Guest Column

Domestic Resource Mobilisation Matters to AEC by 2025

By Aekapol Chongvilaivan



Image Credit: ASEAN website

ASEAN needs to boost its capacity to raise tax revenue and enable new approaches to tax administration.

Macroeconomic and fiscal stability underpins the economic pillars of ASEAN and the realisation of the AEC by 2025. The backdrop of the COVID-19 pandemic witnessed large fiscal deficits and rising public debts across the region. Concurrently, the emerging challenges from supply chain disruptions, spikes in fuel and commodity prices, and global interest rate hikes call for coordinated fiscal responses. Therefore, it is an unprecedented time for the ASEAN member states to come together to rethink and redesign domestic resource mobilisation (DRM) strategies. DRM is the ability of a government to mobilise its own resources and collect taxes.

DRM has posed fiscal challenges even before the pandemic. It is not uncommon for most ASEAN member states to consistently experience a declining trend of the tax-to-GDP ratio hovering below 15 percent—the minimum level of tax revenues widely considered to be imperative for increasing GDP per capita. The generally low tax-to-GDP ratio in the region signifies not only the low capacity to raise tax revenues, but also limited public service delivery.

There are many underlying factors that contribute to low DRM in ASEAN. First and foremost, the informal sector—economic activities which operate outside a tax system—in most ASEAN member states is estimated to be over 20 percent of GDP, with only Singapore and Viet Nam having lower estimates. Informal segments of an economy suppress various tax revenue streams, particularly Value-Added Tax (VAT), and pose major tax compliance risks.

Second, complex tax rules and requirements for registration, filing, payment, and return impose high compliance costs which discourage taxpayers from entering the tax system, narrow the tax base and, ultimately, constrain overall DRM potential. Low

Corporate Income Tax (CIT) productivity is observed in the region due to the prevalent use of CIT exemptions, international tax avoidance, aggressive tax planning, and transfer pricing. It also points to weaknesses in tax administration such as complex tax compliance, poor risk management, and ineffective enforcement.

Third, subnational taxation remains largely untapped in ASEAN. Real property taxes make up a significant proportion of subnational revenues. Taxes on real properties are widely regarded as the most efficient and equitable means of raising revenues. However, real property taxes account for only 0.1–0.9 percent of GDP in ASEAN with the Philippines and Singapore as the best performers; all others are below the OECD average.

Fourth, the growing digital economy raises concerns about fairness and efficiency of the tax systems. The digital economy in ASEAN grew exponentially from US$117 billion in 2020 to US$174 billion in 2021, and is expected to reach US$1 trillion by 2030. Under current international tax rules, firms generally pay CIT where production occurs, rather than where consumers or users are located. In a digital economy, businesses can derive income from users/consumers anywhere in the world, without a physical presence in the country concerned, and this has raised issues about a misalignment between value creation and payment of taxation.

Emerging technologies enable new approaches to tax administration. New capabilities such as access to big data on financial and business transactions, and cloud-based platform for data management may provide cost effective monitoring and control over the informal sector. Digital transformation of tax bodies will help improve tax compliance for both taxpayers and tax bodies.

Modernisation of real property tax administration such as updated database for real property values and transactions can offer the impetus for boosting real property tax revenues. ASEAN potentially taps on digital technology platforms and IT tools to modernise business processes of real property taxation, ranging from a transaction database and valuation functions. These real property tax measures are progressive in nature as they generate tax revenues from wealthy property owners and are likely to yield significant gains in the short term.

The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and the Global Forum on Transparency and Exchange of Information for Tax Purposes offer an exceptional opportunity for ASEAN to take part in the global efforts and address this issue collectively at the multilateral level. Enacting a sound domestic legal framework and participating in international forums to enhance consistency, cooperation, and information exchange, are important in supporting jurisdictions in their efforts to protect the domestic tax base from erosion.

The Asian Development Bank's (ADB)

engagement in DRM reforms in ASEAN and in Asia and the Pacific underlines the fact that strengthening DRM requires not only raising revenue, but also designing a revenue system that fosters inclusiveness, encourages good governance, promotes investments and job creation, reduces inequality, and tackles climate change. ADB's Asia Pacific Tax Hub (APTH) stand to help develop multilateral, consensus-based solutions to support DRM and foster international tax cooperation. The APTH can also help ASEAN formulate consistent policies, thereby preventing unilateral tax measures, which could lead to double or triple taxation, threatening cross-border trade and investment.

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