Haiti

Summary and Conclusion

- Over the past decade, Haiti increased tax revenue by 5.4 percent of GDP by strengthening revenue administration and modestly increasing collection efficiencies and broadening bases.
- According to the IMF, since the 2010 earthquake, modest reforms focused on improving the effectiveness of tax administration are likely to have the greatest impact on supporting Haiti's revenue mobilization and economic growth needs.
- Recent comparative data suggests that Haiti's revenue-to-GDP indicators (revenue effort) from value added taxes (VAT) and personal income taxes (PIT) are below that of regional and income-group comparator countries, while the corporate income tax (CIT) revenue effort for Haiti remains significantly above international norms.
- Similarly, productivity efficiency measures for VAT and PIT are below that of regional and income group comparator countries on average, while CIT productivity remain significantly above the comparison groups.
- Haiti's CIT rate and PIT rates are in line with income group and regional comparator countries on average while its VAT rate is below that of comparator group averages.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the past decade, Haiti's tax revenue improved significantly from 8.9% of GDP in 2003 to 13.9% of GDP in 2013. Despite this growth, Haiti's revenue effort remains lower than that of regional and world averages and below the national target of 15% of GDP.

- Income tax revenue effort increased by 1.3% of GDP over the period.
- Revenue effort from taxes on goods and services (VAT, excise) increased by 1.6% of GDP.
- Revenue effort from taxes on international trade doubled over the period.

Since the natural disaster in 2010, revenue from grants spiked and accounts for a large portion (10.4%) of the country's total revenue (24.4%).

Haiti Government Current Revenue
(% of GDP)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Taxes on Income & Profits	1.7%	2.0%	2.3%	2.1%	2.0%	2.0%	2.0%	2.3%	2.5%	3.0%	3.0%
Taxes on Goods and Services	3.3%	3.3%	3.1%	3.6%	3.9%	3.8%	4.2%	3.7%	4.1%	4.0%	4.9%
Taxes on International Trade	2.3%	2.5%	2.5%	3.1%	3.1%	3.2%	3.4%	4.3%	4.6%	4.2%	4.7%
Total Tax Revenue	**8.5%**	**8.7%**	**8.9%**	**9.6%**	**9.6%**	**10.4%**	**10.8%**	**11.7%**	**12.8%**	**12.7%**	**13.9%**
Total Grants Revenue	0.1%	1.3%	3.5%	3.3%	5.2%	4.4%	6.7%	16.5%	16.8%	10.6%	10.4%
Total Revenue	9.1%	10.2%	13.1%	13.5%	15.8%	15.1%	17.9%	28.4%	29.8%	23.3%	24.4%

Source: World Economic Outlook, IMF FAD Database

Summary of Reforms - Post 2010 Earthquake

In the aftermath of the 2010 earthquake, the Haitian authorities adopted a ten-year action plan for building a better Haiti.[1] Since then, substantial debt relief and the 2010 signing of the IMF Extended Credit Facility Agreement have reduced the pressure on the government's finances, but tax collections remain low. Although real GDP growth has resumed, tax revenue has remained below its target of 15% due to lower imports and inefficiencies in indirect tax and customs collections processes.[2]

Highlights of tax reforms since the 2010 natural disaster include:

- The establishment of two new taxes, one on foreign remittances and one on long-distance calls, enacted by the President in 2011 and geared towards education funding;
- Import tariff reform (planned for 2014) to raise and align duties to CARICOM regional averages,
- Ongoing reforms to attribute larger powers to the revenue collections agencies;[3]
- Increased focus combating fraud and tax evasion through public awareness campaigns and targeted coordination between National Police, Financial Intelligence and Corruption Units, and the tax administration (DGI) (2012); and
- Increased targeted taxes on tobacco, alcohol, and gambling (2012).

Administrative measures include[4]:

- Draft legislation to reorganize DGI along functional lines (planned for 2014);
- The launch of the e-declaration in January 2013;
- Newly established Unit for the Analysis of Fiscal Policy (2012);
- Introduction of Medium-Size and NGO Taxpayer Units with focus to make the units fully operational in FY14 and strengthening of the Large Taxpayer Office; and
- Improved control and analysis of customs duty exemptions.

