

# Fair Finances: How tax and social spending can support the reduction of poverty and inequality in Myanmar

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## Key points

- ▶ Myanmar has one of the lowest tax takes in the world. This contributes to chronic underinvestment in health, education and social protection and is a major obstacle for achieving the government's development vision as outlined in the Myanmar Sustainable Development Plan.
- ▶ Government revenues rely on large corporations and state-owned economic enterprises. However, weak tax administration, widespread tax dodging, and overly generous incentives for investors mean that tax collection is much lower than it should be. This is creating an unjust system where the wealthiest are not paying their fair share of taxes.
- ▶ Important reforms have been initiated but more ambitious and far-reaching reforms are urgently needed to ensure the government collects adequate revenue and that the wealthiest in society pay their fair share. This money then needs to be spent on measures to tackle poverty and inequality, including improved delivery of essential public services.
- ▶ In light of the COVID-19 crisis, measures that increase tax fairness and contribute to more robust spending on essential public services, including health care, education and social protection, can support a more gender-responsive and equal recovery. Such measures are more important now than ever.

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## Executive summary

In recent years, Myanmar has been experiencing profound political, economic and social changes. Wide-ranging policy reforms that began in 2011 included a transition to greater civilian rule, more press freedoms and changes to foreign investment laws and currency exchange rates, amongst many others. These changes have helped to usher in a period of rapid economic growth and progress in poverty reduction. However, decades of military rule and economic mismanagement have left their mark. The country has one of the lowest tax takes in the world and underinvests in health, education and social protection. In order to achieve its vision for sustainable development, the government needs to collect more revenue and increase spending on measures to tackle poverty and inequality.

In the midst of the COVID-19 pandemic, the need for strengthened access to essential social services and the presence of a robust safety net has sharpened as households deal with the immediate shocks and long-term economic consequences associated with the virus. Early analysis indicates that informal sector workers, including farmers and migrant workers, are some of the groups suffering the most severe economic impacts due to the COVID-19 crisis, a trend that is set to further deepen existing inequalities as income levels drop further for some of the poorest in the country. Now more than ever, there is an opportunity to look towards public financial management policy tools, including taxation and budgeting, as core to supporting more equitable COVID-19 recovery efforts, including via the government's COVID-19 Economic Relief Plan, and a fairer, more resilient economy going forward.

As outlined in this brief, tax revenue from businesses and individuals is extremely low in Myanmar. Government revenues depend mostly on taxes from large companies and transfers from state-owned economic enterprises (SEE), which are variable and in decline, with limited accountability. While important reforms have been initiated, more needs to be done, including in terms of modernizing tax collection to increase efficiency and enforcement capacity and limit current widespread tax dodging. Overly generous incentives reduce payments from large investors while tax amnesties fail to show clear benefits and risk rewarding non-compliance. Importantly, together with needed reforms to the tax system, any revenue collected by the government in Myanmar must also then be spent in ways that further support health, education and social protection, with spending rates on these essential services low compared to other countries in the region and globally.

In positive steps, planning and budgeting processes are being driven by more “bottom up” approaches and are becoming more transparent. However, Myanmar needs to collect taxes effectively, ensure that the wealthiest pay their fair share, and spend money in a way that delivers tangible benefits to all communities; achieving all this will require far-reaching reforms.

The government needs to ramp up efforts to modernize tax administration while limiting opportunities for corporate tax dodging. It needs to rethink the use of incentives and amnesties, consider ways to make tax policy more progressive, and strengthen oversight of SEEs. Critically, the government needs to create a tax paying culture by involving the public in decision-making on how revenues the government does collect are spent and demonstrating a clear link between taxation and better delivery of public services. Such a transition to fairer taxation and increased spending on essential services is critical to tackling inequality, including gender inequality, and ensuring that “no one is left behind”.

This briefing is based on a review of selected literature on tax issues in Myanmar and internationally, and 11 expert interviews conducted in late 2019, including with tax advisors to government and companies and representatives of think tanks and civil society organisations working on tax issues. Section 1 describes the importance of taxation for efforts to end poverty and tackle inequality, especially between men and women. Section 2 provides an overview of tax collection in Myanmar and provides a high-level description of how government spending decisions are made. Section 3 sets out the key reasons why the Myanmar government's tax take is so low. Section 4 provides recommendations for how to overcome these obstacles. A bibliography is provided at the end of this policy brief.

## 1. Tax policy and sustainable development in Myanmar

As the country's political, economic and social transition continues, tackling inequality and poverty is crucial. This section describes why effective and progressive taxation matters and how this relates to the government's development vision.

### Why does taxation matter for tackling inequality and poverty?

Myanmar has experienced dramatic changes in recent years. Between 2005 and 2017, the country enjoyed the fastest growth rates in Southeast Asia. Within the same period, poverty rates almost halved.<sup>1</sup> Myanmar has made progress towards the Sustainable Development Goals, including slightly outperforming regional peers on health and education indicators.<sup>2</sup>

However, decades of military rule, economic mismanagement and international isolation have left their mark. The country continues to under-invest in health, education and social protection, and lags far behind its peers in delivering electricity and infrastructure to its citizens.<sup>3</sup> Despite progress, nearly 60 percent of the population is either poor or vulnerable to slipping the poverty line. An estimated 83% of Myanmar's workforce are in the informal sector, meaning most lack social protection, and huge inequalities remain, particularly between rural and urban areas.<sup>4</sup>

These existing challenges have been thrown into even sharper relief in the midst of the COVID-19 pandemic. Early analysis indicates that informal sector workers, including farmers and migrant workers, are some of the groups suffering the most severe economic impacts due to the COVID-19 crisis, a trend that is set to further deepen existing inequalities as income levels drop for some of the poorest in the country. For those households experiencing dramatic income loss and without savings to draw on, research indicates that many are resorting to reduced food consumption, reflecting the lack of other supports and coping strategies available to them.<sup>5</sup> Even in these early stages of understanding the pandemic's economic impact, it's evident there is an urgent need for strengthened access to essential social services and the presence of a robust safety net in the country.

