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

OECD Development Finance Network
Meeting on Domestic Resource Mobilisation for Development

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Agenda

- 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?

**Management**: director appointed by the mayor, position of trust

**Administration of (local) taxes and fees** (example: SAT Peru)

**Organisation and HR management**: Outside the public sector, attractive salaries, autonomy

**Legal status**: Public sector decentralized agency, not a private sector company

**Financing**: Mainly through a commission on collected taxes and fees (rates set by municipal councils)
The SAT in Peru (I)

Historical development

Goal: SAT in all 24 departamentos capitals

1. Generation

2. Generation

3. Generation

Lima, role model for the other SAT
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**
   - Cities with SAT: 13.4%
   - Cities without SAT: 9.2%

2. **Mean annual variation of tax revenue, 2003-2008**
   - Cities with SAT: 12.9%
   - Cities without SAT: 18.5%
     - (Three 1st generation SAT: 10.2%)

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
Conclusion (I)

**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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