, Lao PDR

4.2 Public Finance Development Strategy

Over the past 15 years, under leadership and close guidance of the Central Party Politburo and the Government, public financial management (PFM) in Lao PDR has continuously developed.[8] The political and the government commitment have considered PFM essential for implementing macroeconomic management policy and for drafting policy direction to the Congresses of the Central Party Committee and in the National Socio-Economic Development Plan (NSEDP).

The Ministry of Finance (MOF) is directly responsible for PFM, on behalf of the Government. To this means, MOF develops and improves policies, measures, and mechanisms to manage revenue and expenditure in line with relevant laws and regulations. MOF is mandated to develop and modernize PFM tools with aim of increasing annual revenues, financing socioeconomic development. This discipline contributed to the achievement of the Millennium Development Goals (MDGs) and national poverty reduction goals.

In the past decade, aligned with the NSEDP, PFM included considerable efforts to improve revenue and expenditure management. Budget revenue has steadily increased year by year to provide financing for the implementation of the NSEDP.

In 2005, the government approved the Public Finance Management Strengthening Program (PFMSP), phase I of the Public Finance reform (2005-2017). The key objectives of the program are to enhance efficiency and effectiveness of financial management aimed at strengthening and transparent PFM in the country through policies and legislation, budget revenue-expenditure development and the use of modern tools in order to support national economic growth. The government has put in place revenue policies to promote private investment and business operations with the aim to expand revenue sources and increase tax collection. The underlying objective of improving the tax regime was to ensure a level playing field for domestic and foreign businesses by creating conditions to facilitate continuous growth and promote investment in productive industries. At the same time, tax management and relevant procedures were simplified to be faster and more transparent. Introducing modern tools, such as ASYCUDA, X-ray machines at international border checkpoints, and transfer tax payments through banking systems (Smart Tax,

[8] Vision to 2030 and Public Finance Development Strategy to 2025, Lao PDR

Easy Tax and others) provided incentives for taxpayers to fully comply with their obligations and act in accordance with laws and regulations.

Lao Party and Government guidance and policies were translated into laws and regulations, including new fiscal legislation to gradually align revenue management with related legal framework. This legislation aimed at addressing revenue leakages, and moving towards modern PFM practices. For example, revised legislation includes: The Tax Law, VAT Law, Customs Law, State Budget Law, State Assets Law, Accounting Law, Independent Audit Law, and Insurance Law.

Over the past years, PFM in Lao PDR has been developed and strengthened and several tasks assigned by the Lao Party and the Government have been completed. However, the PFM system still faces challenges which have to be addressed in order to address the needs. For instance, revenue has not been centrally managed, budget revenue management has not been effective and not fully in accordance with legal frameworks, there has been an increase in leakages and IT systems are not able to provide access to information. The review and development of policies and measures to build a sustainable revenue base have been slow, and the public servants, especially in the public finance sector have not been well-trained.

Lessons learned from the past years in order to improve PFM include: leadership from high management level, staff training, fiscal self-reliance by focusing on exploiting potential revenue sources to gradually reduce fiscal reliance on external financing, and related PFM legislations should be developed, with clear division of responsibilities in revenue management between the central and local levels, and cooperation with foreign countries and international organizations should be expanded.

After long development of PFM reforms, the Public Finance Development Strategy 2025 and Vision 2030 In 2017 was approved in July 2017 by the Prime Minister. The Tax Strategic Development Plan 2018-2020 was approved by the Minister of Finance. The Tax Strategic Development Plan defined detailed tasks of tax administration in contributing to that Public Finance Development Strategy to support its implementation to achieve Vision 2030, Social-Economic Development Strategy 2025 and the 8th National Socio-Economic Development Plan (2016-2020).

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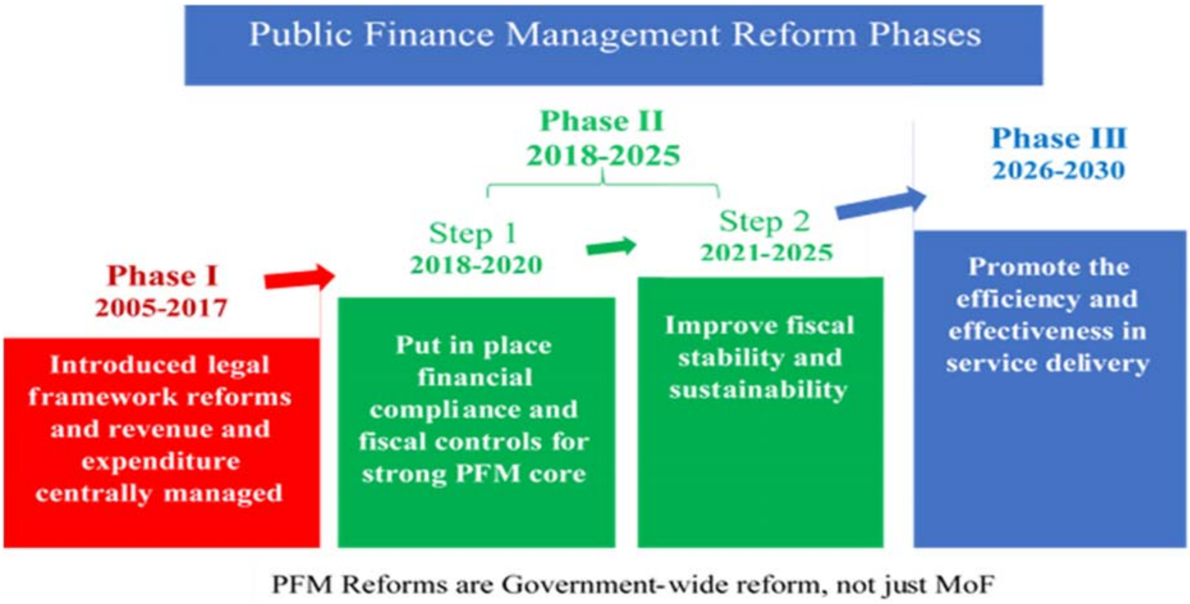
The Tax Strategic Development Plan plays important role to formulate robust and required foundations in support of modernizing tax administration. The main mission aims to improve timely taxpayer services, fairly collect revenue and comply with laws to support budgetary revenue streams for national building and development and economic growth. It is expected that this Tax Strategic Development Plan will support the above-mentioned missions.

