



Broadening the Tax Base

Wilson Prichard, Research Director, ICTD

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Key Messages



- ▶ In order to think about **how** to tax the “informal sector” we need to think carefully about **what** we mean, and **why** governments might want to tax the informal sector.

- ▶ This is likely to point toward cooperative approaches to improving compliance.

What is the 'Informal Sector

- ▶ What do we mean by the informal sector? It conflates:
 - Large non-compliant taxpayers – professionals, cash-based operations etc..
 - Smaller, growth oriented, firms eligible for presumptive tax regimes
 - Smaller more transient and/or subsistence type firms

- ▶ I assume we are focused on the latter categories, but that clarity matters
 - For small firms revenue potential is lower, equity concerns more muted

Why tax small informal firms?



1. **Revenue:** In practice revenue potential is limited, “tax culture” benefits are unproven and aggressive enforcement often just leads to bloated tax registers
2. **Equity:** In practice formal and informal burdens on small firms appear to be already substantial, esp. for women –aggressive enforcement may worsen inequality
3. **Growth:** There is some evidence that formalization can encourage growth **for some kinds of firms and in certain kinds of circumstance**
4. **Engagement:** Evidence that this is possible, but **dependent on circumstances** that facilitate broad-based engagement

Bottom line: Focus on fostering growth and engagement in both targeting and approach.

What might effective strategies look like?

- ▶ **Focus:** Don't worry excessively about subsistence style firms

- ▶ **Simplify:** Make registration and payment simple – though paying attention to the integrity of the tax registry

- ▶ **Use IT:** To ease payments and verification

- ▶ **Combine carrots and sticks**
 - Many firms appear willing to formalize **if** formalization brings reliable benefits – reduced harassment, greater certainty, training, access to contracts and business opportunities, representation etc...
 - A strategy based on providing benefits naturally emphasizes the firms that can benefit from formalization



THANK YOU

wilson.prichard@utoronto.ca