Efforts to strengthen tax and customs administration, reduce and rationalize exemptions, and expand the tax base will take time to show results in the current environment.[5]

Tax System Profile (2010-11)

The attached table in Annex 1 provides a high-level profile of Haiti's tax system as of fiscal year 2010/11 and compares it with income group comparator countries (low-income countries), regional group comparator countries (CARICOM and LAC), a selected sample group[6], and the rest of the world. The data in this section is from the 2012-2013 release of USAID's Collecting Taxes database. The most recent year for comparative data is for fiscal year 2011.

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from taxes that a government collects as a share of GDP.

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[1] Action Plan for National Recovery and Development of Haiti, Government of the Republic of Haiti, March 2010.
[2] IMF 2012 Article IV Consultation, Country Report No 13/90, March 2013.
[3] IMF Selected Issues Paper, Country Report 13/91, March 2013.
[4] IMF Memorandum of Economic and Financial Policies, July 2013.
[5] Economist Intelligence Unit, Country Report 2nd Quarter 2013
[6] Selected sample group for comparison purposes includes Burkina Faso, Cambodia, Dominican Republic, El Salvador, Ethiopia, and Honduras. These were selected by the author and are based on historical comparisons by the World Bank and IMF when analyzing Haiti.

- Haiti's overall tax revenue, at 12.8% of GDP, is in line with the selected sample group, slightly below the average for income group comparator countries (14.0%), and significantly below the averages for the CARICOM region, the LAC region and the world (21.3%, 19.3%, 17.8%, respectively).
- Haiti's revenue effort from personal income tax is 2.5% of GDP, is in line with the selected sample group, modestly below the income group average of 3.8% and almost half that of the regional and world averages of approximately 5% of GDP.
- Corporate income tax revenue effort for Haiti, at 7.9% of GDP, is more than twice the average of the selected sample group (2.6%) and income group (2.5%), and significantly above the averages for the CARICOM region, the LAC region, and the world (4.6%, 3.4%, 3.3%, respectively).
- The revenue effort from VAT, at 3.2% of GDP, is considerably below that of the sample group and income group comparator countries (4.5%, 5.1%, respectively). In comparison to the CARICOM, LAC, and world averages that lie approximately above 6%, Haiti's revenue effort from VAT is nearly half.

Tax Structure

- Haiti's corporate income tax rate, at 30%, is slightly above the income group and regional averages between 25 and 30 percent, and modestly above the world average of 23.9%.
- The maximum PIT rate in Haiti, at 30%, is in-line with the world averages and its sample group, income group, and regional comparator countries.
- The VAT rate, at 10%, is 5 percentage points below its sample group comparator averages and significantly below the rate of its direct neighbor, the Dominican Republic, at 16%. It remains modestly below the income group, CARICOM, LAC, and world averages of approximately 14%.
    - ***An increase of the VAT rate from 10% to the regional (LAC) average of 13.5% would yield additional revenue of about 1 percent of GDP.***[7]

Revenue Productivity

- "Revenue productivity" measures the revenue share of GDP that is mobilized for each point of the tax rate.
- Corporate income tax productivity, at 0.26, is nearly triple the amount of the selected sample group and income group comparator countries. It is significantly above the LAC and CARICOM regional and world averages of 0.15 and higher.
- Personal income tax productivity, at 0.08, is modestly below that the selected sample group average of 0.11. It is considerably below the income group, LAC, and CARICOM regional averages of 0.14 and 0.15, and significantly below the world average of 0.21.
    - ***If personal income tax productivity were to reach the level of the selected sample group average, Haiti would yield an additional 0.75 percent of GDP of revenue.***
- Haiti's VAT productivity, at 0.32, is broadly in line with its sample and income group averages. It is modestly below the world average of 0.42, and significantly below its LAC and CARICOM comparator country averages of 0.47 and 0.54, respectively.
    - ***If VAT productivity were to reach the level of LAC and CARICOM regional averages, Haiti would yield an additional 0.50 percent of GDP of revenue.***

[7] IMF 2007 Article IV Consultation, Country Report 07/293, July 2007.

