The TAXDEV Approach

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Motivation: The importance of evidence and context

The ability to design effective tax policy relies on understanding effects of existing, and proposed, policies.

Evidence from high-income countries and optimal taxation literature might not be as relevant in low- and middle-income countries (LMICs).

- Institutions, economic structures and political economies differ.

Choices about tax policy are shaped and constrained by a country’s:

- Economic structure
- Level of administrative capacity
- Levels and patterns of informality

Poorly designed tax and spending policies can exacerbate rather than alleviate poverty.
Tax policy challenges in LMICs

LMIC governments face a number of challenges in the design of tax policy:

1. Lack of theoretical and empirical evidence about:
   - Individual tax bases, and the impacts of policies and rates
   - How tax and transfer policies work together in fiscal system

2. Governments sometimes find it difficult to undertake rigorous analysis of tax policy:
   • Due to data, time, access to appropriate models and methods
TAXDEV has two key objectives:

1. Build partnerships with Governments in Ethiopia and Ghana to support improved skills and policymaking
   - Building skills and capacity developing tools and models, co-production, “learning by doing”, training and feedback
   - Through these partnerships – generate demand-led evidence and analysis of tax and transfer policies

2. Produce high quality, academic research
   - Research on tax issues facing low- and middle-income countries more broadly – contribute to body of evidence for LMICs

Reflects IFS’ broader approach and strengths – policy-relevant research, grounded in rigorous empirical and theoretical evidence
Objective 1: Skills and policymaking partnerships

1. Built tax and transfer microsimulation models (ETHTAX and GHATAX)
   • Use of survey data and STATA skills

2. Costed proposed tax policy changes in advance of Ghana’s 2018 budget
   • Use of administrative data
   • Analysis of policy rationale & taxpayer responses to policies
   • Review literature, identify key uncertainties and weaknesses in analysis

3. Conducted comprehensive review of the Ethiopian VAT and ToT system
   • Research and assessment of legislative and administrative system
   • Drafting of reports and dissemination of findings

4. Implemented data digitisation project in the Large Taxpayers’ Office (LTO) in Ghana
   • Drafted data sharing agreements
Objective 2: Produce high quality, academic research

Worked with a network of international researchers and policymakers to undertake in-depth research on four topics:

- VAT preferential rates, transfers and redistribution
- VAT and turnover taxes: impacts on firms’ trading networks and tax revenues
- Firm responses to policy and administrative thresholds
- Reviewing the evidence on corporate tax incentives
Lessons learned and implications for tax policy programmes

Data

Relationship between tax policy and administration

Translating tax research into policy and impact
Data

Strong focus on aggregate revenue data in LMICs, but we are working with partners to support increased use of micro-data for analysis

Micro-data is available, but sometimes in different places and difficult to work with

• Mapping, compiling and developing datasets could be a key contribution
  – Support civil servants to better respond to last-minute requests from politicians

Supporting policymakers to extract, use and share administrative data has broader benefits

• Build institutional experience of data sharing arrangements (DSAs) and of data security, transfer, storage
  – Policymakers and researchers can use data for analysis
Relationship between tax policy and tax administration

Understanding of administrative issues is a pre-requisite to undertaking tax policy analysis in LMICs

- Partial implementation of law and limited understanding by taxpayers

Relationship between MoF and RA is vital and RAs are key players in the policy-making process:

- RA staff have good understanding of data, and work with it regularly
- Excellent understanding of interaction between policy, admin, implementation challenges & how policies affect taxpayers

Can we encourage greater collaboration through tax programmes (if this doesn’t already exist)?

Interplay between admin and policy is crucial - more detailed research on tax admin is important
Translating research into policy and impact

Being responsive and adaptable is important
- Support policy makers to respond to urgent policy questions and needs in a timely way
- Sometimes tricky – how to do rigorous analysis with limited information and data?

But purely responsive research may have limitations
- Important to focus on crucial equity and efficiency effects of policies too

Possible tensions in combining programme of policy-oriented and academic research?
- Long-term, in-depth research projects need to be complemented by:
  - Building models and tools that can be used for routine analysis and reporting
  - Structured and organised training schedules and workplans
- Important to maintain momentum in partnerships & free up time for more in-depth research

Providing high quality responses to long-term and larger questions requires rigorous theoretical and empirical evidence
Next steps and TAXDEV II

Build closer links with research and policy network and undertake in-depth research in 4 themes:

- Redistribution and tax incidence
- The impact of tax systems on behaviour: efficiency and revenue implications
- Tax administration and enforcement
- Opportunities and constraints to using evidence in the tax policymaking process

Continue partnerships and expand into further countries

- Support greater use of evidence by working with partners to map and compile data and conduct joint analysis