

TAXDEV Model of Research, Partnership and Skills Development

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Motivation

Countries need tax revenues to finance public services and social protection schemes, and fund infrastructure investment

Effective tax policy must balance equity and efficiency objectives and the trade-offs between:

- Collecting sufficient revenues
- Redistribution
- Supporting economic activity (investment, growth, employment)

Primary objective is to foster equitable and sustainable economic growth

The importance of evidence and context

The ability to design better 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

- Institutions, economic structures and political economies differ

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

- Economic structure
- Level of state/administrative capacity

Poorly designed tax and spending policies can exacerbate rather than alleviate poverty.

Tax policy challenges

Low and middle income countries face many challenges in the design of tax policy:

1. Lack of theoretical and empirical evidence about the impacts of individual tax policies, as well as how tax and benefits policies work together in fiscal system
2. Limited capacity within governments to undertake rigorous analysis of tax policy – reliance on external actors, who may not understand system or context

Increasing focus on domestic revenue mobilisation – need for sustainable and long-term solutions to public finance challenges

TAXDEV has a number of key components:

Country Partnerships

1. Generate high quality, rigorous, demand-led evidence and analysis of tax and benefit policies with partners in Ethiopia and Ghana
2. Build skills and capacity for further policy analysis in partner countries through providing tools and models, co-production, “learning by doing”, training and feedback

Broader Research

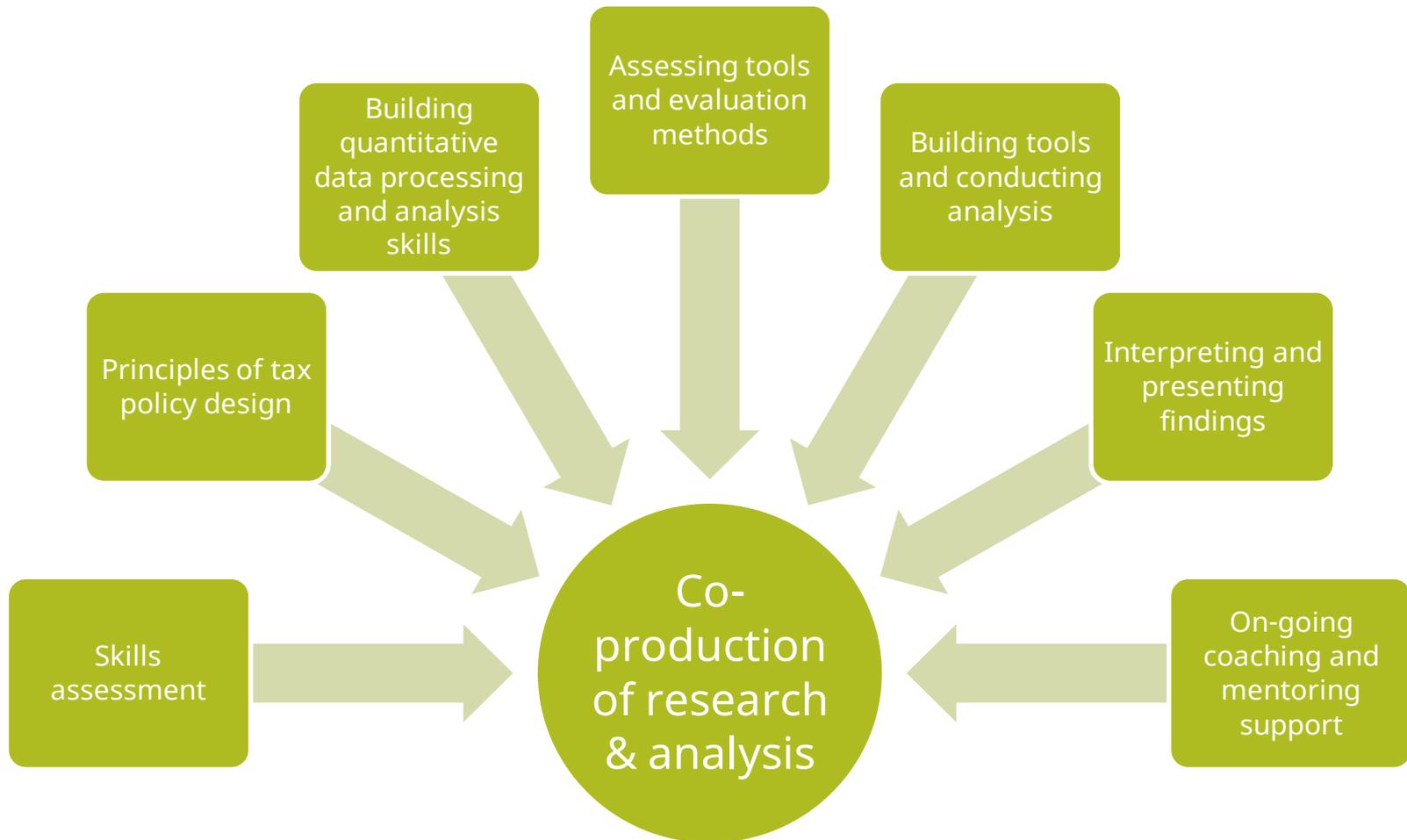
3. Research on tax issues facing low and middle income countries more broadly – contribute to body of evidence for countries which share similar characteristics
 - Indirect taxes, redistribution and efficiency
 - VAT and simplified tax schemes
 - The taxation of businesses
 - The effects of special corporate tax regimes.

1. Quality, demand-led research and policy analysis

Partnership with Finance Ministries and Revenue Authorities to identify, refine and answer key tax policy questions:

- Develop preliminary ideas
- Refine priority areas – is it possible to conduct rigorous analysis?:
 - Mapping the availability of survey and administrative data
 - Mapping legislative framework and policy reforms
 - Assessing appropriate tools and methodologies
 - Fit to researchers' comparative advantages
- Consider political and institutional priorities, timelines and sensitivities
- Consider impact: Short-term political interest or contribution to understanding broader distribution, growth, efficiency issues?

2. Co-production and skills development



Lessons Learned 1: Research and policy analysis

Access to, and quality of, data is a key barrier:

- Challenges with tracking tax payers across bases, coherence of data on tax forms, unique identifiers
- Even when data exists, extracting and sharing it is tricky

In-depth understanding of administrative issues is a pre-requisite to undertaking policy analysis

- Partial, opaque implementation of law

Revenue effects dominate analysis and accountability mechanisms:

- Compromises efforts to focus on crucial issues of equity and efficiency

How to translate demand-led research into impactful research?

Lessons learned 2: Co-production & skills development

The analytical work is technical, but the potential barriers to embedding new skills are often organisational and institutional

- How do we ensure that our training supports delivery of normal workload, and not just viewed as a “special project”?
- A flexible approach is vital

IFS is a research institution – our partner organisations are not!

Working on discrete tasks, with consolidation, is important

- Eg. dividing the microsimulation model into modules

Sequencing of training, relevance, sustainability are key issues

TAXDEV outcomes and impact

Medium-term outcomes:

Improvements in knowledge of national and international policy makers on optimal tax design for specific contexts

Improved technical capacity of policymakers to assess impacts on redistribution, revenues, work incentives and investment incentives and decisions

Impact:

→ Stronger, inclusive economic growth, funded by more efficient taxes, with less reliance on donors