Fair taxation is ultimately critical to financing such a social safety net and to addressing poverty and inequality. Research has shown a strong link between social spending and progress in reducing inequality as it can provide government with the money it needs to invest in public services and social assistance.<sup>6</sup> This is particularly important for tackling gender inequality. Adequate access to public healthcare, education and social protection can reduce the disproportionate burden of unpaid care work on women and women often also make greater use of public services themselves, thus disproportionately benefiting from such services.<sup>7</sup>

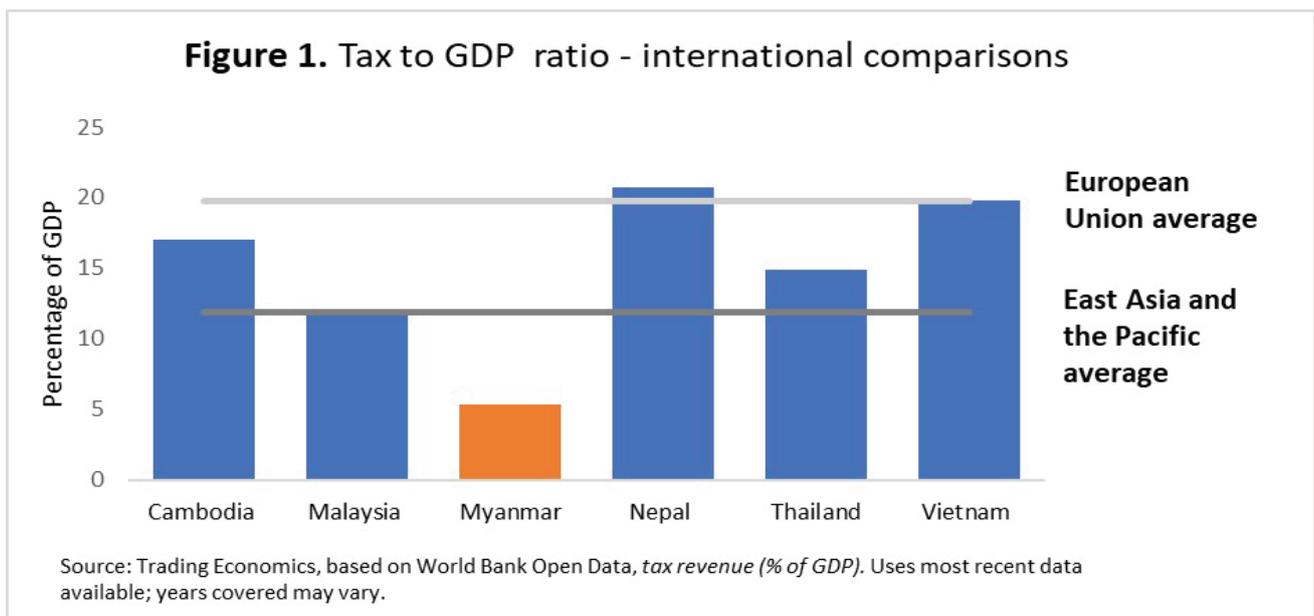
How the tax system is structured and administered matters in terms of its ability to reduce inequality. The wealthy should carry a relatively higher tax burden than the poor. Extreme economic inequality makes it harder to end poverty. Progressive taxation can address this by redistributing wealth, ensuring those at the lower end of the income scale can better support themselves and their families, have the chance to build their assets and, ultimately, to move out of poverty. At the same time, tax policy needs to be cognizant of the importance of stimulating investment and job creation and balance the interests of taxpayers and the government.<sup>8</sup>

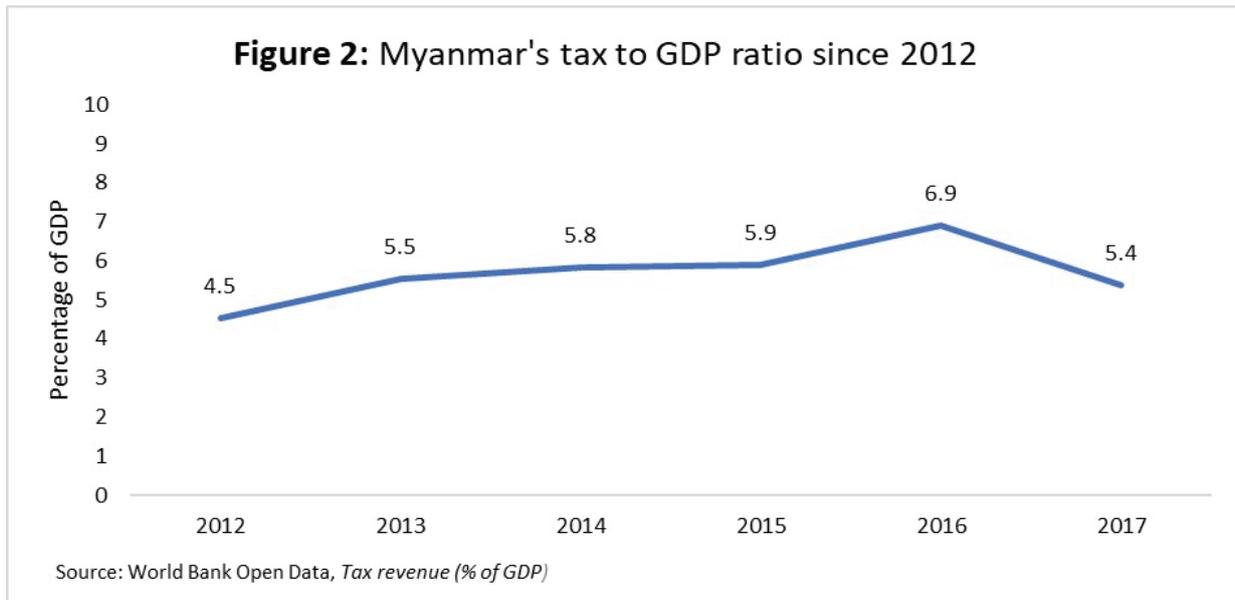
## How does taxation relate to the Myanmar Sustainable Development Plan?

The Myanmar government’s development strategy is set out in the Myanmar Sustainable Development Plan (MSDP). The MSDP is structured around three pillars: peace and stability; prosperity and partnership; and people and planet. It includes over 250 strategic action points to guide government decision-making.