The Tax Strategic Development Plan focuses on four development programs. The first program is to strengthen legal frameworks, the second is to improve revenue collection, the third is to modernize tax administration and the fourth is to build staff and institutional capacity. In this plan, there are targeted tasks and prioritized subprograms being implemented in the next few years. These development programs will be beneficial to various functions of tax administration.

The Vision to 2030 and Public Finance Development Strategy to 2025 was approved by the Prime Minister in July 2017. The objective of this vision and strategy is to strengthen public finances. In line with the Resolutions of the IX and X Party Congress and to support the implementation of the Vision to 2030 and the National Socio-Economic Development Plan (NSEDP) 2025, public finances should grow, be sustainable, comprehensive and integrated regionally and internationally. This will contribute to sustaining dynamic and stable economic growth, and to the national economic structure in line with the Party's guidance on industrialization and modernization. At the same time, focus is on protecting the environment, creating prosperity, and enhancing the livelihoods of people of all ethnic groups, as well as graduating from LDC status by 2020.

There are 10 strategies defined in the Strategy to 2025 and Vision to 2030, implementing in three phases (Figure 8), including maintaining macro-economic stability, revenue policy and resource mobilization to maximize revenue collection, expenditure policy and rational spending for effective development, efficient and prudent public debt management, sound political ideology and adequate technical capacity for civil servants, strengthening accounting and auditing and financial inspection, modernization of public finance entities in line with regional and international trends, development and improvement of a comprehensive public finance management framework, international integration and cooperation, and management and development of SOEs. The action plan for 10 strategies to implement detailed activities to 2025 also improved by the Minister of Finance of Lao PDR. The Ministry of Finance in coordination with donors/WB is currently in the process of reviewing and updating the implementation of the phrase I to early step 1.

Figure 10. Public Finance Management Reform Phases



Sources: Ministry of Finance of Lao PDR

The main strategies, among the 10 strategies, with relation to revenue mobilization are maintaining macro-economic stability, revenue policy and resource mobilization to maximize revenue collection, sound political ideology and adequate technical capacity for civil servants, strengthening accounting and auditing and financial inspection, modernization of public finance entities in line with regional and international trends, development and improvement of a comprehensive public finance management framework, international integration and cooperation. There are 4 development programs which determined further details in the Tax Strategic Development Plan 2018-2020 to support PFDS such as strengthening legal frameworks, improving revenue collection, modernizing tax administration, and building staff and institutional capacity.

The report on Lao PDR-Public Finance Management Modernization Program 2016-2018, World Bank (2018) indicates the status of PFM System in Lao PDR and Public Finance Development Strategy to 2025 and Vision to 2030 in terms of revenue policy and administration. The status of PFM System with relevant tax administration has improved initial steps to follow international practices. The Tax Department (TD) has established a Revenue Collection Division (RCD) for large taxpayer compliance management. The large taxpayers (LTs) overseen by RCD currently contribute around 40 percent of total tax revenues, a relatively low ratio compared to international standards. This shows that through more targeted and improved compliance monitoring, the tax collection of this segment could be increased. Compliance management is focused on retroactive, often desk-based, audit and enforcement, and sector-specific knowledge, and analytical capacity by tax officials has so far been limited to the mining and hydropower sectors.

The Vision to 2030 and Public Finance Development Strategy to 2025, approved in 2017, is an important step to guide PFM system reforms. The strategy is accompanied by action plans for the step 1 of the second implementation phase 2018-2020. It includes actions commonly recommended as minimum requirements of a core PFM system such as an adequate regulatory framework, a sound accounting system and treasury-centric budget execution processes, a realistic budget preparation process, and ultimately a core Financial Management Information System (FMIS).

4.3 Tax policies

3.3.1 Review tax policies to contribute to amending existing and draft new legislatives

Strengthening legislative framework has to be in place to support the objectives of a macro level economy. Based on the five-year plan (2016-2020) of legislative framework improvement of the Ministry of Finance (MoF) of Lao PDR and TDSP to 2020. Under these plans, VAT and Tax Law has been revised; Property and Land Tax Law, Environmental Tax Law need to be developed as new tax to propose to the National Assembly to be approved in 2020. The reviews and completions of legal frameworks have improved up to 2019. VAT has been revised and approved by the National Assembly and implemented in 2018. The Tax Administration Law, Income Tax Law, and Excise Law which were separated from the previous Tax Law have been approved by the National Assembly in June 2019 and will be implemented in January 2020.

