Approach of Successful USAID Tax Technical Assistance Projects

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Help Government and Tax Administration to:

• Strengthen systems to **improve voluntary compliance** (often by simplifying forms and taxpayer e-filing – Georgia, Albania, Moldova)

• Build **appropriate, risk-based audit and enforcement control** practices (El Salvador TPAR and FPEMP)

• Develop **integrated information data-base and IT system** – often achievable without use of COTS tax software (Georgia, El Salvador, and Palestine)
How can we improve voluntary compliance through improved taxpayer services?

How can DGII use risk-based criteria to identify fraudulent returns? How can we improve the prosecution to win more criminal cases/settlements?

Is there a low-cost way to ‘dun’ more late- and stop-filers to bring them back into compliance?

What type of integrated information database and what open-source IT software does the DGII need to make all of its major administrative functions more efficient?
What changes in risk-based audit selection (and assignment of the auditor) are needed to improve cost-effectiveness of the audit process?

What changes in audit tools can be automated to enable audit team to realize higher audit yields?

How can the operations of the Large Taxpayer Office be re-oriented to produce more revenue with existing staff?
## Benchmarking El Salvador Tax System

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>INTERNATIONAL BENCHMARK 2005</th>
<th>CENTRAL AMERICA BENCHMARK 2005</th>
<th>EL SALVADOR BENCHMARK 2005</th>
<th>EL SALVADOR BENCHMARK 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of taxes making up 75% of collections</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>VAT collection as percent of total tax take</td>
<td>35%</td>
<td>45%</td>
<td>52.5</td>
<td>50.49</td>
</tr>
<tr>
<td>Total tax revenue as percentage of GDP (gross)</td>
<td>18.00%</td>
<td>14%</td>
<td>11.50%</td>
<td>16.30%</td>
</tr>
<tr>
<td>Tax compliance rate (VAT)</td>
<td>69%</td>
<td>46%</td>
<td>62.47%</td>
<td>70.00%</td>
</tr>
<tr>
<td>Tax evasion rate (VAT)</td>
<td>10%</td>
<td>25%</td>
<td>40.90%</td>
<td>29.90%</td>
</tr>
<tr>
<td>Tax productivity rate (VAT)</td>
<td>0.58</td>
<td>0.39</td>
<td>0.47</td>
<td>0.54</td>
</tr>
<tr>
<td>Automated Services</td>
<td>YES</td>
<td>N/A</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Tax Fraud Unit</td>
<td>YES</td>
<td>N/A</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Planning Office Unit</td>
<td>YES</td>
<td>N/A</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Internal Control Unit</td>
<td>YES</td>
<td>N/A</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Fiscal Studies Unit</td>
<td>YES</td>
<td>N/A</td>
<td>NO</td>
<td>YES</td>
</tr>
</tbody>
</table>
El Salvador’s Tax Net Revenue, 2008 - 2014

- Revenue in Millions:
  - 2008: 2,885.7
  - 2009: 2,609.3
  - 2010: 2,882.8
  - 2011: 3,193.2
  - 2012: 3,433.9
  - 2013: 3,746.2
  - 2014: 3,814.0

- % GDP:
  - 2008: 13.5%
  - 2009: 12.6%
  - 2010: 13.5%
  - 2011: 13.8%
  - 2012: 14.4%
  - 2013: 15.4%
  - 2014: 15.2%
• Bringing international experience and adapting best practices to local conditions

• Using project experts to help break ‘skills bottlenecks’ and generate the changes that otherwise would not have happened

• Sustainability is always a challenge

• For El Salvador, a USAID focus on the IT system and IT components was particularly required