

GPFP Revenue Administration Gap Analysis Program (RA-GAP) Proposal

Country: Colombia

Income level: Emerging economy

Project: Delivering a bottom-up estimation for income taxes

Date proposed: February 2026

Background

In September 2025, the IMF's Executive Board acknowledged the strength and resilience of the Colombian economy, while noting challenges posed by the widening fiscal deficit and rising debt levels. These have led to elevated sovereign spreads and increased interest payments. Directors underscored the importance of implementing a fiscal consolidation plan of around 3.2 percent of GDP over the next three years with a balanced mix of growth-friendly expenditure and revenue measures, as well as clear intermediate fiscal targets.

On the revenue side, strengthening Colombia's tax administration is expected to play a critical role in supporting revenue mobilization strategies. Despite reform efforts, tax revenue has consistently underperformed in recent years, owing to multiple factors: structural fiscal constraints and weaknesses in tax administration, including ineffective targeting of compliance strategies, frequent turnover in leadership (three commissioners in one year), stalled progress on modernization programs and short-sighted measures that fail to address underlying structural tax administration issues.

Engagement

After a period of stagnation, the National Directorate of Taxes and Customs (DIAN) resumed its engagement with the IMF's Fiscal Affairs Department (FAD). In 2023, a DIAN delegation visited FAD's HQ in Washington, D.C. to request FAD advice on different tax administration's structural reforms, including a more robust tax gap estimation function. An ending program financed by the Swiss State Secretariat for Economic Affairs (SECO) provided support to conduct capacity development (CD) work until early 2024. The recovered relationship also led to an agenda of analytical projects to evaluate the impact of emblematic administrative reforms like the introduction of electronic invoicing.

A more robust approach to tax gap estimation could significantly enhance the targeting of compliance strategies. According to the IMF Tax Administration Diagnostic Assessment Tool (TADAT) evaluation in 2020, DIAN demonstrates familiarity with top-down methods for estimating value-added tax and corporate income tax gaps, particularly those based on RA-GAP techniques. However, the effectiveness of these estimates in guiding compliance actions to target specific risk populations remains limited, as top-down approaches do not reveal the specific taxpayer behaviors contributing to the gap.

Criticality

This CD initiative would be highly relevant for strengthening DIAN's efforts in tax gap analysis. A previous attempt to estimate the tax gap using bottom-up techniques was unsuccessful last year due to a lack of agreement with audit departments to conduct random audits. However, it is still possible to leverage the results of operational audits—adjusted for selection bias—to produce tax gap estimates that can be more robust than those obtained using top-down approaches and more effective for compliance improvement plans. Collaborating with DIAN staff on bottom-up tax gap estimation will also help build internal capacity and institutional ownership of the methodology.

Delivering a bottom-up estimation of Income Tax Gap

The authorities have robust analytical capabilities and operate two dedicated data analytics units. To manage costs efficiently, we recommend a hybrid approach to CD delivery, implemented in two phases:

Remote Phase: The focus will be on preparing data based on the data requirements sent to the authorities well in advance and briefly introducing key concepts and methodology to support the preparation of necessary data. A duration of five to six days should be sufficient, though these days do not need to be consecutive. Meeting once or twice per week would give the authorities adequate time to prepare their data and resolve any issues that may arise during the process.

Field Phase: Once the authorities have secured the necessary data, we can proceed to the field phase. This phase should concentrate on feeding the data into the model, tweaking model parameters, and interpreting the results. At the end of the mission, a workshop will be delivered to teach analysts to apply the Income Tax Gap model. Two weeks are necessary.

Cost

The estimated total cost of the activity¹ to estimate and produce a report on Colombia Income Tax Gaps is USD 94,000, including interpretation.

¹ Estimated costs produced by CDMAP, the IMF's CD project management tool.