Organisation for Economic Co-operation and Development

Tax Component of the Investment Reform Index (IRI) Framework

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Discussion points

- Objectives of the tax component of the *Investment Reform Index (IRI)* framework.
- Tax topics addressed under the IRI.
- Scoring approach under the IRI.
- Structure of ‘tax indicators’.
- Some examples.

Objectives of tax component of IRI

- Main objectives of the tax component of the IRI:
  - Encourage regional dialogue amongst senior tax policy-makers on key tax policy issues, as in Working Party No.2 (on *Tax Policy Analysis and Tax Statistics*) of the OECD Committee on Fiscal Affairs (CFA).
  - Disseminate analytical tools/models to support tax reform.
    - Micro-simulation models (tax revenue analysis).
    - METR models (tax effects on investment).
    - *Taxing Wages* models (tax effects on employment).

Objectives of tax component of IRI

- Main objectives (continued):
  - Provide assistance (technical seminars/workshops) in the use of tools/models for tax policy analysis.
  - Provide a basis for the development of tax statistics (e.g. effective tax rates on labour, capital) that are comparable across countries, to help support dialogue at regional tax meetings.
  - Provide assistance in identifying trends (used to infer 'best practices') in tax administration.

Tax topics addressed under IRI

- Four tax-related topics addressed under the IRI:
  A. Fiscal position and budget planning.
  B. Taxation, investment and employment.
  C. Taxation of SMEs and MNEs.
  D. Tax administration.
- Current version (22 April 2009) replaces an earlier version that excluded tax administration.

Scoring approach

- IRI gauge of tax policy assessment/development:
  - For a given topic, are key issues being analyzed?
  - Are ‘standard’ frameworks being used to assess policy? (including revenue, efficiency, equity implications)
  - Is suitable / reliable data being used?
  - Does analysis feed into tax policy decision making
- IRI gauge of tax administration:
  - Are reforms in tax administration consistent with trends in other countreis (generally recognized best practice)?

Structure of tax indicators
Review of sub-topics

A. Fiscal position and planning:

- A.1 Indicator for forecasting aggregate tax revenues.
- A.2 Indicator for assessment of fiscal balance and policy feedback.

B. Taxation, investment and employment:

- B.1 Indicator for firm-level analysis of corporate tax burden by sector.
- B.2 Indicator for METR analysis of tax impediments to domestic investment.
- B.3 Indicator for transparency in provision of corporate tax incentives for investment.
- B .4 Indicator for 'tax wedge' analysis of tax impediments to employment..

Structure of tax indicators
Review of sub-topics

C. **Taxation of SMEs and MNEs:**

- C.1 Indicator for analysis of tax impediments to equity financing of SMEs.
- C.2 Indicator for analysis of tax arbitrage by SME owners.
- C.3 Indicator for analysis of tax impediments to risky investment in SMEs.
- C.4 Indicator for assessment of tax compliance costs and remedial measures.
- C.5 Indicator for analysis of non-resident withholding tax payments.
- C.6 Indicator for analysis of thin capitalization of the tax base.

Structure of tax indicators
Review of sub-topics

D. Tax administration:

- D.1 Indicator of consolidation of management of revenue administration.
- D.2 Indicator of organization of revenue administration tasks.
- D.3 Indicator of strategic management.
- D.4 Indicator of centralized electronic processing of taxpayer information.
- D.5 Indicator of compliance assessment and risk management.
- D.6 Indicator of provision of taxpayer services.

IRI Assessment of *'Fiscal Position and Budget Planning'*

- Analyze a country's ability and practice in identifying / prioritizing public expenditures, forecasting tax and non-tax revenues, fiscal balance, feedback on choice over tax mix, appropriate tax burden on investment and employment.
- Assessment of models and data :
  - GDP-based tax revenue estimation models (each main tax).
  - Historical tax revenue data, non-tax revenue data, National Accounts income, expenditure, balance of payments data.
- Assessment of analysis :
  - Are GDP-based tax revenue forecasting models in place and regularly used to forecast revenues for each main tax?