Tax Administration Law provides uniform procedural administrative rules applicable to all inland taxes. The Tax Administration Law is structured around the core procedural and administrative tax functions in terms of identification of taxpayers (registration and tax identification numbers (TINs)), record-keeping, filing tax declarations, determination of tax liabilities (tax assessments), collection and recovery of tax, dispute resolution, and penalties and offences. The Tax Administration Law is a main tool to ensure consistency in the administration of inland taxes, reduce compliance and administration costs, and promote greater transparency as all the administrative and procedural rules in law. Tax-specific timing rules determined in the primary tax law such as the due date for filing tax declaration and payment of tax differs from tax to tax, and the Tax Administration Law then provides uniform rules. Actual obligation to file a particular tax declaration and the deadline for filing is tax-specific and also defined in primary tax law.

Income Tax Law, new law that separated from the previous tax law, includes profit tax (corporate income tax), micro enterprise tax, and personal income tax, providing procedures and rules for income taxes in order to fully collect all sources of income required by law. Profit tax, as per international norms, applies for residents' taxes on worldwide income and for non-residents' taxes on domestic-source income only. The standard rate of PT is 20 percent and this is in the middle of the average nominal CIT rate in the region (between 15-30%). The profit tax rate for enterprises that produce, import, and sell tobacco products is 22 percentage points with the 2 additional percentage points transferred to the Tobacco Control Fund. The rate for enterprises listed on the Stock Exchange is 13 percentage points for first 4 years and thereafter applying the standard rate. For those businesses who invested in mining sector shall have 35 percentage points applied as PT rate. Micro enterprise tax applies for micro businesses, those who have annual business turnover of more than LAK 50 million to less than LAK 400 million with the rates of 3 percentage points, 4 percentage points, and 5 percentage points for agricultural, trade, service sectors, respectively. Those which have business turnover of less than LAK 50 million are exempted. Personal income tax applies to individual income tax structured as a scheduled tax and separate taxes on different classes of income. The individual income tax rate for wages and salaries is a progressive tax rate between 0 percentage points to 20 percentage points based on income earned. For other individual income has different rates regarding on different types of incomes.

The revising of VAT Law provided more comprehensive principles, procedures, and rules that apply to Lao and foreign individuals, entities and organizations that import, purchase or consume goods and services in the territory of Lao PDR. Also, overall revised VAT created good conditions and the environment to support business competitiveness and investment such as simplifying the VAT refund system in a timely and more effective manner. The VAT rate is 10 percentage points for goods and services that are imported, produced and consumed in Laos that are subject to VAT, and 0 percentage points for exported products. The zero rate for importing some raw materials and 10% for exporting unfinished mining products were eliminated.

The Excise Tax Law, a new law that separated from the previous tax law, provided more comprehensive principles, procedures, and rules that apply to Lao and foreign individuals, entities and organizations that import, purchase goods and services that are subjected to excise tax in the territory of Lao PDR. This new law revised some goods and service items subjected to excise tax. For example, deterioration of goods related to necessary daily living, lower rates for internet services, fuel, motorbikes, and raising rates for alcohol and tobacco.

In addition to approval of those revisions and new laws, there will be new laws and regulations needed to be drafted, revised and approved in 2020 such as the Property and Land Tax Law, Environmental Tax Law, Presidential Ordinance on Land Tax, Prime Minister's Decree on Invoice, Prime Minister's Decree on Tax Identification Number (TIN), and other remaining regulations to identify further amendment which currently are in the progress of reviewing and drafting. These amended and revised legislative and regulative frameworks will also be expected to support the collection of taxes in Lao PDR to ensure that Lao macro-economic objective of increasing the tax to GDP ratio can grow in the medium term.

3.3.2 Broaden tax bases

Broadening tax bases is core component of tax system in Lao PDR. With over 80 percent of the profit tax base estimated to be exempt, simplifying and broad-basing VAT and profit tax are important (see IMF Country Report, 2019). VAT is one of the key components of the tax system, however, the experience with VAT implementation has highlighted that the VAT system is not operating at an optimal level and compliance with VAT obligations represents a significant risk. The effectiveness remains low in expanding the VAT base to register the taxpayers whose annual turnovers are LAK 400 million or more and the account keeping and the use of tax invoices are not properly organized. This leads to incomplete amounts of revenue collected with problems of revenue leakage. Specifically, action needs to be taken to secure collections of VAT revenues. Risks that will be addressed regarding strengthening the compliance framework around the registration process and detecting unregistered trading (registration threshold of LAK 400 million), and identifying traders who conceal sales and do not pay the correct amount of VAT. To respond to these risks a VAT compliance strategy will be implemented that encompasses critical taxpayer services and enforcement components. For example, in 2018 the introduction of a pilot project in one province has to be began to explore opportunities to identify the taxpayers who should be registered for VAT, and the pilot should increase publicity of taxpayer registration obligations and help adoption of an audit/inspection program to identify taxpayers who should be registered. This pilot project will be reviewed on its outcomes and expanded in its approach to include additional provinces and a post-filing VAT audit program consistent with international practices, including fast/quick audit and dedicated resources that need to be strengthened.

