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**STRENGTHENING TAX GAP ANALYSIS
CAPACITY**

Component: Revenue

**Module: RM IV – Fiscal Tools, Research,
and Analytical Work**

STRENGTHENING TAX GAP ANALYSIS

PROJECT SUMMARY	
COUNTRY:	Strengthening Tax Gap Analysis (RA-GAP)
LEAD DEPARTMENT:	FAD
REGION:	N/A
PROGRAM ID:	[To be filled out by Secretariat]
PLANNED DATES:	FY25 - FY28
FUNDING PROGRAM TITLE:	[to be added by Secretariat]
PROJECT MANAGERS:	Shan Zhong - R1 (Lead)
RM IV – FISCAL TOOLS, RESEARCH, AND ANALYTICAL WORK	Shan Zhong and Patricio Barra - R1
ESTIMATED BUDGET	\$541,835
BUDGET FOR ENDORSEMENT:	\$155,232

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CD	Capacity development
CIT	Corporate income tax
CRM	Compliance risk management
EME	Emerging market economies
FAD	IMF's Fiscal Affairs Department
FCS	Fragile and conflict affected states
LIC	Low-income countries
PIT	Personal income tax
RA-GAP	FAD's Revenue Administration Tax Gap Analysis Program
TADAT	Tax Administration Diagnostic Assessment Tool
VAT	Value added tax
VGAPx	VAT Gap Estimation Model
VS	Visiting scholar

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I. PROJECT PURPOSE

There is significant demand and a specific capacity gap for tax gap estimates in developing countries. A review of TADAT¹ (Tax Administration Diagnostic Assessment Tool) findings in 129 TADAT Performance Assessment Reports indicates that only about 40 percent of the countries meet the following criteria – “The tax administration monitors the extent of inaccurate reporting using a methodology or methodology that cover at least the value added tax (VAT) and are applied at least once every five years (A to C score)”. The majority (about 60 percent), most being low-income countries (LICs), do not meet the minimum requirements. Furthermore, the ISORA² (International Survey for Revenue Administration) findings show notable disparity in the production of tax gap studies, with advanced economies generating a higher volume of these analyses compared to emerging market economies (EMEs) and LICs across all major tax categories. This disparity highlights a significant capacity gap in developing countries, underscoring an increasing demand for tax gap estimates which can be met under existing IMF capacity development (CD) projects only partly. This also underscores the need for the methodologies to be further refined for use in developing countries where data is less robust and skills lower than that required for a full gap assessment.

This project aims to bolster the refinement and adoption of reliable tax gap estimation methodologies within IMF member countries, particularly those most in need, such as LICs and fragile and conflict affected states (FCS), to support their overarching domestic revenue mobilization efforts. In this regard, it aims to build on the success of previous efforts made by the IMF's Fiscal Affairs Department (FAD) in this area by (i) enhancing and evolving analytical work on advanced methodologies using both top down and bottom up tax gap estimation techniques, including in how they can be implemented in lesser developed countries; (ii) fostering an environment of knowledge sharing and more dynamic peer-to-peer learning and interactions among member countries and different stakeholders involved in tax gap estimation; and (iii) providing comprehensive support to IMF member countries at different levels of development in the implementation of tailored or established tax gap estimation techniques, the results of which will also feed into the analytical work being developed.

The estimated budget for this three-year project is \$541,835 for the first two components and \$1,397,006 for the third. Budget endorsement is requested for \$155,232 through FY25 covering the analytical work and knowledge sharing activities. Country-specific CD estimated at \$374,168 for FY25 will be delivered through complementary projects under revenue module II projects, and endorsement for these resources will be approved by the Secretariat for LIC and in the case of EMEs, through a lapse-of-time basis once eligible countries have been identified and an agreement has been reached with authorities.

¹ See: [TADAT](#).

² Source: [ISORA 2018, Understanding Revenue Administration](#).

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II. BACKGROUND

The FAD's Revenue Administration Tax Gap Analysis Program (RA-GAP) is a CD service designed to assist revenue administrations in monitoring compliance and general revenue performance.

RA-GAP provides a comprehensive framework for estimating potential tax revenues, evaluating actual revenues, measuring the gaps between the two, dissecting the gaps into policy and compliance gap, and the contributing sectors, and analyzing the factors causing these gaps. The program currently covers VAT, excise tax, corporate income tax (CIT), and personal income tax (PIT), and has gained worldwide recognition as a leading tool for tax gap estimation.

