**TC ABSTRACT**

**I. Basic Project Data**

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| ▪ Country/Region: | REGIONAL/Regional |
| ▪ TC Name: | Tax Compliance in the Developing Digital Economy: The Case of LAC |
| ▪ TC Number: | RG-T3259 |
| ▪ Team Leader/Members: | Reyes-Tagle, Gerardo (IFD/FMM) Team Leader; Choi, Jae Young (IFD/FMM); Azuero Melo, Rodrigo (IFD/FMM); Armendariz, Edna (IFD/FMM); Heo, Kyeong Eun (IFD/FMM); Roman Sanchez, Susana (IFD/FMM); Chretien, Louis‑Francois (LEG/SGO) |
| ▪ Taxonomy: | Research and Dissemination |
| ▪ Number and name of operation supported by the TC: | N/A |
| ▪ Date of TC Abstract: | 25 Apr 2018 |
| ▪ Beneficiary: | LAC |
| ▪ Executing Agency: | INTER-AMERICAN DEVELOPMENT BANK |
| ▪ IDB funding requested: | $550,000.00 |
| ▪ Local counterpart funding: | N/A |
| ▪ Disbursement period: | 36 months |
| ▪ Types of consultants: | Individuals |
| ▪ Prepared by Unit: | Financial & Municipal Mgmt |
| ▪ Unit of Disbursement Responsibility: | Institutions for Development |
| ▪ TC included in Country Strategy (y/n): ▪ TC included in CPD (y/n): | No No |
| ▪ Alignment to the Update to the Institutional Strategy 2010-2020: | Institutional capacity and rule of law |

**II. Objective and Justification**

2.1 The objective of this Technical Cooperation (TC) is to support LAC governments by strengthening their institutional capacity to implement efficient tax measures in digital economy. This TC is designed to support tax authorities in: (i) identifying challenges in digital tax administration of LAC and laying the groundwork for modernizing tax authorities; and ii) seeking best practices to establish an integrated digital platform and data security technologies in LAC down the line.

2.2 Many of the LAC countries suffer from rampant tax evasion, which amounted to 6.7% of the region’s GDP in 2015. This could create a huge financial burden to the revenue‑strapped governments of LAC, whose fiscal sustainability has been at risk and government debt has increased significantly since the financial crisis.

2.3 Achieving high voluntary tax compliance and warding off any sources of tax evasion by means of digital tax measures is one of the top priorities for tax authorities in LAC, which can help broaden the tax revenue of respective governments. In this context, this TC will analyze the current status and challenges of digital tax administration in LAC by utilizing best practices from other regions of the world.

2.4 This TC is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) and is aligned with the objective of establishing more distributive fiscal policies by improving revenue management and designing more progressive tax systems. The TC is also aligned with the cross-cutting theme of institutional capacity and rule of law by improving tax administration in a digitally sustainable manner. Additionally, the program is consistent with the Bank’s Sector Strategy Institutions for Growth and Social Welfare (GN-2791), as it is intended to provide support in the efficient tax administration and development of managerial capacity.

**III. Description of Activities and Outputs**

3.1 Component I: Project inception workshop (US$250,000). The objective of this component is to lay the groundwork for exchanging information and best practices among various national tax authorities of LAC and other tax authorities around the world. This component will finance a project inception workshop which will be held in collaboration with Korea Institute of Public Finance (KIPF), National Tax Service of Korea (NTS), and Ministry of Strategy and Finance of Korea (MOSF). The goal of this workshop is to share the experience Korea has in the digitalization of tax administration and discuss the challenges thereof faced by respective LAC countries and seek solutions to the issues raised. The participating countries will be selected based on each country’s request (submission of information for the program) and commitment. All participating countries will present their needs for the strengthening/development of their ITIS and data security technologies with a view to improving tax compliance.

3.2 Component II: Case study and regional action plan (US$250,000). This component aims to research best practices and conduct a case study on three LAC countries regarding the digital tax administration, with an emphasis on the ITIS and data security technologies; three LAC countries will be selected based on the results of project inception workshop. It comprises the following activities: i) one paper introducing best practices around the world (e.g. Korea) on digital tax administration; ii) three LAC country case study papers on digital tax administration, ITIS and data security technologies; and iii) elaboration of three action plans for each of the three LAC countries for the purpose of enhancing tax compliance through the development of digital tax administration.

3.3 Component III. Dissemination of results ($US50,000). The goal of this component is to disseminate findings, recommendations, and lessons learned from the execution of previous two components. It entails the following: (i) publication of results of the workshop (design, editing, printing, etc.) and blog posts disseminating the outcome of action plans and lessons learned from the research papers; (ii) a wrap-up seminar to share the results and implications of this TC and discuss plans for a follow-up TC.

3.4 **Component I: Component I: Project inception workshop.** The objective of this component is to lay the groundwork for exchanging information and best practices among various national tax authorities of LAC and other tax authorities around the world.

3.5 **Component II: Component II: Case study and regional action plan.** This component aims to research best practices and conduct a case study on / create an action plan with three LAC countries regarding the digital tax administration, with an emphasis on the ITIS and data security technologies.

3.6 **Component III: Component III. Dissemination of results.** The goal of this component is to disseminate findings, recommendations, and lessons learned from the execution of previous two components.

**IV. Budget**

**Indicative Budget**

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| **Activity/Component** | **IDB/Fund Funding** | **Counterpart Funding** | **Total Funding** |
| Component I: Project inception workshop. | $250,000.00 | N/A | $250,000.00 |
| Component II: Case study and regional action plan. | $250,000.00 | N/A | $250,000.00 |
| Component III. Dissemination of results. | $50,000.00 | N/A | $50,000.00 |

**V. Executing Agency and Execution Structure**

5.1 The Bank will be executing the technical cooperation through the Fiscal Management Division (FMM).

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**VI. Project Risks and Issues**

6.1 The main challenges of the project are: (i) difficulty in selecting the countries and participants that will participate in the workshop, which will be mitigated by a competitive process to gauge their eagerness and commitment; (ii) the risk of not enough interest being engendered among the participating countries, which will be reduced by the careful design of project inception workshop and checking their feedback; and (iii) the risk of weakened sustainability and replicability of the results and lessons learned, which will be alleviated by the dissemination of results of the TC.

**VII. Environmental and Social Classification**

7.1 The ESG classification for this operation is "undefined".