OECD TAILORED TAX POLICY ADVICE FOR DEVELOPING COUNTRIES

Developing countries face a multitude of tax challenges. Principal among these are the need to increase their capacity to raise domestic revenues and to adapt their tax systems to international developments.

Domestic resource mobilisation is an urgent priority for developing countries as they seek sustainable sources of revenue to invest in their country's development and attain the Sustainable Development Goals. Short-term tax revenue needs have only increased further as a result of the COVID-19 pandemic and the resulting increase in debt to GDP ratios. In the longer-term more effective use of the tax system will be necessary if countries are to adapt to the challenges posed by global structural trends, including automation and digitalisation, climate change and rising inequalities.

The Country Tax Policy Unit of the OECD Centre for Tax Policy and Administration provides tailored tax policy advice on a series of specific tax topics that can support developing countries with their efforts to mobilise domestic revenues. This support aims to help with the implementation of specific elements of countries' wider fiscal policies, such as their Medium Term Revenue Strategies.

Health taxes

Globally, countries are struggling to finance their healthcare systems.

The OECD can support countries in improving the design of their health taxes - including on tobacco, alcohol and sugar-sweetened beverages - to improve the health of the population and raise revenues. The OECD can also help with implementing any necessary accompanying changes to the tax system that will increase the role of health taxes in financing healthcare systems.

Taxation and informality

Large informal sectors are common characteristics of many developing countries, narrowing tax bases and restricting tax revenues. While informality is a multidimensional phenomenon, effective tax policy can have both direct and indirect effects on reducing the size of the informal economy.

The OECD can assist countries in improving formalisation rates through tailored tax policy, including by improving the design of VAT and labour taxes, and the better use and matching of different data sources such as tax returns and business registries. Furthermore, the OECD can also support countries in self-assessing the design of their existing (or future) presumptive tax regimes using a country-specific analysis framework.

Taxation and SMEs

SMEs constitute the largest proportion of private sector businesses in many low- and middle-income countries, but often face higher tax compliance costs than larger corporations.

The OECD can provide countries with detailed analysis of the tax burden faced by SMEs, and offer tailored policy recommendations to improve simplified tax regimes and streamline tax administration procedures, encouraging greater growth in the sector.

Tax expenditure analysis

Tax expenditures should be examined in many developing countries to ensure forgone tax revenues are limited and regressive measures are minimised.

The OECD has experience in assisting countries with tax expenditure analyses, including defining tax expenditure benchmarks, item-by-item assessments of tax expenditures and developing comprehensive tax expenditure reports.

Tax Policy Analysis Units

Tax Policy Analysis Units guide national tax policy decisions with solid analytical evidence and regular inputs during the tax policy making processes. However, many ministries of finance in developing countries do not have such units.

The OECD can support countries in designing and incorporating these units, including through defining their mandate and tasks, identifying the skills, experience and knowledge required of the unit's members, establishing the data and tools required for analysis and determining the optimal ways for the unit to collaborate with and support other ministries, the tax administration and third parties.

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Tax revenue analysis

Following the Covid-19 pandemic, it is increasingly important for countries to reassess their tax mix and to ensure that their tax systems are capable of raising the revenues needed.

The OECD can provide countries with a comparative "Tax Revenue Analysis Framework" to assess whether sufficient taxes are being raised to meet current and future expenditure goals. The Tax Revenue Analysis Framework includes an evaluation of how countries can achieve the optimal tax mix and reform their tax system to raise the necessary revenues for the coming decades.

Financing social protection

The pandemic has concurrently reduced tax revenues and increased the demand for enhanced greater social protection spending.

The OECD can assist countries in identifying the size of their social protection financing gap, including through building a country-specific "Social Protection Tax Revenue Framework", and can use this framework to support countries in analysing options for tax policy reform to better fund social protection measures.

Illicit financial flows

The international community has committed to fighting tax evasion and illicit financial flows worldwide.

The OECD is able to assist countries in assessing tax-related illicit financial flows using recently developed methodologies based on country-specific data. The findings of these assessments can support ministries of finance and tax administrations to identify risks to government revenues. The OECD can also provide workshops to improve understanding of illicit financial flows and to enhance inter-agency collaboration on reducing their volume.

For more information:

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To read about the OECD's wider work on tax policy and statistics, including value added taxes, tax and the environment, tax incentives, and Global Revenue Statistics, browse the ***Tax Policy Unit homepage.***