

## **Tax Policy**

### **Capacity Development Activities in Fiscal Year 2024**

#### **Djibouti**

September 24-28, 2023: An FAD tax policy mission visited Djibouti to review the value added tax (VAT) and offer advice on how to improve its revenue performance, neutrality, and fairness. Over the medium term, Djibouti could generate as much as 0.9 percent of GDP in additional tax revenues if it undertook policy and administrative reforms that would put the country's VAT performance (as measured by c-efficiency) on par with the average for low-middle income countries. The mission presented authorities with several policy recommendations, many of which could be considered for implementation as early as Budget 2024. These recommendations focused predominantly on repealing exemptions for goods and services consumed proportionally more by higher-income individuals, refraining from granting VAT exemptions as tax incentives for investment, improving the efficient processing of VAT refunds, and increasing the VAT threshold.

January 14-18, 2024: A joint FAD-METAC mission supported revenue mobilization in Djibouti, focusing on tax policy. Key messages from the latest activity include: (1) priority should be given to promoting good governance, with the aim of consolidating tax provisions within the General Tax Code so as to enhance transparency, strengthen centralized control by the Budget Ministry over tax policy, and ensure strict adherence with the rule of law; (2) informed decision-making around the selection of sound tax policy reforms would be best served by the creation of a dedicated tax policy unit; (3) there is no quick fix or easy reform, and the authorities should think about tax policy measures in the context of a medium-term agenda which has government-wide support; and (4) the value added tax, personal income tax (wage tax in particular), and business profits tax (incl. tax incentives within special regimes) should take center stage in the reform agenda. Tax policy CD engagement is currently focusing on wage and income taxation.

March 10-21, 2024: A joint METAC–HQ in-person mission conducted a review of Djibouti's wage tax to assist the authorities in identifying and prioritizing wage and income tax reform options. The mission conducted an international benchmarking of tax wedges and of effective tax rates across a wide range of income levels. Upon the conclusion of the mission, the authorities were presented with key recommendations that included identifying the guiding principles of a wage tax reform in addition to complementing measures intended to broaden the scope of capital income taxes.

#### **Lebanon**

November 14-15, 2023: This mission supported the Lebanese authorities in identifying reform options to strengthen income taxation and modernize the income tax law. A new

income tax design is needed to move toward a more efficient, effective, and inclusive tax system in the medium term.