Since its inception in 2011, RA-GAP has completed 74 engagements, primarily in EMEs and LICs,³ directly assisting 52 countries with VAT gap assessments, and conducting various regional workshops. The program started by piloting VAT gap studies in a few countries and has gradually expanded to cover all the major taxes and provide tailored CD services based on member countries' circumstances, especially considering the local capacity and data availability.

In 2019, the RA-GAP VAT Gap Estimation Model (VGAPx) online training program was launched.

The course includes video lectures and practical exercises, divided into five main modules, typically requiring 30-50 hours to complete. To date, it has catered to 2,304 participants from 164 countries and is available in English, French, and Spanish. Potential CD recipients are actively encouraged to complete this course prior to any tax gap engagement, which enriches CD interactions. This course has consistently attracted significant interest, as evidenced by the impressive registration of 1,033 individuals in the FY23 alone, demonstrating its continuing relevance and value to a wide audience.

RA-GAP not only delivers high-quality CD but also promotes tax gap analysis capacity through analytical work. The comprehensive IMF technical notes detailing the RA-GAP models and methodologies for VAT, CIT, excise, and PIT are accessible on the IMF's comprehensive [Revenue Portal](#).⁴ The RA-GAP is currently advancing to integrate more comprehensively with broader FAD CD efforts and to align strategically with IMF surveillance and lending activities.

³ Among the 74 completed engagements, 16 were from advanced economies, 44 from EME, 11 from LICs, and 3 from IMF Regional Capacity Development Centers. Of these engagements, 12 were in sub-Saharan Africa, 12 in Asia & Pacific, 25 in Europe, 6 in Middle East & Central Asia, and 19 in Western Hemisphere.

⁴ Publications and online course

- [Corporate Income Tax Gap Estimation by using Bottom-Up Techniques in Selected Countries: Revenue Administration Gap Analysis Program](#)
- [The Revenue Administration–Gap Analysis Program: Model and Methodology for Value-Added Tax Gap Estimation](#)
- [Estimating the Corporate Income Tax Gap: The RA-GAP Methodology](#)
- [The Revenue Administration–Gap Analysis Program: An Analytical Framework for Excise Duty Gap Estimation](#)
- [The Revenue Administration Gap Analysis Program: An Analytical Framework for Personal Income Tax Gap Estimation](#)
- [RA-GAP VAT Gap Estimation Model \(VGAPx\)](#)

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III. PROJECT DESCRIPTION

A. RM IV – Fiscal Tools, Research and Analytical Work

FAD CD will support improvements within the strategic objectives presented in Table 1:

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM IV / Fiscal Tools, Research, and Analytical Work	- Strengthened revenue administration management and governance arrangements - Strengthened core tax administration functions

Scope

The main objective of this project is to further advance IMF member countries' domestic revenue mobilization efforts by strengthening capacity in tax gap analysis and its linkages to reform strategies. Tax gap estimation is not a standalone activity for a tax administration but must be integrated into the broader risk and analytical work they undertake. This work will be integrated into and support the broader, more intensive Revenue Administration (RA) CD projects for countries, aligning with IMF surveillance and lending activities.

Program Objectives

This project will concentrate on three interconnected streams:

- Enhancing analytical work in advanced and tailored tax gap estimation methodologies and promoting knowledge sharing among member countries.** This project will underpin research and analytical initiatives, striving to position the RA-GAP as the lead program in tax gap estimation, while remaining responsive to the varied requirements of member countries. This will include, for example: developing a top-down or bottom-up methodology, drawing on the latest advancements, to enhance existing publications on the gap estimation of VAT, CIT, PIT, and excise taxes; integrating the tax gap, particularly the compliance gap, with a set of indicators in compliance risk management (CRM), to accurately estimate the compliance gap for CRM objectives; and refining the RA-GAP VAT gap model by integrating the gap study with tax expenditure analysis and a complexity index resulting from the interaction of tax policy with administration. This could also entail developing tailored solutions for countries at various levels of development, including basic solutions for FCS. The program will also enable sharing expertise and best practices through training sessions, workshops, and preparation of analytical resources such as technical notes and online courses.
- Promoting robust interaction with the different stakeholders participating in tax gap estimation.** It is important to foster improved interactions among diverse participants involved in this field, including government agencies, development partners, think tanks, and Tax Gap Communities of Interest / experts. Such collaboration is essential for building regional and international consensus on best practices and facilitating peer-to-peer exchanges on emerging topics and techniques.