4.4 Tax Administration

3.4.1 Revenue collection improvement

According to the goal of TSDP, increasing effectiveness in revenue collection based on relevant laws is a clear priority to support the goal of increasing the ratio of tax revenue GDP. The revenue collection improvement should include taxpayer compliance, consolidating management of large taxpayers, broadening of tax bases, and taxpayer services.

3.4.1.1 Improve taxpayer compliance

Taxpayer compliance needs to be improved in order to implement tax policy and maximize revenue collection. The role of the tax administration in a self-assessment environment is to help taxpayers to understand their obligations and to take action against non-compliers in particular those exhibiting the highest revenue risks. Recently there are not relatively high levels of filing compliance and limited audit coverage of the largest taxpayers under the central level control. There will be strengthened focus on the key business functions of the tax administration to improve overall levels of taxpayer compliance with a specific focus on compliance with filing and payment obligations and the accuracy of reporting of tax liabilities. The tax administration will take steps to deter non-compliance and take consistent action to treat specific areas of non-compliance. Progressively government will improve the allocation of resources of those activities that have the biggest impact on compliance and revenue collection. The tax administration will also strengthen the audit program and adopt international practices and techniques to effectively increase the risk of detection of non-compliance. The tax administration will strengthen the focus on the provision of taxpayer services and ensure that taxpayers have the information and support needed to meet their tax obligations including through the website and outreach programs.

The improvement of taxpayer compliance, under TSDP's programs 2018-2020, has been in place to support taxpayer compliance to improve revenue collection. In 2018, The Tax Department has almost finished in determining the causes of discrepancies between Industry and Commerce and the Tax Department registration statistics and developed to address major discrepancies, and reviewed and revised the audit program and the audit manual consistent with relevant international practices (based on risk) to strengthen audit coverage. In addition, there are further programs of taxpayer compliance needed to be achieved. For instance, (1) strengthening in filing and payment compliance of large and medium taxpayers and redeploy staff from lower priority work to apply the enforcement measures outline in law and various operating manuals; (2) exploring the process and requirements to develop formal instruments to access additional third-party data at the government level and with financial institutions domestically and internationally; (3) utilizing third-party data to verify the accuracy of information provided in returns filed by taxpayers.

Another activity to strengthen large taxpayer compliance was the preparation of a risk-based approach and model. The risk-based approach is commonly used as an instrument for compliance management and the selection for a tax audit. Based on a set of risk criteria, the risk-based approach model allows prioritizing and ranking taxpayers by different tax risks and to focus its resources on the taxpayers that are most risky from a compliance perspective. On the operational level, the risk-based approach is also used to support taxpayer services and revenue collection processes in the tax administration. Compliance management of large taxpayers, including the preparation of the taxpayer service and communication strategy is also necessary to improve to strengthen taxpayer compliance.

3.4.1.2 Consolidate management of large taxpayers

Typically, a small percentage of the overall taxpayers contributes the bulk of taxes, in many countries, the percentage is about 70 percent (typical large taxpayers).[9] Tax administrations in many countries therefore have created special LTUs to improve the monitoring and to strengthen voluntary compliance of this taxpayer segment. The RCD in the Tax Department in Lao PDR is tasked with the compliance monitoring of large taxpayers, and currently oversees more than 500 companies. An analysis indicated that in Lao PDR, the top 10 taxpayers were responsible for 66 percent of total large business tax collection in 2017, and the top 50 taxpayers represent almost 90 percent of total large taxpayer collection. This percentage increases to almost 95 percent for the top 100 businesses in the RCD, and to 97 percent for the top 200 businesses. This, in principle, indicates that the collection performance of the RCD would not be negatively affected by reducing the number of businesses administered by the RCD by half. As a second step, the generally accepted criteria for determining the large taxpayer segment, such as the business turnover and/or the value of business assets, were applied to companies in strategic sectors (hydro-power, mining and banking) to assess which taxpayers should be monitored by the RCD.

Consolidating management of large taxpayers needs to be improved. In line with international practices, there needs to be effective compliance management of those taxpayers that account for the large share of tax revenue. A more sophisticated approach to managing compliance of our large taxpayers is needed. As an initial step it is important that steps are taken to focus on those taxpayers who are genuinely large taxpayers and improve taxpayer compliance. Over the period 2018-2020 of tax objectives aim to establish specific organization arrangements for the management of large taxpayers. This includes centralized management and oversight of large taxpayers and the implementation of consistent compliance strategies across the large taxpayer segment. In order to strengthen large taxpayer compliance, the priorities include: (1) implementing organizational changes to clarify the accountability for large taxpayers, (2) determining an appropriate criterion for identifying large taxpayers, (3) implementing strategies to ensure high levels of filing and

[9] The report on Lao PDR-Public Finance Management Modernization Program 2016-2018, World Bank (2018)

payment compliance, (4) strengthening the audit function, and (5) progressively improving the level of skills, knowledge and expertise of staff.

In 2018, the Tax Department has identified an appropriate criterion to determine the large taxpayer segment and in 2019, the pilot that simplified the tax regime with the 5 districts including the Vientiane Capital (subject to legislative process) was started. In addition, in 2020 the Tax Department needs to further focus on revising manuals and instructions and standard operation practices on accounting/tax audit/risk analysis/filing and payment of taxes to be consistent with Lao legislation and international practices and to ensure those tools are applied consistently to the large taxpayer base, and managing the tax compliance of multi-national enterprises to address international tax risks, such as transfer pricing.