The MSDP is broad and ambitious and includes several measures that could be transformative for tackling poverty and inequality. Goal 4, which covers human resources and social development, includes measures to strengthen the provision of education, health care and social protections, for instance. The MSDP also recognizes the need to tackle inequality. A cross-cutting theme is a commitment to gender empowerment, equity and inclusion.<sup>9</sup>

However, achieving these goals will cost money. In Myanmar, there is a large gap between the level of spending on public services and what is needed to achieve the government’s development agenda.<sup>10</sup> The country has one of the lowest tax to GDP ratios in the world (see Figure 1) and this ratio has been declining further in recent years (see Figure 2).<sup>11</sup>





The MSDP recognizes the importance of increasing tax collection in order to finance socio-economic development and poverty alleviation. It sets out tax reform plans, including modernizing tax administration, updating tax laws, and strengthening anti-corruption and anti-tax evasion measures.<sup>12</sup>

It also recognizes that increasing tax revenues is not an end in itself. What the government spends revenues on is critical. As a result, it emphasizes the need for inclusion and transparency in planning and budgeting. This includes the aim of integrating gender responsive budgeting across government departments.<sup>1</sup>

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The MSDP provides a framework for tackling poverty and inequality in Myanmar. Achieving it will depend on increasing the government's tax take in a fair and equitable manner, and then using those revenues to increase spending on public services.

## 2. Overview of taxation and budgeting in Myanmar

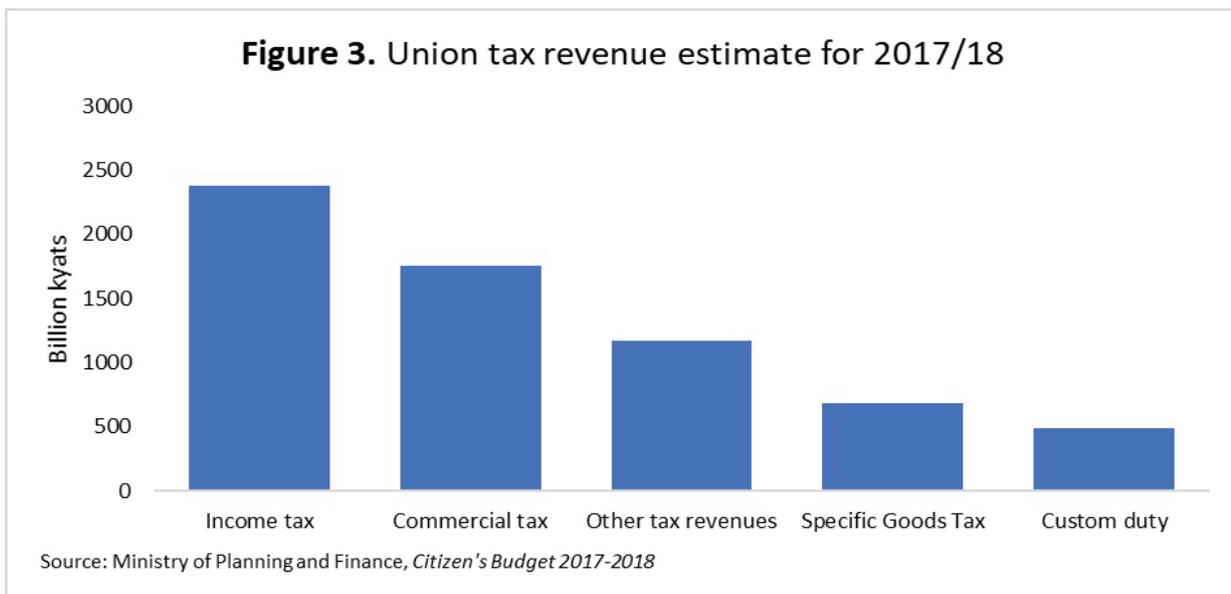
The Myanmar government's revenues depend largely on payments from large companies and SEEs. Compliance is low, both among companies and individuals, resulting in one of the lowest tax takes in the world. This limits the amount of money available for investments in public services. While spending in these areas has increased, it remains low compared to other countries in the region. Opportunities for public participation in deciding how the government spends revenues are limited.

This section describes the Myanmar government's main revenue sources, their relative importance, and how they impact different income groups in society. It also provides a high-level overview of the government's spending priorities and how planning and budgeting decisions are made.

## What are the government’s main revenue sources?

The Myanmar government receives revenue from several different sources. Taxes accounted for an estimated 38% of revenues in 2018/19. Transfers from SEEs and the Central Bank represented nearly 50%, with foreign grants and loans making up the rest.<sup>14</sup>

Income tax is the largest source of tax revenue (see Figure 3). It is levied by the Ministry of Planning, Finance and Industry’s (MoPFI) Internal Revenue Department (IRD) on the incomes of companies and individuals.<sup>15</sup> The government estimates that it accounted for 37% of Union tax revenues in 2017/18.<sup>16</sup>



Corporate income tax (CIT) is levied at a rate of 25% and makes up the largest proportion of tax receipts.<sup>17</sup> A much smaller share is collected through personal income tax (PIT). Anyone whose annual income is below MMK 4.8 million (approximately USD 3,200) is exempt from paying. For those earning more, PIT is charged at progressive rates, with a top rate of 25% for those earning over MMK 30 million (approximately USD 20,000). Income from the lease of land, buildings and apartments is taxed at 10%.<sup>18</sup>

The second biggest source of tax revenue is commercial tax.<sup>19</sup> It is levied by IRD on the sale of goods and services, typically at a rate of 5%. Taxpayers whose annual revenues from the trade or sale of goods and services are below MMK 50 million (approximately USD 33,000) are exempt from paying. There are also certain goods which are exempt, including many basic food products, agricultural equipment and fertilizers, school supplies, medical equipment and medicines, as well as educational, healthcare and childcare services.<sup>20</sup>

Another significant source of revenue is Specific Goods Tax, which makes up approximately 10% of tax revenues. It is collected by IRD on the sale of goods like cigarettes and alcohol.<sup>21</sup> The Union government also collects revenues from stamp duty, customs duties and other taxes and fees.<sup>22</sup>

Myanmar's states and regions have the right to collect certain revenues. Schedule 5 of the constitution defines 19 different taxes and fees that fall under their responsibility. However, these are generally of low value and state and region finances overwhelmingly rely on transfers from the Union government.<sup>23</sup> Subnational revenues include property tax, which is based on the estimated value of a property. Rates are extremely low – the typical amount collected per property in Yangon every six months is less than the cost of a cup of tea. The tax made up only 0.03% of GDP in 2013. However, it is notable because of relatively high levels of compliance by taxpayers. By contrast, income tax payment rates by individuals are much lower.<sup>24</sup>

