

**MAKE
TAX
FAIR**

**Common Research Framework
2015**



Common research framework¹

The research framework is divided into 6 clusters of topics listed below – Brief description of the tax system, Distribution of the tax burden and progressivity, Revenue sufficiency and tax leakages, Effectiveness of the tax administration, Government spending, Transparency and accountability. These clusters of topics were selected to best capture the complex character of tax systems in order to evaluate fairness of a tax system under review.

Within the CRAFT project we define a fair tax system as follows: (1) progressive and serves as a mechanism to redistribute income in a gender sensitive way, (2) allows to raise sufficient revenue to perform government functions and provide essential services, (3) refrains from and eliminates tax exemptions and incentives to the elite and (4) tackles causes of illicit capital flight and tax evasion by international companies and the wealthy.

1. Brief description of the tax system

The objective of this part is to provide a comprehensive overview of the structure of the tax system, the authorities responsible for collecting taxes and the overall approach to managing taxes. This section also determines the impact of the changes that have been made to the tax system in the past years and whether the country has been moving towards a fairer tax system or vice versa.

Topic	Research Analysis Questions
Tax and social security system	<ul style="list-style-type: none">- Describe the overall tax system. What types of taxes does the country collect at local and national level? Do the tax policies focus more on equity and progressivity or on more “efficient” collection or do they have any other focus relevant on tax justice? What is the tax collection procedure? Who is responsible for collecting taxes at both local and national levels?- What benefits are covered by the social security system? Are social security contributions collected separately from tax payments?- What important reforms in the tax system and tax policies have been made in the last ten years? Are there any reforms of the tax system planned for the near future? Focus on the most essential reforms and those that have had (will have) an important impact on the current tax system. Provide a brief historical evolution of the country tax system indicating the reasons behind particular tax reforms which were implemented. Has the country intended to/succeeded in combating tax evasion/avoidance, eliminating inefficient tax incentives and in broadening the tax base?

2. Distribution of the tax burden and progressivity

In this part, we aim to assess the progressivity of selected taxes and to determine what impact they have on income/wealth distribution and inequality. It is assumed that direct taxes are generally more progressive than indirect taxes, however, this section should also analyze whether there are exceptions to this assumption (e.g. luxury consumption taxes). This analysis together with the information about how much is collected per each tax will allow the researcher to draw conclusions

¹ The common research framework was created in June 2015. During the execution of the research, certain changes were made so that it better serves the purpose of the Fair Tax Monitor. The updated research framework will be used for the next edition of the FTM.

about the fairness of each tax and to provide policy recommendations.

Topic	Research Analysis Questions
Direct taxes	<ul style="list-style-type: none"> - Provide a trend analysis of the share of direct tax in total tax revenue for the period 2005 – 2013/14.
Personal Income Tax (PIT)	<ul style="list-style-type: none"> - Provide a trend analysis of the share of PIT and social security contributions (if applicable) in total tax revenue in the period 2005 – 2013/14. (separate figures in one table) - Provide the current rates of PIT and the PIT tax tables. Include an overview of how the PIT rates evolve with different income brackets. - Who does the PIT apply to? Do the rates vary for different sectors/activities or for different income levels? What is the level of personal income tax threshold? What are the exemptions to PIT and who/what kind of income do they apply to? Is there any distinction of rates based on gender or marriage status (single/married) or size of family (e.g. number of children)? What level of tax revenue authority is responsible for PIT collection (local/national)? - In what way do the PIT policies and various PIT rates and exemptions address income inequality? Do the policies contribute to a fair tax system? Draw main policy recommendations based on this analysis.
Corporate Income Tax (CIT)	<ul style="list-style-type: none"> - Provide a trend analysis of the share of CIT in total tax revenue for the period 2005 – 2013/14. - Provide the current rates of CIT. Who does the CIT apply to? Do the rates vary for different sectors and activities, different sizes of corporations or levels of profit? What are the exemptions to CIT and who do they apply to? What is the level of corporate income tax threshold (if applicable)? What level of tax revenue authority is responsible for CIT collection (local/national)? - How do the CIT policies affect income inequality? Do the policies contribute to a fair tax system? Draw main policy recommendations based on this analysis.
Wealth taxes (property tax, land tax, capital gain tax)	<ul style="list-style-type: none"> - Provide a trend analysis of the share of property tax, land tax and capital gain tax in total tax revenue for the period 2005 – 2013/14. - Provide the current rates for these taxes. Do they vary for different sectors and different levels of wealth? Are there any exemptions to these taxes? What level of tax revenue authority is responsible for collection of wealth taxes (local/national)? - How do the property and wealth tax policies affect inequality? Do the policies contribute to a fair tax system? How? Draw main policy recommendations based on this analysis.
Excise tax	<ul style="list-style-type: none"> - Provide a trend analysis of the share of excise taxes in total tax revenue for the period 2005 – 2013/14. - Provide the rates of excise tax and a list of the goods and services which are subject to excise tax. What level of tax revenue authority is responsible for collection of Excise taxes (local/national)? - Do the excise tax rates and policies contribute to create a fair tax system