3.4.1.3 Improving Taxpayer services / public awareness / self-assessment and filing

Compliance is needed to achieve through taxpayer's service and enforcement. Good tax administrations ensure that both these aspects of compliance work together to ensure all the revenue due is collected. The aims of strategy are to improve its approach to taxpayer service to ensure that taxpayers are aware of their responsibilities and obligations as well as their rights and entitlements under the law. It is important to focus on registration, payment and filing obligations and develop materials to assist taxpayers which will be available through the Tax Department's website, in the media and through effective aids to remind taxpayers of their obligations.

In 2018, the Tax Department developed appropriate training, education and awareness strategies to ensure taxpayers can comply with the simplified tax system. For instance, it has completed the training on VAT, accounting audit, land tax revenue collection, training of trainers for VAT and disseminated information to the businesses on tax related matters and VAT both at central and local levels. It also continued to organize training on management and use of specific invoices issued by Point of Sale (POS) devices for the tax staff of the Tax Department, Vientiane Capital Tax Department and the enterprises. Moreover, in 2020 the 3 programs should also be achieved. For example, assigning organizational responsibility for taxpayers services and develop a broad taxpayer service program to ensure taxpayers have the necessary information and support and to assist them to meet their obligations under law, conducting campaigns (including media) to raise taxpayers and other stakeholders' awareness of new or amended laws and regulations, and reinforcing registration and filing and payment obligations for all tax types through enhancement to the Tax Department website and taxpayer awareness campaigns (proactive articles in the media, development of a tax calendar and outreach programs).

3.4.2 Modernization of tax administration system

The modernization of tax administration systems needs to focus on the areas of information and communication technology (ICT) development for tax administration as it is an essential area for tax administration reform, strengthening headquarters to improve revenue collection management, and the allocation of resources and organizational structures which should be initiated at the central level and then rolled out to local levels. International cooperation in tax administration is also an area of priority to ensure that there are conditions for economic activities with international features, and internal control and integrity is one area of reforms to assess risk management, governance and operation more effectively.

3.4.2.1 Improve information and communication technology

Improving use of technology is necessary to modernize the public financial sector to align with regional and international standards. Modern tax administrations take advantage of information technology to deliver effective administration of tax laws. For instance, the land title management has been developed and improved by computers and has been piloted in 6 villages of 2 districts and 2 provinces, in which the basic data on land inventory could be collected and the database has been compiled, especially the data collected from other sectors. For the Land Revenue Management Collection System (Land Tax), the immediate plan is to collaborate with commercial banks who provide services to develop the collection system and mechanisms which were used in 2018. In addition, there are plans to develop the system to manage Land Tax which is based on the current pilot in Vientiane Capital and this interface is being developed with the Land Department of the Ministry of Natural Resource and Environment to determine future implementation of the system. Over the next 3 years the government needs to invest in a new core tax administration information technology system to greatly improve the technology base. The Taxation Revenue Information System (TaxRIS) has been launched in early 2019 which aims to deploy into the Tax Department and 5 provincial tax departments (Vientiane Capital, Viengchan, Luang Prabang, Savannakhet, and Chamasak). TaxRIS will provide central databases operating on an updated technology platform. Data will be shared across sites to ensure more effective administration and to remove a number of manual reporting requirements. Additional technology investments are also being implemented to support point of sale technology to verify the accuracy of income reporting as well as the development of systems to support the land tax and road fees.

The programs will continue to 2020 on extending TaxRIS progressively across remaining 13 provinces (after 2019), establishing budget to cover the maintenance cost of TaxRIS post-deployment along with the cost of all software licenses required for the system, reviewing the pilot of the Computer Reservation System (CRS-POS technology) and determine further explanation of this technology to support reporting compliance, and monitoring the implementation of the Road Fee Payment and Collection System (developed by the commercial bank-BCEL) and identify opportunities for enhancements.

3.4.2.2 Strengthen Tax Department (headquarters)

The role of headquarters in tax administrations is to manage and deliver the macro management responsibilities. Currently central tax officials are divided between strategic and operational responsibilities. However, the day to day operations of collection revenue overwhelm the need to think ahead and guide the longer-term operations of the Tax Department. Changes are needed to the organization and government arrangements to realize a fully functioning headquarters. This will not be easy, but we plan to start with establishing headquarter roles for a small number of staff and functions and then increase the numbers and focus over the life of the strategic plan.

In 2018, the Tax Department has established a macro management function in the Tax Department, identifying a small group of staff to initially undertake this role and the tasks to be performed and priority to be assigned, transforming the 4-inner districts of Vientiane Capital for centralization. The Tax Department will continue increasing the numbers of staff and expand the role of the macro management function, progressively centralizing all provincial and district office levels (as per the new Mandate of Tax Department) with focus on central control over technical budget and personnel management to 2020.

3.4.2.3 International cooperation

Tax administrations have a strong focus on promoting cooperation and communication to enhance the efficiency and effectiveness of their tax administration. This includes dialogue at international forums to identify and discuss global trends understand regional developments in tax laws and administration, the sharing of best practices in taxpayer service and enforcement, capacity building initiatives and attendance at training programs. In addition, recent global initiatives including the Base Erosion and Profit Shifting (BEPS) project combined with the increase in global trade and cross border transactions with multi-national enterprises, advances in e-commerce require increased attention to ensure that Laos receives its appropriate share of global revenues. Up to 2020, strengthening engagement with international organizations and tax administrations to improve administration of tax laws (through identification of good practices and global tax risks) in Lao PDR, coordinating donor organizations' contributions to improve the effectiveness of tax administration in Lao PDR consistent with strategic goals.

