

GPFP RA-GAP Proposal

Country: Dominican Republic (DR)

Income level: Emerging Economy

Project: Delivering a RA-GAP VAT Gap Estimation for DR

Date proposed: October to December 2024

Background

The Dominican Republic leads Latin America in GDP growth, with an average annual rate of around 5 percent per year since the 1970s. Notwithstanding, interest rates on public debt are high relative to peers, notably those with investment grade. Elevated public debt (or interest payments) relative to low tax revenues is a key risk constraining the country credit rating and preventing it of further reduce bond spreads (interest rates). That is why efforts to improve tax revenues are fundamental, either from policy or administration reforms.

President Luis Abinader has announced his intention to submit a comprehensive tax reform to boost revenues. The government has not yet announced its plans; however, issues like the streamlining of tax incentives and exemptions—which together amount to about 5 percent of GDP, or a third of all tax revenues—the introduction of a new tax regime for small businesses, and the improvement of tax and custom administrations to reducing tax avoidance and evasion have been in the agenda in later years.

Engagement

On April 17, 2024, Mr. Luis Valdez Veras, Commissioner General of the DR's Tax Administration (DGII) requested technical assistance from the Fiscal Affairs Department (FAD) for the analysis of the tax gap. The request was responded to by the R2 Division Chief, Andrea Lemgruber, mentioning that DR will be included in the programming process of FY25 RA-GAP activities.

In late August 2024, the mission chief of WHDDOM, Emilio Fernandez has informed FAD about the high priority expressed for the DR Minister of Finance of having VAT gap estimates to better monitor the performance of the tax administration. As indicated in the background, the authorities expected to include tax and custom administration reforms as part of the major tax reform bill that has been promoting recently.

Criticality

This technical assistance is relevant for realigning DGII efforts towards tax gap analysis. Changes in the composition of the DGII team responsible for conducting this analysis in 2020-2021 led to discontinuation of preparation and publication of tax gap estimates. Tax gap estimation will be a key input for developing evidence-based compliance improvement plans, which might be eventually supported by FAD or CAPTAC-DR. Working with DGII staff on estimating DR VAT gap will help develop internal capacity for tax gap analysis. DGII welcomes the idea of understanding the results and implications of the RA-GAP VAT gap study, and hence refining their compliance improvement plan of action to be eventually part of the tax reform.

Delivering a standard VAT gap estimation

During April-August 2024, three engagement virtual meetings have been undertaken by FAD's RA-GAP team with DGII technical counterparts. These meetings included a general presentation of the VAT gap program estimation from RA-GAP, a positive check of the data requirements to develop a gap assessment, and a discussion on administrative details for effectively developing an assessment for the DR VAT compliance gap during October-December 2024.

In July 2024, following RA-GAP recommendations, the DGII counterparts completed the on-line VAT gap estimation course. Three staff of the technical counterpart approved the online course (IMF's VGAPx) which is a prerequisite for starting any assistance in this area.

Cost

The estimated total cost of the activity¹ to estimate and produce a report on DR VAT gap is USD 121,000.

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