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- **Supporting IMF member countries in implementing established methods for tax gap estimation.** Tax gap analysis CD will be provided as part of an overall IMF revenue administration CD project, complementing other funding vehicles, to the extent possible and when in place. This RA-GAP project will focus on LICs where an overarching IMF revenue administration CD project does not exist, with a view to helping member countries to identify and implement tax gap estimates across the major taxes such as VAT, CIT, excise, and PIT. While continuing to update and actively promote the VGAPx online training program, three fundamental service packages will be provided as part of this initiative, with the specific delivery modality depending on the existing capacity in the tax administration.
 - **Assessment of potential revenues and tax gaps, mainly by transitioning to assisted self-assessment modalities.** This will be available to member countries that have: (i) capable staff who can perform the work independently with expert guidance and support, and (ii) sufficiently detailed statistical data (such as detailed supply-use tables, or gross operating surplus by sectors of economic activities), along with access to detailed taxpayer records and collections data.
 - **Peer review of countries own gap estimation program.** This will be available to member countries with existing gap estimation programs, including those which have developed one following a comprehensive RA-GAP assessment.
 - **General analysis of revenue performance and factors affecting compliance.** This will be available to countries who might be lacking some of the data necessary for a comprehensive RA-GAP assessment, particularly those lacking the necessary statistical data.
- Engagements with beneficiaries are expected to provide a significant input for strengthening the tool and developing analytical work, which is why it is considered a key component of this proposal. The selection of countries to benefit from this support will be based on their income level, prioritizing LIC, but also on their potential contribution to the tool and analytical development, based on the availability of information and the technical capacity. Separate country projects will be setup (or relevant new activities added to existing country projects, as appropriate) and resource endorsement will be at the discretion of the Secretariat for LIC and of the Steering Committee on a lapse-of-time basis.

Expected Results (outcomes)

The project outcomes will be the result of a comprehensive process focused on developing countries' institutional capacities in tax gap analysis. It is crucial to recognize that while revenue administration reform holds the potential for significant benefits, realizing these benefits hinges on their thoughtful design and implementation, including the use of tax gap analysis results to inform tax compliance effort.⁵ This must be coupled with a strong emphasis on institutional capacity building, management commitment, and unwavering political support. The project's deliverables will encompass a comprehensive set of options for enhancing tax gap analysis. Also, it will encompass a range of capacity-building activities aimed at facilitating the successful adoption of tax gap analysis in countries' DRM efforts.

⁵ See IMF Technical Notes and Manual: *Using Top-Down Compliance Gap Techniques to Supplement The Compliance Risk Management (CRM) Framework* (forthcoming).

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The main outcomes of this project would be to enhance techniques for the adoption of tax gap analysis and use of its results to inform revenue reform strategies and underpin IMF's policy advice and CD delivery. The following specific deliverables are envisaged: (i) CD to at least 10 selected countries through CD activities, based on the analytical work prepared under this and the previous project, (ii) publishing 3 analytical papers focusing on advanced and tailored methods of tax gap estimation, and (iii) organizing or facilitating/participating in 3 learning or networking events with the international tax gap community.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post-follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide recommendations, conduct regular follow-ups, assess progress, ensure visiting scholar (VS) work is aligned to plans, coordinate with other CD providers, and adjust tax gap estimation and compliance risk management plans.
- **Visiting Scholar work** to assist in conducting analytical work, including data quality review, development of tools and methodologies, and drafting of documents.
- **Workshops**, during the HQ missions, staff visits, or VS visits, to share experiences, provide stakeholders with a view of progress achieved and challenges faced, and discuss with the managers and staff their views on the tax gap estimation and particular technical subjects.
- **Peer-to-peer (P2P)**: engagements designed for project beneficiaries to exchange their views and experiences undertaking tax gap estimation, providing opportunities for the authorities to observe practices adopted by other institutions that have robust arrangements in place in tax gap estimation.

B. Coordination / Cooperation

Coordination			
Partner	Type of coordination	Area of coordination	Frequency
IMF area department country team, IMF Regional Capacity Development Centers, and IMF's Statistics Department	Supporting program benchmarks, CD design and delivery, joint CD support	Revenue performance analysis, tax gap estimation, and shadow economy analysis	Quarterly, annual
Cooperation			
Partner	Type of coordination	Area of coordination	Frequency
The Nordic and OECD tax gap Community of Practice (CoP), and the Addis Tax Initiative (ATI)	Contribute to the Nordic and OECD tax gap CoP and support for creation of the IMF-ATI Tax Gap CoP	Tax gap estimation	Quarterly, annual

