

# El Salvador Tax Reform

# Introduction

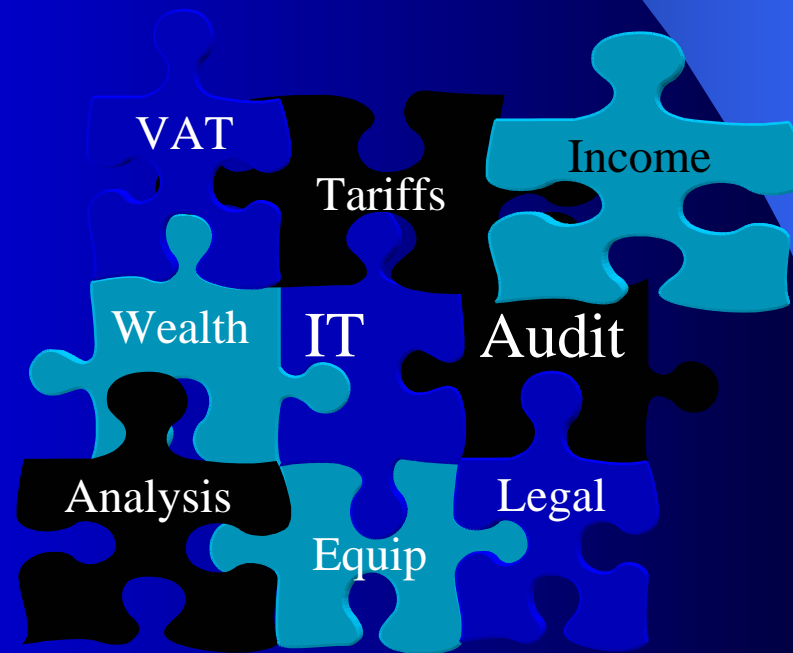
- USAID assistance to reform tax system
- Lessons learned for USAID
- How many of you are working in tax reform, tax policy, tax administration, fiscal reform in economic governance or post conflict states?

# Agenda

- Nature of reforms
  - VAT
  - Tax rationalization, administration
  - Trade liberalization, customs
- Prior conditions
- USAID assistance
- Measures of success
- Lessons learned

# Integrated approach

- Tax and trade policy
- Tax and customs administration



# Conditions

- End of civil war
- End of PDC populism
- Elected conservative party
- US assisted in setting gov't agenda
- ES was embracing change
- IT lead

# Tax policy reform

- Eliminated stamp and related taxes
- Introduced VAT – changed the rules of the game
- Simplified income taxes for individuals and businesses
- Reduced tariff
- Raised from 0 tariff rate
- Eliminated wealth tax

# USAID assistance

- 4 year project, \$7 million
- About 18 years LOE LTTA
- Much IT and equipment
- Observational travel to Mexico
- Train tax and customs administrators

# Impacts/Success

- Lower rates
- Fewer taxes
- Simpler and easier to comply
- Higher tax revenues
- Productive taxes (VAT and Income)

# Where to Get More Information

- This and some of the other case studies discussed here today will soon be on the Fiscal Reform Project's website:
- <http://www.fiscalreform.net/usaidthat/usaidthat.htm>

# Factors of Success

- Political capital and commitment
- Participation and public information
- Committed counterparts at all levels
- Comprehensive scope
- Country ready to embrace change.
- Observational travel