

# TAX REFORM



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## Sen. Russell Long on Tax Reform

- *“A tax loophole is something that benefits the other guy. If it benefits you, it is tax reform.”*
- *“Tax reform means, 'Don't tax you, don't tax me. Tax that fellow behind the tree.'”*

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## Rationale For Tax Reform

- Fiscal: ↑ Tax Revenue

*BIR in the Philippines*

- Social: ↓ Horizontal or Vertical Inequities
- Economic: ↓ Resource Allocation Inefficiencies
- Administrative: ↑ Taxpayer Service

*IRS in the United States*

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## Obstacles To Tax Reform

- Context: Political
  - Winnings Concentrated → Winners Organized & Active
  - Losses Diffuse → Losers Disorganized & Passive
- Internal: Technical
  - Limited Information On Present Situation & Simulation of Possible Impact → Weak Planning Capacity
  - Limited Financial & Human Resources → Weak Implementation Capacity & Internal Sabotage
- External: Foreign Aid
  - Conditionality & Inexpert Experts → Advice That Is Inappropriate But Difficult To Reject

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## **Principles Of Tax Reform**

- Approximately Right vs. Precisely Wrong:  
Simple > Optimal
- Emphasize Maximum Revenue & Efficiency:  
Equity Best Addressed With High Thresholds,  
Blanket Exemptions, and Expenditure Policy
- Economics Of Taxation:  
Low Rate, Large Base

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## **Independent Revenue Authorities**

- Why?
  - Need for rapid change in organizational culture
  - Need to attract and retain competent staff
- Requirements?
  - Strong political support at the top
  - Adequate operational and investment funding
  - Operational autonomy/freedom from interference
  - Appropriate governance and oversight
- Symptoms or Causes?
  - Calling a dog's tail a leg does not make it a leg....

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## **10 Lessons Of Tax Reform**

- Most successful when least needed
- Continuity among decisionmakers/policies is critical
- Hurried reforms are → failed reforms
- Essential to focus on tax administration & implementation
- Critical to have good mass communications
- Revenue shortfalls doom reform
- Simplification and rate reduction are complementary
- Withholding systems are vital for income taxation
- Indirect tax reform currently a major worldwide focus
- There are no quick fixes