

Embarking on a Medium-Term Revenue Strategy (MTRS)¹

What is an MTRS?

An MTRS is a high-level road map of the tax system reform over 4–6 years—its policy, administration, and legal components. It embodies a government's strategy to mobilize resources through a tax system that can finance its spending needs and secure macroeconomic sustainability, while reflecting distributional considerations and creating appropriate incentives for economic and social development.

An MTRS should be a public document, since wide consultation with the tax system's stakeholders is desirable in its development, including to promote accountability of all concerned. An MTRS thus becomes a government-led and country-owned effort, supported at the highest political level—critical, given the broad reach of the tax system. Some countries may wish to have external support with development and implementation of their MTRS. The formation and implementation of the MTRS will then require support from development partners that is aligned and subordinated (notably in sequencing) to the government-led strategy. The partners in the Platform for Collaboration on Tax (PCT) will provide their inputs with this vision in mind.

Why an MTRS is needed?

A medium-term and comprehensive approach to reform the tax system's components is beneficial because:

- ✓ *A medium-term tax policy enables governments to have a clearer picture of their likely revenues over a meaningful planning period, and taxpayers to have more certainty on how they will be treated and what the tax implications of their investment and other decisions will be.*
- ✓ *Tax priorities are too often driven by short-term considerations. Commitment to reforms over the medium-term can help prioritize intermediate objectives, such as increasing the number of high value taxpayers.*
- ✓ *Institution building in tax administration is complex and needs sustained effort over several years.*
- ✓ *The legal framework requires timely change to support evolving policy and administration.*
- ✓ *Successful reform requires continued commitment and trust among a wide range of stakeholders.*

An MTRS provides a setting to achieve all these critical goals.

An MTRS does not mean that benefits come only in the medium-term; an MTRS also provides the setting for short-term measures that are of high quality and consistent with the vision of fundamental improvement.

Countries may be able to build an MTRS on the basis of their current reform efforts. Country ownership, coherence, breadth (covering tax policy and administration) and effective monitoring are key features that define an MTRS.

How will an MTRS benefit domestic revenue reform?

By setting a vision/path of a tax system's changes, an MTRS can enable a guided and sustained tax reform effort, if country ownership is established and government commitment to its design and implementation is strong. The political economy of tax system reform is complex. Experience points to a consistent and well-guided effort as essential to achieve effective tax system reform; when this effort is erratic, changes can be ill-conceived and modernization short-lived.

¹ The concept of the MTRS is introduced in *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries*, Platform for Collaboration on Tax (IMF, OECD, UN, WB), July 2016. At: <https://www.imf.org/external/np/pp/eng/2016/072016.pdf>. A further concept note develops its main components, and illustrates the nature of an MTRS document in an appendix.

By setting a framework to align external support. An MTRS can also help countries make more effective use of external support by promoting coordination among CD partners (avoiding duplication and overlapping) and aligning their support under the umbrella of the government-led MTRS. It also helps providers to plan ahead to resource support needs. This is crucial both for the sequencing of active CD partners' support and for integrating new partners into the reform program

Why now?

Many countries are currently aiming to intensify their revenue mobilization efforts and tax system reforms. In some cases, reform efforts have been erratic and not sustained: in others, progress has been slow because of the inherent difficulty and/or lack of a comprehensive strategic approach. An MTRS is an opportunity to break with a focus on short term measures and commit to a more comprehensive reform of the tax system.

There is increasing recognition of the importance of improving the quality of tax systems... notably in the context of achieving the Sustainable Development Goals.

...and increasing interest among donors in providing support. Donors participating in the Addis Tax Initiative have committed to double their resources devoted to support in the tax area by 2020.

What does an MTRS involve in practical terms?

Formulating and implementing a medium-term strategy to reform the tax system. In doing so, four components need to be progressed—broad consensus on medium-term revenue goals, reform of the tax system, country commitment, and any external support. Depending on a country's level of development and the current state of its tax system, the scope and reach of reform in each component will vary. In some—post-conflict countries, for example—the tax system may need to be rebuilt from a very low level. In this context, the reach of reform should not be too ambitious. But in others, an MTRS may mean building on strategies already in place. In all cases, monitoring progress will be critical.

What kind of support is being offered?

Depending on a country's capacity, CD support could span the whole range of tax system reform needs, including diagnostic assessment, reform design and formulation, implementation, monitoring and evaluation. The reach of reform and the corresponding CD support must be tailored to the country's circumstances and government-led vision. And this government-led stance may have to be nurtured in some cases to help design, manage, and implement complex reforms. External support will need resourcing, but an MTRS will help development partners to plan ahead to ensure appropriate resources are available to deliver the strategy.

Why are international organizations so enthusiastic about the MTRS?

An MTRS will help align and coordinate external support under the umbrella of a government-led tax system reform effort. This contrasts with the situation—not universal, but still too common—in which CD partners provide their support on a bilateral and fragmented basis, not based on a clear 'big picture' of tax system reform and proper sequencing of support.

Is there international experience illustrating the value of implementing an MTRS?

Developed and some emerging market countries have shown what can be achieved with more systematic approaches to tax system reforms. Tax policy changes are part of medium-term budget frameworks and are based on policy objectives, legal support and in coordination with tax administrations; tax administrations guide their modernizations through strategic planning and reform. In these countries, policy design and management capacity are more robust and, critically, resources are allocated to the reform effort. There are also some good examples of developing countries that have succeeded in implementing medium-term reforms by tailoring good managerial practices to their realities.