	<p>and fight inequality? How? Draw main policy recommendations based on this analysis.</p>
Sales tax/VAT	<ul style="list-style-type: none"> - Provide a trend analysis of the share of Sales/VAT taxes in total tax revenue for the period 2005 – 2013/14. What are the rates of sales tax/VAT? Do they differ for different goods/services? What goods/services are exempted from Sales Tax/VAT or are zero rated? What level of tax revenue authority is responsible for collection of Sales/VAT taxes (local/national)? - What distributional impact does the VAT and its special rates/exemptions have? Does it contribute to a fair tax system? Draw main policy recommendations based on this analysis.
Trade taxes	<ul style="list-style-type: none"> - Provide a trend analysis of the share of import/export taxes in total tax revenue for the period 2005 – 2013/14. Provide an analysis of total imports and exports for the period 2005 – 2013/14. - What are the rates of import/export taxes? Do they differ for different goods or sectors (e.g. for basic/luxurious goods)? Are any goods/sectors exempted from import/export taxes? What level of tax revenue authority is responsible for collection of Trade taxes (local/national)? - Do the trade tax policies contribute to a fair tax system? Draw main policy recommendations based on this analysis.
Presumptive/Turnover taxes	<ul style="list-style-type: none"> - Provide a trend analysis of the share of Presumptive taxes in total tax revenue for the period 2005 – 2013/14. - Is there a presumptive tax system for the informal sector in place? - How badly does the presumptive turnover tax affect three types of informal businesses (Subsistence Enterprises; Micro & Small Businesses; Small & Medium Businesses)? - Is there a tax-exempt tax bracket that protects low-income businesses from paying presumptive taxes? - When individuals or informal businesses receive a tax presumption, are they allowed to challenge the presumption? Who (what level of tax revenue authority) is responsible for collecting presumptive taxes? - How do these tax policies affect inequality and contribute towards a fair tax system? Draw main policy recommendations based on this analysis.
Gender analysis	<ul style="list-style-type: none"> - Analysis of gender equality in terms of income tax. Are there different rates for men and women? Are the sectors that women/men are more likely to work in taxed with a special income tax rate? Are the tax allowances/exemptions more accessible for men/women? - Are the goods that women/men are more likely to consume taxed with a special VAT rate? - Are married couples taxed differently? If yes, what is the impact on women's income? - Draw main policy recommendations based on this analysis.

Public perception of the tax system	<ul style="list-style-type: none"> - Search for the following information in existing national surveys: <ul style="list-style-type: none"> • What is the public perception of fairness of the tax system? • What is the public perception of transparency of the tax system? • What is the public perception of revenue authorities?
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3. Revenue sufficiency and tax leakages

The objective of this section is to determine the total tax (and non-tax) revenue and to identify where the most tax revenues get lost. Through such analysis, we seek to provide policy recommendations to prevent tax leakages.

Topic	Research Analysis Questions/Hints
Tax revenues	<ul style="list-style-type: none"> - Provide a trend analysis of the share of Tax revenues to GDP for the period 2005 – 2013/14. - How does the ratio of the focus country compare to other countries in the region and countries of the same income level? - Does the government set a long-term goal for the tax/GDP ratio? What is it?
Non-tax revenues	<ul style="list-style-type: none"> - Provide a trend analysis of the share of non-tax revenues to GDP for the period 2005 – 2013/14. - Provide a pie-chart of the share of non-tax revenues (e.g. royalties on extractives, profits from government owned enterprises, sales of government’s assets) in the total non-tax revenues for the latest available year. How does the focus country use the non-tax revenues? Is it included in the budget or is it managed separately?
Tax payers	<ul style="list-style-type: none"> - What is the rate of personal income tax payers to active population and to total population? What is the amount of Tax Identification Numbers for companies? What is the amount of registered businesses? What is the amount of tax returns filed?
Informal sector (additional information might be requested depending on country context)	<ul style="list-style-type: none"> - Provide a trend analysis of the ratio of tax revenues from public vs. private sectors for the period 2005 – 2013/14). - Have there been recent efforts to ‘formalize’ the informal sector? How does the government encourage the presumptive tax payers to become corporate income tax payers? Are informal businesses taxed retro-actively when formalizing?
Tax exemptions	<ul style="list-style-type: none"> - Provide a trend analysis of how much revenue is forgone due to tax exemptions for the period 2005 – 2013/14. - Do all tax payers meeting the set criteria qualify for tax exemptions? Are there any discretionary exemptions granted? Is there a parliamentary oversight over discretionary tax exemptions? Have there been any cases in the media revealing secret individual tax exemption deals?
Illicit financial flows (IFFs)	<ul style="list-style-type: none"> - What are the main causes for illicit financial flows in the focus countries? What steps has the government taken to combat IFFs?

4. Effectiveness of the tax administration

This section aims to assess the ability of the tax administration to collect taxes and to determine

whether the amount collected would be sufficient if proper tax policies were in place. It provides information on the capacity of tax administration in terms of human and financial resources and reviews the cost effectiveness of tax collection.