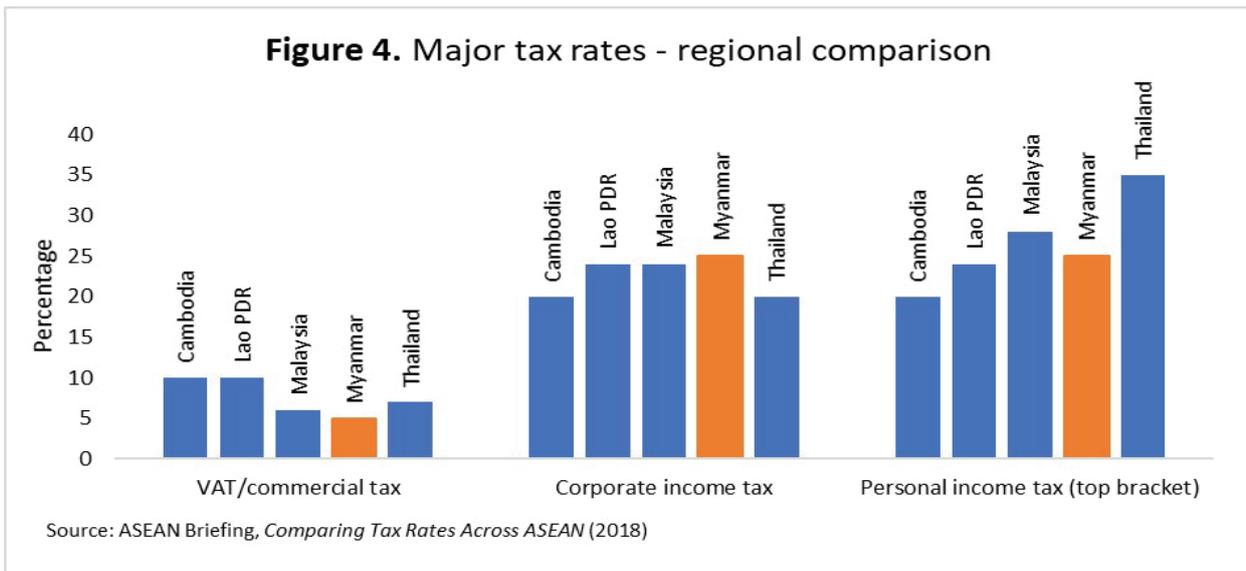
Non-tax revenues are also critical for government finances. A large part of these revenues are transfers made by SEEs of revenues received from private companies, such as royalties and production shares in the oil and mining sectors and license fees in the telecommunications sector. These revenues can be highly volatile and as noted by the IMF, non-tax revenue from SEEs during 2018/19 declined.<sup>25</sup> While payments from telecommunications were projected to quadruple between 2016/17 and 2017/18, oil and gas revenues were expected to more than halve in the same period.<sup>26</sup>

## **How do formal and informal taxes impact different groups in society?**

Taxes vary in how they impact different income groups. Direct taxes, which are levied on income or profits are generally more progressive than indirect taxes, which are levied on goods and services. This is because direct taxes result in those with higher incomes paying more than those on lower incomes. Indirect taxes on the other hand apply at same rate regardless of someone's ability to pay. They can hit women, who are often disproportionately on lower incomes, particularly hard. Developing country governments often rely more heavily on indirect taxes because they are relatively easy to collect compared to direct taxes.

Myanmar's tax system has progressive elements. Corporate Income Tax (CIT) redistributes wealth from profitable companies to the general population. The CIT rate in Myanmar is slightly higher than among the regional peers reviewed for this briefing. Personal Income Tax (PIT) is also progressive. Those on low incomes are exempt from paying and rates increase for higher income brackets. The brackets are defined in such a way that a person earning the average Myanmar salary pays no tax. This is similar to Laos and Cambodia. In Thailand, by contrast, the average salary is taxed at 5%. In Malaysia it is taxed at 10%.<sup>27</sup> The Myanmar government also allows certain deductions, including for children, non-working spouses and elderly dependents. Myanmar's top rate for PIT sits close to the average of regional peers (see Figure 4).<sup>28</sup>

Commercial tax is a regressive element of Myanmar's tax regime. However, the government has reduced its regressive effects by including a tax-free allowance and exempting essential goods and services. The rate levied is much lower than in other countries in the region (see Figure 4). Another regressive aspect is the fact that income from property rentals is taxed at much lower rates than other sources of personal income. This disproportionately favours property owners over those deriving their income from a salaried job.



Apart from what the tax system looks like on paper, it is important to consider whether taxes are collected in a progressive manner. High levels of informality in the Myanmar economy mean that few people pay PIT and that income tax collection mostly focuses on larger businesses. Similarly, commercial tax is primarily levied in urban areas and in the formal economy meaning that the poor generally do not pay.<sup>29</sup> Myanmar collects a slightly higher proportion of revenues from direct taxes than other developing countries, suggesting a somewhat progressive approach.<sup>30</sup> However, income tax receipts have been declining and, as discussed in Section 3, weaknesses in tax administration, tax dodging and overly generous incentives for investors, mean that wealthier taxpayers are nonetheless not paying their fair share.<sup>31</sup>

The collection of revenue by governmental authorities can play a crucial role in funding public services that contribute to development while also building trust in a country transitioning to more democratic rule. Yet research in Myanmar highlights that formal state taxes are rarely the only way that public goods or governance functions are funded.<sup>32</sup> Rather, informal taxes – contributions from populations collected either by non-state authorities or by government officials for the provision of services or governance – often comprise a significant proportion of the tax burden for many households.<sup>33</sup>

Such alternative systems of taxation, redistribution and service provision often garner significant levels of trust among ordinary people due to the regular contact and significant aid they provide at times of need and insecurity. Yet evidence suggests the poor tend to contribute a higher proportion of household income to informal tax than wealthier households, while women contribute significantly more than men, highlighting some of the inequities underpinning this significant tax burden.<sup>34</sup> Further understanding and taking these forms of informal taxation into consideration is thus crucial to any attempts at tax reform and ensuring such efforts do not simply compound the demands on poor households, but instead support more progressive systems that reduce inequalities.