3.4.2.4 Strengthen Internal control and integrity

There is a need to strengthen internal control and integrity is an important area to improve accounting, audit, and financial control. Internal inspection provides an objective assessment that risk management, governance and internal controls are operating effectively. A more systematic and structured approach is needed at national, provincial and district levels. Strengthening internal control and integrity provide stronger assurance that national policies and procedures are being applied and that improvements can be identified to improve various processes, identify risks, and assess the effectiveness of controls. In addition, there is a need for ongoing management oversight and monitoring so that internal controls are in place to ensure high levels of integrity and to detect and deter any fraudulent behavior. Since 2018 internal inspection guidelines have developed which ensure compliance with Tax Department policies and procedures to ensure integrity of tax administration, and reviewing the adequacy of existing internal control to mitigate risks related to fraudulent actions and ensure that TaxRIS complies with internal control frameworks. There is a need to continue to 2020 on strengthening the Internal Inspection program at national and local levels, and developing collaborative mechanisms with government agencies and State Audit Organization and Government Inspection Authority and the Inspection Department of Ministry of Finance.

3.4.3 Staff and institutional capacity development

Improving revenue collection by applying international modern systems including digital systems, requires the staff to improve their skills. The tax administration needs to apply technology in parallel with efforts for improving revenue collection and organizational strengthening and thereby there is the need to establish capacity building and skill development programs. Implementing the decisions of the Ministry of Finance on activities and organizations of the Tax Department will be an essential aspect to achieve revenue targets and to improve compliance by the tax administration.

3.4.3.1 Grow the capacity, skills of tax staff and staff rotation

Achievement of the outcomes of the Tax Department depends on developing the capabilities and expertise of the staff. Capability building requires a systematic management approach to learning and development in short, medium, and long-term programs as an integral part of workforce planning. Training and development programs can provide the right people with right skills at the right time for ensure that skill development strategies and plans reflect key capability requirements against identified business outcomes as identified in the Strategic Plan. A workforce plan will also be developed to address organizational gaps and focus on longer-term workforce needs associated with introduction of new work processes and technology.

For example, in 2018 the initiatives included centralization of the personnel data for the Tax Department in a central database which records relevant personal and skill and remuneration details, centralization of the management of salary and allowances/incentives of tax personnel in the Tax Department, and resolving of IT specialized skills and resources needed to support the Tax Department technology systems. In 2019 the Tax Department is in the progress of undertaking a skills audit to identify and record current skills for all staff.

The Tax Department will continue to 2020 on identifying workforce requirements (quantity and quality) to meet the strategic objectives and the key gaps and developing a plan to skill and redeploy staff to address the identified key gaps, strengthening the staff rotation program to ensure there is an appropriate match between job requirements and staff competencies, developing a skilling program which identifies areas of priority (IT, data analysis, taxpayer audit with particular focus on large taxpayers, and standard operating procedures), developing and implementing training programs to support the updated and new legislation and regulations, developing a skilling program to support staff (users, system administrators, managers and leaders) working with new technology and work processes prior to the implementation of new system (TaxRIS, Land Tax Information System, CRS).

3.4.3.2 Build Staff and Institutional Capacity

Build staff and institutional capacity needed to align with implementation of the ministerial decision on the organization and activities of the Tax Department. This ministerial decision came to an effect on January 2018. It defines the location, status, roles, duties, scope of authority, organization structure and working principles of the Tax Department. The organizational structure of the tax administrations is as follows. The Tax Department (Headquarters) has the following divisional structure: Organization and Administration and Finance, Internal Inspection, Legislation, Information and Technology, Revenue Service, Post-Filing Examination, and Planning and International Cooperation. For example, in 2018 the Tax Department established and operated the 7 Divisions within the Tax Department as detailed in the new Tax Department Mandate. This will continue to progressively implement the new organizational changes across all provinces and districts.

4.5 Donor support

The donor support was vital for implementation of the Tax Strategic Development Plan and the Action Plans in the past years and will further support in the future to achieve the goals.

- World Bank supported Lao PDR regarding the revenue policy and management, particularly relating to institutionalizing and strengthening LTUs through capacity building. Since revenue collection has declined in the past years, mainly due to decreases in mining sector, and that the budget revenue of Lao PDR to GDP ratio was at 16.3 percent in 2017 and income tax collection is especially low. The Lao Government is currently undertaking actions to strengthen the tax legislative framework through new and revised laws such as the VAT Law, Tax Administration Law, Income Tax Law, and Excise Tax Law.
- Cooperate with IMF to help writing the Accounting Audit Manual, Internal Inspection within Tax Administration, Filing-payment and Filling-payment audits, prepare reports on revenue collection management and revenue collection management analysis, support tax modernization and identify the future direction for Lao PDR.
- IFC has helped developing the Manual on Lump Sum Tax Collection, the training of trainers for tax officers and tried to disseminate such activities, developed the Manual for Managing Lump Sum Tax Collection and piloted its application in 2 districts.
- JICA has provided technical support in improving fiscal policy status and revenue collection in Lao PDR.
- Bilateral cooperation between the Tax Department of Lao PDR and the General Tax Department of Vietnam.
- Cooperate with other International Organizations to prepare the conditions for modernization of tax, and be able to attend trainings and seminars in tax-related subjects.