IRI Indicators for Forecasting aggregate tax revenues

1. The Ministry of Finance does not maintain aggregate (e.g. GDP-based) tax revenue forecasting models to provide forecasts of tax revenues to inform tax and expenditure policy making. No current plans for implementation.
2. The Ministry of Finance does not maintain aggregate tax revenue forecasting models, but is taking steps towards implementation.
3. The Ministry of Finance does not maintain aggregate tax revenue forecasting models, but is currently taking steps towards implementation within one year.
4. The Ministry of Finance has implemented an aggregate tax revenue forecasting model for one or more taxes, but not for all main taxes (contributing 5 per cent or more to total tax revenues).
5. Aggregate tax revenue forecasting models are maintained by the Ministry of Finance for each main tax.

BCDS Assessment of *'Taxation and Investment'*

- Assessment of models and data :
  - Corporate income tax (CIT) micro-simulation model, METR model, depreciation calculator model.
  - Corporate tax return data (stratified sample), survey data. Corporate and shareholder-level tax parameter data.
- Assessment of analysis :
  - Sectoral analysis of tax burden – estimation of CIT payments at firm level; total CIT payments in current year, forecast years; average tax rates (ATRs) by firm asset size, industry and location; tax revenues foregone by incentives.
  - Analysis of tax impediments to domestic investment – measurement of METRs on domestic corporate profits.

IRI Indicator for firm-level analysis of corporate tax burden by sector

1. The Ministry of Finance does not maintain a corporate income tax (CIT) micro-simulation model enabling firm-level/sectoral analysis of CIT revenues, revenue effects of adjustments to CIT rates, main CIT base provisions and tax incentives, and effective tax rates on corporate profits. No current plans for implementation.
2. The Ministry of Finance does not maintain a CIT micro-simulation model enabling firm-level/sectoral analysis of CIT revenues, revenue effects of adjustments to CIT rates, main CIT base provisions and tax incentives, and effective tax rates on corporate profits, but is taking steps towards implementation.
3. The Ministry of Finance does not maintain a CIT micro-simulation model enabling firm-level/sectoral analysis of CIT revenues, revenue effects of adjustments to CIT rates and main CIT base provisions and tax incentives, and effective tax rates on corporate profits, but is taking steps towards implementation within 1 year.
4. The Ministry of Finance maintains a CIT micro-simulation model. The model is routinely used to analyze firm-level/sectoral CIT revenues, revenue effects of adjustments to CIT rates, main CIT base provisions and tax incentives, and effective tax rates on corporate profits.
5. Level 4 plus the requirements that a) underlying corporate tax return data are checked to identify entry and/or transcription errors; b) the CIT model is updated each year (involving transcription of new tax return data each year); and c) forecasts of corporate tax revenue from the micro-simulation model are cross-checked with forecasts from an aggregate (e.g. GDP-based) corporate tax revenue model.

IRI indicator for METR analysis of tax distortions to domestic investment

1. The Ministry of Finance does not maintain a marginal effective tax rate (METR) model to enable summary analysis of tax effects on (distortions to) the level of investment. No current plans for implementation.
2. The Ministry of Finance does not maintain a METR model to enable summary analysis of tax effects on investment, but is taking steps towards implementation.
3. The Ministry of Finance does not maintain a METR model to enable summary analysis of tax effects on investment, but is currently taking steps towards implementation within one year.
4. The Ministry of Finance maintains a METR model. The model is routinely used to analyze tax effects on (distortions to) domestic investment and the implications of tax reform proposals.
5. Level 4 plus the requirements that a) the METR model is disaggregated across machinery and equipment, buildings, inventory and land; and b) METR results are explained in summary reports for consideration by Ministers to help inform policy-making.

Thank you