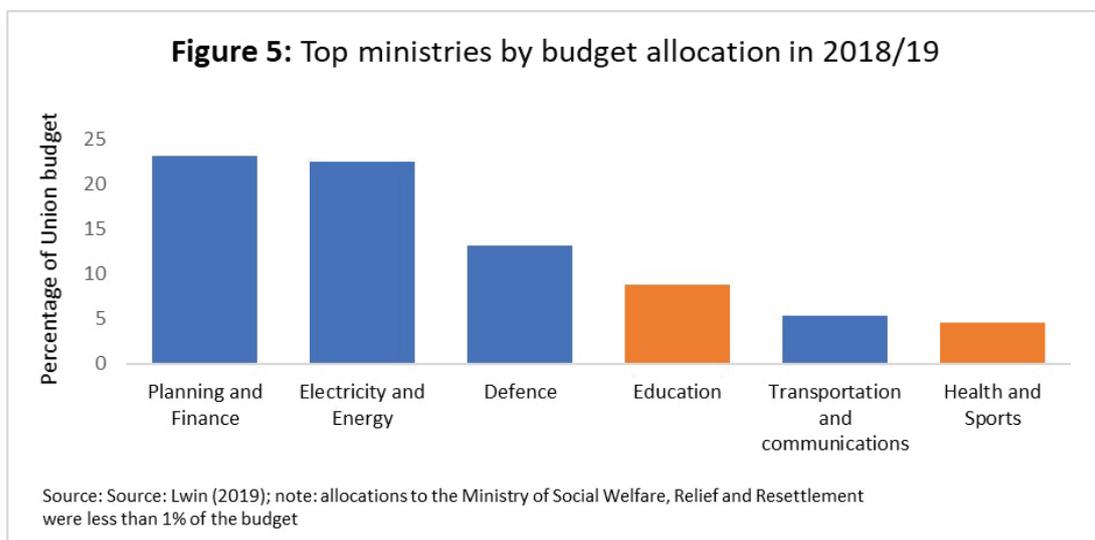
The out-of-pocket expenses incurred by households across Myanmar for essential services also constitute a significant user fee (which may be formal or informal) or ‘tax’ that needs to be considered. Based on World Bank data, for instance, Myanmar has some of the highest rates of such out-of-pocket expenses for health care in ASEAN.<sup>35</sup> For households, whether taxes are formal, informal or in the form of fees-for-service, is seemingly less important than accounting for the full tax burden they experience. And like informal taxes, out-of-pocket expenses for accessing basic services tend to be regressive as they do not typically vary based on the income level of a household, ultimately taking up a greater proportion of income for poorer households.

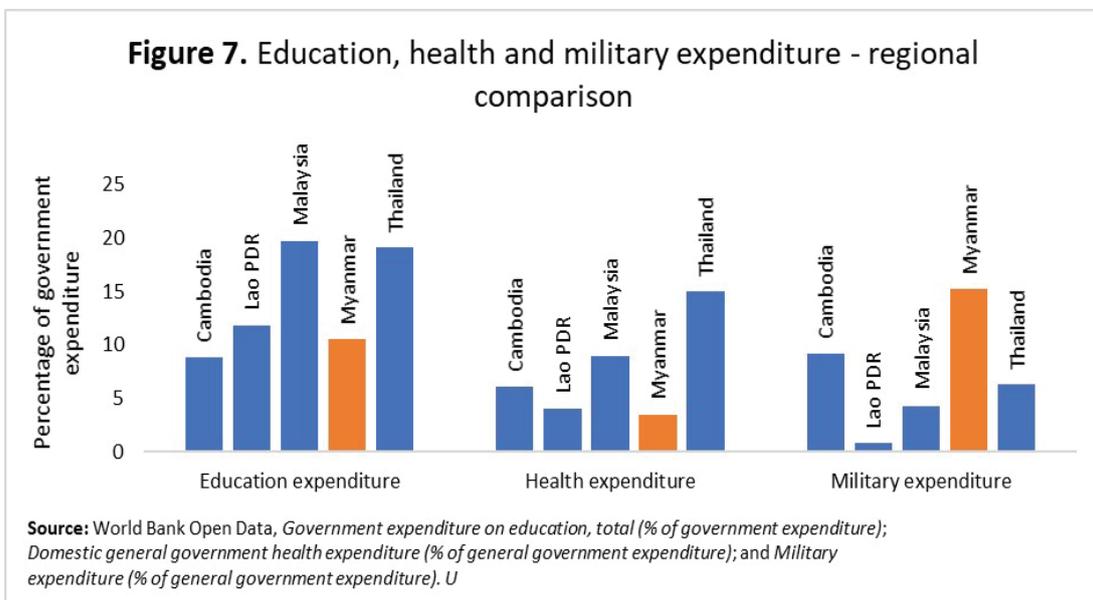
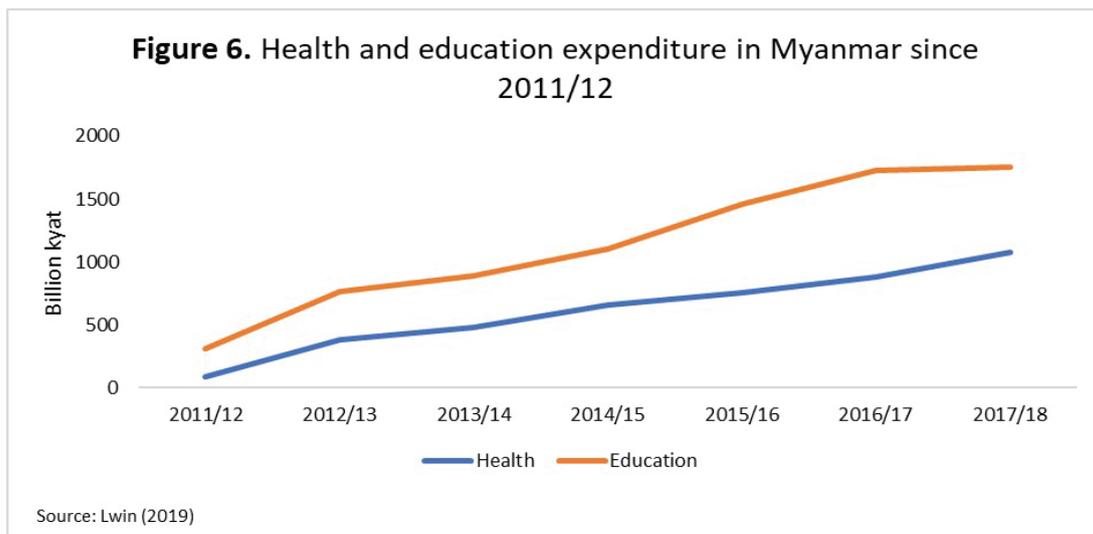
## What does the government spend revenue on?

The Myanmar government’s largest budget allocations go to the Ministry of Planning, Finance and Industry (MoPFI) and the Ministry of Electricity and Energy. In 2018/19, these two ministries accounted for over a fifth of the Union budget each. The Ministry of Defence came in third, at approximately 13%. The combined spending on health, education and social protection was approximately equivalent to the defence budget (see Figure 5).