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V. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Risk Assessment	Mitigation Measures
External climate/conditions			
RM IV	External events create a more challenging environment to assess tax gaps or implement tax reform.	Low	Maintain ongoing engagement with member countries on tax gap estimation and expand outreach to include new countries.
Political Support			
RM IV	Lack of political support for reforms inhibits required actions or resources being allocated that are needed to enhance tax gap analysis or to fiscal reforms.	Low	Liaise with the IMF area department, to ensure fiscal advice and CD is supported by the analysis of tax gaps and engage regularly with minister of finance and senior management and other key stakeholders to ensure government ownership.
Management and Technical Staff Support and Commitment			
RM IV	Low commitment of management and staff in the tax administration of other agencies such as statistics agencies to assess tax gaps and implement fiscal reforms.	Low	Integrate tax gap analysis as a component of broader CD projects and leverage PMs' relationships with senior management. Emphasize the importance of tax gap analysis, including the "what" and "how" to issues in tax gap analysis and the linkages to reform strategies.
Resource Adequacy			
RM IV	Insufficient technical capacity and human resources necessary to assess tax gaps.	High	Ensure CD plans are well targeted based on capacity and include sufficient capacity building and training elements, including via the online VGAPx course.
Other risks			
RM IV	Multiple donors are providing CD on tax gap analysis or overlaps that may arise as a result.	Low	Take a more active role in enhancing cooperation and coordination with other partners, leveraging the planned interactions with different stakeholders participating in tax gap estimation.

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VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY25	FY26	FY27	FY28	FY29	Grand Total
RM IV – Fiscal Tools, Research and Analytical Work*						
Visiting Scholar (Analytical work)	3	4	4	-	-	11
Workshops and per-to-peer networking	1	1	1	-	-	3
Total	4	5	5			14
Complementary Country CD*						
HQ led CD mission	2	3	3	-	-	8
Staff visits	4	4	4	-	-	12
Total	10	12	12	-	-	34

* Resources for country CD activities will be endorsed separately through country-specific CD and approval will be granted by the Secretariat or the Steering Committee on a lapse-of-time basis depending on the beneficiary country's income level.

Note:

- In-person delivery was chosen in *most* instances because of the poor technology available in LICs and FCS.
- Remote delivery was chosen in *some* instances to provide continuous support following in-person delivery.
- Hybrid delivery was chosen in several instances to allow internal and external experts to join in technical discussions.
- Collectively the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person, remote, and hybrid activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM IV – Fiscal Tools, Research and Analytical Work		
Q2/FY25	Field-based work	Analytical work on refund forecasting using RA-GAP methodology by visiting scholar
Q2/FY25	Remote work	Analytical work on python version tax gap model development by visiting scholar
Q3/FY25	Field-based work	HQ led VAT gap estimation mission
Q4/FY25	Field-based work	Workshop to support the creation of the IMF-ATI Tax Gap CoP

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VII. PROGRAM FINANCIALS

	FY25	FY26	FY27	Total
RM IV - Fiscal Tools, Research, and Analytical Work				
Visiting Scholar (Analytical work)	89,108	116,612	123,844	329,564
Workshops and per-to-peer networking	55,969	58,881	61,974	176,824
Subtotal	145,077	175,493	185,818	506,388
Trust fund management fee (7%)	10,155	12,285	13,007	35,447
Total	155,232	187,778	198,825	541,835
Complementary Country CD* (for information only)				
Total	374,168	496,808	526,089	1,397,066
<i>Of which TFF (7%)</i>	24,478	32,501	34,417	91,397

* For information purposes only and not for endorsement. Endorsement requests for country-specific activities will be submitted when activities are agreed with authorities. LIC-related requests will be approved by the Secretariat, while a lapse-of-time endorsement will be requested for EMEs.

The estimated budget for this three-year project is \$541,835, but endorsement is requested for \$155,232 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

VIII. TARGETED LOGICAL FRAMEWORK

A. RM IV – Fiscal Tools, Research, and Analytical Work

Objective	
Strengthened revenue administration management and governance arrangements (SDG 17.1)	
Outcome(s)	Indicator(s)
Corporate priorities are better managed through effective risk management	Improved monitoring and evaluation of compliance risk mitigation activities (TADAT POA2-5).
Objective	
Strengthened core tax administration functions (SDG 17.1)	
Outcome(s)	Indicator(s)
Audit and other verification programs more effectively ensure accuracy of reporting	Sound methodologies used to monitor the extent of inaccurate reporting and tax gaps (TADAT 2015 POA6-18/TADAT 2019 POA6-22, RA-GAP results)