



USAID Workshop: Promoting Economic Growth in a New Era

The Jamaica Comprehensive Tax Reform (1983-87)

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The Jamaica Comprehensive Tax Reform

- **A Seminal Tax Project**
 - Combined quality research and analysis with hands-on practical tax administration and collection expertise
- **Stakeholder Buy-In was Critical**
 - Prime Minister, USAID both endorsed it
 - “Blue Ribbon” Tax Reform Commission broad-based
 - TA Team worked as Tax Reform Commission “staff”

Background

- General economic environment
 - Depressed, inflationary domestic economy
 - Large, unmanageable external debt
 - Large, unmanageable fiscal deficits
 - Per capita GDP 25% below its level of 10 years earlier
- Conventional wisdom held that tax reform was unfeasible under these conditions

Stakeholder Buy-in

- Project requested by prime minister at his own initiative
 - Assured Government “ownership” of the project
 - Improved the odds of bureaucratic cooperation
- Endorsed enthusiastically by USAID executives in the field and in Washington
 - Agency support allowed the contractor to engage the best available talent
- Project implemented “in the sunshine”
 - Prime-Minister-appointed Blue Ribbon Tax Reform Commission of respected leaders of all segments of community

Strong TA Team-Counterpart Relationship

- After completing initial analyses, TA Team turned findings and recommendations over to the Tax Reform Commission
- Thereafter, TA experts served as professional staff to the Commission

Substantive Outcomes

- Project took comprehensive approach to reform
 - Although project originally motivated by revenue “need”, government agreed to examine policy before intensive collections drive
- General Consumption Tax (GCT)
 - “VAT-like”
 - Replaced myriad indirect taxes with varied rates and bases

Substantive Outcomes (Cont'd)

- Personal/Corporate Income Taxes Adopted
 - A common single rate
 - Income tax reduced allowances, exemptions and credits
- Property Tax Reform Launched
- Integration of Customs with GCT
 - Simplified administration
 - Reduced opportunities for rent-seeking

Impact of Reforms

- Rates lowered, bases consolidated, enrollment of taxpayers improved thereby broadening bases
- No apparent loss of revenue despite lower average rates
- Disincentives to saving reduced due to GCT

Impact of Reforms (Cont'd)

- Export disincentives reduced due to lowered effective rates of protection
- Disincentives to investment reduced
 - Improved depreciation rules, expensing of investment outlays, and reduced effective protection
- Public sector deficits diminished, in part due to tax reform

Factors for Success

- Conducting reform process with representation from broad cross-section of community.
- Relatively non-partisan approach to reform.
- Top quality TA consultants.
- Arms-length management of TA team



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Kosovo: A Special Case in Fiscal “Reform”

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Introduction

- 1999: Serbian army expelled from Kosovo
- UN Security Council Resolution 1244 creates governance
- Sovereignty
 - Responsibility for debt
 - Authority to tax
- No fiscal institutions in place
 - A “Tabula Rasa”
- Complex Interrelationships
 - UN, EU, IMF, IBRD, EBRD, PISG, SRSG, USAID, Other Bi-laterals

USAID Takes the Lead

- USAID leads development of core economic institutions—including fiscal
 - Period Covered: 1999-2004
 - Cost Estimate: Up to \$20 million
 - Main Counterparts: Ministry of Finance and Economy, International organizations
 - Types of Assistance: All known types

Areas of USAID Assistance

- Comprehensive Fiscal Development
 - Establish Ministry Of Finance And Economy
 - Tax Policy And Administration
 - Policy Analysis and Forecasting
 - Expenditure Planning, Management, Monitoring, Control
 - Intergovernmental Fiscal Relations and Municipal Finance

Two USAID Strategy Periods, Two Phases of Fiscal Development

- **Phase One (1999-2003): Completed 2003**
 - Organization of institutions and initiation of operations
 - Reliance on expatriates
 - Legislation, organization, procedures prepared
 - Staffing and training
 - Operations continuously monitored and refined
- **Phase Two (2004-2008): Just beginning**
 - Refine and recalibrate policies, institutions and operations
 - Executive management and operation of institutions in full charge of Kosovars

Phase One: Accomplishments

- Institutionalization of Ministry of Finance and Economy, and the following functions:
 - Policy Analysis And Forecasting
 - Policy Formation
 - Tax Administration
 - Budgeting
 - Intergovernmental Fiscal Relations
 - Treasury Operations
 - Internal Audit
 - Procurement

Phase One: Accomplishments (Cont'd)

- Seven taxes established
 - VAT
 - Excises (especially oil products)
 - Customs
 - Personal income tax
 - Presumptive profits tax
 - Companies profit tax
 - Property tax (revenue assigned to municipalities)

Phase One: Accomplishments (Cont'd)

- Administration and collection strong
 - Collections reached 95% of recurrent expenditures in 2003 and expected to reach 100% in 2004
- Policy analysis and forecasting
 - Excellent while expatriates present; doubtful without expatriates
- Expenditure planning, management, and control
 - Good with expatriates; uncertain thereafter

Factors for Success

- Relationships among USAID, PISG, and Long-term TA Experts
- Comprehensiveness of scope of project
- Simplicity
- Quality of TA experts
- Tabula Rasa (no bad habits to overcome)
- Outstanding USAID oversight