5. Conclusion and Recommendations

The paper identifies and makes an overall assessment of reform strategies highlighted by describing the main public finance development strategy, tax policy and tax administration measures undertaken, beyond inferring causality due to a lack of many factors such as sectoral composition of output, foreign aid and investment, external debt, and various political-institutional indicators which would require to be controlled to establish causality. The analysis above indicates that, despite the challenges that some reform strategies have in enhancing tax performance, gradual increases in tax revenue are achievable and, in some reform measures, within reach over relatively short periods of time, and some of those measures need more time to be achieved. It was notable, from the experience of improving domestic resource mobilization in other developing countries,[10] that some common observations emerge from the reform strategy and from the good practice to sustain and gain large revenue are often accompanied by the comprehensive strategy that interlinks tax policy reforms and tax administration reforms, and capacity enhancing measures in tax administration were most often observed in risk-based audits, management, governance and human resource strategies, as well as through enhancement to the IT system. Moreover, development of the Medium Terms Revenue Strategy is also of vital importance to support and to properly sequence reform measures and facilitate their implementation.[11] Tax capacity and tax efforts are essential to lead to sound revenue performance, while the nature of factors leading to higher tax capacity and tax effort may not be easy to implement in the short run. Tax capacity is mainly determined by some inherent features of the economy such as per capita income, rate of population growth, trade openness, share of agricultural value added in GDP, natural resource endowment, and quality of bureaucratic and political institutions. Tax efforts, on the other hand, are a function of the extent to which the country can exploit its tax capacity and relies on the nature of the tax regime, the quality of tax administration and the degree of compliance by the taxpayers, a tax structure that is easy to administer and comply with, an efficient tax administration and the

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10 Akitoby, Bernardin, Anja Baum, Clay Hackney, Olamide Harrison, Kerya, Primus, and Veronique Salins (2018), *"Large Tax Revenue Mobilization Episodes in Emerging Markets Low-Income Countries: Lessons from a New Dataset"*, IMF Working Paper 18/234, Washington, D.C.: International Monetary Fund.

11 Akitoby, Bernardin, Jiro Honda, Hiroaki Miyamoto, Keyra Primus, and Mouhamadou Sy (2019), *"Case Studies in Tax Revenue Mobilization in Countries"*, IMF Working Paper 19/104, Washington, D.C.: International Monetary Fund.

perception by taxpayers that the tax system is fair and they benefit from public services contributing to higher levels of tax effort.[12]

Overall findings of domestic revenue mobilization in Lao PDR in the past fifteen years resulted both from GDP growth and economic development and tax reform measures. Sound economic development policies also need to be well in place to maintain or support economic growth as well as sustainable revenue generation for the Government of Lao PDR. High management commitment and involvement of key agencies are of vital importance to support tax reforms to achieve revenue collection goals; continuously deepening both existing tax policy and revenue administration tend to see much larger and constant gains in the medium and long run; and a successful strategy often results from sound public finance management reform measures as well as a comprehensive reform strategy that should include a medium-term revenue strategy, which can help to properly sequence reform measures and facilitate their implementation. In addition, donor support is of vital importance to implement ongoing reforms to achieve their goals. It should be taken into account that further extension of study and deeper analysis by gathering more clearer data and information and using appropriate tools and techniques may be needed to find definitive answers on this topic for Lao PDR.

- **High-level management commitment and social dialogue with stakeholders should be continuously deepened further.**

High-level management commitment facilitates coordinated by all relevant agencies and encouraging implementation of strategy and taxation reforms should be continuously deepened to further improve tax and revenue performance. It was noted that in Low-Income Countries where institutions are weak and large taxpayers could use their political connections to avoid compliance, and politically driven tax loopholes or exemptions can undermine otherwise effective reforms, high-level management commitment, therefore, is critical to assist contain resistance of vested interests.[13] It is essential to observe, however, that high-level management commitment is

[12] Le, Tuan Minh, Leif Jensen, G.P. Shukla, and Nataliya Biletska (2016), *"Assessing Domestic Revenue Mobilization: Analytical Tools and Techniques"* Discussion Paper, No.15, Washington, D.C.: The World Bank.

[13] IMF (2019) notes that, among the case studies, tax reform was apparently driven by high level political commitment in some cases (e.g., Burkina Faso and Uganda); and USAID (2018) also notes that politically driven tax loopholes or exemptions can undermine otherwise effective reforms in case of the Philippines's experiences of tax reforms.

necessary but not a sufficient condition for successful tax revenue reform. High management alone, without a properly designed reform strategy or reform measures and reform action plans matching the staff knowledge and institutional capacity, does not lead to successful outcomes.

Social dialogue enhances buy-in from stakeholders. A buy-in from stakeholders would assist secure political and social support for tax reforms, as well as potentially improve design and implementation. Effective communication with stakeholders that focuses the intended benefits of reforms can help mitigate resistance to reforms. In a case study in Senegal, for example, the government enhanced the likelihood of the tax reform being implemented and sustained by undertaking consultation with employers and labor unions. In case of Laos, to translate the existing reform strategy and action plan to proper implementation, it should, thus, focus more on consultation with taxpayers and enterprises in order to deeper compliance with the reform strategy and action plan to achieve in proper manner.