Topic	Research Analysis Questions/Hints
Revenue shortfall	- Provide a trend analysis of revenue shortfall for the period 2005 – 2013/14 (amount of actual tax collected compared to official forecasts). How is the forecast calculated?
Resources	- Provide a trend analysis of funding provided to tax authorities to GDP for the period 2005 – 2013/14. - Provide a trend analysis of number of tax officers compared to registered tax payers/total population for the period 2005 – 2013/14. - Are the local and national authorities well equipped (with financial resources, human resources and expertise) to effectively collect taxes (e.g. you can compare funding of local authorities/number of tax officials/number of tax service centers to local GDP)? - Is there a Large Taxpayer Unit established? Is there a transfer pricing unit established? If not, how many people with transfer pricing expertise are there in the tax authority?
Conventions	- Is the country signatory to the Convention on Mutual Administrative Assistance in Tax Matters?
Cost of tax collection	- Provide a trend analysis of cost of tax collection (how much it costs to collect 1\$) for the period 2005 – 2013/14.

5. Government spending

The objective of this part is to review how the government spends the revenues collected and whether the effects of fair tax collection are enhanced or diminished by the government spending. Education and healthcare are the main topics under review as they represent basic public services. Pro-poor analyses of these topics are provided to determine whether the spending is targeted to reduce poverty and decrease inequality.

Topic	Research Analysis Questions/Hints
Components of government spending/income	- Provide a pie chart reflecting the share of every component of government spending in total spending (education, healthcare, social protection, infrastructure, agriculture, military, debt servicing, etc.) for the 2 latest available years. - Provide a pie chart reflecting the sources of government income and their share in total income (tax revenues, social security payments, foreign aid, borrowings, extra budgetary funds revenues, etc.)
Education	- Provide a trend analysis of share of education spending to total government spending and GDP for the period 2005 – 2013/14. - How much does the government invest in primary, secondary, high schools and universities? (% of total education spending for the latest available year) How pro-poor is the government spending on education? - Is there any obvious unfair regional distribution of government

	expenditures on education?
Healthcare	<ul style="list-style-type: none"> - Provide a trend analysis of share of healthcare spending to total government spending and GDP for the period 2005 – 2013/14. - How much spending is going to hospitals as opposed to primary health care services? (% of total education spending for the latest available year) How pro-poor is the government spending on health care? - Is there any obvious unfair regional distribution of government expenditures on healthcare?
Social Protection <i>(OPTIONAL)</i>	- Provide a trend analysis of share of social protection spending to total government spending and GDP for the period 2005 – 2013/14.
Military <i>(OPTIONAL)</i>	- Provide a trend analysis of share of military spending to total government spending and GDP for the period 2005 – 2013/14.
Infrastructure <i>(OPTIONAL)</i>	- Provide a trend analysis of share of infrastructure spending to total government spending and GDP for the period 2005 – 2013/14.
Agriculture <i>(OPTIONAL)</i>	- Provide a trend analysis of share of agriculture spending to total government spending and GDP for the period 2005 – 2013/14.

6. Transparency and accountability

The main goal of this part is to assess the availability and accessibility of information about the country’s tax system. As one of the main goals of the CRAFT project is to ensure accountable tax systems, it is crucial to review whether the government provides access to the information about them.

Topic	Research Analysis Questions/Hints
Information availability	<ul style="list-style-type: none"> - What is the policy regarding publishing information about tax system (tax rates and tax collection system)? What is the practice of informing the public about tax rates and tax collection system? - Is the information about tax exemptions publicly available and is the procedure of granting tax exemptions transparent? Is the information about beneficiaries of tax exemptions publicly accessible? - If the non tax revenues are managed separately from the budget, are they managed in a transparent way? - Are companies’ financial statements available at national business registries? - Is the information about companies’ direct shareholders public? Is the information about companies’ ultimate owner public?

Audit	<ul style="list-style-type: none"> - How often do tax authorities undergo audits? Who is responsible for it? Are the audit results publicly available?
OBI questions ²	<ul style="list-style-type: none"> - Does the Executive's Budget Proposal or any supporting budget documentation: <ul style="list-style-type: none"> • Identify the different sources of tax revenue (such as income tax or VAT) for the budget year? • Identify the different sources of non-tax revenue (such as grants, property income, and sales of government-produced goods and services) for the budget year? • Present information on extra-budgetary funds for at least the budget year? • Present information on tax expenditures for at least the budget year? - Does the Year-End Report explain the differences between the enacted levels and the actual outcome for revenues?
Citizens' engagement	<ul style="list-style-type: none"> - Has the government established processes to facilitate civil society participation in shaping revenue policies at the national and local levels? What is the practice? - What is the policy and practice regarding complaints about tax authorities?
Corruption (OPTIONAL)	<ul style="list-style-type: none"> - Analysis of corruption in tax administration or illegitimate taxes based on independent/external information if available.

² Data and questions taken from OBI survey 2015 (<http://internationalbudget.org/publications/open-budget-survey-2015-data/>)