The low spending on health, education and social protection is the legacy of decades of military rule, when the government neglected these sectors. While budget allocations have increased consistently since 2012 (see Figure 6), they remain low by regional standards (see Figure 7).<sup>36</sup> Myanmar came in at the bottom among countries in East Asia and the Pacific and second to last globally in terms of spending on health, education and social protection in Oxfam’s 2018 Commitment to Reducing Inequality Index.<sup>37</sup> Spending levels are also far below international commitments. For example, the Incheon Declaration calls for governments to allocate 15-20% of public expenditure on education.<sup>38</sup>

Even when money is allocated to public services it is not always effectively spent. Budget execution is a major challenge. Since 2013/14, none of the largest ministries have managed to spend their full budget allocation each year. Recent data indicated the Ministry of Health and Sports is only spending 70% of its budget allocation.<sup>39</sup> The challenge is therefore not only to generate more revenue, but also to ensure that ministries have the systems and capacity in place to spend it in a manner that benefits the country.





## How are government spending decisions made?

In Myanmar, planning and budgeting have historically been highly centralized and opaque. While subnational institutions are increasingly involved in decision-making, opportunities for public involvement remain limited.

On an annual basis, the Ministry of Planning, Finance and Industry instructs all government departments and SEEs to prepare plans for the coming financial year (which runs from 1 October to 30 September). Proposals from Union departments and SEEs are compiled by the MoPFI, submitted to the Union Financial Commission, and sent to parliament for approval. Proposals from subnational departments are developed through consultation at the township, district, and state or region level. They then follow two potential paths. Proposals for Union funding are reviewed by the state or region government, consolidated by the relevant Union ministry, and approved as part of the Union budget. Proposals for state or region funding are reviewed by the state or region budget department and, following vetting by several institutions at the state or region and Union levels, approved by the state or region parliament.<sup>40</sup>

The bulk of budgetary power, including for health, education and social protection, remains in the hands of Union ministries. Currently less than 10% of total government spending is controlled by the states and regions.<sup>41</sup> This is far lower than in many other countries in Asia, where basic education and health budgets, for example, are often handled by local governments. In Myanmar, state and region budgets are mostly used for building and maintaining infrastructure, such as roads and bridges; local administration; Development Affairs Organizations; and minor expenditures towards agriculture, irrigation and forestry.<sup>42</sup>

However, the increasing empowerment of state and region governments is important. Since their creation, state and region budgets have almost tripled and subnational governments have growing influence over how that money is spent. The Thein Sein administration (2011-2016) introduced the concept of “people-centered development” and the National League for Democracy has followed this up with an emphasis on “bottom-up” planning, which many civil society organizations have supported and contributed to. An increasing amount of budget items are based on township level planning. This is especially important for decisions on capital investments, including the construction of new roads, schools and health facilities. However, while planning may be informed by local-level proposals, the selection of projects and budget allocations still tend to be top-down decisions.<sup>43</sup>

Planning and budgeting are becoming more transparent. The Union and state and region governments publish annual citizen budgets. Some states and regions also publish pre-budget statements and hold public hearings once the budget has been finalized. However, the government still provides insufficient information and while citizen budgets show allocations to different ministries, in most cases they provide little detail on what exactly that money is spent on

There is only limited public participation in planning and budgeting. The “bottom up” process is a positive step. Union and state or region parliamentarians, as well as ward or village tract administrators, are increasingly involved in identifying potential projects.<sup>44</sup> The township, district and state or region level committees that formulate plans also include NGO and business representatives.<sup>45</sup> However, the selection of these representatives is not clearly defined and the process is not sufficiently inclusive. Local-level influence over what eventually gets approved remains largely limited and at the discretion of chief ministers and department heads.<sup>46</sup>

### **3. Key obstacles to effective tax policy and administration**

Myanmar’s low tax take is driven by several factors, including weak administrative resourcing and capacity, and widespread tax dodging. Companies further reduce their tax burden by making use of generous tax incentives and amnesties. The lack of oversight of SEEs results in additional revenue leakages. This section unpacks these challenges in more detail.

## Weak tax administration

Weak tax administration is one of the key obstacles to effective revenue collection in Myanmar. The resources allocated to the IRD to develop and implement modern tax collection systems are extremely low, including when compared to other lower income countries. Further, tax administration practices are often seen as arbitrary and prone to corruption, which contributes to taxpayers being reluctant to engage with the department, ultimately helping to perpetuate Myanmar's extremely low levels of tax compliance. There are only approximately 200,000 registered taxpayers in the country, which is equivalent to less than 1% of the labour force.<sup>47</sup>

Interviewees report that IRD officials have a high degree of discretion in calculating tax bills. Complaints arise among businesses, for example, around officials' lack of understanding of the difference between revenue and profit. Officials' assessment of taxable income is often not based on company accounts but on arbitrary proxies – such as the physical size of a business or the amount of time it has been operating. There is no consistency between IRD offices in terms of how often taxpayers are expected to file returns or what sort of deductions are permissible. Officials have the power to issue disproportionately large fines for relatively minor mistakes, such as missing filing or payment deadlines.

This high degree of discretion for officials combined with weak collection systems contribute to the susceptibility of tax administration functions to corruption. Paying tax is often a negotiation between officials and taxpayers, rather than being based on objective criteria. Reportedly, the better the relationship between taxpayer and official, the lower the bill is likely to be. Gifts and bribes are often expected in the process.<sup>48</sup>

The Myanmar government has made efforts to strengthen tax administration, increasing transparency and modernizing systems. A key element of this was the establishment of the Large Taxpayers Office and Medium Taxpayers Offices. In principle this allows IRD to adapt its taxpayer and audit services to the specific nature of different taxpayers. IRD is also transitioning from an office assessment system to self-assessment. This means that taxpayers calculate their own tax liabilities, with officials reviewing filings and auditing companies as required. This could reduce administrative burdens and help to tackle corruption by reducing contact between officials and taxpayers. To date, self-assessment has been rolled out to all large taxpayers and certain medium-sized taxpayers. In the longer-term, the aim is to expand self-assessment to all taxpayers. These are positive developments, but major challenges remain and, ultimately, IRD requires sufficient resources and capacity to be able to continue to advance ongoing modernization efforts and even more ambitious reforms.