- **Tax policy reforms**

Lao PDR needs more funds to support fiscal space due to the high level of public debt and an uncertainty of external position. Committed public finance management (PFM) and tax policy reforms are directed towards creating the necessary fiscal space. According to other developing countries' experiences and case studies, it has been shown that the best tax policy reforms are focused more on areas of removing/reducing tax exemption or tax incentives or tax holidays. Therefore, reviewing tax exemptions, including tax holidays, and tax incentives, by starting to gather information and data to assess these tax expenditures and building capacity for developing estimates of tax expenditure should take into account in Lao PDR. This will help to improve tax policy, revenue performance, and transparency of the tax system and better inform decision making. As tax expenditures represent forgone revenue for a government or hidden spending, so it is necessary for governments to assess these on a regular basis, including to quantify the overall size of revenue forgone, this tool is still being used in the learning stage for developing countries.[14] Development of property, land, and environment tax policies may generate more government revenue in the future, however, from the case study property tax played a limited role in both Low-Income and Emerging Countries due to legal loopholes and weak tax administrative capacity, specifically at the local level.[15]

- **Tax administration reforms**

Successful revenue mobilization rests on broad-based strategies that recognize that tax policy should go hand in hand with tax administration. It should be developed with the longer view in mind, as institutional changes happen only gradually. Measures to improve tax administration in Lao PDR should be continued to enhance an ongoing rollout of strategies which are highlighted in the Tax Strategic Development Plan 2016-2020 and further development and approval of a medium-term revenue strategy (MTRS) 2021-2025. Reviewing and further strengthening ongoing layout of the electronic tax payment systems, taxpayer registration, taxpayer services, and risk-based management systems, and improving organizational structure at central and local levels, and implementation of the automated Tax Revenue Information System (TaxRIS) will help to improve tax administration efficiency. Lessons learned from Japanese experiences to improve tax administration show that focus should be on the efforts to enhance services for taxpayers and to boost efficiency of tax administration by enhancing a variety of services for taxpayers while cooperating and coordinating with relevant agencies and private organizations. These include public relations activities and tax education relating to the importance and function of taxes and knowledge about tax laws; clarification of legal interpretation and of practices, procedures, and guidelines; centralization of taxpayer contact points; and efforts to improve taxpayer convenience in tax consultation and filing returns.[16]

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[14] Le, Tuan Minh, Leif Jensen, G.P. Shukla, and Nataliya Biletska (2016), *"Assessing Domestic Revenue Mobilization: Analytical Tools and Techniques"* Discussion Paper, No.15, Washington, D.C.: The World Bank.

[15] Akitoby et la. (2018)" Tax Revenue Mobilization Episodes in Emerging Markets and Low-Income Countries: Lessons from a New Dataset" Working Paper, International Monetary Fund.

[16] National Tax Agency Report 2019" Enhanced taxpayer services achieved by public relations activities, tax education, tax consultation, etc."

- **Development of medium terms revenue strategy**

In order to maintain sound macroeconomic policies and further deepening the reform agenda to reduce vulnerabilities, address structural weaknesses, and promote sustainable and inclusive growth. Lao PDR should prioritize to develop a medium-term revenue strategy 2021-2025 (MTRS) to provide a coordinated and sequenced approach to revenue mobilization reforms and encourage the relevant agencies to implement the strategy and to improve tax policy and administration.

A properly designed comprehensive tax reform strategy, including MTRS can facilitate reform implementation, with tangible results. Such a strategy will help to identify the areas of reform needs, harmonize reforms among three system components (tax policy, administration, and legal frameworks), properly sequence reform measures, and facilitate the implementation. In Burkina Faso, a comprehensive tax reform strategy was adopted in early 2010 to streamline tax incentives and simplify income tax legislation. More recently, Uganda initiated a process to adopt a MTRS, involving the reform of its tax system (tax policy, customs administration, and legal measures) to achieve its medium-target objective of rising tax revenues to 16 percent of GDP. Furthermore, a carefully-designed MTRS can be a useful guide to increasing revenue, and if effectively implemented, it would help to improve revenue performance in a relatively short period. And MTRS lays out a comprehensive medium-term revenue reform strategy, covering its policy, administration, and legal components. An increasing number of Low-Income Countries (LICs) are currently adopting (or considering adopting) MTRSs (Akitoby et la., 2019).

- **Donor support**

In general, donors play an essential role in providing financial and technical assistance and economic policy advice to support the implementation of National Socio-Economic Development Plan that aims to develop and assist the transition of a country for the development programs with stated goals. The Lao Government should continue to seek cooperation and support from donors for accelerating the socio-economic development to achieve the MDGs and to graduate from LDC status as well as to facilitate the integration to the regional and global level.

The donor support, specifically, is of vital importance for further implementation of PFM reforms and tax revenue reform agenda. Lao tax administration should focus on promoting cooperation and communication with donors to enhance the efficiency and effectiveness of tax administration. For example, strengthening engagement with international organizations and tax administrations to improve administration of tax laws in Lao PDR through sharing and identifying good practices and global tax risks, and coordinating donor organizations contributions to improve the effectiveness of tax administration consistent with strategic goals.

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