ANNEX 1: Haiti's Collecting Taxes Indicators

Country 1/	Tax Revenue Effort				Tax Structure				Revenue Productivity		
	TAXY	CITY	PITY	VATY	CITR	PITR	VATR	Wedge	CIT-PROD	PIT-PROD	VAT-PROD
Haiti	**12.8**	**7.9**	**2.5**	**3.2**	**30.0**	**30.0**	**10.0**	**18.1**	**0.26**	**0.08**	**0.32**
Burkina Faso	13.8	1.4	4.4	6.2	30.0	30.0	18.0	25.0	0.05	0.15	0.34
Cambodia	10.3	1.3	1.8	3.6	20.0	20.0	10.0	N/A	0.07	0.09	0.36
Dominican Republic	13.8	1.1	3.1	4.2	25.0	25.0	16.0	34.3	0.04	0.14	0.26
El Salvador	12.9	2.0	2.7	6.7	25.0	30.0	25.5	21.2	0.08	0.10	0.52
Ethiopia	9.3	1.6	0.3	1.9	30.0	35.0	15.0	19.0	0.05	0.01	0.13
Honduras	15.4	3.1	5.2	5.8	25.0	25.0	12.0	10.7	0.12	0.22	0.48
Sample Group Average	12.6	2.6	2.9	4.5	26.4	27.9	15.2	21.4	0.10	0.11	0.35
Low Income Countries 2/	14.0	2.5	3.8	5.1	28.6	31.4	13.8	17.9	0.09	0.14	0.37
CARICOM Countries 3/	21.3	4.6	4.3	6.4	27.1	26.6	11.5	13.3	0.17	0.15	0.54
LAC Countries	19.3	3.4	3.9	6.2	26.3	27.8	13.5	20.6	0.15	0.14	0.47
World	17.8	3.3	5.3	6.0	23.9	27.9	13.8	22.4	0.15	0.21	0.42

Footnotes:

1. All data is from the **2012-2013 Release** of the USAID Collecting Taxes Database. Detailed explanation about the selected indicators is presented in *Annex 2: Collecting Taxes Indicators Glossary*.

2. Low Income Countries include: Afghanistan, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Congo, Cote d'Ivoire, Ethiopia, Ghana, Guinea, Haiti, India, Kenya, Kyrgyz Republic, Lao P.D.R., Liberia, Madagascar, Malawi, Mali, Mauritania, Mongolia, Mozambique, Myanmar, Nepal, Niger, Nigeria, Pakistan, Papua New Guinea, Rwanda, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Tajikistan, Tanzania, The Gambia, Timor-Leste, Togo, Uganda, Uzbekistan, Vietnam, West Bank/ Gaza, Yemen, Zambia, and Zimbabwe.

3. CARICOM Countries include: Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Turks and Caicos.

ANNEX 2: Collecting Taxes Indicators Glossary

CITR is the general rate applied for the corporate income tax. In most countries only one corporate income tax is applied to corporate profits. In most countries, business enterprises that are owned by sole proprietors or unincorporated partnerships pay tax under the personal income tax system.

CITY is the level of corporate income tax collections as percentage of GDP.

CITPROD represents how well the corporate income tax does in terms of revenue collection, given the tax rate. CITPROD is the portion of GDP in revenue that is mobilized for each point of CIT rate.

PITR is the highest tax rate applied under the personal income tax system to the richest income class of taxpayers.

PITY is the level of personal income tax collections as percentage of GDP.

PITPROD provides an indication of how well the personal income tax in a country does in terms of producing revenue. PITPROD is the portion of GDP in revenue that is mobilized for each point of the average PIT rate.

WEDGE is an estimate of the overall taxation of labor income, represented as a percentage of gross salary. It combines social contributions with personal income tax.

VATR is the general rate at which most goods and services are taxed under the value added tax system. Most countries have a variety of reduced rates for certain basic goods, such as basic food stuffs. Also, all countries have a zero rate on exported goods.

VATY is the level of VAT collections as a percentage of GDP.

VATPROD is a measure of how well the VAT produces revenue for the government, given the VAT rate. It is the portion of GDP in revenue that is mobilized for each point of VAT rate.