

# **Taxation and fiscal decentralization – Semi-autonomous tax agencies in Peru**

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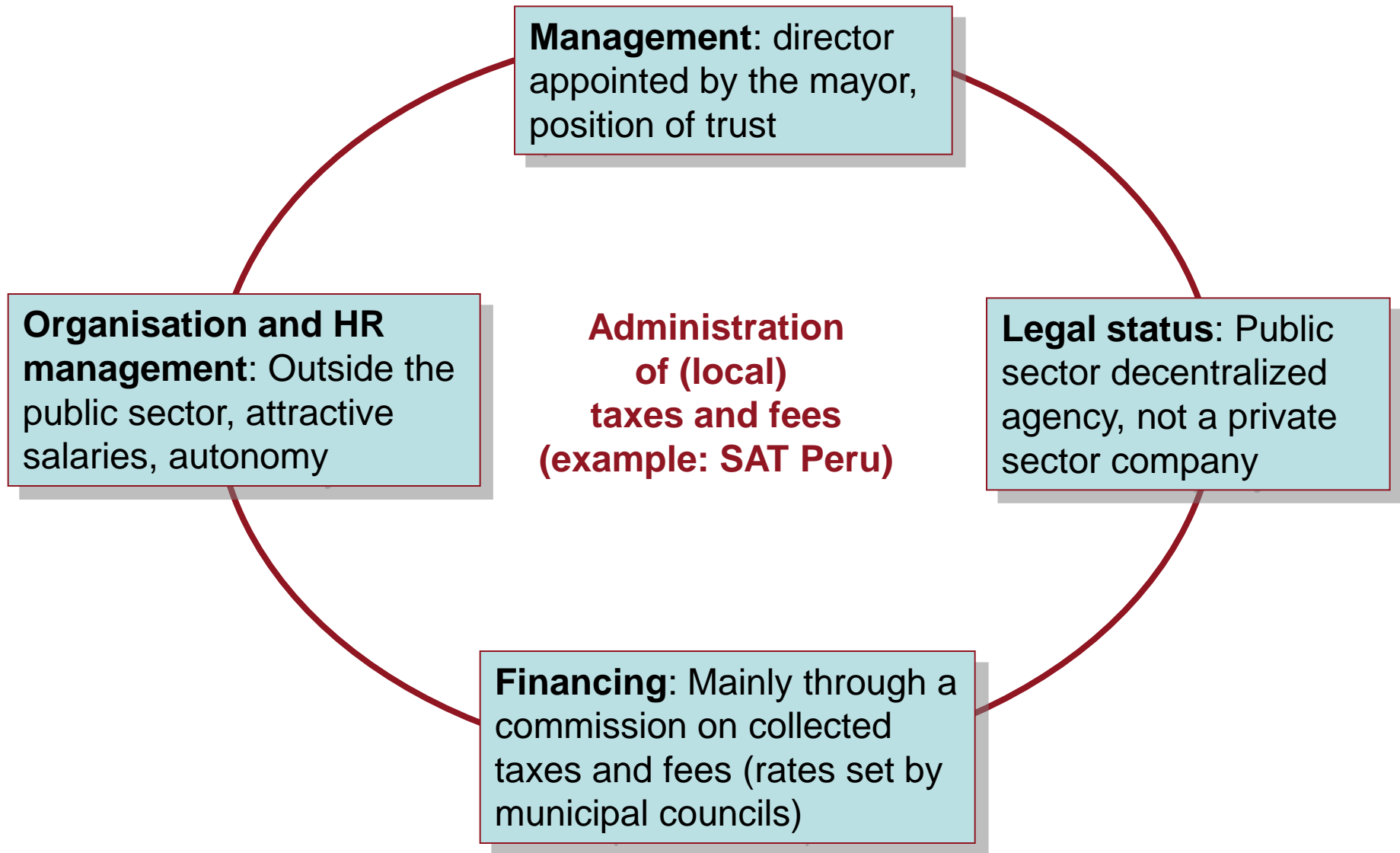
- ➔ What are semi-autonomous tax agencies?
- ➔ The Peruvian *Servicios de Administración Tributaria* (SAT)
- ➔ Impact of the SAT on
  - ➔ tax revenue (effectiveness)
  - ➔ the costs of tax administration (efficiency)
- ➔ A useful approach for other countries?