## Widespread tax dodging

Revenue losses occur as a result of widespread tax dodging, including by some of Myanmar's largest companies. IRD's audit capacity is extremely low. This creates the space for companies to under-declare their income or over-declare costs in order to minimize tax liabilities. For example, the criteria for defining what types of expenditure can be deducted from taxable income are poorly defined and prone to abuse. According to one interviewee, the almost complete lack of monitoring and enforcement means that income tax payments by the largest corporations are little more than voluntary contributions to maintain the goodwill of the government. It took the government until 2019 to introduce legal provisions to tackle tax avoidance.<sup>49</sup> However, these remain vague.

Other companies evade taxation altogether. According to one interviewee, this is a major challenge in the construction sector where several large companies are not even registered with the tax authorities. Tax evasion is also widespread in the natural resource sector, especially in border areas. In the multi-billion-dollar jade industry, for example, many companies under-declare, under-value and smuggle large parts of their production to China and as a result only pay a fraction of the taxes that they should be paying.<sup>50</sup> Many of these companies make significant informal payments to the Myanmar military and ethnic armed organizations instead.<sup>51</sup>

## **Overly generous tax incentives**

Myanmar offers several tax incentives to companies in order to attract investment. Under the terms of the Myanmar Investment Law, companies operating under a permit from the Myanmar Investment Commission are entitled to an income tax holiday of three to seven years depending on where the investment is located. The law also offers other benefits, including exemptions on customs duties and income tax relief on reinvested profits.<sup>52</sup> The criteria for granting incentives are somewhat stricter than they were under the old Myanmar Foreign Investment Law. However, they remain broad and overly generous.

Tax incentives are also offered in special economic zones. The 2014 Special Economic Zones Law includes provisions for five- or seven-year income tax holidays at the start of operations, followed by reduced CIT rates later on. Investors are entitled to commercial tax and custom duty exemptions.<sup>53</sup> One such zone, at Thilawa, is operational, while two others are under development.<sup>54</sup>

The Myanmar government's approach is based on the misplaced belief that tax incentives have a critical role to play in attracting investment. Research has shown that tax incentives are often redundant and that factors such as stability and regulatory predictability are far more important in a company's investment decision.<sup>55</sup>

While likely doing little to attract investment, Myanmar's tax incentives are a major source of revenue losses. The World Bank estimates that IRD lost out on MMK 41 billion (approximately USD 27 million) as a result of income tax exemptions granted to Myanmar's 13 largest taxpayers in 2015/16 alone.<sup>56</sup> The IMF estimates that with regards to corporate income tax, "overly generous and discretionary tax incentives are estimated to entail a direct cost exceeding 25 percent of total CIT revenue."<sup>57</sup>

Myanmar is also signatory to a number of Double Taxation Agreements and Bilateral Investment Treaties, which might impact tax revenue collection in the country. In particular, the tax treaty with Singapore, which ranks 8th in the world on the 2019 Corporate Tax Havens Index, should be subject to scrutiny regarding possible opening up of opportunities for tax avoidance.

## Poorly implemented tax amnesties

In 2019, the Myanmar government introduced measures to encourage taxpayers with undeclared sources of income to settle their unpaid taxes with the government. The measures enable payment at significantly reduced rates provided that the taxpayer invests the previously undeclared income in capital assets or businesses.<sup>58</sup> Apart from incentivizing tax compliance, the government hopes that the provisions will boost economic activity, especially in the property market.<sup>59</sup> The amnesty is valid from 1 October 2019 to 30 September 2020.

The measures have met widespread criticism for rewarding tax evaders. There is concern that this could have a detrimental impact on tax morale, i.e. people's intrinsic willingness to pay tax.<sup>60</sup> The amnesty benefits those who have abused the system, while setting a bad example for those who follow the rules. It could perpetuate bad behaviour in the future. Myanmar has introduced tax amnesties in the past and the government has not indicated that the current amnesty will be the last one.<sup>61</sup> The knowledge that there could be further amnesties means that taxpayers might declare their income now and then continue to evade taxes in the hope of being able to once again pay at a reduced rate at a later stage. The provisions are not coupled with any requirement for past offenders to submit themselves to greater scrutiny from IRD in the years following the amnesty. Those who had been duly paying their taxes until now may feel incentivized not to declare going forward and may instead wait for the next amnesty.<sup>61</sup>

While the amnesty in principle only applies to the disclosure of income from legitimate sources (e.g. property rental), it is also unclear how the government will prevent taxpayers from laundering proceeds from illicit trades. A tax amnesty implemented by Myanmar's former military government in the 1990s resulted in the laundering of large amounts of money from the illegal drug trade.<sup>62</sup>

Experts have also questioned the implementation of the amnesty's provisions. While valid for one year from the start of October 2019, as of November 2019 IRD had yet to issue guidance on how taxpayers can make use of the amnesty. As a result, take-up of its provisions has been low.

## Opaque state-owned economic enterprises

SEEs are highly influential in Myanmar. They play a key role in most sectors of the economy and represent a major source of government revenues. Together with Central Bank transfers, payments from SEEs accounted for nearly 50% of Union government revenues in 2018/19.<sup>63</sup>

Opacity and weak governance mean that SEEs can be a major source of revenue losses. Previously, SEEs could retain 55% of their profits in so-called Other Accounts rather than paying them into the Union budget. As of January 2017, SEEs had accumulated MMK 11.45 trillion (approximately USD 8.6 billion) in these accounts – an amount multiple times higher than the country's education and health budgets combined.<sup>64</sup> In June 2019, the government issued a directive to abolish Other Accounts, requiring SEEs to transfer profits to the treasury or IRD and potentially freeing up billions of dollars for investments in public services.<sup>65</sup>

Despite reforms, the opacity of SEEs continues to pose challenges. Particularly in the natural resource sector, SEEs have considerable power to negotiate contracts with investors. Terms are often shrouded in secrecy. Even the IRD typically does not have access to contracts. The lack of oversight and accountability contributes to investors being offered highly favourable terms and makes it difficult to monitor whether SEEs and their private partners are paying what they should. For example, the Myanmar Oil and Gas Enterprise pays all commercial tax, specific goods tax and duties on behalf of foreign partners at offshore gas fields. Similar provisions require it to pay tax on behalf of pipeline partners. These provisions cost the enterprise – and thereby indirectly the Myanmar government – more than MMK 200 billion in 2015/16.<sup>66</sup>

## 4. Recommendations

The Myanmar government needs to invest in education, health and social protections to achieve the aims of the MSDP. For it to have the means to do so, it needs to collect taxes in an efficient and effective manner and ensure that the wealthiest in society pay their fair share. This section sets out key recommendations for using taxation to tackle poverty and inequality in Myanmar.

### **Accelerate implementation of the MSDP and the transition to a fairer tax system**

The COVID-19 crisis in Myanmar has urgently highlighted the need for a much more robust public services and a comprehensive social safety net to support the reduction of poverty and inequality across the country. Ultimately, the pandemic has created massive shocks for poor households, as they struggle with the sustained loss of income while faced with extremely limited savings or other supports to help cushion them during this time of crisis. Whilst some of the short-term economic impacts created by the virus are just now becoming clear, with factories closed and food supply chains disrupted, the longer-term impacts will continue to be felt for months and likely years to come.

An absolutely critical element of supporting an equitable recovery from this crisis – one that ensures supports for the most vulnerable while creating a more sustainable economy moving forward – is the rapid implementation of key measures outlined in the MSDP. Importantly, this includes the transition to a fairer tax system and increased spending on health, education and social protection. Policies such as the COVID-19 Economic Relief Plan can start making steps in the right direction in the immediate, with significantly expanded cash transfer and social assistance programmes that reach the informal and formal workforce, while over the coming months increased access to health services together with strengthened social insurance and labour market protections are critical. Ultimately, a fairer tax system will provide the long-term foundation for these priorities. There is a need for explicit political leadership in shaping this broader vision for a fair and efficient tax system, which is so intrinsic to achieving the aims of the MSDP.

## **Continue to strengthen IRD's tax collection and enforcement capacity**

Taxpayer interactions with revenue authorities should be efficient, professional and predictable. The calculation of tax obligations needs to be based on objective criteria, with minimal scope for discretion and negotiation. IRD should continue making greater use of electronic solutions, including for registration, filing and payment of taxes and increasing the transparency of tax collection functions. It should streamline and harmonize procedures across IRD offices, rationalize the use of penalties, and set clear guidelines on how to calculate taxable income. Anti-corruption processes should be implemented within the IRD.

These measures need to be coupled with far greater audit and enforcement capacity. Self-assessments only work if taxpayers who abuse the system are held accountable. As a priority, IRD should focus on bringing large companies into the system and effectively auditing them to ensure they pay what they owe.

Many of these measures are already central to IRD's plans to strengthen tax administration and improve compliance.<sup>67</sup> In moving forward, it is essential that the government demonstrates political will and mobilizes enough resources to implement these changes.

## **Rethink the use of tax incentives and amnesties**

The Myanmar government should reduce the use of tax incentives and instead focus on promoting stability and predictability as a means of attracting investment. If incentives are maintained, they should be based on transparent and objective criteria that are tied to broader development objectives, including careful evaluation of potential environmental and social impacts. The nature of incentives should be reconsidered. Incentives should help projects with high risks and start-up costs – as well as significant long-term potential to generate revenue and jobs – to get off the ground. Incentives should be subject to parliamentary and public scrutiny and periodically re-evaluated.

The government should also rethink its approach to tax amnesties. As a first step, IRD urgently needs to issue detailed guidance on how taxpayers can make use of the current amnesty. Importantly, however, the government should be clear that no further amnesties will be offered and promise harsh penalties for anyone who fails to comply by the end of September 2020. Taxpayers who make use of the amnesty should be subjected to a strict supervision programme to ensure ongoing compliance in subsequent years.

## **Explore means of making tax policy more progressive**

Myanmar's tax policy is already reasonably progressive. Cracking down on tax dodging and reducing tax incentives is more important than revising the rates of specific taxes. However, there may be simple ways to strengthen the progressive nature of the framework. This would not only be a means of tackling income inequality in general terms but could also address gender inequality considering that women are often disproportionately impacted by the regressive elements of the tax framework.

The government could explore several options for making tax policy more progressive. Firstly, it could align taxes on income from property rentals with the general income tax rate. This would help to ensure that property owners are not disproportionately favoured over ordinary salaried employees. Secondly, it could make greater use of property taxes. Reforming how properties are valued and increasing the rates paid by high value properties could boost revenues for subnational authorities. Thirdly, the government could consider reducing income tax rates and simplifying filing requirements for small businesses, as well as maintaining and potentially expanding the existing exemptions from commercial tax of essential goods and services. The often regressive nature of fees for service and informal taxes collected for basic services must also be recognized and addressed as part of reform efforts.

## **Strengthen governance and oversight of state-owned economic enterprises**

Reforming SEEs is crucial to boosting government revenues. The recent decision to abolish Other Accounts could free up billions of dollars for investment in public services. However, the government needs to do more to make SEEs competitive, accountable and transparent. SEEs should be subjected to greater oversight and scrutiny. It is critical that IRD has access to their financial and operational data to ensure that they and their private partners are paying what they should. To support this, SEEs should be required to disclose the contracts they sign with investors, publish financial reports and be subjected to regular independent audits.<sup>68</sup> In the longer term, Myanmar should find ways to reduce its reliance on SEEs as revenue collectors.

## **Create a taxpaying culture**

The Myanmar government needs to strengthen the social contract with citizens by creating a clear link between taxes and delivery of public services. Research has shown that many people in Myanmar already see paying taxes as a civic duty and would be willing to pay more if this results in tangible benefits.<sup>69</sup> However, decades of military rule have created a system where many people do not look to the government to provide essential services. Instead, it is common for communities to fund and organise basic services without government support.<sup>70</sup> The government needs to demonstrate how increased taxes result in tangible improvements in education, health and social protection.

One way of achieving this is to strengthen transparency and public participation in planning and budgeting. Research has shown a strong demand among Myanmar citizens to know what their taxes are being spent on.<sup>71</sup> Inclusive decision-making can strengthen tax compliance by making government more accountable to the demands of citizens. This is especially important in rural and conflict-affected areas where government service delivery has historically been particularly poor and where there is extremely little trust in government. It is essential for marginalised members of society, including women, to be given a voice in how the government makes spending decisions.

## **Ensure a gender sensitive approach to planning and budgeting**

The Myanmar government should use planning and budgeting to address gender inequality. Gender considerations should inform the policies and plans of all departments. For this to happen, the government needs to increase awareness of the MSDP's commitment to gender mainstreaming. Women need to be involved in planning and budgeting and the particular priorities and needs of diverse groups taken into account in such processes. In the short-term this means ensuring meaningful public participation. In the longer-term, the underrepresentation of women in national and subnational legislatures and in key ministerial positions needs to be addressed. The outcomes of spending decisions need to tackle gender inequality. That means allocating sufficient funds for education, health and social protection and ensuring the money is spent effectively.

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