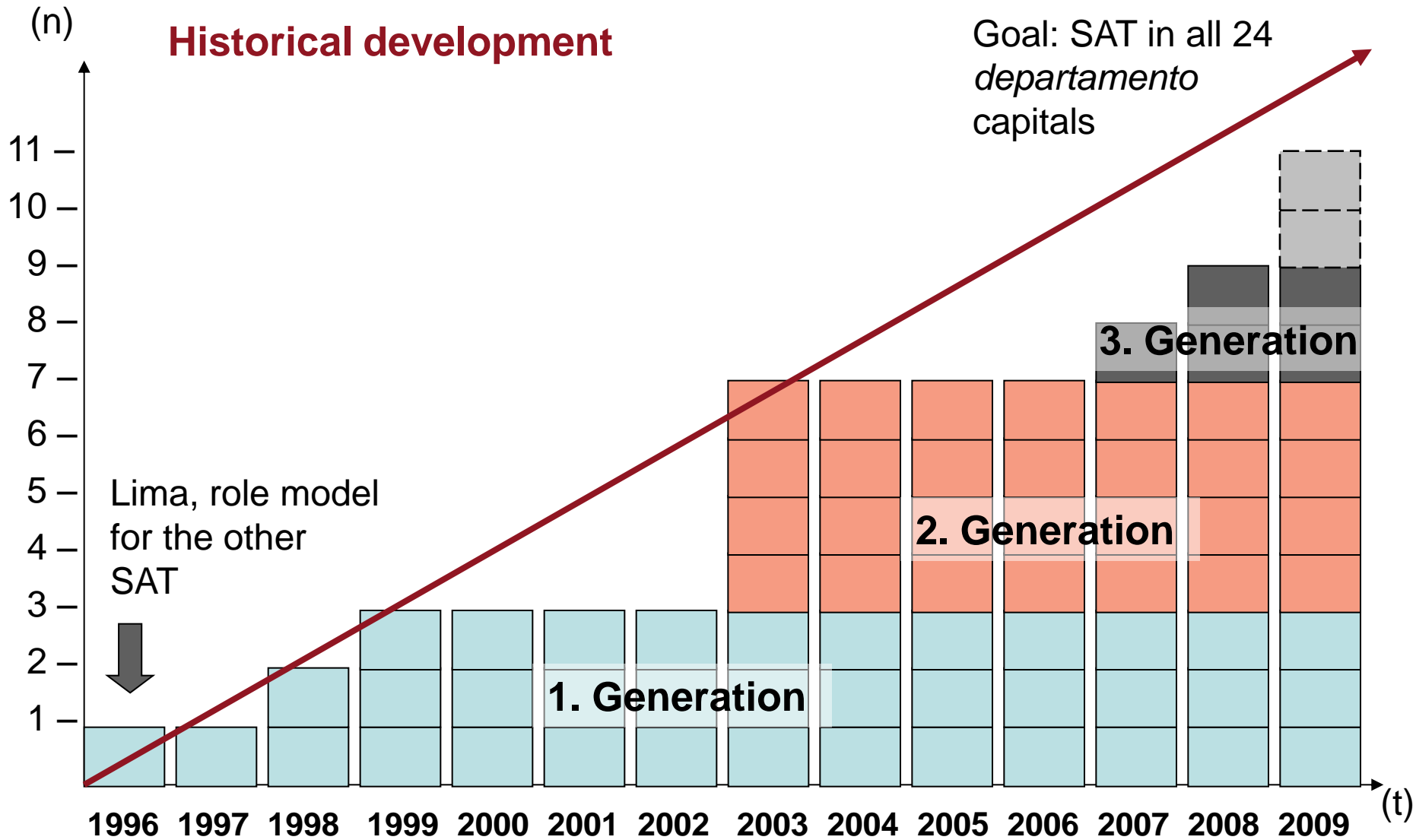
## Main Message

- ➔ Semi-autonomous tax agencies can have a positive impact on local revenue generation and public administration in general, but they should not be taken as a panacea for every problem that may arise in the course of fiscal decentralization

# What are semi-autonomous tax agencies?



# The SAT in Peru (I)



# Tax collection (effectiveness) (I)



**Quantitative analysis:** tax collection in 7 SAT cities compared to 22 cities with conventional tax administration

## 1. Mean annual **growth** of tax revenue, 1998-2008

<b>Cities with SAT:</b>	<b>13,4%</b>
<b>Cities without SAT:</b>	<b>9,2%</b>

## 2. Mean annual **variation** of tax revenue, 2003-2008

<b>Cities with SAT:</b>	<b>12,9%</b>
(Three 1st generation SAT:	10,2%)
<b>Cities without SAT:</b>	<b>18,5%</b>

## 3. Particularly high growth rates in the first two years

SAT overshooting, year 1 and 2: **12,7%** and **14,3%**

Data provided by the  
Ministry of Economy  
and Finance (MEF)



## Internal or production efficiency:

Evidence is inconclusive → for instance, very little information on the efficiency of conventional tax administrations

However, some findings suggest internal efficiency growth in the course of SAT consolidation:

- ✓ SAT Lima cut tax administration costs by 43% between 2005 and 2007, from 0,16 sol to 0,09 sol per sol collected.
- ✓ There is a tendency towards lower commission rates. Most SAT have commission rates hovering around 8%-10%. At the moment, SAT Trujillo has the lowest rate (4,5%), followed by Lima (5,0%). Commission rates are set by the municipal council.



## External or allocative efficiency\*:

### Indicators:

- ✓ **Lower compliance costs**, e.g. shorter waiting time, new payment modalities, establishment of call centers, simplification of procedures, provision of forms free of charge, etc.
- ✓ **Higher customer satisfaction**, e.g. survey by SAT Trujillo in January 2008: 84% satisfied with waiting times, 71% satisfied with time needed to attend their requests, 75% satisfied with the information provided by the SAT.

However, there is no systematic use of customer surveys as a means to monitor and evaluate client satisfaction or compliance costs!

\* *Allocative efficiency measures how well public services match consumer preferences*





## Arguments in favor of the SAT

- ☺ Relatively robust evidence: Higher tax yield, stabilization of revenues
- ☺ Long-term reform orientation induced by the commission model
- ☺ Hints towards growing efficiency, especially because of lower compliance costs
- ☺ Lower corruption, higher transparency
- ☺ Probably higher legitimacy of the tax system in the medium term

## Arguments against the SAT

- ☹ Radical reform, high transaction costs
- ☹ Only suitable for a small number of big and advanced cities
- ☹ Risk of growing polarization of local revenue conditions
- ☹ The model does not generate strong incentives for efficiency
- ☹ Limited communication between tax administration and service providers – legitimacy problems



## Can the model be transferred to other countries?

- ☑ „Hard“ conditions: local tax competencies, legal competencies, tax potential
- ☑ Local government interested in raising local revenues
- ☑ History of failure (or low prospects for success) of less radical reform options
- ☑ Sustained political will to change the tax culture
- ☑ Taking advantage of *windows of opportunity* in the political cycle



**Thank you**

**Merci beaucoup**

**Vielen Dank**

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